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, 1998

OR

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

FOR THE TRANSITION PERIOD FROM _____________ TO _____________

COMMISSION FILE NUMBER: 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)

<TABLE>

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

</TABLE>

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 17, 1999 the aggregate market value of the voting stock held by non-affiliates of the Registrant was $148,352,257.

The number of shares of the Registrant's Common Stock outstanding on March 17, 1999 was 10,331,817.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement issued in connection with the 1999 Annual Meeting of Stockholders are incorporated by reference into Part III.

REDWOOD TRUST, INC.
1998 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

THE COMPANY

Redwood Trust, Inc (the "Company"), together with its affiliate RWT Holdings, Inc. ("Holdings"), provide funding to diverse segments of the U.S. mortgage market. Mortgage production operations at Holdings originate and acquire mortgage loans for subsequent sale to mortgage investors as loan portfolios or mortgage securities. The Company's portfolio investment operations own and manage a portfolio of mortgage loans and mortgage securities ("Mortgage Assets") funded with equity and with mortgage-backed bonds and other debt. The Company's portfolio acquires Mortgage Assets from Holdings and from other mortgage originators, mortgage processors and secondary mortgage market participants.

The Company funded the start-up of mortgage production operations at Holdings in 1998. At the end of 1998, Holdings was building three new businesses, each conducted in a separate subsidiary of Holdings. Redwood Residential Funding, Inc. ("RRF") acquires newly originated residential loans from mortgage bankers. Redwood Commercial Funding, Inc. ("RCF") originates small balance commercial mortgages. Redwood Financial Services, Inc. ("RFS") acts as a principal in whole loan acquisition, sale and securitization transactions, typically involving banks and thrifts as customers. After processing its mortgage loan acquisitions, each of these entities then sells loans and mortgage securities to banks, thrifts, Wall Street firms, mortgage REITs and other mortgage investors. Holdings profits to the extent that it sells mortgage assets at prices that will cover the acquisition costs of the loans plus overhead and taxes.

Holdings is an unconsolidated affiliate of the Company. The Company owns a 99% economic interest in Holdings through its ownership of Holdings' non-voting preferred stock. At December 31, 1998, the book value of this investment was $15.1 million; the Company expects to make substantial new investments in Holdings in 1999. Holdings reported a loss during 1998 due to the start-up nature of its operations.

Mortgage investment operations at the Company earn a profit to the extent that interest income and net asset appreciation gains generated by the Mortgage Asset portfolio exceed interest expenses on borrowings and the cost of operations and hedging. The Company elects Real Estate Investment Trust ("REIT") status for income tax purposes. As a result, the Company does not pay tax on net mortgage investment income or on any dividends received from taxable affiliates so long as the Company distributes its taxable income as dividends and meets certain other REIT tests. See "Certain Federal Income Tax Considerations" commencing on page 25 of this Form 10-K.

Statements in this report regarding the Company's business and the business of the Holdings units which are not historical facts are "forward-looking statements" as contemplated in the Private Securities Litigation Reform Act of 1995. Such statements should be read in light of the risks and uncertainties attendant to the business of the Company and Holdings. For a complete description of the risks associated with the business of the Company and Holdings, see "Risk Factors" commencing on page 16 of this Form 10-K.

Reference is made to the Glossary commencing on page 101 of this report for definitions of terms used in the following description of the Company's and Holdings' businesses and elsewhere in this report.

COMPANY BUSINESS AND STRATEGY

The business and strategy of the Company with respect to the mortgage production operations of its affiliate is discussed below under "RWT Holdings Business and Strategy" commencing on page 11.

The objective of the Company's mortgage investment operations is to generate earnings for shareholders by acquiring or creating subordinated mortgage securities or other types of mortgage equity interests (thus using its capital to credit-enhance mortgage loans to facilitate the process of turning mortgage loans into AAA-rated mortgage securities), by acting as a financial intermediary in holding mortgage loans in portfolio and issuing to investors AAA-rated callable long-term debt collateralized by those mortgages, and by otherwise being an

efficient and productive investor in Mortgage Assets. Since all mortgage investment operations at December 31, 1998 were conducted at the Company, which enjoys REIT tax status, the Company endeavors to find those areas of the mortgage investment business that are most advantaged by the Company's tax status and corporate structure. To achieve its business objective, the Company's strategy is to focus on the following elements of mortgage investment operations.

- Asset Acquisition
- Risk Management
- Capital and Leverage Utilization

ASSET ACQUISITION

TYPES OF ASSETS

The Mortgage Assets purchased by the Company may consist of Single-Family, Multi-Family and Commercial Mortgage Assets. At the end of 1998, 76% of the Mortgage Assets acquired by the Company bore adjustable interest rates. Hybrid mortgages assets, with an initial period to the first rate adjustment greater than one year, made up 23% of Mortgage Assets. The remaining 1% of Mortgage Assets were fixed-rate mortgages. The Company may also acquire common stock, preferred stock and/or debt in other REITs. The Company may also acquire its own common or preferred stock, when permitted by applicable securities and state corporation laws.

The majority of the Company's Mortgage Assets at December 31, 1998 consisted of mortgage loans and pass-through mortgage securities. The Company may acquire, without limitations, other types of mortgage assets, including potentially, structured mortgage securities that are relatively illiquid and have leveraged risk with respect to mortgage credit, prepayment and other risks. The Company generally intends to increase its credit risk profile by providing credit-enhancement to, and thus retaining some of the credit risk of, residential and commercial loans produced by Holdings and others. The Company does not plan to acquire or retain any Real Estate Mortgage Investment Conduit ("REMIC") residual interest that may give rise to the distribution to shareholders of "excess inclusion" income as defined under Section 860E of the Code. See "Certain Federal Income Tax Considerations - Taxation of Tax-Exempt Entities."

The Company's Asset Acquisition/Capital Allocation Policies utilize a return on equity calculation that includes adjustments for credit risk, borrowing costs, hedging and the Risk-Adjusted Capital Policy requirements. The relative attractiveness of various asset types will vary over time. The Company may acquire its Mortgage Assets in the secondary mortgage market or upon origination pursuant to arrangements with loan originators, other secondary mortgage market participants or from Holdings. The Company may issue Commitments to originators and other sellers of Mortgage Loans and Mortgage Securities. These Commitments will obligate the Company to purchase Mortgage Assets for a specific period of time, in a specific aggregate principal amount and at a specified price or margin. In addition, the Company may issue Commitments to sell Mortgage Assets held by it to another entity, including Holdings. Following the issuance of Commitments, the Company may be exposed to risks of interest rate fluctuations and other risks.

PORTFOLIO MANAGEMENT

The Company only acquires those Mortgage Assets for which the Company believes it has the necessary expertise to evaluate and manage and which are consistent with the Company's balance sheet guidelines and risk management objectives.

Since the intention of the Company is generally to hold its Mortgage Assets until maturity, the Company generally does not seek to acquire assets whose investment returns are only attractive in a limited range of scenarios. The Company believes that future interest rates and mortgage prepayment rates are very difficult to predict. Therefore, the Company seeks to acquire Mortgage Assets that the Company believes will provide acceptable returns over a broad range of interest rate and prepayment scenarios.

Among the asset choices available to the Company, the Company acquires those Mortgage Assets which the Company believes will generate the highest returns on capital invested, after considering (i) the amount and nature of anticipated cash flows from the asset, (ii) the Company's ability to pledge the asset to secure short-term or long-term collateralized borrowings, (iii) the increase in the Company's risk-adjusted capital requirement determined by the Company's Risk-Adjusted Capital Policy resulting from the purchase and financing of the asset, and (iv) the costs of financing, hedging, managing, securitizing, and reserving for the

asset. Prior to acquisition, potential returns on capital employed are assessed over the life of the asset and in a variety of interest rates, yield spread, financing cost, credit loss and prepayment scenarios.

Management also gives consideration to balance sheet management and risk diversification issues. A specific asset which is being evaluated for potential acquisition is deemed more (or less) valuable to the Company to the extent it serves to decrease (or increase) certain interest rate or prepayment risks which may exist in the balance sheet, to diversify (or concentrate) credit risk, and to meet (or not meet) the cash flow and liquidity objectives management may establish for the balance sheet from time to time. Accordingly, an important part of the evaluation process is a simulation, using the Company's risk management model, of the addition of a potential asset and its associated borrowings and hedges to the balance sheet and an assessment of the impact this potential asset acquisition would have on the risks in and returns generated by the Company's balance sheet as a whole over a variety of scenarios.

The Company acquires floating-rate, adjustable-rate, hybrid and fixed-rate Mortgage Assets. The Company generally intends to acquire fixed-rate loans when such loans can meet its return and other standards when funded on a long-term basis, financed with equity only, funded on a short-term basis with a comprehensive hedging program, or funded short-term and unhedged as part of an overall asset-liability management strategy. Generally it is anticipated that any such long-term financing or comprehensive hedging program will serve to reduce the risk that could arise from the funding of term fixed-rate assets.

The Company may also purchase the debt or the common or preferred stock of other mortgage REITs or other companies when the Company believes that such purchases will yield attractive returns on capital employed. REIT or other debt securities may be undervalued at points in the economic cycle. When the stock market valuations of companies are low in relation to the market value of their assets, stock purchases can be a way for the Company to acquire an interest in a pool of Mortgage Assets or other types of assets at an attractive price. Also, REITs and other companies may have attractive mortgage finance or other businesses in which the Company may want to become a partial owner. The Company does not, however, presently intend to invest in the securities of other issuers for the purpose of exercising control or to underwrite securities of other issuers.

The Company may seek to acquire or create mortgage finance or other businesses when management deems such activities to be in the best interest of the Company's shareholders.

The Company intends to acquire new Mortgage Assets, and will also seek to expand its capital base in order to further increase the Company's ability to acquire new assets, when the potential returns from new investments appear attractive relative to the return expectations of stockholders. The Company may in the future acquire Mortgage Assets by offering its debt or equity securities in exchange for such Mortgage Assets.

The Company generally intends to hold Mortgage Assets to maturity. In addition, the REIT provisions of the Code limit in certain respects the ability of the Company to sell Mortgage Assets. See "Certain Federal Income Tax Considerations - - General - Gross Income Tests" and " - Taxation of the Company." However, management may decide to sell assets from time to time for a number of reasons including, without limitation, to dispose of an asset as to which credit risk concerns have risen beyond levels the Company wishes to manage, to reduce interest rate risk, to substitute one type of Mortgage Asset for another, to improve yield, to maintain compliance with the 55% requirement under the Investment Company Act, to effect a change in strategy, or generally to re-structure the balance sheet when management deems such action advisable. Management will select any Mortgage Asset to be sold according to the particular purpose such sale will serve. The Board of Directors has not adopted a policy that would restrict management's authority to determine the timing of sales or the selection of Mortgage Assets to be sold.

As a requirement for maintaining REIT status, the Company, will distribute to stockholders aggregate dividends equaling at least 95% of its taxable income. See "Certain Federal Income Tax Considerations - General - Distribution Requirement." The Company's current policy is to seek to distribute 100% of its taxable income as dividends over time.

RISK MANAGEMENT

CREDIT RISK MANAGEMENT

The Company reviews the credit risk associated with each investment and determines the appropriate allocation of capital to apply to such investment under its Risk-Adjusted Capital Policy. In addition, the Company attempts to diversify its investment portfolio to avoid undue geographic and other types of concentrations. Management monitors the overall portfolio risk and determines appropriate levels of provision for credit loss and provides such information to the Board of Directors.

With respect to its Mortgage Securities, the Company is exposed to various levels of credit and special hazard risk, depending on the nature of the underlying mortgages and the nature and level of credit enhancements supporting such securities. Most of the Mortgage Securities owned by the Company at December 31, 1998 had some degree of protection from normal credit losses. At December 31, 1998 and December 31, 1997, 23% and 29%, respectively, of the Company's Mortgage Assets were Mortgage Securities covered by credit protection in the form of a 100% guarantee from a government-sponsored entity ("Agency Certificates").

An additional 25% of the Company's Mortgage Assets at December 31, 1998 and December 31, 1997 were Privately-Issued Certificates and represented interests in pools of residential mortgage loans with partial credit enhancement; of these amounts, 99% were rated AAA or AA. Credit loss protection for Privately-Issued Certificates is achieved through the subordination of other interests in the pool to the interest held by the Company, through pool insurance or through other means. The degree of credit protection varies substantially among the Privately-Issued Certificates held by the Company. While 99% of the Privately-Issued Certificates held by the Company have some degree of credit enhancement, some of these credit-enhanced Mortgage Securities are, in turn, subordinated to other interests. Thus, should such a Privately-Issued Certificate experience credit losses, such losses could be greater than the Company`s pro rata share of the remaining mortgage pool, but in no event could exceed the Company's investment in such Privately-Issued Certificate.

The Company also acquires unsecuritized Mortgage Loans. At December 31, 1998 and December 31, 1997, 53% and 46% of the Company's Mortgage Assets were Mortgage Loans, respectively. The Company has developed a quality control program to monitor the quality of loan underwriting at the time of acquisition and on an ongoing basis. The Company may conduct, or cause to be conducted, a legal document review of each Mortgage Loan acquired to verify the accuracy and completeness of the information contained in the mortgage notes, security instruments and other pertinent documents in the file. As a condition of purchase, the Company will generally select a sample of Mortgage Loans targeted to be acquired, focusing on those Mortgage Loans with higher risk characteristics, and submit them to a third party, nationally recognized underwriting review firm for a compliance check of underwriting and review of income, asset and appraisal information; The Company also may perform these functions with Company or Holdings employees. In addition, the Company or its agents will generally underwrite all Multifamily and Commercial Mortgage Loans that the Company acquires. During the time it holds Mortgage Loans, the Company will be subject to risks of borrower defaults and bankruptcies and special hazard losses (such as those occurring from earthquakes or floods) that are not covered by standard hazard insurance. The Company will generally not obtain credit enhancements such as mortgage pool or special hazard insurance for its Mortgage Loans, although individual loans may be covered by FHA insurance, VA guarantees or private mortgage insurance and, to the extent securitized into Agency Certificates, by such government-sponsored entity ("GSE") obligations or guarantees.

ASSET/LIABILITY MANAGEMENT

To the extent consistent with its election to qualify as a REIT, the Company follows an interest rate risk management program intended to protect principally against the effects of substantial increases or decreases in interest rates. Specifically, the Company's interest rate risk management program is formulated with the intent to offset the potential adverse effects resulting from interest rate fluctuations, including changes in market value, changes in prepayment rates, and the differences between earning asset yield and cost of funds of its Mortgage Assets and related borrowings. The Company's interest rate risk management program encompasses a number of procedures. The Company attempts to structure its borrowings to have interest rate adjustment indices and interest rate adjustment periods that, on an aggregate basis, generally correspond to the interest rate adjustment indices and interest rate adjustment periods of the adjustable-rate, hybrid and fixed-rate Mortgage Assets

purchased by the Company. By doing so, the Company generally intends to reduce the differences between interest rate adjustment periods of Mortgage Assets and related borrowings that may occur.

The Company purchases and sells, from time to time, interest rate agreements in the form of interest rate caps, interest rate floors, interest rate swaps, interest rate futures, options on interest rate futures, mortgage and Treasury securities and other cash instruments to attempt to mitigate interest rate and related risks. The Company also may use such instruments to modify the characteristics of any loan issuance or sales or to hedge the anticipated issuance of future liabilities or the market value of certain assets. In this way, the Company intends generally to hedge as much of the interest rate risk as management determines is in the best interest of the stockholders of the Company, given the cost of such hedging transactions and the need to maintain the Company's status as a REIT. See "Certain Federal Income Tax Considerations - General - Gross Income Tests." This determination may result in management electing to have the Company bear a level of interest rate risk that could otherwise be hedged when management believes, based on all relevant facts, that bearing such risk is prudent in light of competing tax and market risks. The Company utilizes financial futures contracts, options and forward contracts to the extent consistent with its compliance with the REIT Gross Income Tests and Maryland law. The Company obtained no-action relief from the Commodities Futures Trading Commission permitting the Company to invest a small percentage of the Company's total assets in certain financial futures contracts and options thereon without registering as a commodity pool operator under the Commodity Exchange Act, provided that the Company uses such instruments solely for bona fide hedging purposes.

The Company seeks to build a balance sheet and undertake an interest rate risk management program that is likely, in management's view, to enable the Company to generate positive earnings and maintain an equity liquidation value sufficient to maintain operations given a variety of potentially adverse circumstances. Accordingly, the hedging program addresses both income preservation and capital preservation concerns. To monitor risks of fluctuations in earnings and in the liquidation value of the Company's equity due to market value changes of balance sheet items, the Company models the impact of various economic scenarios on the market value of the Company's Mortgage Assets, liabilities and interest rate agreements. The Company believes that the existing hedging programs will allow the Company to maintain operations throughout a wide variety of potentially adverse circumstances without further management action. Nevertheless, in order to further preserve the Company's capital base during periods when management believes an adverse trend has been established, management may decide to increase hedging activities and/or sell assets. Each of these types of actions may lower the earnings of the Company in the short term in order to further the objective of maintaining attractive levels of earnings and dividends over the long term.

In all of its interest rate risk management transactions, the Company follows certain procedures designed to limit credit exposure to counterparties, including dealing only with counterparties whose financial strength meets the Company's requirements.

The Company may elect to conduct a portion of its hedging operations through Holdings or a similarly structured affiliate. Such affiliate would be subject to Federal and state income taxes. A taxable subsidiary would not elect REIT status and may or may not distribute any net profit after taxes to the Company and its other stockholders. Any dividend income received by the Company from any such taxable affiliates (combined with all other income generated from the Company's assets, other than Qualified REIT Real Estate Assets) must not exceed 25% of the gross income of the Company. See "Certain Federal Income Tax Considerations - General - Gross Income Tests."

At December 31, 1998, the Company's weighted average assets and liabilities were matched within a twelve-month period in terms of adjustment frequency and speed of adjustment to market conditions. Looking at these two factors only (and thus ignoring periodic and life caps for adjustable-rate mortgage assets and other risks such as basis, liquidity and prepayment risk), the Company's net interest spread should be stable over time periods greater than twelve months. The majority of the Company's Mortgage Assets at December 31, 1998 had coupon rates that adjust to market levels at least every twelve months, with a weighted average term to reset of approximately four months. The majority of the Company's borrowings at December 31, 1998 will either mature or adjust to a market interest rate level within six months of such date. The short-term borrowings had a weighted average term to rate reset of 23 days at December 31, 1998. Both changes in coupon rates earned on

adjustable-rate assets and in the rates paid on borrowings are expected to be highly correlated with changes in LIBOR and/or Treasury rates (subject to the effects of periodic and lifetime caps).

In the third quarter of 1998, the Company adopted mark-to-market accounting for most of its assets and all of its interest rate agreements. Changes in the market value of mark-to-market assets could have a large effect on the Company's earnings. The Company's interest rate hedging activities may partially offset changes in asset market values in some circumstances. However, market values can change for a wide variety of reasons, many of which are not linked to interest rate changes or which are otherwise not hedgeable.

Although the Company believes it has developed a cost-effective asset/liability management program to provide a level of protection against interest rate, basis and prepayment risks, no strategy can completely insulate the Company from the effect of interest rate changes, prepayment risks, mortgage credit losses, defaults by counterparties, or liquidity risk. Further, certain of the Federal income tax requirements that the Company must satisfy to qualify as a REIT limit the Company's ability to fully hedge its interest rate and prepayment risks. The Company monitors carefully, and may have to limit, its asset/liability management program to assure that it does not realize excessive hedging income, or hold hedging assets having excess value in relation to total assets, which would result in the Company's disqualification as a REIT or, in case of excess hedging income, the payment of a penalty tax for failure to satisfy certain REIT income tests under the Code, provided such failure was for reasonable cause. See "Certain Federal Income Tax Considerations - General." In addition, asset/liability management involves transaction costs that increase dramatically as the period covered by the hedging protection increases. Therefore, the Company may be prevented from effectively hedging its interest rate and prepayment risks over the long-term.

PREPAYMENT RISK MANAGEMENT

The Company seeks to minimize the effects of faster or slower than anticipated prepayment rates through structuring a diversified portfolio with a variety of prepayment characteristics, investing in Mortgage Assets with prepayment prohibitions and penalties, investing in certain Mortgage Securities structures which have prepayment protections, passing on prepayment risk to the buyers of its mortgage-backed debt and, when possible, balancing Mortgage Assets purchased at a premium with Mortgage Assets purchased at a discount when such types of assets are available in the marketplace and are otherwise attractive for acquisition. In certain operating environments, including most of 1997 and 1998, however, it was not possible for the Company to acquire attractive assets with a zero net balance of discount and premium. In addition, changes in market values subsequent to acquisition can effect the Company's premium and discount balances to the extent such market value changes are reflected in earnings and assets' basis. In these types of circumstances, net mortgage premium or discount balances may rise and the risk of earnings variability resulting from changes in prepayment rates may increase. The Company may purchase interest-only strips, principal-only strips and/or other financial assets such as floors, calls, swaptions and futures, as a hedge against prepayment risks. The Company may also seek to create and sell interest-only and principal-only strips from existing assets to help manage prepayment risk. Management and the Board of Directors monitor prepayment risk through periodic review of the impact of a variety of prepayment scenarios on the Company's revenues, net earnings, dividends, cash flow and net balance sheet market value.

The Company owns a variety of non-agency Mortgage Securities which are structured so that for several years they receive either less than or more than a pro rata share of principal repayments experienced in the underlying mortgage pool as a whole. In such Mortgage Securities, one or more classes of Senior Securities are ordinarily entitled to receive all principal prepayments on the underlying pool of loans until such Senior Securities have been paid down to a specified amount determined by formula. To illustrate, a Mortgage Security totaling $100 million of aggregate principal balance may be structured so that there is (i) $92 million face value of Senior Securities, (ii) Mezzanine Securities with a face value of $2 million providing credit support for the Senior Securities, (iii) Subordinated Securities, or mortgage equity interests, with a face value of $6 million providing credit support for the Mezzanine Securities and the Senior Securities, and (iv) the $100 million face value of Senior Securities, Mezzanine Securities and Subordinated Securities had been issued in this format, the Mezzanine Securities or the Subordinated Securities would receive no principal prepayments on the underlying loans until the $92 million face value of Senior Securities had been paid down to a formula-determined amount, which would normally be expected to occur within a range of three to ten years depending on the rate of

prepayments and other factors. The Company owns interests that are similar to the Senior Securities, Mezzanine Securities and Subordinated Securities in this example. The Company intends to increase its investment in Subordinated Securities and other forms of mortgage equity interests.

During 1998, the Company received $1.6 billion in principal payments on its Mortgage Assets. One commonly used measure of the average annual rate of prepayment of mortgage principal is the conditional prepayment rate ("CPR"). The CPR for the Company's Mortgage Assets was 30% for 1998. In addition to prepayments, the Company also receives scheduled mortgage principal payments (payments representing the normal principal amortization of a 30-year mortgage loan) and other principal repayments from calls of mortgage securities and accelerated principal payment structures of securities. Thus, the total amount of repayments of mortgage principal received each month may exceed a pro rata level of prepayments. The basis of the Company's Mortgage Assets at December 31, 1998 was equal to 100.57% of the face value of the assets; the net premium was 0.57%. The smaller the level of net discount or premium, the less risk there is that fluctuations in prepayment rates will affect net interest income or net asset appreciation income. The Company may use interest rate agreements and other means to seek to mitigate the risk that premium and discount amortization expenses and income and net asset appreciation income may rise or fall as mortgage prepayments increase or decrease in falling or rising interest rate environments.

In the third quarter of 1998, the Company moved to mark-to-market accounting for a majority of its assets. For these assets, increases and decreases in market values will be recorded in income and the basis of the asset will be adjusted accordingly. As a result, the net mortgage premium or discount balances on the

Company's records will vary with market values, thus affecting future amortization income and expense.

CAPITAL AND LEVERAGE UTILIZATION

The Company's goal is to strike a balance between the under-utilization of leverage, which reduces potential returns to stockholders, and the over-utilization of leverage, which could reduce the Company's ability to meet its obligations or execute its business plan during adverse market conditions. The Company has established a Risk-Adjusted Capital Policy which limits management's ability to acquire additional assets during times when the actual capital base of the Company is less than a required amount defined in the policy (subject to certain permitted exceptions when the proceeds of additional equity issuances must be invested). In this way, the use of balance sheet leverage is controlled. The actual capital base as defined for the purpose of the Risk Adjusted Capital Policy is equal to the market value of total assets funded short-term less the book value of total collateralized short-term borrowings plus the actual investment on a historical amortized cost basis in subsidiary trusts ("mortgage equity interests") wherein Mortgage Assets are funded with non-recourse, long-term debt less the book value of any parent-level debt associated with these mortgage equity interests, less any unsecured debt.

Approximately half of the Company's assets at December 31, 1998 were funded with equity or with long-term non-recourse debt. The Company's capital requirement for these assets is generally equal to 100% of the equity invested, thus equaling the total amount the Company could lose.

Mortgage interests that have some external protection from credit losses but which are not rated as high as AAA or AA may be leveraged. These interests, together with mortgage loans not yet securitized and AAA and AA rated mortgage securities, are typically funded with short-term debt. There are two components to the capital requirements the Company establishes for short-term funded assets.

The first component of the Company's capital requirements with respect to short-term funded assets is the current aggregate over-collateralization amount or "haircut" that lenders require the Company to hold as capital. The haircut for each such Mortgage Asset is determined by the lender and is subject to change when short-term debt matures and rolls-over. Haircut levels on individual borrowings range from 2% to 25%, and currently average 3% to 5% for the Company as a whole. Should the market value of the pledged assets decline or haircut requirements increase, the Company will be required to deliver additional collateral to the lenders in order to maintain a constant over-collateralization level on its short-term borrowings.

The second component of the Company's capital requirement with respect to short-term funded assets is the "liquidity capital cushion." The liquidity capital cushion is an additional amount of capital, in excess of the haircut, which is maintained by the Company in order to meet the demands for additional collateral by the short-

term lenders should the market value of the Company's short-term funded Mortgage Assets decline or haircut levels increase. The aggregate liquidity capital cushion equals the sum of liquidity cushion amounts assigned under the Risk-Adjusted Capital Policy to each of the Company's short-term funded Mortgage Assets. Liquidity capital cushions are assigned to each short-term funded Mortgage Asset based on management's assessment of that Mortgage Asset's market price volatility, credit risk, liquidity and attractiveness for use as collateral by short-term lenders. The process of assigning liquidity capital cushions relies on management's ability to identify and weigh the relative importance of these and other factors. Consideration is also given to hedges associated with the short-term funded Mortgage Asset and any effect such hedges may have on reducing net market price volatility, concentration or diversification of credit and other risks in the balance sheet as a whole and the net cash flows that can be expected to arise from the interaction of the various components of the Company's balance sheet. The Board of Directors reviews on a periodic basis various analyses prepared by management of the risks inherent in the Company's balance sheet, including an analysis of the effects of various scenarios on the Company's net cash flow, earnings, dividends, liquidity and net market value. Should the Board of Directors determine that the minimum required capital base set by the Company's Risk-Adjusted Capital Policy is either too low or too high, the Board of Directors may raise or lower the capital requirement accordingly.

The Company expects that its aggregate minimum capital requirement under the Risk-Adjusted Capital Policy will approximate 3% to 15% of the market value of the Company's short-term funded Mortgage Assets plus the net equity value of its long-term funded Mortgage Assets funded with long term debt or equity. This percentage will fluctuate over time, and may fluctuate out of the expected range, as the composition of the balance sheet changes, haircut levels required by lenders change, the market value of short-term funded Mortgage Assets changes, as liquidity capital cushions set by the Board of Directors are adjusted over time, and as the balance of funding between short-term and long-term changes. As of December 31, 1998, the aggregate Risk-Adjusted Capital Requirement was 6.55% of total assets. The Company's actual capital base was 9.00% of total assets at December 31, 1998; thus the Company was not utilizing, at that time, all of the leverage potential available to the Company under its Risk-Adjusted Capital policies.

Less than 50% of the Company's borrowings were short-term at December 31, 1998. The Company's short-term borrowings have consisted of collateralized borrowing arrangements of various types (reverse repurchase agreements, notes payable, and revolving lines of credit). As of December 31, 1998, all short-term borrowings were reverse repurchase agreements. The Company's long-term borrowings at December 31, 1998 consisted of non-recourse, floating and fixed rate, collateralized mortgage-backed bonds. In the future, however, the Company's borrowings may also be obtained through loan agreements, Dollar-Roll Agreements (an agreement to sell a security for delivery on a specified future date and a simultaneous agreement to repurchase the same or a substantially similar security on a specified future date) and other credit facilities with institutional lenders, the issuance of long-term collateralized debt or similar instruments in the form of collateralized mortgage bonds, collateralized bond obligations, REMICs, FASITs or other forms, and the issuance of secured and unsecured debt securities such as commercial paper, medium-term notes and senior or subordinated notes. The Company may also seek to fund its current balance sheet or future growth through the issuance of preferred stock, common stock or other forms of equity.

In early 1999, the Company extended the maturity of some of its short-term borrowings out to the year 2000, and may continue to extend the maturities of some of its short-term borrowings. The Company may also seek committed short-term borrowing facilities. The Company enters into reverse repurchase agreements primarily with national broker/dealers, commercial banks and other lenders that typically offer such financing. The Company enters into short-term collateralized borrowings only with financial institutions meeting credit standards approved by the Company's Board of Directors, including approval by a majority of Independent Directors, and monitors the financial condition of such institutions on a regular basis. The Company's Bylaws do not limit its ability to incur borrowings, whether secured or unsecured.

MORTGAGE LOAN SECURITIZATION TECHNIQUES

The Company contracts with conduits, financial institutions, mortgage bankers, investment banks, Holdings and others to purchase Mortgage Loans that they are originating or holding in their portfolio. The Company intends to enhance the value and liquidity of most of the Mortgage Loans it acquires by securitizing the loans into Mortgage Securities or pledging the loans to secure the issuance of long-term, mortgage-backed debt in the manner which will best meet its own needs.

In addition to creating Mortgage Securities and issuing long-term debt with the Mortgage Loans in its portfolio, the Company also may "re-securitize" portions of its Mortgage Securities portfolio. In a re-securitization transaction, Mortgage Securities rather than Mortgage Loans are used as collateral to create new Mortgage Securities. This would typically be done as the Mortgage Loans underlying the Mortgage Securities improve in credit quality through seasoning, as values rise on the underlying properties, when the credit quality of junior classes of Mortgage Securities improve due to prepayment of more senior classes or when the Company desires to replace short-term debt with long-term debt. Such transactions can result in improved credit ratings, higher market values, lowered borrowing costs and/or reduced liquidity risk. In December 1997, the Company completed its first re-securitization in its "SMFC 94-A Trust".

The Company may conduct its securitization activities through one or more taxable or REIT-qualifying subsidiaries formed for such purpose. In 1997, the Company formed Sequoia Mortgage Funding Corporation ("Sequoia"), a REIT-qualifying subsidiary, to carry out securitizations. Since then, Sequoia has completed three securitizations, issuing non-recourse, mortgage-backed debt with outstanding balances as of December 31, 1998 of $1.3 billion.

COMPANY POLICIES

The Board of Directors has established the investment policies and strategies summarized in this report. The Board of Directors has the power to modify or waive such policies and strategies without the consent of the stockholders to the extent that the Board of Directors determines that such modification or waiver is in the best interests of stockholders. Among other factors, developments in the market which affect the policies and strategies mentioned herein or which change the Company's assessment of the market may cause the Board of Directors to revise the Company's policies and strategies.

The Company at all times intends to conduct its business so as not to become regulated as an investment company under the Investment Company Act. Accordingly, the Company does not expect to be subject to the restrictive provisions of the Investment Company Act. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" ("Qualifying Interests"). Under the current interpretation of the staff of the Securities and Exchange Commission, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Mortgage Loans, qualifying pass-though Certificates and certain other qualifying interests in real estate. In addition, unless certain Mortgage Securities represent all the Certificates issued with respect to an underlying pool of mortgages, such Mortgage Securities may be treated as securities separate from the underlying Mortgage Loans and, thus, may not qualify as Qualifying Interests for purposes of the 55% requirement. Therefore, the Company's ownership of certain Mortgage

Assets may be limited by the provisions of the Investment Company Act.

RWT HOLDINGS, INC. BUSINESS AND STRATEGY

REDWOOD RESIDENTIAL FUNDING, INC.

GENERAL

RRF was formed as a subsidiary of Holdings in 1998 to engage in mortgage conduit operations in order to meet the needs of mortgage investors seeking investments in high-quality, newly-originated residential mortgage assets. RRF will purchase non-agency eligible mortgage loans from correspondents. These correspondents, herein referred to as "Sellers", may be savings and loan associations, commercial banks, mortgage bankers or other regulated mortgage lenders. RRF will sell acquired loans to its investor customers as loan portfolios or mortgage securities.

RRF believes that the price spread between the acquisition cost of individual whole loans and the sales value of tailored loan portfolios and securities created from acquired loans is likely to afford an attractive return for its conduit operations.

MARKETING STRATEGY

RRF's marketing strategy will: (1) attract a geographically diverse group of both large and small correspondents (2) create value for these correspondents by reducing their costs or improving their revenue opportunities, and

(3) create value for investors through acquisition of attractive mortgage assets. In order to accomplish this, the Company will design efficient processes and offer loan products that are attractive to potential non-conforming borrowers as well as to end-investors in non-conforming mortgage loans and mortgage-backed securities.

MORTGAGE LOANS ACQUIRED

A substantial portion of the mortgage loans to be purchased by RRF are expected to be non-conforming mortgage loans. Currently, the maximum principal balance for conforming loans is $240,000. RRF will typically purchase non-conforming loans that comply in all material respects with FNMA and FHLMC guidelines, with the exception of loan balance. Such non-conforming loans may involve some greater risk as a result of liquidity, which is less than that of conforming loans. Generally, RRF will not acquire mortgage loans with principal balances above $1,100,000.

RRF's focus on the acquisition of non-conforming loans may affect RRF's financial performance. For example, the purchase market for non-conforming loans has typically provided for higher interest rates in order to compensate for the lower liquidity of such loans, thereby potentially enhancing the interest income RRF could earn during the accumulation phase for loans held for sale and during the holding period for loans held for investment. In addition, due to the lower level of liquidity in the non-conforming and other loan markets, RRF may realize higher returns upon securitization of such loans than would by realized upon securitization of conforming loans. On the other hand, such lower level of liquidity introduces hedging and other risks that may from time to time cause RRF to sell loans at a loss.

RRF's purchase activities are expected to focus on those regions of the country where higher volumes of non-conforming mortgage loans are originated, including California, Colorado, Florida, Hawaii, Illinois, Maryland, Massachusetts, New Jersey, New York, Oregon and Washington.

SELLER ELIGIBILITY REQUIREMENTS

RRF will acquire mortgage loans originated by various Sellers, including savings and loan associations, commercial banks, mortgage bankers and other regulated mortgage lenders. Sellers will be required to meet certain regulatory, financial, insurance and performance requirements established by RRF before they are eligible to participate in its mortgage loan purchase program. Sellers must also submit to periodic reviews by RRF to ensure continued compliance with these requirements. RRF's criteria for Seller participation will generally include a minimum tangible net worth requirement, approval as a FNMA or FHLMC Seller/Servicer in good standing and a HUD approved mortgagee in good standing or a financial institution that is insured by the FDIC or comparable federal or state agency and that the Seller is examined by a federal or state authority. In addition, Sellers are required to have comprehensive loan origination quality control procedures. Sellers enter into an agreement that generally provides for recourse by RRF against the Seller in the event of a breach of a representation or warranty made by the Seller with respect to any fraud or misrepresentation during the mortgage loan origination process or upon early payment default on such loans.

PRICING AND COMMITMENT PROCESS

RRF will acquire mortgage loans on a bulk or flow basis pursuant to a delivery option, a servicing option and a commitment term selected by the seller. Sellers who wish to sell the mortgage loans on a flow basis are typically smaller originators of mortgage loans who do not generate the volume or possess large enough credit limits to aggregate volume for bulk deliveries. The seller will be able to price and sell loans electronically via ELWOOD (Electronic Loan Web-based Origination and Optimization Domain), a proprietary system developed by RRF. ELWOOD will receive loan data from Sellers, provide a risk-based price on the mortgage loan's individual characteristics and market data, and then allow the lender to commit to sell the mortgage loan to RRF.

RRF will use a risk-based pricing model to price individual loans. For each loan submitted, the model will measure credit risk, anticipated subordination levels and anticipated securities structure. The model will then derive the value of each mortgage in a security, add RRF's required returns and generate a purchase price. ELWOOD then passes this price to the Seller who may elect to commit to sell the loan to RRF.

Sellers may request a commitment for up to two and one-half minutes after receiving pricing. If a commitment is requested within the time allowed it is issued electronically and recorded in ELWOOD.

RRF will confirm each agreement to purchase a mortgage loan by transmitting to the Seller a commitment confirmation. The provisions of RRF's Mortgage Loan Purchase and Sale Agreement and Servicing Guide (collectively, the "Agreements") will be incorporated in each commitment confirmation.

Commitments will be offered on a mandatory and a best efforts basis.

Mandatory basis. The mandatory delivery option will require the Seller to deliver a mortgage loan(s) to RRF within a specific commitment term, regardless of whether the loans are actually originated by the Seller or whether circumstances beyond the Seller's control prevent delivery. RRF is required to purchase all mortgage loans delivered pursuant to the terms of the commitment at the purchase price established in the commitment. The delivered mortgage file pertaining to each mortgage loan should reflect the mortgage loan information specified in the commitment confirmation. In the event that the information contained in the mortgage file does not reflect the mortgage loan information contained in the commitment confirmation, RRF, at its sole option, reserves the right to adjust the purchase price or to refuse purchase of any such mortgage loan. If the Seller substitutes a mortgage loan in place of an ineligible mortgage loan prior to the closing date, RRF may adjust the purchase price to reflect the mortgage loan information pertaining to the substitute mortgage loan. If a Seller fails to deliver a committed mortgage loan or acceptable substitute mortgage loans under a mandatory commitment, the Seller will be obligated to pay RRF a penalty that will compensate RRF for any costs incurred.

Best Efforts. In contrast, mortgage loans sold on a best efforts basis must be delivered to RRF only if the Seller closes the mortgage loan. The best effort delivery option provides Sellers with an effective way to sell loans during the origination process without any penalty for failing to close loans committed for sale.

UNDERWRITING AND QUALITY CONTROL

RRF has developed comprehensive purchase guidelines for the acquisition of mortgage loans. Each loan purchased must conform to the loan eligibility requirements and credit definitions specified in RRF's Seller/Servicer Guide with respect to, among other things, loan amount, type of property, loan-to-value ratio, type and amount of insurance, credit history of the borrower, income ratios, sources of funds, appraisals and loan documentation. These standards are generally very similar to those used by FNMA. RRF also performs a documentation review prior to the purchase of any mortgage loan. RRF delegates the underwriting function to its Sellers.

RRF has established a delegated underwriting program that is similar in concept to the delegated underwriting programs established by FNMA and FHLMC. Delegated underwriting is standard practice in the industry. Under this program, qualified Sellers are required to underwrite loans in compliance with RRF's loan eligibility standards and credit definitions as set forth in RRF's Seller/Servicer Guide. If the seller meets RRF's financial and performance criteria, the seller will be approved for the delegated underwriting program. In connection with its approval, the seller must represent and warrant to RRF that all mortgage loans sold to RRF will comply with RRF's credit standards. The criteria for Seller participation in this program generally include a minimum net worth requirement, delegated underwriting authority from a major national conduit and from a mortgage insurance company and verification of the Seller's good standing with FNMA or FHLMC.

Ongoing quality control reviews will be conducted by RRF to ensure that the mortgage loans purchased meet its quality standards. The type and extent of the quality control review depend on the nature of Seller and the characteristics of the loans. RRF will review on a post-purchase basis a portion of all loans submitted to determine that the loan was purchased in compliance with the guidelines set forth by RRF. RRF will review a higher portion of certain categories of mortgage loans, such as loans with property value above $1,000,000, cash out refinances and loans above $650,000 in principal amount. In performing a quality control review on a loan, RRF will analyze the underlying property appraisal and examine the credit and income history of the borrower.

SECURITIZATION AND SALE PROCESS

When a sufficient volume of mortgage loans with similar characteristics has been accumulated, generally $300 to $400 million, RRF intends to securitize them through the issuance of mortgage-backed securities in the form of REMICs or CMOs or to resell them in bulk whole loan sales. The length of time between the commitment to purchase a mortgage loan and the time frame in which RRF will sell or securitize such mortgage loan will generally range from 15 to 120 days, depending on certain factors, including the length of the purchase

commitment period, the loan volume by product type and the securitization process. RRF may sell loans or securities to the Redwood Trust portfolio from time to time.

Any decision to form REMICs or CMOs or to sell the loans in bulk by RRF may be influenced by a variety of factors. REMIC securities consist of one or more classes of "regular interests" and a single class of "residual interest." The regular interest classes are tailored to the needs of investors and may be issued in multiples with varying maturities, average lives and interest rates. The residual class represents the remainder of the cash flows from the mortgage loans (including, in some instances, reinvestment income) over and above what is required to be distributed to the regular interest classes. RRF does not intend to retain regular or residual interest classes.

As an alternative to REMIC sales, RRF may issue CMOs from time to time based on the its current and future investment needs, market conditions and other factors. CMOs, however, do not offer RRF the structuring flexibility of REMICs and are expected to be a secondary method of securitizing the mortgage loans.

Credit Enhancement. Any REMICs or CMOs created by RRF are expected to be structured so that one or more of the classes of such securities are rated investment grade by at least one nationally recognized rating agency. In contrast to Agency Certificates in which the principal and interest payments are guaranteed by the U.S. Government or an agency thereof, securities created by RRF will not benefit from any such guarantee. The ratings for the RRF mortgage-backed securities will be based on the perceived credit risk by the applicable rating agency of the underlying mortgage loans, the structure of the securities and the associated level of credit enhancement. Credit enhancement is designed to provide protection to the security holders in the event of borrower defaults and other losses including those associated with fraud or reductions in the principal balances or interest rates on mortgage loans as required by law or a bankruptcy court. RRF can utilize multiple forms of credit enhancement, including special hazard insurance, reserve funds, letters of credit, surety bonds and subordination or any combination thereof.

In determining whether to provide credit enhancement through subordination or other credit enhancement methods, RRF will take into consideration the costs associated with each method. RRF anticipates principally providing credit enhancement through the issuance of mortgage-backed securities in senior/subordinated structures or over-collateralization of its mortgage-backed securities. The subordinated securities will be sold.

Each series of mortgage-backed securities will typically be fully payable from the mortgage assets underlying such series, and the recourse of investors will be limited to such assets and any associated credit enhancement features, such as senior/subordinated structures. Generally, any losses in excess of the credit enhancement obtained will be borne by the security holders, except in the case of a breach of the standard representations and warranties made by RRF. Typically, RRF will have recourse to the Sellers of loans for any such breaches, but there can be no assurance of the Sellers' abilities to honor their respective obligations.

Ratings of mortgage-backed securities are based primarily upon the underlying mortgage loans' pool characteristics and associated credit enhancement. A decline in the credit quality of such pools (including delinquencies and/or credit losses above initial expectations), or of any third party credit enhancements, as well as adverse developments in general economic trends affecting real estate values or the mortgage industry, could result in downgrades of such ratings.

REDWOOD COMMERCIAL FUNDING, INC.

GENERAL

RCF was formed as a subsidiary of Holdings in 1998 to meet the needs of banks and other investors seeking to acquire commercial mortgage assets. RCF originates and services high quality commercial mortgage loans nationwide, providing funding to owners of apartment buildings, office buildings, light industrial, mobile home parks, and retail properties. RCF originates through commercial loan brokers or through direct borrower contact. RCF also acquires portfolios of commercial mortgage loans. RCF generates revenues from the sale of loans to its customers.

RCF lends to credit-worthy borrowers who nearly always provide personal guarantees. RCF generally requires that a property be held in a bankruptcy remote entity and typically requires a loan-to-value ratio of 65% or less and a debt service coverage ratio of at least 1.25 to 1.00.

COMMERCIAL MORTGAGE LOANS ORIGINATED

Most of the commercial mortgage loans to be originated by RCF are expected to have a principal balance of $10 million or less, with an anticipated average size of $2 million to $5 million. RCF may acquire or originate larger loans from time to time. Loans can have fixed and floating interest rates, or a combination of the two. Floating rate loans will typically adjust quarterly or semi-annually off the corresponding LIBOR index; annual and life caps will typically be 2% and 5%, respectively. Floor rates will typically be the start rate. Fixed rate loans will typically have interest rates 350 to 500 basis paints over the 5-year corresponding treasury.

RCF competes in the commercial loan origination market by offering speed, reliability, and flexibility. RCF typically structures loan prepayment penalties to meet the needs of its borrowers and its investors. These penalties are typically not of the yield maintenance or lock-out variety but rather may involve, for example, a 5%, 4%, 3%, 2%, 1% penalty structure for the first five years of the loan. RCF is creative in structuring loans to meet special borrower and investor needs.

SALES PROCESS

RCF plans to sell the loans it originates through whole loans sales to depository institutions, mortgage REITs, underwriters of commercial mortgage backed securities, and others, through private placements of loans or participations with investors, or through securitization. Except for the retention of servicing, RCF will not retain interests in its loans on a long-term basis. RCF may sell loans or interests in loans to the Redwood Trust portfolio from time to time.

The length of time between when RCF originates a commercial mortgage loan and it sells or securitizes such mortgage loan will generally range from 15 to 180 days. If market conditions are favorable and the risk to RCF's balance sheet is minimal, this period of time may lengthen. RCF may seek to market individual loans during or after the origination process. RCF may also seek to make bulk sales, in which case it will typically build portfolios in the $10 to $25 million range before going to market. If securitizations or forward sales are contemplated, then larger portfolios may be assembled. RCF's current target is to produce approximately $15 million of loans per month.

REDWOOD FINANCIAL SERVICES, INC.

GENERAL

RFS, formed in 1998, provides value-added services to financial institutions with residential mortgage and other types of loan portfolios. RFS generates revenues by buying and selling loans and providing fee-based due diligence, analytics, consulting and securitization services.

RFS' business strategy is to assist commercial banks and thrifts meet their goals and reduce risk through active management of their mortgage loan portfolios. Industry trends and market events have combined to disrupt the portfolio profiles of these depository institutions. The consolidation of the banking and thrift industry through mergers and acquisitions has left many of the newly combined entities with residential portfolio profiles that are significantly different than the targeted profile of the pre-merger institution. Similarly, the dramatic decline in mortgage rates spawned rapid prepayments within residential portfolios. The result of both events has effected a transition in residential portfolio profiles. RFS provides residential portfolio managers with a comprehensive assessment, addressing the interest rate, prepayment, liquidity and credit risks existing within the portfolio. Action steps are presented that can modify their portfolio to the desired profile.

In the event that depository institutions desire to modify their portfolio profiles, RFS can apply its loan trading capability to effect desired transactions. RFS provides complete support from transaction design to eventual capital market settlement so as to conduct these transaction strategies with limited impact on the client's operational resources.

In order to provide these services, RFS has developed software that streamlines its operations and tracks each loan through the entire process of portfolio evaluation, identification of risks and opportunities, strategy assessment, loan due diligence, securitization and sale. RFS provides competitively superior service to its clients by keeping its sales, marketing, service and due diligence operations focused and productive, utilizing technology efficiently, maintaining an efficient and well-hedged warehouse function and accessing the capital markets in an assertive and innovative manner to find the best whole loan or securitization execution.

RISK FACTORS

In addition to the other information contained in this Form 10-K, you should carefully consider the following risk factors in evaluating our Company and its businesses.

COMPANY OPERATIONS RISKS

Although we generally hedge a portion of our interest rate risk, the results of our operations are affected by various other factors, many of which are beyond our control. The results of our operations depend on, among other things, the level of net interest income generated by our mortgage assets, the market value of such assets, the supply of and demand for such mortgage assets and conditions in debt markets. Our net interest income and net asset appreciation gains can vary as a result of changes in short-term and long-term interest rates, supply and demand trends, market liquidity, credit results, borrowing costs and prepayment rates, the behavior of which involve various risks and uncertainties as set forth below. Prepayment rates, interest rates, borrowing costs and credit losses depend on the nature and terms of the mortgage assets, the geographic location of the properties securing the mortgage loans included in or underlying the mortgage assets, conditions in financial markets, the fiscal and monetary policies of the United States government and the Board of Governors of the Federal Reserve System, international economic and financial conditions, competition and other factors, none of which can be predicted with any certainty. Because changes in interest and prepayment rates may significantly affect our activities, our operating results depend, in large part, upon our ability to effectively manage our interest rate and prepayment risks while maintaining our status as a REIT.

We employ substantial leverage and face potential net interest and operating losses in connection with borrowings.

We intend to continue to employ our financing strategy of borrowing a substantial portion of the market value or, in the case of certain forms of long-term debt, face value of our mortgage assets. The portion borrowed may vary depending upon the mix of the mortgage assets in our portfolio and the application of the risk-adjusted capital policy requirements to such mix of mortgage assets. We expect generally to maintain a ratio of our total book capital base to book value of total mortgage assets of between 3% and 15%, although the percentage may vary from time to time depending upon the market conditions and other factors deemed relevant by management. Book capital base is the book value of capital accounts, retained earnings and subordinated debt deemed by management to qualify as capital for this purpose, taking into account market value adjustments. However, we are not limited under our bylaws in respect of the amount of our borrowings, whether secured or unsecured. Also, the aggregate percentage of total equity capital could at times be outside the range of our borrowings. We may experience net income losses if the returns on the mortgage assets purchased with borrowed funds fail to cover the cost of the borrowings. In addition, we may not be able to achieve the degree of leverage we believe to be optimal. Increases in haircuts, decreases in the market value of our mortgage assets, increases in interest rate volatility, availability of financing in the market, and rating agency and bond insurer requirements for long-term financing and circumstances then applicable in the lending market are some of the factors that would prevent us from achieving the optimal degree of leverage. If we are not able to achieve the degree of leverage we believe to be optimal, the results of our operations may be less profitable than they might be otherwise.

Failure to refinance outstanding borrowings may adversely affect our ability to achieve our investment objectives.

Our ability to achieve our investment objectives depends not only on our ability to borrow money in sufficient amounts and on favorable terms but also on our ability to renew or replace on a continuous basis our maturing short-term borrowings. At December 31, 1998, we relied on short-term borrowings to fund 49% of our mortgage assets. We have utilized short-term borrowings to fund adjustable-rate, hybrid and fixed-rate mortgage assets. We have not, at the present time, entered into any long-term commitment agreements under which a lender would be required to enter into new borrowing agreements during a specified period of time;

however, we may enter into one or more of such commitment agreements in the future if deemed favorable to us. In the event we are not able to renew or replace maturing borrowings, we could be required to sell mortgage assets and related interest rate agreements under adverse market conditions and could incur losses as a result. An event or a development such as a sharp increase or decrease in interest rates or increasing market concern about the value or liquidity of a type or types of mortgage loans or mortgage securities which are short-term funded will reduce the market value of the mortgage assets. This would likely cause lenders to require additional collateral. At the same time, the market value of the unpledged collateral kept on hand to meet calls for additional collateral pledges may have decreased. A number of such factors in combination may cause us difficulties, including a possible liquidation of a major portion of our mortgage assets at disadvantageous prices with consequent losses. This could have a materially adverse effect on us and our solvency.

Decline in market value of mortgage assets may limit our ability to borrow, result in lenders initiating margin calls, and require us to sell mortgage assets in adverse market conditions.

Some of our mortgage assets may be cross-collateralized to secure our multiple borrowing obligations from a single lender. A decline in the market value of our portfolio of mortgage assets may limit our ability to borrow or result in lenders initiating margin calls. A lender's margin call requires a pledge of cash or additional mortgage assets to re-establish the ratio of the amount of the borrowing to the value of the collateral. We may acquire fixed-rate or hybrid mortgage assets pursuant to our asset acquisition/capital allocation policies. Such fixed-rate mortgage assets, if funded with short-term debt, may be more susceptible to margin calls because increases in interest rates tend to more negatively affect the market value of fixed-rate or hybrid mortgage assets than adjustable-rate mortgage assets. This remains true despite effective hedging against such fluctuations because the hedging instruments may not be part of the collateral securing the collateralized borrowings.

Additionally, it may be difficult to realize the full value of the hedging instrument when desired for liquidity purposes due to the applicable REIT provisions of the Code. We could be required to sell mortgage assets under adverse market conditions in order to maintain liquidity. Management may effect such sales when deemed by it to be necessary in order to preserve our capital base. If these sales were made at prices lower than the basis of the mortgage assets, we would experience losses.

A default by us under our short-term or long-term collateralized borrowings could also result in a liquidation of the collateral, including any cross-collateralized assets, and a resulting loss of the difference between the value of the collateral and the amount borrowed.

Additionally, in the event of our bankruptcy, most reverse repurchase agreements will qualify for special treatment under the bankruptcy laws. This will allow the creditors under such agreements to avoid the automatic stay provisions of the bankruptcy laws and to liquidate the collateral under such agreements without delay. Conversely, in the event of the bankruptcy of a party with whom we had a reverse repurchase agreement, we might experience difficulty recovering the collateral subject to such agreement. In addition, the Company's claims and creditors could be subject to significant delay. Recoveries, if and when received, may be substantially less than the damages we actually suffered.

To the extent that we are compelled to liquidate mortgage assets that are qualified REIT real estate assets to repay borrowings, we may be unable to comply with the REIT provisions of the Code regarding assets and sources of income requirements. This would ultimately jeopardize our status as a REIT. Failure to maintain REIT status would eliminate our competitive advantage over non-REIT competitors and subject us to federal taxation.

Interest rate fluctuations may result in a decrease in net interest income and/or may result in a decline in the market value of mortgage assets.

We cannot perfectly match the maturities and interest rate adjustment frequencies of our assets and liabilities. We cannot hedge away all such mis-matches. We may not choose to match or hedge assets and liabilities to the full extent possible. Thus, the spread between interest income and interest expense may vary, or go negative, as

interest rates fluctuate. In addition, since earnings also consist of appreciation and depreciation of market values of assets as well as interest income, overall earnings may be volatile as compared to the cost of borrowing and funding the Company.

Changes in prepayment characteristics of mortgage assets may result in a decrease in net interest income and/or may result in a decline in the market value of mortgage assets.

Mortgage asset prepayment rates vary from time to time and may cause changes in the amount of our net interest income and asset appreciation income. Prepayments of adjustable-rate, fixed rate and hybrid mortgage loans and mortgage securities backed by adjustable-rate, fixed-rate and hybrid mortgage loans usually can be expected to increase when mortgage interest rates fall below the then-current interest rates on such assets and decrease when mortgage interest rates exceed the then-current interest rate on the assets, although such effects are not fully predictable. Prepayment experience may also be affected by changes in consumer behavior, the geographic location of the property securing the mortgage loans, the assumability of the mortgage loans, advances in technology and reduction of costs with respect to refinancing mortgages, conditions in the housing and financial markets, general economic conditions and other factors. Mortgage securities backed by single family mortgage loans are often structured so that certain classes are provided protection from prepayments for a period of time. However, in a period of extremely rapid prepayments, during which earlier-paying classes may be retired faster than expected, the protected classes may receive unscheduled payments of principal earlier than expected and would have average lives that, while longer than the average lives of the earlier-paying classes, would be shorter than originally expected. Commercial mortgages and some residential mortgages are structured with prepayment penalties. However, these loans can still prepay, and the cost to the Company of such prepayment may exceed the penalties received. We will seek to minimize prepayment risk through a variety of means, which may include, to the extent capable of being implemented at reasonable cost at various points in time, structuring a diversified portfolio with a variety of prepayment characteristics, investing in mortgage assets with prepayment prohibitions and penalties, investing in certain mortgage securities structures which have prepayment protection, balancing assets purchased at a premium with mortgage assets purchased at a discount and prepayment hedging. In many operating environments, however, it will not be possible for us to acquire assets with a zero net balance of discount and premium. Even if we do have low levels of net mortgage premium or discount, changes in prepayment rates can affect earnings by affecting the market values of assets. We may choose not to hedge prepayment risk, and any such hedges we do make may not be effective. In such circumstances, the risk of earning variability resulting from changes in prepayment rates may rise. In addition, we have purchased and/or created interest-only and principal-only strips. These securities are leveraged with respect to prepayment risk although they may also serve as prepayment hedges. No strategy can completely insulate us from prepayment risks arising from the effects of interest rate changes while simultaneously meeting returns acceptable to shareholders.

Changes in anticipated prepayment rates of mortgage assets could affect us in several adverse ways. The faster than anticipated prepayment of any adjustable-, hybrid or fixed-rate mortgage asset that we purchased at a premium would generally result in higher premium amortization expense. In addition, increased prepayments may be a disadvantage to us in environments where we can only acquire assets with lower returns than our existing assets. Slower than anticipated prepayment rates will decrease discount amortization income for discount mortgage assets and will reduce the Company's ability to invest in new mortgage assets with higher yields when such assets are available. In addition, depending on asset type or characteristics, slowing or increasing mortgage prepayment rates may reduce market values and thus asset appreciation income.

Failing to hedge against interest rate changes effectively may adversely affect results of operations.

Our operating strategy subjects us to interest rate risks as described above. We follow an asset/liability management program intended to partially protect against interest rate changes and prepayments. Nevertheless, developing an effective asset/liability management strategy is complex and no strategy can completely insulate us from risks associated with interest rate changes and prepayments. Also, we do not attempt to hedge all such risks. In addition, there is no assurance that our hedging activities will have the desired beneficial impact on our operating results or financial condition. Hedging typically involves costs, including transaction costs, which increase dramatically as the period covered by the hedge increases and which also increase during periods of rising and volatile interest rates.

We may increase our hedging activity, and thus increase our hedging costs, during such periods when interest rates are volatile or rising and/or when hedging costs have increased. Moreover, federal tax laws applicable to REITs may substantially limit our ability to engage in asset/liability management transactions. Such federal tax laws may prevent us from effectively implementing hedging strategies that we determine, absent such restrictions, would best insulate us from the risks associated with changing interest rates and prepayments.

We use mark-to-market accounting for all of our interest rate agreements, whereas, not all of our hedged assets and liabilities are marked-to-market in a similar manner. As a result of the use of different accounting treatments between assets, liabilities and their hedges, earnings volatility may result.

We purchase and sell from time to time interest rate caps, interest rate swaps, interest rate futures and similar instruments to attempt to mitigate the risk of the spread between the yield on earning assets and the cost of funds narrowing as interest rates change. We also attempt to hedge, to some degree, the market values of balance sheet items. Also, we purchase and sell interest rate caps, interest rate swaps, interest rate futures and similar instruments to attempt to modify the characteristics of any fixed-rate loan issuance, or to hedge the anticipated issuance of future liabilities or the market value of certain assets. We may also buy or sell US Treasury securities or other cash instruments as part of our hedging strategy. In this way, we intend generally to hedge as much of the interest rate risk and prepayment risk as management determines is in our best interests given the cost of such hedging transactions and the need to maintain our status as a REIT. The amount of income we may earn from our interest rate caps and other hedging instruments is subject to substantial limitations under the REIT provisions of the Code. In particular, when we earn income under such instruments, we will seek advice from tax counsel as to whether such income constitutes qualifying income for purposes of the 95% gross income test and as to the proper characterization of such arrangements for purposes of the REIT asset tests. This determination may result in management electing to have us bear a level of interest rate risk that could otherwise be hedged when management believes, based on all relevant facts, that bearing such risk is advisable.

Hedging poses a credit risk.

In the event that we purchase interest rate caps or floors or enter into other contractual interest rate agreements to hedge against lifetime and periodic rate or payment caps, and the provider of interest rate agreements becomes financially unsound or insolvent, we may be forced to unwind our interest rate agreements with such provider and may take a loss on such interest rate agreements. There is no assurance that we can avoid such third party risks.

Difference in performance between the hedging instrument and hedged items may adversely affect results of operations.

We also accept basis risk in entering into interest rate swap and cap agreements and other hedges. Basis risk occurs as the performance of hedged items and/or hedging instruments vary from expectations and differ in performance from each other. For instance, we hedge our liabilities to mitigate interest rate risk of mortgage assets that are fixed or reprice at different times or are based on different indices. Although the hedging item may reduce interest rate risk, mortgage borrowers may prepay at speeds that vary from initial expectation. Absent proper monitoring, we could have a hedging instrument in place without an underlying hedged liability. We also, to a partial degree, may seek to hedge changes in asset market values. Basis risk arises because asset market values can change for many other reasons than are hedgeable. Any differences from original expectations in basis, prepayment rates, market values or other factors may have a material adverse effect on results of our operations.

We face credit loss exposure on mortgage assets.

A substantial portion of our investment portfolio at December 31, 1998 consisted of single-family mortgage loans or mortgage assets evidencing interests in single-family mortgage loans. At December 31, 1998, 52% of the mortgage assets we owned were single-family mortgage loans and 47% were single-family mortgage securities. Commercial mortgage loans totaled $8 million, or 0.3% of assets. We will bear the risk of credit loss on any residential or commercial mortgage assets we purchase in the secondary mortgage market or through our mortgage lending

business. To the extent third parties have been contracted to provide the credit enhancement, we are dependent in part upon the credit worthiness and claims-paying ability of the insurer and the timeliness of reimbursement in the event of a default on the underlying obligations. Further, the insurance coverage for various types of losses is limited in amount and losses in excess of the limitation would be borne us.

Prior to securitization, we generally do not intend to obtain credit enhancements such as mortgage pool or special hazard insurance for our residential and commercial mortgage loans, other than FHA insurance, VA guarantees and private mortgage insurance, in each case relating only to individual residential mortgage loans. Accordingly, during the time we hold such mortgage loans for which third party insurance or other credit enhancements are not obtained, we will be subject to risks of borrower defaults and bankruptcies and special hazard losses that are not covered by standard hazard insurance, such as those occurring from earthquakes or floods. In the event of a default on any mortgage loan held by us, including, without limitation, resulting from higher default levels as a result of declining property values and worsening economic conditions, among other factors, we would bear the risk of loss of principal to the extent of any deficiency between the value of the related real property, plus any payments from an insurer or guarantor, and the amount owing on the mortgage loan. Defaulted mortgage loans would also cease to be eligible collateral for short-term borrowings and, to the extent not funded with long-term, non-recourse debt, would have to be financed by us out of other funds or funded with equity until ultimately liquidated, resulting in increased financing costs and reduced net income or a net loss.

We lack voting control of our taxable affiliates.

We formed Holdings to serve as a holding company for our taxable affiliates to legally separate the conduit, trading, advisory and commercial lending lines of business from the REIT entity. This was done for regulatory, tax, risk management and other reasons. George E. Bull III and Douglas B. Hansen, executive officers of Redwood Trust, Inc., own 100% of the voting common stock of Holdings while we own 100% of Holdings' nonvoting preferred stock. The common stock is entitled to one percent of dividend distributions of Holdings and the preferred stock is entitled to 99% of such distributions. Holdings wholly owns RRF, RFS and RCF. Without voting control of Holdings and its subsidiaries, we cannot assure you that their business activities and policies may not differ from those that would be followed if we did have voting control. In addition, while Holdings and Messrs. Bull and Hansen have entered into an agreement of shareholders which contains certain management and control provisions and restrictions on transfer of the common stock of Holdings, you cannot be assured that the agreement will be enforced in a timely manner against the individuals, their heirs or representatives.

Recent proposed tax legislation may adversely affect our ability to engage in non-qualifying activities through Holdings or other affiliates.

The President's recently released 2000 budget plan includes certain proposed legislative changes that, if enacted, could affect our ability to engage in certain activities. Under the President's proposals, the Company may be able to acquire and own the common stock of Holdings directly so long as this investment does not exceed 15% of the Company's assets. There may be, however, restrictions on Holdings' businesses and on inter-company transactions that would not be beneficial. It is impossible to predict at this time whether any REIT legislation will be adopted as well as whether the final form of any such legislation will be generally harmful or helpful to us.

HOLDINGS OPERATIONS RISKS

The three business units of Holdings -- RRF, RCF and RFS -- will be subject to operations risks including the following:

RRF faces the risks of a start-up business since it is a recently formed enterprise.

RRF was incorporated in the State of Delaware on August 18, 1998. RRF immediately commenced establishing its conduit operations by hiring personnel, procuring computer systems and other equipment and contracting with vendors for key software packages. RRF may be adversely impacted if it is unable to coordinate all of the

activities required to operate a mortgage conduit. In addition, any significant delays in achieving an effective operation, which may occur due to vendor delay beyond the control of RRF, may cause cost over-runs and require increased investment in RRF by Holdings.

RRF could be adversely impacted if the components of its conduit operation fail to inter-relate in the manner desired or if any one component fails to address successfully its assigned task. For example, losses may result if the risk management software and risk management processes fail to hedge effectively the interest rate risk prior to securitization. In addition, RRF may be adversely impacted if the risk management system assumes that a securitization will take place on a specific date and hedges accordingly, but the securitization is delayed due to delays in the loan underwriting or securitization functions.

We cannot assure you that RRF will be able to profitably operate its mortgage conduit activities.

Competition with other prospective purchasers of mortgage assets may result in fluctuations in volume and cost of acquiring mortgage assets.

RRF competes in its business of purchasing non-conforming mortgage loans and issuing securities backed by such loans with established mortgage conduit programs, investment banking firms, savings and loan associations, banks, thrift and loan associations, finance companies, mortgage bankers, insurance companies, other lenders and other entities purchasing mortgage assets. Many of the institutions with which RRF will compete in these operations have significantly greater financial resources than RRF. Fluctuations in the volume and cost of acquiring mortgage assets resulting from competition from other prospective purchasers of mortgage assets could adversely affect the profitability of RRF's conduit operations.

Consolidation in the mortgage banking industry may reduce RRF's customer base and negatively impact RRF's conduit operations.

Continued consolidation in the mortgage banking industry may also reduce the number of sellers to RRF's conduit operations. This would reduce RRF's potential customer base, and result in RRF purchasing a larger percentage of mortgage loans from a smaller number of sellers. Such changes could negatively impact RRF's conduit operations.

RRF faces the risk that third party vendors will not perform as anticipated.

RRF depends on third party vendors to perform many functions critical to its successful operation, such as servicing and underwriting its mortgage loans and maintaining its on-line, inter-active computer system. Without control over third party vendors, RRF is dependent upon such vendors to perform according to their contractual obligations. If third party vendors do not perform their required functions effectively, RRF's results of operations could be materially adversely affected.

Competition from other investment opportunities available to investors may adversely affect investment in RRF's securities.

Mortgage-backed securities issued through RRF's conduit operations face competition from other investment opportunities available to prospective investors. To the extent RRF cannot find an investor, it faces the risk of having to retain securities of any class that cannot be fully sold when it issues each new deal. RRF then faces the risk that any retained class of security, particularly any interest-only security or subordinated security with respect to credit risk, will fall in value before it can be sold. This could result in a decrease in earnings for RRF.

RRF conduit operations may be adversely impacted by changes in interest rates.

RRF's earnings will be affected by changes in market interest rates. RRF will be subject to the risk of rising mortgage interest rates between the time it commits to purchase mortgage loans at a fixed price and the time it

sells or securitizes those mortgage loans. An increase in interest rates will generally result in a decrease in market value of loans that RRF has committed to purchase at a fixed price, but has not yet sold or securitized.

Changes in interest rates may increase or decrease the number of loans delivered to RRF under best effort delivery program terms, and such variation may result in losses. Higher rates of interest may discourage potential mortgagors from refinancing mortgage loans, borrowing to purchase a home or seeking a second mortgage loan. The result would be a decrease in the volume of mortgage loans available to be purchased through RRF's conduit operations. In addition, an increase in short-term interest rates may decrease or eliminate or, under certain circumstances, cause to be negative, RRF's net interest spread during the accumulation of mortgage loans held for sale. Should short-term interest rates exceed long-term interest rates, commonly referred to as an "inverted yield curve" scenario, a negative effect on RRF's net interest spread would likely result.

Demand for residential mortgage loans and RRF's non-conforming loan products may inhibit RRF's ability to obtain sufficient mortgage loans for successful results of operations.

The availability of mortgage loans meeting RRF's criteria is dependent upon, among other things, the size of and level of activity in the residential real estate lending market and, in particular, the demand for non-conforming mortgage loans. The size and level of activity in the residential real estate lending market depend on various factors, including the level of interest rates, regional and national economic conditions, inflation and deflation in residential property values and the general regulatory and tax environment as it relates to mortgage lending. RRF's business will be adversely affected to the extent RRF is unable to obtain sufficient mortgage loans meeting its criteria.

Fannie Mae and Freddie Mac, formerly known as FNMA and FHLMC, are not currently permitted to purchase single-family mortgage loans with original principal balances above $240,000 ($360,000 in Alaska and Hawaii). If this dollar limitation is increased without a commensurate increase in home prices so that the size of the non-conforming mortgage loan market is reduced, RRF's ability to maintain or increase its current acquisition levels could be adversely affected. Also, FNMA and FHLMC would be in a position to purchase a greater percentage of the mortgage loans in the secondary market than they currently acquire. In addition, FNMA and FHLMC have recently instituted programs under which they will purchase mortgage loans whose borrowers have lower credit ratings compared to those required by FNMA and FHLMC in the past, each thereby further increasing their share of the secondary market.

In general, lower interest rates prompt greater demand for mortgage loans. This is true because more individuals can afford to purchase residential properties, and refinancing and second mortgage loan transactions increase. However, if low interest rates are accompanied by a weak economy and high unemployment, demand for housing and residential mortgage loans may decline. Conversely, higher interest rates and lower levels of housing finance and refinance activity may decrease mortgage loan purchase volume levels. Decreased mortgage loan purchase volume levels would result in decreased economies of scale and higher costs per unit, reduced fee income, smaller gains on the sale of non-conforming mortgage loans and lower net income during the accumulation phase.

Breach of representations and warranties could adversely impact RRF.

RRF may engage in securitizations or bulk whole loan sales in connection with its conduit operations. RRF expects that in connection with any of its issuances of mortgage-backed securities, such securities will be non-recourse to RRF, except in the case of a breach of the standard representations and warranties made by RRF when mortgage loans are securitized. While RRF expects that it will have recourse to the sellers of mortgage loans for any such breaches, there can be no assurance of the sellers' abilities to honor their respective obligations. Also, RRF may engage in bulk whole loan sales pursuant to agreements that generally provide for recourse by the purchaser against it in the event of a breach of a representation or warranty made by it, any fraud or misrepresentation during the mortgage loan origination process or upon early default on such mortgage

loans. RRF will generally limit the remedies of such purchasers to the remedies RRF receives from persons from whom it purchased such mortgage loans. However, in some cases, the remedies available to a purchaser of mortgage loans from RRF may be broader than those available to RRF against its seller. Thus, should a purchaser exercise its rights against RRF, RRF may not always be able to enforce whatever remedies it may have against its sellers.

Lack of geographic diversification of properties underlying mortgage loans may subject such mortgage loans to greater risk of default in event of hazards that affect such region.

RRF seeks geographic diversification of the properties underlying its mortgage loans. Nevertheless, properties underlying such mortgage loans may be located in the same or a limited number of geographical regions. To the extent that properties underlying such mortgage loans are located in the same geographical region, such mortgage loans may be subject to a greater risk of default than other comparable mortgage loans in the event of adverse economic, political or business developments and natural hazard risks that may affect such region and, ultimately, the ability of property owners to make payments of principal and interest on the mortgage loans.

RRF's dependence upon the proper functioning of the securitization market can result in significant liquidity constraints.

RRF's results are dependent upon its ability to securitize its mortgage loans on a frequent basis and in large transactions. Adverse changes in the securitization market could impair RRF's ability to acquire and finance mortgage loans through securitizations on a favorable or timely basis. Any such impairment could have a material adverse effect upon RRF's results of operations and financial condition. In the fourth quarter of 1998, the secondary mortgage market experienced a liquidity crisis that disrupted the securitization market. Subordinated classes of securities and interest-only securities either could not be sold or could be sold only at unattractive prices. Comparable disruptions of the market in the future could materially adversely impact RRF's results of operations and financial condition.

RCF faces the risks of a start-up business.

RCF is a start-up business since it is a recently formed enterprise. We cannot assure you when or if RCF will achieve profitability. RCF plans to expand and develop its business. There can be no assurance that such activities will be effective.

RCF may be adversely impacted by credit losses.

RCF faces risk of loss on its small commercial mortgage loans due to default of the borrowers for credit or other reasons. Small commercial mortgage loans of the type originated by RCF are generally subject to higher levels of credit and other risks compared to residential mortgage loans. In the event of default, the collateral securing such loans may not be adequate to fully discharge the amounts due. RCF bears directly the risk of loss on loans being held by it for sale to investors. RCF relies on being able to originate and acquire commercial loans at prices lower than its investors will buy these loans. Credit concerns from delinquent or defaulted loans, as well as other factors such as interest rate variations, failure to hedge effectively, supply and demand considerations in the market place, and the like, can reduce or eliminate RCF's ability to realize a gain on sale. In addition, RCF bears risks tied to the representations and warranties it makes to investors upon sale. Even where no breach of representations and warranties has occurred, if the loans sold by RCF perform poorly, RCF's ability to continue to sell loans to investors could be significantly diminished and cause RCF to curtail or suspend its lending activities.

RFS faces the risks of a start-up business.

RFS is a start-up business since it is a recently formed enterprise. We cannot assure you when or if RFS will achieve profitability. RFS plans to expand and develop its business. There can be no assurance that such activities will be effective.

Limited availability of product to purchase or sell and other factors may adversely affect RFS' results of operations.

RFS is dependent upon the willingness of banks and thrifts to sell or buy mortgage loans or mortgage securities with RFS. RFS may be adversely impacted if banks and thrifts decide not to sell loans or securities or if RFS cannot find attractive loans or securities to sell to clients willing to buy assets. The willingness of banks and thrifts to sell or buy loans may be diminished from time to time by regulatory influences, unstable market conditions or changing interest rates. RFS faces the risk that financial institutions do not wish to have their portfolio's analyzed or do not seek to restructure their portfolio after such analysis. RFS may not be able to generate profits in some cases if it is not able to assist in the execution of such restructurings.

RFS may be adversely impacted by market and credit risk.

RFS may maintain inventory positions in residential mortgage loans or securities purchased from depository institutions. In addition, RFS may enter into commitments to purchase or sell mortgage loans or securities and may hold loans or securities on a temporary basis pending resale. As such, RFS is exposed to market and credit risk. Market risk includes the risk of decrease in market value of the inventoried assets due to interest rate changes or other factors and the risk of reduced net interest income or losses from prepayment levels higher than anticipated or increased funding costs. RFS limits market value risk by employing hedging and other strategies. There can be no assurance that such hedging strategies will be effective and RFS may incur a loss on the hedged asset as well as the hedge instrument due to movements in market values and interest rates. In addition, counterparties to loan purchase and sale commitments may not be able or willing to complete transactions, thus potentially exposing RFS to loss. RFS may intend to securitize loans through Fannie Mae or Freddie Mac. If it cannot do so, it may realize a lower than expected price upon sale. During the time it holds loans or securities, RFS will bear any losses on such assets due to credit defaults.

RFS is dependent on the availability of borrowings.

In order to facilitate its purchases of loans and securities, RFS will rely on collateralized borrowing arrangements. RFS has not yet entered into any such arrangements and the cost and availability of such funding may affect RFS' profitability and ability to maximize returns on the opportunities it creates.

OTHER RISKS

We depend on key personnel for successful operations.

Both our operations and those of Holdings and its affiliates depend significantly upon the contributions of their respective executive officers. Many of such executive officers would be difficult to replace. The loss of any key person could materially adversely affect business and operating results.

Capital stock price volatility may negatively impact liquidity of our common stock and may cause investors in our common stock to experience losses.

Capital stock price volatility may adversely affect the market price of our common stock. With respect to the public market for our common stock, it is likely that the market price of the common stock will be influenced by earnings volatility and by the market's perception of our ability to achieve earnings growth. Our earnings result from activities at the Company and at Holdings. They are dependent on revenues, which consist primarily of net asset appreciation, net gain on sale and interest income, exceeding expenses, consisting primarily of interest expense, hedging expenses, credit expenses, operating expenses and, in the case of Holdings, taxes. All of these elements can be volatile with respect to a variety of internal and external factors and are particularly uncertain given the start-up nature of Holdings' businesses. Liquidity and capital issues will have large effects. The Company's dividend, and practices with respect to paying a dividend, may also effect the stock price. In addition, if the market price of other REIT stocks decline for any reason, or if there is a broad-based decline in real estate values or in the value of our mortgage assets and the market price of our common stock has been

adversely affected due to any of the foregoing reasons, the liquidity of our common stock may be negatively impacted and investors who may desire or be required to sell shares of common stock may experience losses.

COMPETITION

THE COMPANY

The Company believes that its principal competition in the business of acquiring, managing, credit-enhancing and financing Mortgage Assets and issuing mortgage-backed debt to investors are financial institutions such as banks, savings and loans, life insurance companies, bond insurance companies, mortgage insurance companies, GSEs, institutional investors such as mutual, pension and hedge funds, and certain other mortgage REITs. While most of these entities have significantly greater resources than the Company, the Company anticipates that it will be able to compete effectively and generate relatively attractive rates of return for stockholders due to its relatively low level of operating costs, relative freedom to securitize its assets, ability to utilize prudent amounts of leverage through accessing the wholesale market for collateralized borrowings, freedom from certain forms of regulation and the tax advantages of its REIT status. The existence of these competitive entities, as well as the possibility of additional entities forming in the future, may increase the competition for the acquisition of Mortgage Assets resulting in higher prices and lower yields on such Mortgage Assets. The Company believes it is and plans to continue to be a "low cost producer" compared to most of its competitors in the business of holding, credit-enhancing and financing Mortgage Assets. Accordingly, the Company plans to generate relatively attractive earnings.

RWT HOLDINGS, INC.

Holdings' business units compete in their businesses of originating, purchasing and selling mortgage loans and issuing securities backed by such loans with established mortgage correspondent programs, investment banking firms, securities broker-dealers, savings and loan associations, banks, finance companies, mortgage bankers, mortgage brokers, insurance companies, other lenders and other entities purchasing and selling mortgage assets. RCF competes with other originators and sellers of commercial mortgage loans and other assets. Many of the institutions with which Holdings will compete in these operations have significantly greater financial resources than Holdings. Fluctuations in the volume and cost of acquiring mortgage assets resulting from competition from other prospective purchasers of mortgage assets could adversely affect the profitability of Holdings operations. Mortgage-backed securities issued through Holdings' operations and Holdings' sales of mortgage loans face competition from other investment opportunities available to prospective investors.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain Federal income tax considerations to the Company 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 Internal Revenue Code of 1986, as amended (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

The Company 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 the Company will continue to operate in a manner that will permit the Company to maintain its qualifications as a REIT. This treatment will permit the Company 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 the Company 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 the Company. If the Company 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, the Company 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 the Company 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 the Company 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. The Company must satisfy these stock ownership requirements each taxable year. The Company must solicit information from certain of its shareholders to verify ownership levels and its Articles of Incorporation provide restrictions regarding the transfer of the Company's shares in order to aid in meeting the stock ownership requirements. If the Company 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 recently enacted "good faith" exemption is available.

ASSET TESTS

The Company 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 the Company'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 the Company but not taken into account for purposes of the 75% Asset Test must not exceed either (i) 5% of the value of the Company'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.

The Company expects that substantially all of its assets will be Qualified REIT Real Estate Assets. In addition, the Company 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 the Company's total assets, and the Company does not expect to own more than 10% of any one issuer's voting securities.

The Company intends to monitor closely the purchase, holding and disposition of its assets in order to comply with the REIT Asset Tests. In particular, the Company 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 the Company's assets and to less than 5%, by value, of any single issuer. If it is anticipated that these limits would be exceeded, the Company intends to take appropriate measures, including the disposition of non-qualifying assets, to avoid exceeding such limits.

GROSS INCOME TESTS

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

(a) at least 75% of the Company'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");

(b) at least 95% of the Company'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"); and

(c) for the four years prior to 1998, less than 30% of the Company's gross income must have been derived from the sale of Qualified REIT Real Estate Assets held for less than four years, stock or securities held for less than one year (including certain interest rate swaps and cap agreements entered into to hedge variable rate debt incurred to acquire Qualified REIT Real Estate Assets) and certain "dealer" property (the "30% Gross Income Test").

The Company 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 particular, the Company will treat income generated by its interest rate caps and other hedging instruments as non-qualifying income for purposes of the 95% Gross Income Tests unless it receives advice from counsel that such income constitutes qualifying income for purposes of such test. 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 the Company which may result in the non-qualifying income exceeding 5% of gross income, the Company may be unable to comply with certain of the REIT Gross Income Tests. See " Taxation of the Company" below for a discussion of the tax consequences of failure to comply with the REIT Provisions of the Code.

DISTRIBUTION REQUIREMENT

The Company must generally distribute to its stockholders an amount equal to at least 95% of the Company's REIT taxable income before deductions of dividends paid and excluding net capital gain.

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 95% distribution requirement. The Company 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

The Company 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 the Company for purposes of each of the above REIT qualification tests.

TAXATION OF THE COMPANY

In any year in which the Company qualifies as a REIT, the Company 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. The Company 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, the Company may also be subject to tax in certain other circumstances. If the Company 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 the Company fails either the 75% or the 95% Gross Income Test. The Company 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 the Company 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 the Company 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, the Company 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. The Company may also be subject to the corporate alternative minimum tax, as well as other taxes in certain situations not presently contemplated.

If the Company fails to qualify as a REIT in any taxable year and certain relief provisions of the Code do not apply, the Company 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 the Company fails to qualify as a REIT would not be deductible by the company, nor would they generally be required to be made under the Code. Further, unless entitled to relief under certain other provisions of the Code, the Company would also be disqualified from re-electing REIT status for the four taxable years following the year in which it became disqualified.

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

TAXABLE SUBSIDIARIES

The Company intends to undertake certain hedging activities and the creation of Mortgage Securities through securitization through its taxable affiliates. In order to ensure that the Company does not violate the more than 10% voting stock of a single issuer limitation described above, the Company owns (or will own) only nonvoting preferred, nonvoting common stock or 10% or less of the voting common stock and the other persons own (or will own) all of the remaining voting common stock of such taxable affiliates. The value of the Company's investment in such taxable affiliates must also be limited to less than 5% of the value of the Company's total assets at the end of each calendar quarter so that the Company 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 the Company. Before the Company engages in any hedging or securitization activities or uses any such taxable affiliates, the Company 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 the Company to fail to satisfy the REIT Asset and REIT Gross Income Tests.

There is currently proposed legislation in Congress (described below) which could, if passed, restrict or eliminate the Company's ability to use taxable affiliates.

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 the Company'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 the Company 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 the Company's actual net capital gain for the taxable year. Distributions by the Company, whether characterized as ordinary income or as capital gain, are not eligible for the corporate dividends received deduction. In the event that the Company realizes a loss for the taxable year, stockholders will not be permitted to deduct any share of that loss. Further, if the Company (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. Future Treasury Department regulations may require that the stockholders take into account, for purposes of computing their individual alternative minimum tax liability, certain tax preference items of the Company.

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, the Company 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.

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 the Company credits such Common Stock to the DRP participant's account.

The Company 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 the Company 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 the Company's tax preference items. In such event, however, the Company 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 the Company 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 the Company, 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 the Company 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 the Company does not believe that the Company, 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 the Company's Articles of Incorporation it is unlikely that pension plans will accumulate sufficient stock to cause the Company 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

The Company 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 the Company 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 the Company 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 the Company 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 the Company, 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 the Company. 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 the Company qualifies as a REIT, distributions to a Non-United States Holder that are attributable to gain from the sales or exchanges by the Company 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. The Company is required to withhold 35% of any distribution that could be designated by the Company 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 Stated 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 the Company 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 the Company's stockholders is expected to be Non-United States Holders, the Company 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

The Company will report to its U.S. shareholders 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 shareholder 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 shareholders that does not provide the Company 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 shareholder's income tax liability. In addition, the Company may be required to withhold a portion of dividends and capital gain distributions to any shareholders that do not certify under penalties of perjury their non-foreign status to the Company.

PROPOSED TAX LEGISLATION

The President's 2000 Budget Plan (released on February 1, 1999) includes certain tax proposals applicable to REITs that may be relevant to the Company. These proposals are variations on proposals made but not enacted last year. In particular, one proposal would change the requirement that a REIT not own more than 10% of the voting power of a corporation (other than a "Qualified REIT Subsidiary") to a requirement based on a 10% of vote or value limit, except in the case of certain qualified taxable subsidiaries ("QTS's") engaged in specific types of activities. The combined value of all QTS's, however, would be limited to no more than 15% of the total value of a REIT's assets (and no more than 5% in the case of QTS's performing services to tenants of the REIT). In addition, significant other limitations would apply with respect to transactions between the REIT and the QTS, including that the QTS would not be able to deduct interest paid directly or indirectly to the REIT (or with respect to debt guaranteed by the REIT). This proposal is intended to be effective upon enactment.

Another proposal would generally expand the "five or fewer" stock ownership test to also limit entities (other than another REIT) from owning or controlling 50 percent or more of a REIT's stock.

It is unclear whether these or any of the President's other tax proposals will be enacted, and if so, in what form. It is therefore unclear whether (i) the Company will in fact be able to continue to utilize its taxable affiliates to achieve its intended benefits or (ii) will otherwise be adversely effected by the President's tax proposals.

EMPLOYEES

As of March 17, 1999, the Company employed twenty-eight people, RFS employed twenty-four, RRF employed eighteen and RCF employed eight.

ITEM 2. PROPERTIES

The Company and Holdings lease space for their executive and administrative offices at 591 Redwood Highway, Suites 3100,3120 and 3140, Mill Valley, California 94941, telephone (415) 389-7373.

RFS leases space for its mortgage portfolio evaluation services at 110 E. Broward, Blvd., Ft. Lauderdale, Florida 33301, telephone (954) 463-0900.

RRF leases space for its residential mortgage banking operations at 125 E. Sir Francis Drake Blvd. #300, Larkspur, California 94939, telephone (415) 464-5780. In addition, RRF leases a corporate apartment near its office building for use by its out of state salesforce.

RCF leases space for its commercial mortgage banking operations at 6880 South McCarran Blvd. #3, Reno, Nevada 89509, telephone (775) 448-9200. Additionally, RCF leases three offices, all located in California, for use by its offsite loan production officers.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 1998, there were no pending legal proceedings to which the Company 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 the Company's shareholders during the fourth quarter of 1998.

PART II

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

Effective January 28, 1998, the Company's Common Stock was listed and traded on the New York Stock Exchange under the symbol RWT. Prior to that date, the Company's Common Stock was traded on the over-the-counter market and was quoted on the Nasdaq National Market under the symbol RWTI. The Company's Common Stock was held by approximately 400 holders of record on March 17, 1999 and the total number of beneficial shareholders holding stock through depository companies was approximately 4,000. 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, 1999					
First Quarter (through March 17, 1999)	$17 3/8	$13 1/2	--	--	--
Year Ended December 31, 1998					
First Quarter	$23 1/2	$18 5/8	5/7/98	5/21/98	$ 0.27
Second Quarter	$25 5/8	$17 9/16	8/6/98	8/21/98	$ 0.01
Third Quarter	$17 5/8	$12 3/4	--	--	--
Fourth Quarter	$16 1/16	$11 1/16	--	--	--
Year Ended December 31, 1997					
First Quarter	$56 3/4	$36 1/2	3/31/97	4/21/97	$ 0.60
Second Quarter	$57 1/8	$39 1/4	6/30/97	7/21/97	$ 0.60
Third Quarter	$50	$27 7/8	9/30/97	10/21/97	$ 0.60
Fourth Quarter	$31 3/4	$19 9/16	12/31/97	1/21/98	$ 0.35

</TABLE>

The Company intends to pay quarterly dividends so long as the minimum REIT distribution rules require it. The Company 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 the Company at the discretion of the Board of Directors and will depend on the taxable earnings of the Company, financial condition of the Company, 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, 1998, 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, 1998, 1997, 1996 and 1995 and for the period from commencement of operations on August 19, 1994 to December 31, 1994. 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.

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(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,				PERIOD FROM AUGUST 19, 1994 TO DECEMBER 31,
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Interest income	$ 222,804	$ 198,604	$ 67,284	$ 15,726	$ 1,296
Interest expense	196,124	160,277	49,191	10,608	760
Interest rate agreement expense	3,514	3,741	1,158	339	8
Net interest income	23,166	34,586	16,935	4,779	528
Provision for credit losses	1,120	2,930	1,696	493	--
Equity in (earnings) losses of RWT Holdings, Inc.	4,676	--	--	--	--
Operating expenses (a)	4,656	4,658	2,554	1,131	146
Net unrealized and realized gains (losses) on assets	(38,943)	563	--	--	--
Net income (loss) available to common stockholders	$ (40,118)	$ 24,746	$ 11,537	$ 3,155	$ 382
Net taxable income	$ 2,859	$ 29,964	$ 15,168	$ 3,832	$ 354
Net taxable income available to common stockholders	$ 112	$ 27,149	$ 14,020	$ 3,832	$ 354
Weighted average shares of common stock and common stock equivalents - "diluted"	13,199,819	13,680,410	8,744,184	3,703,803	1,916,846
Diluted earnings (loss) per share	$ (3.04)	$ 1.81	$ 1.32	$ 0.85	$ 0.20
Dividends declared per Class A preferred share	--	--	--	$ 0.500	$ 0.250
Dividends declared per Class B preferred share	$ 3.020	$ 3.020	$ 1.141	N/A	N/A
Dividends declared per common share	$ 0.280	$ 2.150	$ 1.670	$ 0.460	N/A
BALANCE SHEET DATA:					

Mortgage assets	$ 2,670,863	$ 3,366,622	$ 2,153,428	$ 432,244	$ 117,477
Total assets	$ 2,832,448	$ 3,444,197	$ 2,184,197	$ 441,557	$ 121,528
Short-term debt	$ 1,257,570	$ 1,914,525	$ 1,953,103	$ 370,316	$ 100,376
Long-term debt	$ 1,305,560	$ 1,172,801	--	--	--
Total liabilities	$ 2,577,658	$ 3,109,660	$ 1,973,192	$ 373,267	$ 101,248
Total stockholders' equity	$ 254,790	$ 334,537	$ 211,005	$ 68,290	$ 20,280
Number of Class A preferred shares outstanding	--	--	--	--	1,666,063
Number of Class B preferred shares outstanding	909,518	909,518	1,006,250	--	--
Number of common shares outstanding	11,251,556	14,284,657	10,996,572	5,517,299	208,332
OTHER DATA:					
Average assets (amortized cost)	$ 3,571,889	$ 3,036,725	$ 999,762	$ 220,616	$ 58,414
Average borrowings	$ 3,250,914	$ 2,709,208	$ 861,316	$ 174,926	$ 37,910
Average equity	$ 307,076	$ 307,029	$ 131,315	$ 43,349	$ 20,137
Interest rate spread	0.34%	0.68%	1.09%	1.11%	0.72%
Net interest margin	0.65%	1.14%	1.69%	2.17%	2.50%
Operating expenses as a % of net interest income (a)	20.09%	13.47%	15.08%	23.66%	27.73%
Operating expenses as a % of average assets (a)	0.13%	0.15%	0.26%	0.51%	0.69%
Operating expenses as a % of average equity (a)	1.52%	1.52%	1.94%	2.61%	2.01%
Return on average assets	(1.05%)	0.91%	1.27%	1.43%	1.81%
Average assets/average equity	11.63x	9.89x	7.61x	5.09x	2.93x
Return on average equity	(12.17%)	8.98%	9.66%	7.28%	5.25%
Credit reserves	$ 4,972	$ 4,931	$ 2,180	$ 490	--
Actual credit losses	$ 1,079	$ 179	$ 6	$ 4	--

</TABLE>

(a) Excludes one-time termination expense of $1.2 million for 1998.

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: Statements in this discussion regarding Redwood Trust, Inc. (the "Company" or "Redwood Trust") and its business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" commencing on Page 16 of this 1998 Annual Report.

COMPANY OVERVIEW

Redwood Trust, together with its affiliates, is a mortgage finance company providing funding to diverse segments of the U.S. mortgage market. The Company originates, acquires, processes, aggregates, and credit-enhances high-quality residential and commercial mortgage loans for sale to institutional investors as tailored loan portfolios, mortgage securities, and mortgage-backed bonds. In addition, the Company invests in mortgage assets on a long-term basis for its own account.

For more information about the Company, please visit the Company's Web site on the Internet at: http://www.redwoodtrust.com.

In the third quarter of 1998, the Company adopted FAS 133 and moved to full mark-to-market or lower-of-cost-or-market accounting for many of its assets. As discussed herein and in the Notes to the Consolidated Financial Statements, the Company took a significant charge to earnings as a result of these changes in accounting policies and methodologies. Most of these charges were non-cash accounting adjustments; in and of themselves, these changes had no direct effect on the Company's capital, liquidity or cash flow.

Redwood Trust earnings for the fourth quarter of 1998 were $5.8 million and earnings per share were $0.51. Relative to the fourth quarter of 1997, net income increased by 32% and earnings per share increased by 70%. This strong increase in quarterly earnings per share was due to an increase in net interest income from REIT portfolio operations, a gain on sale of mortgage loans, and a reduction in the number of common shares outstanding due to Company share repurchases.

For the full year 1998, the Company reported a net loss of $40.1 million and a loss per share of $3.04. For the full year 1997, the Company reported net income of $24.7 million and earnings per share of $1.81. For the full year 1996, the Company reported net income of $11.5 million and earnings per share of $1.32.

In 1998, mortgage prepayment rates accelerated as homeowners refinanced their mortgages in record numbers. This acceleration was the primary reason the Company reported a loss in 1998. Prepayment acceleration had two negative impacts on earnings. First, prepayment acceleration caused a decline in the market value of the Company's assets. This reduction in market value was recognized as a reduction in earnings under the mark-to-market accounting methodologies the Company adopted in the third quarter of 1998 for the majority of its assets. Second, accelerated mortgage prepayment rates increased mortgage premium amortization expenses.

Financial markets went through a period of turmoil and reduced liquidity in the second half of 1998. The Company entered the liquidity crisis with a strong balance sheet, a strong liquidity position, a significant portion of its borrowings in the form of non-recourse long-term debt, and relatively modest effective leverage. As a result, the Company was largely unaffected by the liquidity crisis except to the extent which earnings were reduced by mark-to-market adjustments as the market values of portfolio assets fell during the crisis.

The Company's common stock price declined in 1998 to a level below tangible book value per share. Because of its strong balance sheet position, the Company was able to enhance liquidity for selling shareholders and enhance value for remaining shareholders through its common stock repurchase program. The Company repurchased 22% of its outstanding common stock in 1998.

The Company's core strategy since its founding in 1994 has been to become a highly productive and efficient investor in mortgage loan portfolios. As part of this strategy, the Company developed mortgage loan production and securitization operations designed to manufacture attractive mortgage loan investments and credit-enhancement opportunities for the Company's portfolio and to use its balance sheet to create mortgage-backed bonds for sale to investors.

In 1998, the Company contributed its loan production operations to RWT Holdings, Inc. ("Holdings"). The Company is funding the expansion of Holdings' loan production operations to enable Holdings to efficiently manufacture mortgage investments for sale to all mortgage investors, including the Company's REIT portfolio. This expansion of the Company's strategy is designed to generate fee income to compliment the net interest income earned from mortgage portfolio operations. This expansion should also give the Company's REIT portfolio significant additional opportunities to acquire attractive mortgage assets. In addition, asset quality control for the portfolio will be enhanced, as investments will be produced by the Company's affiliate.

Holdings has three new subsidiaries. Each subsidiary sources mortgage loans for aggregation and subsequent re-sale to mortgage investors as loan portfolios or as mortgage securities. Redwood Financial Services, Inc. buys and sells seasoned loan portfolios and other mortgage assets with banks and thrifts as their primary customer. Redwood Residential Funding, Inc. acquires newly originated residential loans from mortgage bankers and sells them as loans or securities to a variety of institutional investors. Redwood Commercial Funding, Inc. originates small balance commercial mortgages for sale to banks and other finance companies. More generally, each of these units is prepared to both buy and sell mortgage assets from and to its client base within its area of product expertise. Collectively, these companies are capable of buying or selling almost any type of high quality mortgage loan in a professional manner, and adding value to the process through their operations.

The Company believes that each of Holdings' new businesses has the potential to generate a return on equity equal to or greater than the return on equity generated by the Company's REIT portfolio operations. However, these new businesses are all in their start-up phases so additional operating loses will occur in 1999 prior to these business generating such profits. These losses will be reflected in the Company's income statements. Furthermore, the Company plans to allocate an increasing percentage of its capital to Holdings' mortgage production businesses during 1999. To free capital for Holdings, the Company plans to reduce the size of its REIT mortgage portfolio. As a result, earnings potential from the REIT portfolio will decline even if REIT portfolio margins remain healthy. Overall Company profitability will likely be reduced until Holdings' new businesses achieve their profitability targets.

FINANCIAL CONDITION

At December 31, 1998, the Company's reported balance sheet had $2.8 billion of assets funded with $2.6 billion of borrowings and $255 million of equity.

Included on the reported balance sheet at December 31, 1998 were $1.4 billion of assets and $1.3 billion of debt consolidated from the balance sheets of three "Sequoia" trusts. The Company acts as a financial intermediary by holding mortgage loans in Sequoia and issuing mortgage-backed bonds through Sequoia. The Company, through its ownership of the Sequoia trusts, credit-enhances the mortgage-backed bonds and earns the spread between the mortgage rate and the bond rate.

The Sequoia trusts are "bankruptcy-remote" with respect to the Company. As a result, the Company is not responsible for the repayment of Sequoia debt and Sequoia has no call on the liquidity of the Company. The Company's credit risk with respect to Sequoia's mortgage assets is limited to the Company's investment in the equity of these trusts. At December 31, 1998, this investment had a reported basis of $43 million. The individual assets and liabilities of Sequoia had a net estimated market value of $32 million.

Subtracting out those Sequoia assets and liabilities for which the Company's risk is limited, the Company's "at-risk" balance sheet at December 31, 1998 consisted of $1.5 billion of assets (including its $43 million investment in Sequoia equity) funded with $1.3 billion of borrowings and $255 million of equity. The ratio of equity to at-risk assets was 16.7%.

At December 31, 1997, the Company reported $3.4 billion in assets, of which $2.3 million were at-risk, and $3.1 billion of liabilities, of which $1.9 million were at-risk. Equity capital was $335 million. The ratio of equity to at-risk assets was 14.5%.

At December 31, 1996, the Company reported $2.2 billion in assets and $2.0 billion of liabilities. The Company did not have any Sequoia mortgage equity interests at that time, so all the assets and liabilities were at-risk. Equity capital was $211 million. The ratio of equity to at-risk assets was 9.7%.

CASH

The Company had $56 million, $25 million, and $11 million of unrestricted cash at year-end 1998, 1997 and 1996, respectively.

Cash owned by the Sequoia trusts totaled $13 million at year-end 1998 and $25 million at year-end 1997. In consolidating Sequoia assets on its balance sheet, the Company includes this cash and labels it as restricted cash as it is not available to the Company.

U.S. TREASURY SECURITIES

The Company acquired ten-year Treasury notes in 1998 for balance sheet asset and liability management purposes. The Company marks these securities to market for income statement and balance sheet purposes. The market value was $48 million at December 31, 1998.

MORTGAGE SECURITIES: MARK-TO-MARKET

With the exception of its interest in SMFC 94-A (the Company's December 1997 re-Remic which is held for long-term investment and funded with equity) the Company's mortgage securities portfolio was marked-to-market for income statement and balance sheet purposes in 1998. For the mark-to-market securities, estimated bid-side market value was $1.3 billion at December 31, 1998: these appear on the Company's balance sheet as "Mortgage Securities: Trading."

The Company owned $1.8 billion in market value of these securities at December 31, 1997 and $1.6 billion at December 31, 1996. These securities were then carried on the Company's balance sheet as "Mortgage Securities: Available-For-Sale." This portfolio was marked-to-market for balance sheet purposes during those periods but changes in value were not recognized on the income statement.

At December 31, 1998, 47% of this residential mortgage securities portfolio consisted of residential adjustable-rate mortgage securities issued and credit-enhanced by Fannie Mae or Freddie Mac and effectively rated "AAA." These securities totaled $0.6 billion, $1.0 billion, and $1.0 billion at year-end 1998, 1997, and 1996, respectively.

At December 31, 1998, 1% of the residential mortgage securities portfolio consisted of floating-rate CMO mortgage securities issued by Fannie Mae or Freddie Mac and effectively rated "AAA." These securities totaled $17 million at year-end 1998. The Company did not own any such securities prior to 1998.

At December 31, 1998, 44% of the residential mortgage securities portfolio consisted of residential adjustable-rate mortgage securities issued by private-label security issuers. These were credit-enhanced through subordination or other means and were rated "AAA" or "AA." The value of these securities was $0.6 billion, $0.8 billion, and $0.7 billion at year-end 1998, 1997, and 1996, respectively.

At December 31, 1998, 0.03% of the residential mortgage securities portfolio consisted of Interest-Only securities rated "AAA" or "AA." The value of these securities was $0.4 million, $1.5 million, and $2.5 million at year-end 1998, 1997, and 1996, respectively.

At December 31, 1998, 2% of the residential mortgage securities portfolio consisted of fixed-rate, private label CMO mortgage securities rated "AAA" or "AA" with average lives of 1 to 2 years. The value of these securities was $19 million at year-end 1998. The Company did not own any such securities prior to 1998.

At December 31, 1998, 1% of the residential mortgage securities portfolio consisted of fixed-rate private label mortgage securities rated "AA" and backed by residential mortgage loans with loan-to-value ratios in excess of 100%. The value of these securities was $12 million at year-end 1998. The Company did not own any such securities prior to 1998.

At December 31, 1998, 5% of the residential mortgage securities portfolio consisted of home equity ("HEL") mortgage securities rated "AAA" or "AA." The value of these securities was $71 million at year-end 1998; floating-rate HEL securities were $68 million and fixed-rate HEL securities were $3 million. The Company did not own any such securities prior to 1998.

SMFC 94-A

In 1994 and 1995, the Company acquired a portfolio of subordinated mortgage securities. These securities were the interests in pools of residential mortgages that served as the credit-enhancement for the "AAA" and other securities issued from those pools. Through ownership of these securities, the Company assumed most of the credit risk of the underlying mortgages. These securities were either not rated or were rated "A" through "B."

The value of these securities was $51 million at December 31, 1996. The Company sold these subordinated securities to a Sequoia trust subsidiary, SMFC 97-A, in December 1997. SMFC 97-A issued mortgage securities to fund its acquisition of this portfolio.

The Company acquired from SMFC 97-A the most subordinated of the mortgage interests it issued. In effect, the Company acquired the equity of SMFC 97-A. Changes in market valuations of SMFC 97-A are not included in the Company's income statement as this asset is funded long-term with equity. These mortgage equity interests were valued on the Company's balance sheet at historical amortized cost (less credit reserve) of $8 million at December 31, 1998 and $9 million at December 31, 1997.

At December 31, 1998, these securities effectively bore most of the credit risk related to $0.5 billion of underlying mortgages. Through the creation and retention of the SMFC 94-A interests, the Company used its capital to extend credit guarantees on these mortgage securities in order to facilitate the creation and sale of higher rated mortgage securities. The Company's credit risk from SMFC 97-A is limited to its investment of $8 million. The assets and liabilities of SMFC 97-A are not consolidated on the Company's balance sheet.

COMMERCIAL MORTGAGE LOANS

The Company acquired commercial mortgages for the first time in the fourth quarter of 1998. These loans were carried on the Company's December 31, 1998 balance sheet as "Mortgage Loans: Held for Sale." They were valued at that time at the lower-of-cost-or-market of $8 million. At December 31, 1998, the Company had committed to sell these loans to Holdings.

RESIDENTIAL MORTGAGE LOANS

The Company owned $68 million residential mortgage loans at December 31, 1998. These were carried on the Company's balance sheet at the lower-of-cost-or-market as "Mortgage Loans: Held for Sale." The Company reduced its mortgage loan portfolio in 1998 through sales to the Sequoia trusts and to other mortgage investors.

The Company owned $359 million residential mortgage loans at December 31, 1997 and $525 million residential mortgage loans at December 31, 1996. These were carried on the Company's balance sheet in those years at historical amortized cost less credit reserve in the "Mortgage Loans: Held for Investment" category.

SEQUOIA MORTGAGE TRUST 1 RESIDENTIAL MORTGAGE LOANS

Sequoia Mortgage Trust 1 ("Sequoia 1") owned $197 million in principal value of residential mortgage loans and $13 million of cash at December 31, 1998 funded with $203 million of mortgage-backed bonds. The Company consolidated the assets and liabilities of Sequoia 1 on its balance sheet: these appeared on the Company's balance sheet as part of "Mortgage Loans: Held for Sale," "Restricted Cash," and "Long-term Debt."

The Company's credit risk with respect to these loans was limited at December 31, 1998 to the Company's investment in the equity of Sequoia 1. The reported basis of this investment was $8 million at December 31, 1998. While the estimated market value of this investment in the form of equity in Sequoia 1 Trust was unknown, the net market value of Sequoia 1's individual assets and liabilities was also $8 million. As the equity owner of Sequoia 1, the Company is entitled to distributions of the net earnings of the trust, which principally consists of the interest income earned from Sequoia 1 mortgages less the interest expense on Sequoia 1 debt.

Starting in the first quarter of 1999, the Company had the right, but not the obligation, to call Sequoia 1's debt. If beneficial, the Company could exercise this call. It could then keep or reissue Sequoia 1 debt or, alternatively, it could collapse the trust to effectively re-acquire Sequoia 1's loans.

At December 31, 1997, the principal value of Sequoia 1's loans, as reflected on the Company's balance sheet, totaled $425 million and were included as part of "Mortgage Loans: Held for Investment." The Company formed Sequoia 1 in June 1997. At that time, the Company sold $543 million of principal value of its loan portfolio to Sequoia and Sequoia issued $534 million of long-term amortizing mortgage-backed debt rated "AAA" to fund the purchase.

SEQUOIA MORTGAGE TRUST 2 RESIDENTIAL MORTGAGE LOANS

Sequoia Mortgage Trust 2 ("Sequoia 2") owned $579 million of principal value of residential mortgage loans at December 31, 1998 funded with $571 million of mortgage-backed bonds. The Company consolidated the assets and liabilities of Sequoia 2 on its balance sheet: these appeared on the Company's balance sheet as part of "Mortgage Loans: Held for Investment" and "Long-term Debt." As the equity owner of Sequoia 2, the Company is entitled to receive distributions of its net income.

The Company's credit risk with respect to these loans was limited at December 31, 1998 to the Company's investment in the equity of Sequoia 2. The reported basis of this equity interest was $22 million; the estimated net market value of Sequoia 2's assets and liabilities was $14 million.

The Company will have the right to call Sequoia 2's debt and re-acquire Sequoia 2's loans when certain conditions have been met. It most likely will be several years before the Company gains this right.

At December 31, 1997, Sequoia 2's loans, as reflected on the Company's balance sheet, totaled $740 million and were included as part of Mortgage Loans: Held for Investment. Sequoia 2 was formed by the Company in November 1997. At that time, the Company sold $757 million of principal value of its loan portfolio to Sequoia and Sequoia issued $749 million of long-term amortizing debt rated "AAA" to fund the purchase.

SEQUOIA MORTGAGE TRUST 3 RESIDENTIAL MORTGAGE LOANS

Sequoia Mortgage Trust 3 ("Sequoia 3") owned $540 million of principal value of residential mortgage loans at December 31, 1998 funded with $530 million of mortgage-backed bonds. The Company consolidated the assets and liabilities of Sequoia 3 on its balance sheet: these appeared on the Company's balance sheet as part of "Mortgage Loans: Held for Investment" and "Long-term Debt." The Company owns the equity of Sequoia 3 and is entitled to its earnings distributions.

The Company's credit risk with respect to these loans was limited at December 31, 1998 to the Company's investment in the equity of Sequoia 3. This investment had a reported basis of $12 million. The estimated net market value of Sequoia 3's assets and liabilities was $9 million.

The Company will have the right to call Sequoia 3's debt and re-acquire Sequoia 3's loans when certain conditions have been met. The Company is not likely to gain this right prior to December 2002.

The Company formed Sequoia 3 in June 1998. At that time, Sequoia acquired $645 million of principal value of loans from the Company and Holdings and Sequoia issued $635 million of long-term amortizing mortgage-backed debt rated "AAA" to "BBB" to fund the purchase.

INTEREST RATE AGREEMENTS

The Company's interest rate agreements are carried on its balance sheet at estimated market value, which was $2.5 million at December 31, 1998, $2.1 million at December 31, 1997, and $2.6 million at December 31, 1996. Please see "Note. 2 Summary of Significant Accounting Policies", "Note 6. Interest Rate Agreements" and "Note 10. Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements and "Item 7(a): Quantitative and Qualitative Disclosures about Market Risk" for additional details about the Company's interest rate agreements.

INVESTMENT IN RWT HOLDINGS, INC.

The Company does not consolidate the assets and liabilities of Holdings on its balance sheet.

The Company's preferred stock investment in Holdings was carried on the Company's balance sheet as a $15.1 million asset at December 31, 1998.

In 1998, the Company made its original investments of $19.9 million in the equity of Holdings; the carrying value of this investment has been reduced by the Company's share of the operating losses at Holdings.

At December 31, 1998, the Company's assets also included a loan to Holdings of $6.5 million and a receivable from Holdings of $0.4 million.

OTHER ASSETS

Other assets include accrued interest receivable, fixed assets, leasehold improvements and prepaid expenses. These totaled $21 million, $26 million, and $17 million at the end of 1998, 1997 and 1996, respectively.

SHORT-TERM DEBT

Short-term borrowings totaled $1.3 billion at December 31, 1998. The Company pledged a portion of its mortgage security portfolio and mortgage loan portfolio to secure this debt. Short-term debt totaled $1.9 billion at December 31, 1997 and $2.0 billion at December 31, 1996. Maturities on this debt typically range from one month to one year.

LONG-TERM DEBT

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

At December 31, 1997, Sequoia 1 had $429 million and Sequoia 2 had $736 million of long-term debt outstanding. There was no Sequoia 3 debt outstanding in 1997 and no Sequoia debt outstanding in 1996.

Sequoia debt is non-recourse to the Company. The debt is consolidated on the Company's balance sheet and is carried as long-term debt at historical amortized cost.

OTHER LIABILITIES

Other liabilities include accrued interest payable, accrued expenses, and dividends payable. The net balance of these accounts totaled $15 million, $22 million, and $20 million at the end of 1998, 1997 and 1996, respectively.

SHAREHOLDERS' EQUITY

Total equity capital totaled $255 million at December 31, 1998. Reported common equity totaled $228 million, or $20.27 per common share outstanding.

In reporting equity at December 31, 1998, the Company marked-to-market all earning assets and interest rate agreements except mortgage assets funded with equity or funded to maturity with an expected long-term holding period (Sequoia 2 and Sequoia 3). In accordance with Generally Accepted Accounting Principles, no liabilities were marked-to-market.

If the Company had marked-to-market all of its assets and liabilities, equity capital would have been $248 million at December 31, 1998. After subtracting out the preference value of the preferred stock, common equity on a full mark-to-market basis was $220 million and the net mark-to-market value per common share was $19.53.

Reported equity capital was $335 million at December 31, 1997 and $211 million at December 31, 1996. Reported common equity was $308 million at December 31, 1997 and $181 million at December 31, 1996. For those dates, reported book value per common share was $21.55 and $16.50 and the net mark-to-market value per common share was $21.47 and $16.37.

Equity capital was reduced in 1998 due to a reduction in the market value of marked-to-market assets and the Company's common stock repurchase program. The Company acquired 3,131,500 shares of its common stock in 1998 at an average price of $14.99 per share.

RESULTS OF OPERATIONS

REIT INTEREST INCOME

Net earnings from assets include interest income, net asset appreciation as discussed in "REIT Net Unrealized and Realized Gains and Losses on Assets" and credit expenses as discussed in "REIT Credit-Related Expenses."

Interest income generated by the Company's REIT portfolio (including consolidated Sequoia assets) was $223 million in 1998. The portfolio had average earning assets of $3.5 billion and earned an average yield of 6.48%.

The Company started to reduce the size of its portfolio in the third quarter of 1998 in order to free up capital to support growth of Holding's mortgage banking businesses. In 1998, average earning assets were $3.3 billion in the first quarter, $3.5 billion in the second quarter, $3.8 billion in the third quarter, and $3.1 billion in the fourth quarter. At December 31, 1998, earning assets were $2.8 billion.

The Company's earning asset yield rose in the second half of the year. For the four quarters of 1998, the earning asset yield was 6.49%, 6.10%, 6.42%, and 6.87%, respectively. The earning asset yield in December 1998 was 6.95%.

The earning asset yield rose despite falling interest rates, which contributed to an acceleration of mortgage prepayment rates (26%, 34%, 29% and 32% on an annualized basis for the four quarters of 1998) and reduced mortgage cash coupon rates (7.65%, 7.52%, 7.22% and 7.17% for the four quarters of 1998). By December 1998, the prepayment rate was 33% and the average mortgage coupon was 7.21%.

The earning asset yield rose during 1998 as the Company reduced net mortgage premium balances and thus reduced net premium amortization expenses. The Company reduced its mortgage premium balances through reducing the basis of retained assets, amortization, sales of assets with high premiums, and acquisition of assets with lower premiums. The Company also has reduced effective mortgage premium by issuing Sequoia mortgage-backed debt at a premium. The Company wrote down mortgage premium when it adopted mark-to-market accounting for the majority of its assets in the third quarter of 1998.

The Company's net premium balances, including effective premium and discount on long-term debt (and excluding the premium on the U.S. Treasuries), were $71 million, $62 million, $17 million, and $13 million at

the end of the four quarters of 1998, respectively. Net asset premium amortization was $8.2 million, $11.0 million, $6.9 million, and $1.8 million in those four quarters. The reduction in net earning asset yield caused by premium amortization was 0.99%, 1.26%, 0.72%, and 0.23%, respectively.

By year-end 1998, the net premium balance was $13 million, or 0.5% of mortgage asset principal value. The reduction in yield caused by premium amortization was 0.21% in December 1998.

From 1997 to 1998, interest income increased from $199 million to $223 million as the average portfolio of earning assets grew to $2.9 billion to $3.4 billion. The net yield on earning assets declined during this period, from 6.74% in 1997 to 6.48% in 1998. The two principal drivers of changes in portfolio yield were changes in the average mortgage coupon rate and changes in mortgage premium amortization expenses. Mortgage coupon rates generally tracked changes in short-term interest rates, although with a lag. The average coupon was 7.72% in 1997 and 7.42% in 1998.

Premium amortization expenses rose from $23 million in 1997 to $28 million in 1998 as the Company's premium balances increased and mortgage prepayment rates accelerated. Average mortgage premium was $61 million and $49 million in 1997 and 1998, respectively, or, 2.1% and 1.5% of average mortgage asset principal value. Average prepayment rates were 25% in 1997 and 30% in 1998. The reduction in earning asset yield due to premium amortization was 0.81% in 1997, and 0.82% in 1998.

From 1996 to 1997, interest income increased from $67 million to $199 million as the average portfolio of earning assets grew from $1.0 billion to $2.9 billion. The net yield on earning assets declined during this period, from 6.93% in 1996 to 6.74% in 1997. The average mortgage coupon was 7.55% in 1996 and 7.72% in 1997.

Premium amortization expenses rose from $5 million in 1996 to $23 million in 1997 as the Company's premium balances increased while mortgage prepayment rates remained at the same level. Average mortgage premium as a percentage of average mortgage asset principal value was 0.7% in 1996 and 2.1% in 1997. Average prepayment rates were 25% in both years. The reduction in earning asset yield due to premium amortization was 0.55% in 1996 and 0.81% in 1997.

REIT INTEREST EXPENSE

Interest expense in 1998 was $196 million. The Company funded its REIT portfolio with an average of $304 million of equity and $3.3 billion of borrowings (including consolidated Sequoia debt). The Company paid an average cost of funds of 6.03% for these borrowings.

In 1998, interest expense was $46 million in the first quarter, $50 million in the second quarter, $56 million in the third quarter, and $44 million in the fourth quarter. Average borrowings were $3.1 billion, $3.3 billion, $3.7 billion, and $3.0 billion. The average cost of funds was 6.01%, 6.06%, 6.15%, and 5.89%, respectively.

The cost of funds rose in the first three quarters of 1998 as short-term borrowing costs rose from 5.77% to 5.88% to 5.93%. In addition, the percentage of long-term debt funding, which is more expensive, changed from 37% to 32% to 42%. The cost of long-term debt was stable, averaging 6.45%.

In the fourth quarter of 1998, borrowing costs declined in conjunction with falling short-term interest rates. The cost of short-term borrowings dropped to 5.59% and the cost of long-term borrowings, most of which are adjustable-rate, dropped to 6.23%. Average long-term borrowings were 47% of total borrowings in the fourth quarter.

For December 1998, the overall cost of borrowing was 5.87%, short-term borrowings cost 5.58%, long-term borrowings cost 6.14%, and average long-term borrowings were 51% of total borrowings.

From 1997 to 1998, interest expense increased from $160 million to $196 million as average borrowings increased from $2.7 billion to $3.3 billion. The overall cost of funds was 5.92% in 1997 and 6.03% in 1998.

The Company's cost of funds rose from 1997 to 1998 primarily as the cost of long-term debt rose and as the Company utilized an increased percentage of the more expensive long-term debt. The cost of short-term debt generally tracked changes in short-term interest rates, which were relatively stable throughout these periods. The cost of short-term debt was 5.86% in 1997 and 5.81% in 1998.

The Company started issuing long-term mortgage-backed debt through Sequoia trusts in 1997. The cost of Sequoia debt was 6.31% in 1997 and 6.38% in 1998. The effective cost of long-term debt rose slightly as the Company issued some fixed-rate, rather than adjustable-rate debt. In addition, the Company reduced its prepayment risk by structuring some prepayment risk into the debt issued, which increased the cost of the debt. The percentage of average debt that was long-term debt rose from 12% in 1997 to 39% in 1998.

From 1996 to 1997, interest expense increased from $49 million to $160 million as average borrowings increased from $0.9 billion to $2.7 billion. The overall cost of funds was 5.71% in 1996 and 5.92% in 1997.

The Company's cost of funds rose from 1996 to 1997 as the cost of short-term debt rose and as the Company utilized an increased percentage of more expensive long-term debt. The cost of short-term debt generally tracked changes in short-term interest rates, although with a lag. This cost was 5.71% in 1996 and 5.86% in 1997. The Company started issuing long-term debt through Sequoia trusts in 1997. In 1997, the cost of Sequoia debt was 6.31% and average long-term debt was 12% of total debt.

REIT INTEREST RATE AGREEMENT EXPENSE

Hedging expenses include interest rate agreement expenses and changes in market value of interest rate agreements. Interest rate agreement expense presented in the income statement consists of both cash flow costs and amortization expenses. Changes in the market value of interest rate agreements are included in "REIT Net Unrealized and Realized Gains and Losses on Assets" as discussed below.

Interest rate agreement expense was $3.5 million in 1998, or 0.11% of average borrowings. In the four quarters of 1998, interest rate agreement expense was $1.4 million, $1.6 million, $0.2 million, and $0.3 million, respectively. Expressed as a percentage of the Company's borrowings, interest rate agreement expense was 0.18%, 0.19%, 0.03% and 0.04%, respectively.

In adopting mark-to-market accounting for its interest rate agreements in the third quarter of 1998 through the early adoption of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, the Company wrote down its basis in its interest rate agreements. While this market value adjustment reduced overall third quarter 1998 income, it had the effect of reducing interest rate agreement amortization expense starting in that quarter.

Interest rate agreements expense was $3.7 million in 1997 and $3.5 million in 1998. As a percentage of borrowings, interest rate agreement expense was 0.14% in 1997 and 0.11% in 1998. Interest rate agreement expense was reduced in 1998 due to a change to mark-to-market accounting.

Interest rate agreements expense was $1.2 million in 1996 and $3.7 million in 1997. As a percentage of borrowings, interest rate agreement expense was 0.13% in 1996 and 0.14% in 1997. Interest rate agreement expense increased as the size of the Company's balance sheet increased.

See "Note 6. Interest Rate Agreements" in the Notes to Consolidated Financial Statements for additional details.

REIT NET INTEREST INCOME

Net interest income (interest income less interest expense and interest rate agreement expense) was $23 million in 1998. Net interest income was $6 million in the first quarter, $2 million in the second quarter, $5 million in the third quarter, and $10 million in the fourth quarter.

For the four quarters of 1998, the interest rate spread (yield on earning assets less cost of funds and hedging) was 0.30%, -0.15%, 0.24%, and 0.94% and the net interest margin (net interest income divided by average assets)

was 0.75%, 0.22%, 0.52%, and 1.19%, respectively. The spread and margins increased in the later part of 1998 in spite of accelerated prepayment rates. This was due to the changes in accounting methodologies, which lowered amortization expense and thereby increased asset yields, and a reduction in short-term interest rates, which lowered the short-term cost of funds.

Net interest income was $34 million in 1997 and $23 million in 1998. The interest rate spread was 0.68%, and 0.34% and the interest rate margin was 1.14%, and 0.65%, respectively. The decrease in spreads and margins reflect the flattening of the yield curve which resulted in faster prepayments and a reduction in coupon rates on six- and twelve-month adjustable-rate assets relative to rates on one-month funding.

Net interest income was $17 million in 1996 and $34 million in 1997. The interest rate spread was 1.09% and 0.68% and the interest rate margin was 1.69% and 1.14%, respectively. The decrease in spreads and margins reflect the Company's increased used of more expensive long-term debt and a higher premium balance which reduced the yield on assets.

REIT CREDIT-RELATED EXPENSES

Credit-related expenses include credit provisions for loans and securities that are not marked-to-market and credit-related valuation adjustments for assets that are accounted for on a lower-of-cost-or-market basis. The credit-related valuation adjustments are included in "Net unrealized and realized gains (losses) on assets" on the Company's income statement.

In 1998, total credit-related expenses were $2.3 million, including $1.1 million of credit provisions and $1.2 million of credit-related mark-to-market adjustments. Total credit-related reserves were $6.1 million at December 31, 1998, including $4.9 million of credit reserves and $1.2 million of credit-related mark-to-market reserve.

Total actual realized credit losses during 1998 were $1.1 million, including $0.2 million in losses on loans and $0.9 million in losses on securities (SMFC 97-A).

Credit provisions were $0.6 million in the first quarter of 1998 and $0.8 million in the second quarter of 1998. In the third quarter of 1998, the Company adopted mark-to-market accounting methodologies for many of its assets. The Company established a mark-to-market credit reserve of $1.6 million in that quarter and reversed $0.6 million of credit provision expenses. Fourth quarter 1998 credit-related expenses netted to zero as the Company took $0.4 million credit provisions and reversed $0.4 million of its mark-to-market credit-related adjustments.

The Company's overall credit results have been excellent through December 31, 1998. Serious delinquencies have remained below 0.30% of loans and loan loss severities have averaged less than 10%.

Total credit-related expenses were $2.9 million in 1997 and $2.3 million in 1998. The decrease occurred, primarily because the Company reduced its credit expenses for SMFC 94-A from $0.4 million in 1997 to zero in 1998. The Company deems the reserve for SMFC 94-A to be sufficient to cover likely future credit losses.

Total credit-related expenses were $1.7 million in 1996 and $2.9 million in 1997. The increase was due to the increase in the size of the Company's loan portfolio.

The Company has generally taken credit provisions at an annual rate of 0.15% for residential loans held-to-maturity, has written down the basis of delinquent lower-of-cost-or-market loans to estimated bid-side market value, and has established a credit reserve for its interests in SMFC 97-A to cover estimated future losses from that source.

REIT NET UNREALIZED AND REALIZED GAINS AND LOSSES ON ASSETS

The net loss on asset market valuations was $49.0 million in 1998. This net loss consisted of $3.6 million net realized gains on sale of mortgage loans and securities, $35.4 million market value loss on portfolio earning assets that were retained and marked-to-market, $1.2 million to build a credit-related mark-to-market reserve, $5.6

million realized loss on sale of interest rate agreements, and $10.4 million market value loss on retained interest rate agreements.

In accordance with the transition provisions of SFAS No. 133, the Company recorded a net-of-tax cumulative-effect-type transition loss of $10.1 million to recognize at fair value the ineffective portion of all interest rate agreements that were previously designated as part of a hedging relationship. The remaining $38.9 million of asset valuation adjustments for 1998 was reported under "Net Unrealized and Realized Gains (Losses) on Assets."

In the first quarter of 1998, the Company wrote down all of its interest-only mortgage securities by $0.7 million to their estimated market value. The Company also sold $9 million of mortgage securities for a gain of $6,000. There were no realized or unrealized gains or losses in the second quarter of 1998.

The Company adopted mark-to-market accounting methodologies for the majority of its assets and all its interest rate agreements in the third quarter of 1998. Due primarily to accelerated mortgage prepayments, portfolio assets values had been declining since the second half of 1997. The market value losses that were recognized in income in the third quarter of 1998 as a result of the adoption of new accounting methodologies represented the cumulative losses incurred to date at that point.

The third quarter of 1998 asset value loss, representing this cumulative adjustment, was $50.4 million. This consisted of $1.0 million loss on sale of mortgage loans, $31.3 million market value loss on portfolio earning assets that were retained and marked-to-market, $1.6 million to build a credit-related mark-to-market reserve, $5.6 million realized loss on interest rate agreements, and $10.9 million market value loss on retained interest rate agreements.

In August and September of 1998, before the brunt of the financial crisis hit, the Company committed to sell $679 million of residential mortgage loans in a series of transactions. Since these transactions closed in October and November, the Company recognized the $4.6 million gain on sale of these loans in the fourth quarter of 1998.

Market values for the Company's retained mortgage portfolio and other assets continued to fall in the fourth quarter of 1998 due to a liquidity crisis in worldwide financial markets and due to continued rapid mortgage prepayment rates.

Total net market value income for the fourth quarter of 1998 was $2.0 million. This included a $4.6 million gain on sale of mortgage loans, a $3.5 million loss of value on portfolio earning assets that were retained and marked-to-market, a $0.4 million mark-to-market gain in the credit-related mark-to-market reserve, and $0.5 million market value gains on interest rate agreements.

Total gain on assets in 1997 was $0.6 million. There was no gain or loss on assets in 1996. The Company was not utilizing mark-to-market accounting in these years, so these gains were generated only upon the sale of assets.

REIT NET INVESTMENT INCOME

Net investment income is earnings from portfolio operations before operating expenses. It is total asset earnings less the all-in costs of borrowing and hedging. For 1998, net investment income was negative $27 million.

Total asset earnings in 1998 were $189 million (interest income of $223 million less credit-related expenses of $2 million less negative mark-to-market adjustments on mortgage assets of $32 million). Interest expenses on borrowing were $196 million. Hedging expenses were $20 million ($4 million interest rate agreement expense plus $16 million mark-to-market adjustments on interest rate agreements).

For the four quarters of 1998, net investment income was $5 million, $1 million, negative $45 million, and $11 million, respectively. The reason for the changes in net investment from quarter to quarter are discussed above.

Net investment income was $15 million in 1996 and $32 million in 1997. The increase from year to year was due to the growth in the Company's balance sheet.

REIT OPERATING EXPENSES

Total operating expenses for the REIT for 1998 were $5.9 million; this includes one-time termination expenses in the fourth quarter of $1.2 million. On going operating expenses were $4.7 million in 1998.

For the four quarters of 1998, on going operating expenses were $1.9 million, $0.6 million, $1.0 million, and $1.1 million, respectively. On going operating expenses as a percentage of assets were 0.22%, 0.06%, 0.10%, and 0.14%, respectively, and operating expenses as a percentage of equity were 2.24%, 0.69, 1.41%, and 1.75%, respectively. On going operating expenses declined after the first quarter as the Company transferred its loan production operations to its affiliate.

On going operating expenses were $4.7 million in 1997 and in 1998. In 1998, as compared to 1997, bonus-related compensation and stock-option related dividend equivalent right payments were reduced as a percentage of salaries, while headcount and base salaries increased. On going operating expenses were 0.15% and 0.13% of assets. As a percentage of equity, on going operating expenses were 1.52% in both 1997 and 1998.

On going operating expenses were $2.6 million in 1996 and $4.7 million in 1997. Expenses grew as assets grew and the Company expanded its operational capabilities. In these years, respectively, on going operating expenses were 0.26% and 0.15% of assets. As a percentage of equity, on going operating expenses were 1.94% in 1996 and 1.52% in 1997.

REIT NET EARNINGS FROM PORTFOLIO OPERATIONS

Net earnings generated by the Company's REIT portfolio were negative $33 million in 1998. The REIT portfolio earned $3 million in the first quarter, $1 million in the second quarter, lost $46 million in the third quarter, and made $9 million in the fourth quarter.

REIT portfolio earnings totaled $28 million in 1997 and $13 million in 1996.

INCOME FROM THE INVESTMENT IN RWT HOLDINGS, INC.

The Company's share of the losses generated by Holdings, the Company's start-up non-REIT mortgage production affiliate, was $4.7 million in 1998.

Holdings commenced operations in the second quarter of 1998. The Company recognized operating losses from Holdings of $0.6 million in the second quarter of 1998, $1.6 million in the third quarter of 1998, and $2.5 million in the third quarter of 1998.

See Holdings' Consolidated Financial Statements and Notes, and Holdings' Management's Discussion and Analysis incorporated herein.

NET INCOME

Net income for the Company was negative $37.4 million for 1998. After preferred dividends of $2.7 million, net income for common shareholders was negative $40.1 million.

After paying quarterly preferred dividends of $0.7 million, net income to common shareholders was $2.5 million in the first quarter, negative $0.5 million in the second quarter, negative $47.9 million in the third quarter and $5.8 million in the fourth quarter of 1998.

In 1997, net income was $27.5 million, preferred dividends were $2.8 million and net income to common shareholders was $24.7 million.

In 1996, net income was $12.7 million, preferred dividends were $1.2 million and net income to common shareholders was $11.5 million.

EARNINGS PER SHARE

Average diluted shares outstanding were 14.2 million in the first quarter, 14.3 million in the second quarter, 13.3 million in the third quarter, and 11.4 million in the fourth quarter of 1998. For the four quarters of 1998, diluted earnings per share were $0.17, negative $0.03, negative $3.61, and $0.51, respectively.

Average diluted common shares outstanding were 13.7 million in 1997 and 13.2 million in 1998. Shares outstanding declined as a result of the Company's common share repurchase program. Diluted earnings per share were $1.81 in 1997 and negative $3.04 in 1998.

Average diluted common shares outstanding were 8.7 million in 1996 and 13.7 million in 1997. Shares outstanding increased as a result of the Company's secondary stock offerings. Diluted earnings per share were $1.32 in 1996 and $1.81 in 1997.

DIVIDENDS

The Company paid common stock dividends of $0.27 in the first quarter of 1998 and $0.01 in the second quarter of 1998. No dividends were paid in the third and fourth quarter of 1998. These 1998 common stock dividends totaled $3.9 million. In 1997, the Company paid $28.8 million common stock dividends, or $2.15 per share. In 1996, the Company paid $14.1 million common stock dividends, or $1.67 per share.

The Company was not required under the minimum REIT dividend distribution rules to declare a common stock dividend in the third and fourth quarters of 1998, so no such dividend was declared. While the Company had more than ample liquidity and balance sheet strength to pay a dividend in those quarters, the Company chose to retain its capital to use for its operations and its common stock repurchase program.

RISK MANAGEMENT

MARKET RISKS

The Company's market risks include changes in market valuations, changes in net interest income, liquidity risk, prepayment risk, credit risk and others. Management's discussion and selected information on these risks is included in "Item 7(a) Quantitative and Qualitative Disclosures About Market Risk" in this Form 10-K.

LIQUIDITY

In the fourth quarter of 1998, the Company entered into several new short-term borrowing commitments with higher haircuts and higher spreads between the cost of these borrowings and LIBOR rates than typically had been the case in the past. In addition, in at least one instance, a short-term lender to the Company indicated that, due to their own internal issues, they would not be able to renew certain borrowings as they became due; the Company met its financing needs with other lenders. These were symptoms of the nationwide "liquidity crunch" which impacted financial markets in general, including the mortgage market and the short-term lenders supplying funds to the mortgage market.

At December 31, 1998, the Company's short-term borrowings and borrowing commitments all had maturities in 1999, mostly in the first quarter of 1999. The Company's ability to roll over these borrowings as they become due depends on many factors, including any continued effects of the liquidity crunch. If new financing is unavailable to the Company, or only available with onerous terms, the Company may be forced to liquidate assets. If the spread between the cost of new financing and LIBOR rates increases, lower earnings than would otherwise have been the case could result. If new financings have lower advance rates (higher haircuts) than has typically been the case in the past, the Company's liquidity reserves could be reduced or eliminated and its ability to grow and fund its business plan could be diminished. In the first quarter of 1999, the Company extended some of its short-term debt to mature in 2000. Liquidity conditions generally improved in early 1999 from the fourth quarter of 1998.

At December 31, 1998, $1.3 billion of mortgage assets served as collateral for Sequoia's long-term debt. The remaining mortgage assets, which had a market value of $1.3 billion, were available to collateralize the Company's short-term debt. The Company estimates it had additional borrowing capacity in excess of its current requirements of $61 million at year-end. In addition, the Company had $56 million of unrestricted cash. These amounts together represented 9% of short-term borrowings at that time. The monthly principal and interest payments received on the mortgages which serve as collateral to the long-term debt are held in trust until the bond payment date and are included in the Company's cash balances as "restricted cash."

At December 31, 1997, $1.2 billion of the mortgage assets served as collateral for Sequoia's long-term debt with the remaining $2.2 billion in mortgage assets available to collateralize the Company's short-term debt. The Company estimates it had additional borrowing capacity in excess of its current requirements of $183 million. In addition, the Company had $25 million of unrestricted cash. Together, these balances equaled 11% of short-term borrowings at that time.

At December 31, 1996, the Company had borrowings equaling 91% of the $2.2 billion market value of its mortgage assets available to collateralize such borrowings. The Company estimates it had additional borrowing capacity at that time of $124 million, as well as $11 million of unrestricted cash for a total balance equaling 7% of short-term borrowings at that time.

CAPITAL RESOURCES

Through its Risk-Adjusted Capital Policy, the Company assigns a guideline capital adequacy amount (expressed as a guideline equity-to-assets ratio) to each of its mortgage assets. For short-term funded assets, this ratio will fluctuate over time, based on changes in that asset's credit quality, liquidity characteristics, potential for market value fluctuation, interest rate risk, prepayment risk, and the over-collateralization requirements for that asset set by the Company's collateralized short-term lenders. Capital requirements for mortgage equity interests (assets funded with long-term debt) generally equal the Company's net investment. The sum of the capital adequacy amounts for all of the Company's mortgage assets is the Company's aggregate guideline capital adequacy amount.

The total guideline equity-to-assets ratio capital amount has declined as the Company has eliminated some of the risks of short-term debt funding through the creation of mortgage equity interests by issuing long-term debt.

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

Growth in assets and earnings may be limited when the Company's access to new equity capital is limited. Holdings and the Company can benefit over time from the re-investment of any retained earnings at Holdings. Redwood REIT, however, is generally required to distribute at least 95% of its taxable income as dividends.

INFLATION

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

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

YEAR 2000 READINESS DISCLOSURE

In 1998, Redwood Trust established a Year 2000 Project. The goal of this on going project is to ensure that its communications, data and information systems are ready for the Year 2000 and to employ prudent management to minimize any potential negative impact of the Year 2000 on the Company's business partners and its investors. Senior management has taken an active role in the Year 2000 Project and provides updates to the Company's Board of Directors as necessary. This update and disclosure pertain to Redwood Trust, Inc. and its affiliates, though it is not universally applicable.

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

Our project management strategies include system risk assessment, system upgrades or workarounds, and contingency planning. The Company believes it is devoting the necessary resources to address all appropriate Year 2000 issues. The Company does not anticipate incurring costs related to the Year 2000 issue that would be material to its financial position, results of operations, or cash flows in future periods.

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

In the third quarter of 1998, internal computer systems were successfully tested. Hardware testing included forward date testing of the December 31, 1999 to January 1, 2000 rollover and leap year 2000. Critical software applications, used to manage the Company's businesses, were also successfully tested.

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

The Company continues to gather and assess information of its business partners' Y2K readiness. We will monitor public disclosures by key business partners into the New Year and solicit disclosures directly through our own Year 2000 questionnaire and subsequent discussions. Direct data collection should be substantially completed by June 30, 1999.

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

The Company and its affiliates are developing contingency plans and workaround systems for critical systems. Workarounds may include substituting compliant business partners for those who are non-compliant. The benefit to the Company of this contingency plan is likely to be limited due to the lack of the Company's control on external vendors and the lack of the Company's ability to replace certain business partners efficiently.

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

RWT HOLDINGS, INC.

RWT Holdings, Inc. ("Holdings") was formed in Delaware in February 1998 and commenced operations on April 1, 1998. Holdings' start-up operations have been primarily funded by Redwood, which has a significant

investment in Holdings' preferred stock. See Note 1 in the Notes to the Consolidated Financial Statements of RWT Holdings, Inc. and Subsidiaries for additional information on Holdings' initial capitalization.

Holdings conducts mortgage production operations - originating, acquiring, aggregating and reselling mortgage loans - through three wholly owned subsidiaries: Redwood Financial Services, Inc., Redwood Residential Funding, Inc., and Redwood Commercial Funding, Inc.

Redwood Financial Services, Inc. ("RFS") provides asset and liability management and portfolio evaluation services to commercial banks and other large holders of seasoned mortgage loan portfolios and seeks to acquire or assist in the sale or securitization of portions of such portfolios. RFS also seeks to provide other services to its customers including sales of mortgage loans and other assets to clients to meet their investment needs.

Redwood Residential Funding, Inc. ("RRF") will acquire newly originated residential loans from mortgage bankers. It will establish correspondent loan purchase operations and add value to its lender group through consistent and low cost execution, risk-based pricing and other technology oriented, value added services. It will sell its loans to its investor clients as tailored loan portfolios or as structured mortgage securities.

Redwood Commercial Funding, Inc. ("RCF") acquires, originates and services commercial mortgage loans typically ranging in size from $0.5 million to $5.0 million. Loans will be made to credit-worthy borrowers on a variety of commercial property types. These loans will be sold to investor clients, typically banks and savings and loan institutions.

At December 31, 1998, Holdings owned $12.2 million of residential mortgage loans that had been acquired by Redwood Financial Services. Holdings also had $9.7 million in cash and $0.8 million in other assets for total assets of $22.8 million. Holdings had a commitment to acquire $8 million of commercial loans from Redwood Trust in the first quarter of 1999.

The loans owned by Holdings were funded with short-term borrowings and equity. Subordinated short-term debt was $6.5 million and other liabilities totaled $1.0 million.

Total equity at December 31, 1998 was $15.3 million reflecting the $20.0 million of initial capital less the $4.7 million in operating losses incurred during the year.

For 1998, interest income on loans totaled $2.8 million, most of which occurred in the second quarter of the year as Holdings acquired and sold over $500 million in residential mortgage loans. The Company generated net gains on sale for the year of $18,000 primarily on the sales transacted in the second quarter.

Holdings earned $0.4 million in interest on its cash balances. Holdings had total interest expenses for the year of $2.7 million consisting of interest expenses on short-term borrowings, interest expenses on subordinated debt, and credit support fees. Net interest income totaled $0.5 million

Operating expenses at Holdings totaled $5.2 million in 1998.

Holdings losses in 1998 were $4.7 million. Each of the Holdings' operations is still in start-up mode. Holdings currently expects these operations to become profitable in aggregate during the second half of 1999.

ITEM 7(a). QUANTATITVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company seeks to manage the interest rate, market value, liquidity, prepayment and credit risks inherent in all financial institutions in a prudent manner designed to insure the longevity of the Company. At the same time, the Company's endeavors to provide its shareholders an opportunity to realize an attractive total rate of return through stock ownership of the Company. The Company does not seek to avoid all risks. It does seek, to the best of its ability, to assume risk that can be quantified from historical experience, to actively manage such risk, to earn sufficient compensation to justify the taking of such risks, and to maintain capital levels consistent with the risks it does undertake.

The Company's strategy for managing some of these risks includes the use of derivative interest rate agreements. Please see "Note 2. Summary of Significant Accounting Policies" for additional discussions on the use of interest rate agreements and their designation as "trading" instruments.

INTEREST RATE RISK

At December 31, 1998, the Company (together with the Sequoia trusts) had $2.0 billion adjustable-rate assets and $2.0 billion adjustable-rate liabilities.

Hybrid mortgage assets, with fixed-rate coupons for 3 to 7 years and adjustable-rate coupons thereafter, were $606 million. Debt that had interest rate reset characteristics matched to these hybrid mortgages totaled $530 million.

Fixed-rate assets were $35 million; there were no fixed-rate liabilities.

On average, the Company's cost of funds had the ability to rise or fall more quickly than did the earning rate on the assets. The risk of reduced earnings in rising interest rate environment is mitigated to some extent by the Company's interest rate agreement hedging program.

At December 31, 1998, the Company owned $2.0 billion of adjustable-rate mortgages with interest rates that adjust every 1, 6 or 12 months. A majority of the Company's matching debt has an interest expense that adjusts at least once per month. As a result, the Company's net income may vary somewhat as the yield curve between one-month interest rates and six and twelve-month interest rates varies.

Adjustable-rate assets with earnings rates dependent on U.S. Treasury rates totaled $0.8 billion at December 31, 1998. Liabilities with a cost of funds dependent on U.S. Treasury rates totaled $0.5 billion at that time. As part of its hedging program, the Company also had $0.3 billion notional amount of basis swaps that, in effect, increased the Company's U.S. Treasury-based liabilities to $0.8 billion. At December 31, 1998, the Company had little earnings risk with respect to the risk of U.S. Treasury rates deviating from LIBOR market rates.

MARKET VALUE RISK

The market value of the Company's assets can fluctuate due to changes in interest rates and other factors. These fluctuations effect the Company's earnings.

At December 31, 1998, the Company and Sequoia 1 together owned mortgage securities and loans that the Company accounts for on a mark-to-market basis (including the lower-of-cost-or-market for loans) totaling $1.5 billion. Of these assets, 93% had adjustable-rate coupons and 7% were hybrid mortgage assets.

The Company's interest rate agreement hedging program may offset some asset market value fluctuations due to interest rate changes. All of the Company's $4 billion in notional amounts of interest rate agreements are marked-to-market for income statement purposes.

LIQUIDITY RISK

The primary liquidity risk of the Company arises from financing long maturity mortgage assets with short-term debt. Although the interest rate adjustments of these assets and liabilities are well matched, maturities are not matched.

The Company's assets that it pledges to secure short-term borrowings are high-quality, liquid assets. As a result, the Company has not had difficulty rolling over its short-term debt as it matures, even during the financial market liquidity crisis of the fourth quarter of 1998. Still, the Company cannot give assurances that it will always be able to roll over its short-term debt.

At December 31, 1998, the Company had unrestricted cash of $56 million. In addition, the Company had $61 million in market value of unpledged "AAA" rated mortgage securities available to secure additional borrowings. The resources the Company had available to meet margin calls on short-term debt that could be caused by asset value declines or changes in lender over-collateralization requirement thus equaled $117 million, or 9.3% of short-term debt.

PREPAYMENT RISK

As the Company receives repayments of mortgage principal, it amortizes into income its mortgage premium balances as an expense and its mortgage discount balances as income. Mortgage premium balances arise when the Company acquires mortgage assets at a price in excess of the principal value of the mortgages, or when an asset appreciates and is marked-to-market at a price above par. Mortgage discount balances arise when the Company acquires mortgage assets at a price below the principal value of the mortgages, or when an asset depreciates and is marked-to-market at a price below par. At December 31, 1998, mortgage premium balances were $27 million and mortgage discount balances were $12 million. Net mortgage premium was $15 million.

Long-term (Sequoia) debt had associated deferred bond issuance costs, which are amortized as an expense as the bonds are paid off with mortgage principal receipts. These deferred costs totaled $4 million at December 31, 1998. In addition, premium received upon bond issuance at prices over principal value is amortized as income as the bond issues pay down. These balances totaled $6 million at December 31, 1998. The combined effect of these two items was to reduce the Company's effective mortgage-related premium by $2 million.

Net premium for the Company at December 31, 1998 for assets and liabilities effected by the rate of mortgage principal receipt was $13 million. This net premium equaled 5.7% of total common equity. Amortization expense and income will vary as prepayment rates on mortgage assets vary. In addition, changes in prepayment rates will effect the market value of the Company's assets and its earnings. Changes in the basis of the Company's assets will also affect future amortization expense.

CREDIT RISK

The principal credit risk in the Company comes from loans owned by Sequoia, loans held in portfolio and the SMFC 94-A securities.

The Company owned $68 million in residential loans at December 31, 1998. Of these, $0.2 million, or 0.28% were seriously delinquent.

The Company also owned $8 million in commercial loans. These commercial loans were all current.

The three Sequoia whole loan trusts owned $1.3 billion in residential mortgage loans at December 31, 1998. The Company's total credit risk from these trusts is limited to its equity investment in these trusts. These investments had a reported value of $43 million. At year-end, $3.7 million of these loans, or 0.28%, were seriously delinquent.

At December 31, 1998, the Company had $3.8 million credit reserves and $1.2 million mark-to-market credit reserves to provide for potential future credit losses from Company and Sequoia loans. Total credit-related reserves were $5.0 million and total seriously delinquent loans were $3.9 million.

At December 31, 1998, the Company had $1.2 million credit reserves for its SMFC 97-A mortgage securities. The Company's total potential credit exposure from these securities after this credit reserve was $8 million.

TABULAR PRESENTATION

The information presented in the table below includes all the Company's interest rate sensitive assets and liabilities. The Company acquires interest-rate sensitive assets, funds them with interest-rate sensitive liabilities and also acquires interest-rate sensitive derivative financial instruments. The Company designates some of these assets as "trading" and others as "non-trading." The designation of an asset as "trading" does not necessarily imply that the Company has a short-term intended holding period for that asset.

The table below includes information about the possible future repayments and interest rates of Company's 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 or that other events will occur that would affect the outcomes. Furthermore, future sales, acquisitions, calls, and restructurings could materially change the Company's 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 markets) as of December 31, 1998 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.

As of December 31, 1998, all short-term interest-rate sensitive liabilities were scheduled to mature in 1999. The balance of long-term interest-rate sensitive liabilities is amortized with the receipt of principal payments from the mortgages securing such debt. Thus, long-term liability maturities are presented based on the principal maturities of the underlying mortgages at assumed prepayment rates. Weighted average interest rates for the year are based on the forward curve and the characteristics of such debt.

Information presented on derivative financial instruments includes the notional amounts of such instruments by maturity date and the effective strike, pay or receive rates by the year in which instruments mature. For those instruments with a variable-rate component, the applicable average forward rates for the term of the contract are provided. The information includes all of the Company's derivative instruments owned as of December 31, 1998, regardless of whether they were effective at December 31, 1998 or were scheduled to become effective at a later date.

TABULAR PRESENTATION

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(ALL DOLLARS IN THOUSANDS)		PRINCIPAL / NOTIONAL AMOUNTS MATURING AND EFFECTIVE RATES DURING PERIOD					
		1999	2000	2001	2002	2003	THEREAFTER
"NON-TRADING" ASSETS, LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS							
INTEREST-RATE SENSITIVE ASSETS							
Adjustable-Rate Residential Mortgage Loans							
SEQUOIA 1 LOANS	Principal Value	100,440	49,206	24,128	11,892	5,911	6,155
	Interest Rate	7.21%	6.67%	6.88%	7.28%	7.37%	7.40%
SEQUOIA 2 LOANS	Principal Value	144,671	108,504	81,378	63,832	48,371	131,930
	Interest Rate	6.90%	6.94%	7.00%	7.11%	7.26%	7.38%
REDWOOD TRUST LOANS	Principal Value	25,879	15,092	9,160	5,787	3,795	8,861
	Interest Rate	6.93%	6.85%	6.81%	6.79%	6.66%	6.78%
ADJUSTABLE-RATE COMMERCIAL MORTGAGE LOANS							
COMMERCIAL LOANS	Principal Value	93	104	113	123	134	7,756
	Interest Rate	9.30%	9.21%	9.24%	9.31%	9.34%	9.84%
HYBRID RESIDENTIAL MORTGAGE LOANS							
SEQUOIA 3 LOANS	Principal Value	166,150	115,241	79,871	55,313	38,177	84,937
	Interest Rate	6.82%	6.82%	6.82%	6.82%	7.28%	7.55%

ADJUSTABLE-RATE RESIDENTIAL MORTGAGE SECURITIES							
SMFC 97-A	Principal	228	252	267	281	300	15,953
	Interest Rate	6.91%	6.43%	6.61%	6.97%	7.06%	7.17%
FIXED-RATE OTHER INVESTMENTS							
US TREASURIES	Principal	0	0	0	0	0	45,000
	Interest Rate	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%
INTEREST-RATE SENSITIVE LIABILITIES							
SHORT-TERM DEBT							
REPOS	Principal	1,257,570	0	0	0	0	0
	Interest Rate	5.62%	n/a	n/a	n/a	n/a	n/a
LONG-TERM DEBT							
SEQUOIA 1 DEBT	Principal	100,440	49,206	24,128	11,892	5,911	10,710
	Interest Rate	5.73%	5.90%	5.94%	6.00%	6.16%	6.46%
SEQUOIA 2 DEBT	Principal	144,671	108,504	81,378	63,832	48,371	124,362
	Interest Rate	5.79%	5.33%	5.53%	5.90%	5.98%	6.10%
SEQUOIA 3 DEBT	Principal	166,150	115,241	79,871	55,313	38,177	75,249
	Interest Rate	6.50%	6.37%	6.36%	6.37%	6.14%	6.41%

</TABLE>

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TABULAR PRESENTATION (All Dollars in Thousands)		PRINCIPAL VALUE AT DEC. 31, 1998	EST. MARKET VALUE AT DEC. 31, 1998
<S>	<C>	<C>	<C>
"NON-TRADING" ASSETS, LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS			
INTEREST-RATE SENSITIVE ASSETS			
Adjustable-Rate Residential Mortgage Loans			
SEQUOIA 1 LOANS	Principal Value	197,732	197,647
	Interest Rate		99.96%
SEQUOIA 2 LOANS	Principal Value	578,686	580,734
	Interest Rate		100.35%
REDWOOD TRUST LOANS	Principal Value	68,574	68,267
	Interest Rate		99.55%
ADJUSTABLE-RATE COMMERCIAL MORTGAGE LOANS			
COMMERCIAL LOANS	Principal Value	8,324	8,388
	Interest Rate		100.77%
HYBRID RESIDENTIAL MORTGAGE LOANS			
SEQUOIA 3 LOANS	Principal Value	539,689	539,637
	Interest Rate		99.99%
ADJUSTABLE-RATE RESIDENTIAL MORTGAGE SECURITIES			
SMFC 97-A	Principal	17,281	7,707
	Interest Rate		44.60%
FIXED-RATE OTHER INVESTMENTS			
US TREASURIES	Principal	45,000	47,672
	Interest Rate		105.94%
INTEREST-RATE SENSITIVE LIABILITIES			
SHORT-TERM DEBT			
REPOS	Principal	1,257,570	1,257,570
	Interest Rate		100.00%
LONG-TERM DEBT			
SEQUOIA 1 DEBT	Principal	202,286	202,224
	Interest Rate		99.97%
SEQUOIA 2 DEBT	Principal	571,117	571,668
	Interest Rate		100.10%
SEQUOIA 3 DEBT	Principal	530,002	532,063
	Interest Rate		100.39%

</TABLE>

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TABULAR PRESENTATION (CONTINUED)
(ALL DOLLARS IN THOUSANDS)

PRINCIPAL / NOTIONAL AMOUNTS MATURING AND EFFECTIVE RATES DURING PERIOD

<S>	<C>	1999 <C>	2000 <C>	2001 <C>	2002 <C>	2003 <C>	THEREAFTER <C>
"TRADING" ASSETS, LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS							
INTEREST-RATE SENSITIVE ASSETS							
ADJUSTABLE-RATE RESIDENTIAL MORTGAGE SECURITIES							
AGENCY SECURITIES	Principal Value	221,134	141,717	90,282	57,402	36,521	62,770
	Interest Rate	6.91%	6.43%	6.61%	6.97%	7.06%	7.17%
PRIVATELY-ISSUED SECURITIES	Principal	269,771	149,749	82,904	45,836	25,330	31,041
	Interest Rate	6.99%	6.79%	6.90%	7.14%	7.26%	7.30%
FIXED-RATE RESIDENTIAL MORTGAGE SECURITIES							
PRIVATELY-ISSUED SECURITIES	Principal	4,122	3,693	3,306	2,960	2,648	19,563
	Interest Rate	6.95%	6.95%	6.95%	6.95%	6.95%	6.95%
INTEREST-RATE SENSITIVE DERIVATIVE FINANCIAL INSTRUMENTS							
(ALL DERIVATIVES WERE PURCHASED, UNLESS OTHERWISE NOTED.)							
INTEREST RATE CAPS - TOTAL	Notional	1,612,000	846,000	520,000	305,000	0	147,700
(see below for details)	Average Strike Rate	6.68%	8.11%	9.71%	10.37%	n/a	7.58%
PERIODIC CAPS	Notional	20,000	0	0	0	0	0
	Strike Rate on Caps	5.49%	n/a	n/a	n/a	n/a	n/a
FLOORS	Notional	30,000	0	0	0	0	4,000
	Strike Rate on Floors	5.35%	n/a	n/a	n/a	n/a	5.60%
COLLARS	Notional	20,000	0	0	0	0	0
(CAPS PURCHASED, FLOORS SOLD)	Strike Rate on Caps	7.50%	n/a	n/a	n/a	n/a	n/a
	Strike Rate on Floors	5.91%	n/a	n/a	n/a	n/a	n/a
BASIS SWAPS	Notional	80,000	250,000	0	0	0	0
	Average Pay Rate	4.68%	4.65%	n/a	n/a	n/a	n/a
	Average Receive Rate	5.01%	4.95%	n/a	n/a	n/a	n/a
PERIODIC SWAPS	Notional	110,000	0	0	0	0	0
	Average Pay Rate	4.95%	n/a	n/a	n/a	n/a	n/a
	Average Receive Rate	4.70%	n/a	n/a	n/a	n/a	n/a
PUT SWAPTIONS	Notional	21,500	0	0	0	0	0
	Strike Rate	5.86%	n/a	n/a	n/a	n/a	n/a
TREASURY CALL OPTIONS	Notional	0	11,000	0	0	0	0
	Strike Rate	n/a	5.10%	n/a	n/a	n/a	n/a
TREASURY CALL OPTION SPREADS	Notional	0	32,000	0	0	0	0
	Strike Rate	n/a	5.46%	n/a	n/a	n/a	n/a
	Stopout Rate	n/a	4.96%	n/a	n/a	n/a	n/a

TREASURY PUT OPTION SPREADS (SOLD)	Notional	0	21,000	0	0	0	0
	Strike Rate	n/a	5.46%	n/a	n/a	n/a	n/a
	Stopout Rate	n/a	5.91%	n/a	n/a	n/a	n/a

</TABLE>

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TABULAR PRESENTATION (CONTINUED)
(ALL DOLLARS IN THOUSANDS)

<S>	<C>	<C> PRINC./NTNL. VALUE AT DEC. 31, 1998	<C> EST. MARKET VALUE AT DEC. 31, 1998
"TRADING" ASSETS, LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS			
INTEREST-RATE SENSITIVE ASSETS			
ADJUSTABLE-RATE RESIDENTIAL MORTGAGE SECURITIES			
AGENCY SECURITIES	Principal Value	609,826	617,423
	Interest Rate		101.25%
PRIVATELY-ISSUED SECURITIES	Principal	604,630	604,437
	Interest Rate		99.97%
FIXED-RATE RESIDENTIAL MORTGAGE SECURITIES			
PRIVATELY-ISSUED SECURITIES	Principal	36,292	35,795
	Interest Rate		98.63%
INTEREST-RATE SENSITIVE DERIVATIVE FINANCIAL INSTRUMENTS			
(ALL DERIVATIVES WERE PURCHASED, UNLESS OTHERWISE NOTED.)			
INTEREST RATE CAPS - TOTAL	Notional	3,430,700	904
(see below for details)	Average Strike Rate		0.03%
PERIODIC CAPS	Notional	20,000	0
	Strike Rate on Caps		0.00%
FLOORS	Notional	34,000	137
	Strike Rate on Floors		0.40%
COLLARS	Notional	20,000	(119)
(CAPS PURCHASED, FLOORS SOLD)	Strike Rate on Caps		-0.60%
	Strike Rate on Floors		
BASIS SWAPS	Notional	330,000	734
	Average Pay Rate		0.22%
	Average Receive Rate		
PERIODIC SWAPS	Notional	110,000	(215)
	Average Pay Rate		-0.20%
	Average Receive Rate		
PUT SWAPTIONS	Notional	21,500	47
	Strike Rate		0.22%
TREASURY CALL OPTIONS	Notional	11,000	463
	Strike Rate		4.21%
TREASURY CALL OPTION SPREADS	Notional	32,000	567
	Strike Rate		1.77%
	Stopout Rate		
TREASURY PUT OPTION SPREADS (SOLD)	Notional	21,000	included above
	Strike Rate		in Treasury Call
	Stopout Rate		Option Spreads

</TABLE>

INTEREST RATE AGREEMENTS WHICH REPRESENT MIRRORING TRANSACTIONS ARE NOT INCLUDED IN THIS TABLE.

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TABULAR PRESENTATION (CONTINUED)
(ALL DOLLARS IN THOUSANDS)

	PRINCIPAL / NOTIONAL AMOUNTS MATURING AND EFFECTIVE RATES DURING PERIOD					
	1999	2000	2001	2002	2003	THEREAFTER

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
DETAIL OF INTEREST RATE CAPS (TOTALED ABOVE)							
with Strike Rates < 6%	Notional	685,000	245,000	0	0	0	0
	Average Strike Rate	5.50%	5.67%	n/a	n/a	n/a	n/a
with Strike Rates of 6% to 7%	Notional	105,000	0	0	0	0	56,000
	Average Strike Rate	6.35%	n/a	n/a	n/a	n/a	6.33%
with Strike Rates of 7% to 8%	Notional	650,000	0	20,000	0	0	10,000
	Average Strike Rate	7.40%	n/a	7.13%	n/a	n/a	7.50%
with Strike Rates of 8% to 9%	Notional	142,000	406,000	0	5,000	0	64,000
	Average Strike Rate	8.50%	8.61%	n/a	8.60%	n/a	8.28%
with Strike Rates of 9% to 10%	Notional	0	125,000	200,000	0	0	17,700
	Average Strike Rate	n/a	9.40%	9.53%	n/a	n/a	9.00%
with Strike Rates of 10% to 11%	Notional	20,000	20,000	300,000	200,000	0	0
	Average Strike Rate	10.00%	10.00%	10.00%	10.10%	n/a	n/a
with Strike Rates > 11%	Notional	10,000	50,000	0	100,000	0	0
	Average Strike Rate	12.00%	12.00%	n/a	11.00%	n/a	n/a

</TABLE>

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TABULAR PRESENTATION (CONTINUED) (ALL DOLLARS IN THOUSANDS)		NOTIONAL VALUE AT DEC. 31, 1998	EST. MARKET VALUE AT DEC. 31, 1998
<S>	<C>	<C>	<C>
DETAIL OF INTEREST RATE CAPS (TOTALED ABOVE)			
with Strike Rates < 6%	Notional	930,000	191
	Average Strike Rate		0.02%
with Strike Rates of 6% to 7%	Notional	161,000	280
	Average Strike Rate		0.17%
with Strike Rates of 7% to 8%	Notional	680,000	162
	Average Strike Rate		0.02%
with Strike Rates of 8% to 9%	Notional	617,000	148
	Average Strike Rate		0.02%
with Strike Rates of 9% to 10%	Notional	342,700	40
	Average Strike Rate		0.01%
with Strike Rates of 10% to 11%	Notional	540,000	69
	Average Strike Rate		0.01%
with Strike Rates > 11%	Notional	160,000	13
	Average Strike Rate		0.01%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 1

<TABLE>
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INCOME STATEMENT (ALL DOLLARS IN THOUSANDS)	FOR THREE MONTHS ENDING DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>	<C>	<C>
Mortgage Assets - Residential				

Coupon Income	$ 53,848	$ 67,964	$ 64,348	$ 61,635
Amortization of Discount Balances	550	414	450	185
Amortization of Premium Balances	(2,256)	(7,280)	(11,470)	(8,343)
	--------	--------	--------	--------
Total Interest Income From Mortgage Assets - Residential	52,142	61,098	53,328	53,477
Mortgage Assets - Commercial				
Coupon Income	102	0	0	0
Amortization of Discount Balances	1	0	0	0
Amortization of Premium Balances	0	0	0	0
	--------	--------	--------	--------
Total Interest Income From Mortgage Assets - Commercial	103	0	0	0
U.S. Treasuries				
Coupon Income	619	0	0	0
Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	(44)	0	0	0
	--------	--------	--------	--------
Total Interest Income From U.S. Treasuries	575	0	0	0
Interest Income: Cash Balances	782	460	455	384
	--------	--------	--------	--------
Total Interest Income	53,602	61,558	53,783	53,861
Interest Expense on Short-Term Debt	(21,951)	(31,528)	(33,282)	(28,003)
Interest Expense on Long-Term Debt	(21,738)	(24,642)	(16,887)	(18,094)
	--------	--------	--------	--------
Total Interest Expense	(43,689)	(56,170)	(50,169)	(46,097)
Interest Rate Agreement Expense	(709)	(322)	(1,652)	(1,426)
Interest Rate Agreement Income	443	75	28	48
	--------	--------	--------	--------
Net Interest Rate Agreement Expense	(266)	(247)	(1,624)	(1,378)
Net Interest Income	9,647	5,142	1,990	6,386
Provision for Potential Credit Losses				
Mortgage Loans	(394)	638	(763)	(601)
Mortgage Securities	0	0	0	0
	--------	--------	--------	--------
Total Credit Provision	(394)	638	(763)	(601)
Equity in Earnings of RWT Holdings, Inc.	(2,520)	(1,575)	(581)	0
Operating Expenses				
Compensation and Benefits Expense	(609)	(390)	(145)	(1,048)
One-time Charges	(1,220)	0	0	0
Dividend Equivalent Rights Expense	6	0	(6)	(195)
Other Operating Expenses	(508)	(639)	(438)	(682)
	--------	--------	--------	--------
Total Operating Expenses	(2,331)	(1,029)	(589)	(1,925)
Other Income (Expenses)	0	0	139	0
	--------	--------	--------	--------
Income before Unrealized and Realized Gains (Losses) on Assets	4,402	3,175	196	3,860
Net Unrealized and Realized Gains (Losses) on Assets	2,074	(40,293)	0	(723)

Income Before Preferred Dividends and Change in Accounting Principle	6,476	(37,118)	196	3,137
Preferred Dividends	(687)	(687)	(687)	(687)
Income Before Change in Accounting Principle	5,789	(37,804)	(491)	2,450
SFAS No. 133 Adjustments	0	(10,061)	0	0
Income before Corporate Income Tax Expense	5,789	(47,866)	(491)	2,450
Corporate Income Tax Expense	0	0	0	0
Net Income to Common Shareholders	$ 5,789	$(47,866)	$ (491)	$ 2,450
GAAP Net Income Before Preferred Dividends	$ 6,476	$(47,179)	$ 196	$ 3,137
Mortgage Amortization and Income Differences	(5,446)	(4,452)	(268)	43
Credit Provisions less Actual Losses	163	(938)	299	552
Net Unrealized and Realized Gains (Losses) on Assets Differences	2,515	41,741	15	729
Equity in earnings of RWT Holdings, Inc. net of Dividends to Redwood REIT	2,520	1,575	581	0
Operating Expense Differences	507	13	15	67
Taxable Income Before Preferred Dividend	$ 6,735	$ (9,240)	$ 838	$ 4,528

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 1 (CONTINUED)

<TABLE>
<CAPTION>

INCOME STATEMENT	FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Mortgage Assets - Residential				
Coupon Income	$ 61,506	$ 62,556	$ 54,353	$ 42,224
Amortization of Discount Balances	258	376	417	272
Amortization of Premium Balances	(8,179)	(6,888)	(5,527)	(4,090)
Total Interest Income From Mortgage Assets - Residential	53,585	56,044	49,243	38,406
Mortgage Assets - Commercial				
Coupon Income	0	0	0	0
Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	0	0	0	0
Total Interest Income From Mortgage Assets - Commercial	0	0	0	0
U.S. Treasuries				
Coupon Income	0	0	0	0

Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	0	0	0	0
	--------	--------	--------	----
Total Interest Income From U.S. Treasuries	0	0	0	0
Interest Income: Cash Balances	399	499	266	162
	--------	--------	--------	----
Total Interest Income	53,984	56,543	49,509	38,568
Interest Expense on Short-Term Debt	(31,964)	(40,318)	(38,958)	(28,900)
Interest Expense on Long-Term Debt	(14,567)	(5,570)	0	0
	--------	--------	--------	----
Total Interest Expense	(46,531)	(45,888)	(38,958)	(28,900)
Interest Rate Agreement Expense	(1,281)	(1,064)	(912)	(602)
Interest Rate Agreement Income	12	26	73	7
	--------	--------	--------	----
Net Interest Rate Agreement Expense	(1,269)	(1,038)	(839)	(595)
Net Interest Income	6,184	9,617	9,712	9,073
Provision for Potential Credit Losses				
Mortgage Loans	(1,516)	(473)	(299)	(215)
Mortgage Securities	1,000	(470)	(477)	(480)
	--------	--------	--------	----
Total Credit Provision	(516)	(943)	(776)	(695)
Equity in Earnings of RWT Holdings, Inc.	0	0	0	0
Operating Expenses				
Compensation and Benefits Expense	(413)	(441)	(516)	(529)
One-time Charges	0	0	0	0
Dividend Equivalent Rights Expense	(145)	(361)	(358)	(203)
Other Operating Expenses	(570)	(346)	(341)	(435)
	--------	--------	--------	----
Total Operating Expenses	(1,128)	(1,148)	(1,215)	(1,167)
Other Income (Expenses)	0	0	0	0
	--------	--------	--------	----
Income before Unrealized and Realized Gains (Losses) on Assets	4,540	7,526	7,721	7,211
Net Unrealized and Realized Gains (Losses) on Assets	543	20	0	0
	--------	--------	--------	----
Income Before Preferred Dividends and Change in Accounting Principle	5,083	7,546	7,721	7,211
Preferred Dividends	(686)	(687)	(687)	(755)
	--------	--------	--------	----
Income Before Change in Accounting Principle	4,397	6,859	7,034	6,456
SFAS No. 133 Adjustments	0	0	0	0
	--------	--------	--------	----
Income before Corporate Income Tax Expense	4,397	6,859	7,034	6,456
Corporate Income Tax Expense	0	0	0	0
	--------	--------	--------	----
Net Income to Common Shareholders	$ 4,397	$ 6,859	$ 7,034	$ 6,456
	========	========	========	

	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
GAAP Net Income Before Preferred Dividends	$ 5,083	$ 7,546	$ 7,721 6	$ 7,211
Mortgage Amortization and Income Differences	105	(95)	(103)	(87)
Credit Provisions less Actual Losses	475	875	747	653
Net Unrealized and Realized Gains (Losses) on Assets Differences	(190)	0	0	0
Equity in earnings of RWT Holdings, Inc. net of Dividends to Redwood REIT	0	0	0	0
Operating Expense Differences	113	(175)	(50)	135
Taxable Income Before Preferred Dividend	$ 5,586	$ 8,151	$ 8,315	$ 7,912

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 1 (CONTINUED)

<TABLE>
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INCOME STATEMENT	FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Mortgage Assets - Residential				
Coupon Income	$ 27,875	$ 20,557	$ 13,722	$ 9,445
Amortization of Discount Balances	217	271	245	177
Amortization of Premium Balances	(2,425)	(1,707)	(1,268)	(707)
Total Interest Income From Mortgage Assets - Residential	25,666	19,121	12,699	8,914
Mortgage Assets - Commercial				
Coupon Income	0	0	0	0
Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	0	0	0	0
Total Interest Income From Mortgage Assets - Commercial	0	0	0	0
U.S. Treasuries				
Coupon Income	0	0	0	0
Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	0	0	0	0
Total Interest Income From U.S. Treasuries	0	0	0	0
Interest Income: Cash Balances	215	250	202	217
Total Interest Income	25,881	19,371	12,901	9,131
Interest Expense on Short-Term Debt	(19,467)	(14,447)	(9,075)	(6,202)
Interest Expense on Long-Term Debt	0	0	0	0
Total Interest Expense	(19,467)	(14,447)	(9,075)	(6,202)

Interest Rate Agreement Expense	(403)	(350)	(255)	(151)
Interest Rate Agreement Income	1	0	0	0
Net Interest Rate Agreement Expense	(402)	(350)	(255)	(151)
Net Interest Income	6,012	4,574	3,571	2,778
Provision for Potential Credit Losses				
Mortgage Loans	(35)	(178)	(140)	5
Mortgage Securities	(337)	(338)	(337)	(336)
Total Credit Provision	(372)	(516)	(477)	(331)
Equity in Earnings of RWT Holdings, Inc.	0	0	0	0
Operating Expenses				
Compensation and Benefits Expense	(343)	(309)	(305)	(234)
One-time Charges	0	0	0	0
Dividend Equivalent Rights Expense	(137)	(81)	(79)	(85)
Other Operating Expenses	(316)	(281)	(210)	(174)
Total Operating Expenses	(796)	(671)	(594)	(493)
Other Income (Expenses)	0	0	0	0
Income before Unrealized and Realized Gains (Losses) on Assets	4,844	3,387	2,500	1,954
Net Unrealized and Realized Gains (Losses) on Assets	0	0	0	0
Income Before Preferred Dividends and Change in Accounting Principle	4,844	3,387	2,500	1,954
Preferred Dividends	(760)	(388)	0	0
Income Before Change in Accounting Principle	4,084	2,998	2,500	1,954
SFAS No. 133 Adjustments	0	0	0	0
Income before Corporate Income Tax Expense	4,084	2,998	2,500	1,954
Corporate Income Tax Expense	0	0	0	0
Net Income to Common Shareholders	$ 4,084	$ 2,998	$ 2,500	$ 1,954
GAAP Net Income Before Preferred Dividends	$ 4,844	$ 3,387	$ 2,500	$ 1,954
Mortgage Amortization and Income Differences	131	61	82	175
Credit Provisions less Actual Losses	365	516	477	331
Net Unrealized and Realized Gains (Losses) on Assets Differences	0	0	0	0
Equity in earnings of RWT Holdings, Inc. net of Dividends to Redwood REIT	0	0	0	0
Operating Expense Differences	89	84	83	89
Taxable Income Before Preferred Dividend	$ 5,429	$ 4,048	$ 3,142	$ 2,549

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 1 (CONTINUED)

<TABLE>
<CAPTION>

INCOME STATEMENT (ALL DOLLARS IN THOUSANDS)	FOR YEAR ENDING DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
Mortgage Assets - Residential				
Coupon Income	$ 247,796	$ 220,639	$ 71,598	$ 15,138
Amortization of Discount Balances	1,600	1,323	909	919
Amortization of Premium Balances	(29,350)	(24,684)	(6,107)	(563)
Total Interest Income From Mortgage Assets - Residential	220,046	197,278	66,400	15,494
Mortgage Assets - Commercial				
Coupon Income	102	0	0	0
Amortization of Discount Balances	1	0	0	0
Amortization of Premium Balances	0	0	0	0
Total Interest Income From Mortgage Assets - Commercial	103	0	0	0
U.S. Treasuries				
Coupon Income	619	0	0	0
Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	(44)	0	0	0
Total Interest Income From U.S. Treasuries	575	0	0	0
Interest Income: Cash Balances	2,080	1,326	884	232
Total Interest Income	222,804	198,604	67,284	15,726
Interest Expense on Short-Term Debt	(114,763)	(140,140)	(49,191)	(10,608)
Interest Expense on Long-Term Debt	(81,361)	(20,137)	0	0
Total Interest Expense	(196,124)	(160,277)	(49,191)	(10,608)
Interest Rate Agreement Expense	(4,108)	(3,859)	(1,159)	(339)
Interest Rate Agreement Income	594	118	1	0
Net Interest Rate Agreement Expense	(3,514)	(3,741)	(1,158)	(339)
Net Interest Income	23,166	34,586	16,935	4,779
Provision for Potential Credit Losses				
Mortgage Loans	(1,120)	(2,503)	(348)	(79)
Mortgage Securities	0	(427)	(1,348)	(414)
Total Credit Provision	(1,120)	(2,930)	(1,696)	(493)
Equity in Earnings of RWT Holdings, Inc.	(4,676)	0	0	0
Operating Expenses				

Compensation and Benefits Expense	(2,192)	(1,899)	(1,191)	(463)
One-time Charges	(1,220)	0	0	0
Dividend Equivalent Rights Expense	(196)	(1,067)	(382)	(54)
Other Operating Expenses	(2,268)	(1,692)	(981)	(614)
Total Operating Expenses	(5,876)	(4,658)	(2,554)	(1,131)
Other Income (Expenses)	139	0	0	0
Income before Unrealized and Realized Gains (Losses) on Assets	11,633	26,998	12,685	3,155
Net Unrealized and Realized Gains (Losses) on Assets	(38,943)	563	0	0
Income Before Preferred Dividends and Change in Accounting Principle	(27,310)	27,561	12,685	3,155
Preferred Dividends	(2,747)	(2,815)	(1,148)	0
Income Before Change in Accounting Principle	(30,057)	24,746	11,537	3,155
SFAS No. 133 Adjustments	(10,061)	0	0	0
Income before Corporate Income Tax Expense	(40,118)	24,746	11,537	3,155
Corporate Income Tax Expense	0	0	0	0
Net Income to Common Shareholders	$ (40,118)	$ 24,746	$ 11,537	$ 3,155
GAAP Net Income Before Preferred Dividends	$ 6,476	$ (47,179)	$ 196	$ 3,137
Mortgage Amortization and Income Differences	(5,446)	(4,452)	(268)	43
Credit Provisions less Actual Losses	163	(938)	299	552
Net Unrealized and Realized Gains (Losses) on Assets Differences	2,515	41,741	15	729
Equity in earnings of RWT Holdings, Inc. net of Dividends to Redwood REIT	2,520	1,575	581	0
Operating Expense Differences	507	13	15	67
Taxable Income Before Preferred Dividend	$ 6,735	$ (9,240)	$ 838	$ 4,528

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 2

BALANCE SHEETS (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>	<C>	<C>
Mortgage Assets - Residential				
Principal Value	$ 2,652,327	$ 3,725,916	$ 3,745,697	$ 3,578,995
Unamortized Premium	27,369	30,653	75,158	85,048
Unamortized Discount	(12,163)	(11,669)	(10,650)	(12,131)
Real Estate Owned	384	171	266	497
Reserve For Credit Losses	(4,972)	(4,826)	(5,784)	(5,484)
Market Valuation Account	(370)	321	(10,497)	(4,375)
Total Mortgage Assets - Residential	2,662,576	3,740,566	3,794,190	3,642,549
Mortgage Assets - Commercial				

Principal Value	8,324	0	0	0
Unamortized Premium / (Discount)	(37)	0	0	0
Total Mortgage Assets - Commercial	8,287	0	0	0
U.S. Treasuries				
Principal Value	45,000	0	0	0
Unamortized Premium / (Discount)	3,009	0	0	0
Total U.S. Treasuries	48,009	0	0	0
Unrestricted Cash	55,627	3,811	11,354	6,468
Restricted Cash	12,857	19,675	21,560	25,734
Total Cash and Cash Equivalents	68,484	23,486	32,914	32,202
Interest Rate Agreements	2,517	2,285	9,938	10,337
Market Valuation Account	0	0	(7,520)	(8,710)
Total Interest Rate Agreements	2,517	2,285	2,418	1,627
Accrued Interest Receivable	18,482	25,050	21,554	23,886
Investment in RWT Holdings, Inc.	15,124	7,744	9,319	9,900
Due From RWT Holdings, Inc.	6,945	776	831	0
Fixed Assets, Leasehold, Org. Costs	929	768	725	551
Prepaid Expenses and Other Receivables	1,095	1,541	4,976	2,975
Other Assets	42,575	35,879	37,405	37,312
Total Assets	$ 2,832,448	$ 3,802,216	$ 3,866,927	$ 3,713,691
Short-Term Borrowings	$ 1,257,570	$ 2,067,166	$ 1,936,158	$ 2,288,018
Long-Term Borrowings	1,305,560	1,465,888	1,593,344	1,081,279
Accrued Interest Payable	10,820	9,152	13,675	12,212
Accrued Expenses and Other Payables	3,022	1,781	2,192	1,797
Dividends Payable	686	687	687	687
Total Liabilities	2,577,658	3,544,674	3,546,056	3,383,993
Preferred Stock	26,736	26,736	26,736	26,736
Common Stock	113	118	141	141
Additional Paid-in Capital	279,201	287,046	320,687	320,282
Accumulated Other Comprehensive Income	(370)	321	(18,017)	(13,085)
Cumulative Earnings	6,412	(63)	47,253	50,729
Cumulative Distributions to Shareholders	(57,302)	(56,616)	(55,929)	(55,104)
Total Stockholders' Equity	254,790	257,542	320,871	329,698
Total Liabilities plus Stockholders' Equity	$ 2,832,448	$ 3,802,216	$ 3,866,927	$ 3,713,691

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 2 (CONTINUED)

BALANCE SHEETS (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Mortgage Assets - Residential				
Principal Value	$ 3,298,499	$ 3,358,993	$ 3,290,215	$ 2,555,729
Unamortized Premium	86,173	86,934	87,661	65,107
Unamortized Discount	(12,442)	(14,387)	(15,091)	(15,641)
Real Estate Owned	713	220	346	128
Reserve For Credit Losses	(4,931)	(4,456)	(3,580)	(2,833)
Market Valuation Account	(1,390)	10,619	3,603	2,224
Total Mortgage Assets - Residential	3,366,622	3,437,923	3,363,154	2,604,714
Mortgage Assets - Commercial				
Principal Value	0	0	0	0
Unamortized Premium / (Discount)	0	0	0	0
Total Mortgage Assets - Commercial	0	0	0	0
U.S. Treasuries				
Principal Value	0	0	0	0
Unamortized Premium / (Discount)	0	0	0	0
Total U.S. Treasuries	0	0	0	0
Unrestricted Cash	24,892	28,758	29,425	12,985

Restricted Cash	24,657	28,938	0	0
Total Cash and Cash Equivalents	49,549	57,696	29,425	12,985
Interest Rate Agreements	10,781	11,708	12,233	7,879
Market Valuation Account	(8,681)	(8,782)	(7,366)	(2,106)
Total Interest Rate Agreements	2,100	2,926	4,867	5,773
Accrued Interest Receivable	23,119	23,859	24,065	17,722
Investment in RWT Holdings, Inc.	0	0	0	0
Due From RWT Holdings, Inc.	0	0	0	0
Fixed Assets, Leasehold, Org. Costs	539	358	257	259
Prepaid Expenses and Other Receivables	2,268	2,490	2,738	1,611
Other Assets	25,926	26,707	27,060	19,592
Total Assets	$ 3,444,197	$ 3,525,252	$ 3,424,506	$ 2,643,064
Short-Term Borrowings	$ 1,914,525	$ 2,639,773	$ 3,102,784	$ 2,373,279
Long-Term Borrowings	1,172,801	497,367	0	0
Accrued Interest Payable	14,476	20,216	18,153	14,962
Accrued Expenses and Other Payables	2,172	2,129	1,743	1,262
Dividends Payable	5,686	9,433	8,638	7,899
Total Liabilities	3,109,660	3,168,918	3,131,318	2,397,402
Preferred Stock	26,736	26,733	26,733	29,383
Common Stock	143	146	133	119
Additional Paid-in Capital	324,555	333,841	274,420	219,461
Accumulated Other Comprehensive Income	(10,071)	1,837	(3,762)	118
Cumulative Earnings	43,783	38,700	31,154	23,433
Cumulative Distributions to Shareholders	(50,609)	(44,923)	(35,490)	(26,852)
Total Stockholders' Equity	334,537	356,334	293,188	245,662
Total Liabilities plus Stockholders' Equity	$ 3,444,197	$ 3,525,252	$ 3,424,506	$ 2,643,064

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 2 (CONTINUED)

BALANCE SHEETS (ALL DOLLARS IN THOUSANDS)	AT			
	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Mortgage Assets - Residential				
Principal Value	$ 2,117,048	$ 1,361,062	$ 1,005,764	$ 573,807
Unamortized Premium	54,317	32,607	22,690	12,790
Unamortized Discount	(16,093)	(16,338)	(16,608)	(16,854)
Real Estate Owned	196	0	0	0
Reserve For Credit Losses	(2,180)	(1,814)	(1,298)	(821)
Market Valuation Account	139	353	(3,068)	(3,763)
Total Mortgage Assets - Residential	2,153,428	1,375,871	1,007,480	565,159
Mortgage Assets - Commercial				
Principal Value	0	0	0	0
Unamortized Premium / (Discount)	0	0	0	0
Total Mortgage Assets - Commercial	0	0	0	0
U.S. Treasuries				
Principal Value	0	0	0	0
Unamortized Premium / (Discount)	0	0	0	0
Total U.S. Treasuries	0	0	0	0
Unrestricted Cash	11,068	14,599	10,407	9,705
Restricted Cash	0	0	0	0
Total Cash and Cash Equivalents	11,068	14,599	10,407	9,705
Interest Rate Agreements	6,200	3,286	2,835	2,534
Market Valuation Account	(3,599)	(2,413)	(1,484)	(1,301)
Total Interest Rate Agreements	2,601	873	1,351	1,233
Accrued Interest Receivable	14,134	10,781	7,292	4,496
Investment in RWT Holdings, Inc.	0	0	0	0
Due From RWT Holdings, Inc.	0	0	0	0
Fixed Assets, Leasehold, Org. Costs	257	265	233	198

Prepaid Expenses and Other Receivables	2,709	1,090	1,567	522
Other Assets	17,100	12,136	9,092	5,216
Total Assets	$ 2,184,197	$ 1,403,478	$ 1,028,331	$ 581,312
Short-Term Borrowings	$ 1,953,103	$ 1,225,094	$ 896,214	$ 508,721
Long-Term Borrowings	0	0	0	0
Accrued Interest Payable	14,060	10,379	4,052	1,616
Accrued Expenses and Other Payables	761	472	361	290
Dividends Payable	5,268	4,016	3,408	2,540
Total Liabilities	1,973,192	1,239,961	904,035	513,167
Preferred Stock	29,579	29,712	0	0
Common Stock	110	91	85	55
Additional Paid-in Capital	187,507	138,081	130,441	73,926
Accumulated Other Comprehensive Income	(3,460)	(2,060)	(4,553)	(5,065)
Cumulative Earnings	16,222	11,378	7,991	5,491
Cumulative Distributions to Shareholders	(18,954)	(13,685)	(9,669)	(6,261)
Total Stockholders' Equity	211,005	163,517	124,295	68,146
Total Liabilities plus Stockholders' Equity	$ 2,184,197	$ 1,403,478	$ 1,028,330	$ 581,313

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 2 (CONTINUED)

BALANCE SHEETS (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
Mortgage Assets - Residential				
Principal Value	$ 2,652,327	$ 3,298,499	$ 2,117,048	$ 443,625
Unamortized Premium	27,369	86,173	54,317	9,644
Unamortized Discount	(12,163)	(12,442)	(16,093)	(17,032)
Real Estate Owned	384	713	196	0
Reserve For Credit Losses	(4,972)	(4,931)	(2,180)	(490)
Market Valuation Account	(370)	(1,390)	139	(3,502)
Total Mortgage Assets - Residential	2,662,576	3,366,622	2,153,428	432,244
Mortgage Assets - Commercial				
Principal Value	8,324	0	0	0
Unamortized Premium / (Discount)	(37)	0	0	0
Total Mortgage Assets - Commercial	8,287	0	0	0
U.S. Treasuries				
Principal Value	45,000	0	0	0
Unamortized Premium / (Discount)	3,009	0	0	0
Total U.S. Treasuries	48,009	0	0	0
Unrestricted Cash	55,627	24,892	11,068	4,825
Restricted Cash	12,857	24,657	0	0
Total Cash and Cash Equivalents	68,484	49,549	11,068	4,825
Interest Rate Agreements	2,517	10,781	6,200	2,521
Market Valuation Account	0	(8,681)	(3,599)	(1,974)
Total Interest Rate Agreements	2,517	2,100	2,601	547
Accrued Interest Receivable	18,482	23,119	14,134	3,270
Investment in RWT Holdings, Inc.	15,124	0	0	0
Due From RWT Holdings, Inc.	6,945	0	0	0
Fixed Assets, Leasehold, Org. Costs	929	539	257	206
Prepaid Expenses and Other Receivables	1,095	2,268	2,709	465
Other Assets	42,575	25,926	17,100	3,941
Total Assets	$ 2,832,448	$ 3,444,197	$ 2,184,197	$ 441,557
Short-Term Borrowings	$ 1,257,570	$ 1,914,525	$ 1,953,103	$ 370,316
Long-Term Borrowings	1,305,560	1,172,801	0	0
Accrued Interest Payable	10,820	14,476	14,060	1,290
Accrued Expenses and Other Payables	3,022	2,172	761	227
Dividends Payable	686	5,686	5,268	1,434

Total Liabilities	2,577,658	3,109,660	1,973,192	373,267
Preferred Stock	26,736	26,736	29,579	0
Common Stock	113	143	110	55
Additional Paid-in Capital	279,201	324,555	187,507	73,895
Accumulated Other Comprehensive Income	(370)	(10,071)	(3,460)	(5,476)
Cumulative Earnings	6,412	43,783	16,222	3,537
Cumulative Distributions to Shareholders	(57,302)	(50,609)	(18,954)	(3,721)
Total Stockholders' Equity	254,790	334,537	211,005	68,290
Total Liabilities plus Stockholders' Equity	$ 2,832,448	$ 3,444,197	$ 2,184,197	$ 441,557

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 3

<TABLE>
<CAPTION>

DETAIL OF INTEREST INCOME AND BALANCES FOR RESIDENTIAL MORTGAGE ASSETS

(ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
INTEREST INCOME ON RESIDENTIAL MORTGAGE ASSETS				
Mortgage Loans - Held for Sale				
Coupon Income	$ 8,858	$ 0	$ 0	$ 0
Amortization of Discount Balances	146	0	0	0
Amortization of Premium Balances	0	0	0	0
Interest Income: Mortgage Loans - Held for Sale	$ 9,004	$ 0	$ 0	$ 0
Mortgage Loans - Held for Investment				
Coupon Income	$ 20,218	$ 40,614	$ 33,523	$ 28,306
Amortization of Discount Balances	0	1	1	0
Amortization of Premium Balances	(1,284)	(3,021)	(3,619)	(2,496)
Interest Income: Mortgage Loans - Held for Investment	$ 18,934	$ 37,594	$ 29,905	$ 25,810
Mortgage Securities - Trading				
Coupon Income	$ 24,406	$ 26,962	$ 0	$ 0
Amortization of Discount Balances	0	26	0	0
Amortization of Premium Balances	(972)	(4,259)	0	0
Interest Income: Mortgage Securities - Trading	$ 23,434	$ 22,728	$ 0	$ 0
Mortgage Securities - Available for Sale				
Coupon Income	$ 366	$ 389	$ 30,825	$ 33,330
Amortization of Discount Balances	404	388	449	185
Amortization of Premium Balances	0	0	(7,851)	(5,848)
Interest Income: Mortgage Securities -Available for Sale	$ 770	$ 777	$ 23,423	$ 27,667
RESIDENTIAL MORTGAGE ASSET BALANCES				
Mortgage Loans - Held for Sale				
Principal Value	$ 265,922	$ 1,031,058	$ 0	$ 0
Unamortized Premium	666	2,326	0	0
Unamortized Discount	(1,059)	(1,369)	0	0
Real Estate Owned	384	171	0	0

Reserve For Credit Losses	0	0	0	0
Market Valuation Account	0	0	0	0
Total Mortgage Loans - Held for Sale	$ 265,915	$ 1,032,186	$ 0	$ 0
Mortgage Loans - Held for Investment				
Principal Value	$ 1,118,375	$ 1,234,075	$ 2,191,501	$ 1,837,020
Unamortized Premium	16,708	17,993	35,660	37,943
Unamortized Discount	0	0	0	(27)
Real Estate Owned	0	0	266	497
Reserve For Credit Losses	(3,784)	(3,390)	(4,079)	(3,449)
Market Valuation Account	0	0	0	0
Total Mortgage Loans - Held for Investment	$ 1,131,299	$ 1,248,678	$ 2,223,348	$ 1,871,984
Mortgage Securities - Trading				
Principal Value	$ 1,250,749	$ 1,442,574	$ 0	$ 0
Unamortized Premium	9,995	10,334	0	0
Unamortized Discount	(3,089)	(1,272)	0	0
Reserve For Credit Losses	0	0	0	0
Market Valuation Account	0	0	0	0
Total Mortgage Securities - Trading	$ 1,257,655	$ 1,451,636	$ 0	$ 0
Mortgage Securities - Available for Sale				
Principal Value	$ 17,281	$ 18,209	$ 1,554,196	$ 1,741,975
Unamortized Premium	0	0	39,498	47,105
Unamortized Discount	(8,015)	(9,028)	(10,650)	(12,104)
Reserve For Credit Losses	(1,189)	(1,436)	(1,705)	(2,035)
Market Valuation Account	(370)	321	(10,497)	(4,375)
Total Mortgage Securities - Available for Sale	$ 7,707	$ 8,066	$ 1,570,842	$ 1,770,566

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 3 (CONTINUED)

<TABLE>
<CAPTION>

DETAIL OF INTEREST INCOME AND BALANCES FOR RESIDENTIAL MORTGAGE ASSETS (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
INTEREST INCOME ON RESIDENTIAL MORTGAGE ASSETS				
Mortgage Loans - Held for Sale				
Coupon Income	$ 0	$ 0	$ 0	$ 0
Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	0	0	0	0
Interest Income: Mortgage Loans - Held for Sale	$ 0	$ 0	$ 0	$ 0
Mortgage Loans - Held for Investment				
Coupon Income	$ 24,911	$ 21,432	$ 14,474	$

				10,784
Amortization of Discount Balances	0	1	8	11
Amortization of Premium Balances	(2,088)	(1,803)	(1,462)	(940)
Interest Income: Mortgage Loans - Held for Investment	$ 22,823	$ 19,630	$ 13,020	$ 9,855
Mortgage Securities - Trading				
Coupon Income	$ 0	$ 0	$ 0	$ 0
Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	0	0	0	0
Interest Income: Mortgage Securities - Trading	$ 0	$ 0	$ 0	$ 0
Mortgage Securities - Available for Sale				
Coupon Income	$ 36,595	$ 41,124	$ 39,879	$ 31,440
Amortization of Discount Balances	258	375	409	261
Amortization of Premium Balances	(6,091)	(5,085)	(4,065)	(3,150)
Interest Income: Mortgage Securities -Available for Sale	$ 30,762	$ 36,414	$ 36,223	$ 28,551
RESIDENTIAL MORTGAGE ASSET BALANCES				
Mortgage Loans - Held for Sale				
Principal Value	$ 0	$ 0	$ 0	$ 0
Unamortized Premium	0	0	0	0
Unamortized Discount	0	0	0	0
Real Estate Owned	0	0	0	0
Reserve For Credit Losses	0	0	0	0
Market Valuation Account	0	0	0	0
Total Mortgage Loans - Held for Sale	$ 0	$ 0	$ 0	$ 0
Mortgage Loans - Held for Investment				
Principal Value	$ 1,519,124	$ 1,348,619	$ 1,111,029	$ 716,009
Unamortized Premium	34,844	30,852	25,442	15,951
Unamortized Discount	0	0	(123)	(131)
Real Estate Owned	713	220	346	128
Reserve For Credit Losses	(2,855)	(1,363)	(929)	(630)
Market Valuation Account	0	0	0	(1,291)
Total Mortgage Loans - Held for Investment	$ 1,551,826	$ 1,378,328	$ 1,135,765	$ 730,035
Mortgage Securities - Trading				
Principal Value	$ 0	$ 0	$ 0	$ 0
Unamortized Premium	0	0	0	0
Unamortized Discount	0	0	0	0
Reserve For Credit Losses	0	0	0	0
Market Valuation Account	0	0	0	0
Total Mortgage Securities - Trading	$ 0	$ 0	$ 0	$ 0
Mortgage Securities - Available for Sale				
Principal Value	$ 1,779,375	$ 2,010,374	$ 2,179,186	$ 1,839,720
Unamortized Premium	51,329	56,082	62,219	49,156
Unamortized Discount	(12,442)	(14,387)	(14,968)	(15,510)
Reserve For Credit Losses	(2,076)	(3,093)	(2,651)	(2,203)
Market Valuation Account	(1,390)	10,619	3,603	

				3,516
Total Mortgage Securities - Available for Sale	$ 1,814,796	$ 2,059,595	$ 2,227,389	$ 1,874,679

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 3 (CONTINUED)

DETAIL OF INTEREST INCOME AND BALANCES FOR RESIDENTIAL MORTGAGE ASSETS (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
INTEREST INCOME ON RESIDENTIAL MORTGAGE ASSETS				
Mortgage Loans - Held for Sale				
Coupon Income	$ 0	$ 0	$ 0	$ 0
Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	0	0	0	0
Interest Income: Mortgage Loans - Held for Sale	$ 0	$ 0	$ 0	$ 0
Mortgage Loans - Held for Investment				
Coupon Income	$ 2,582	$ 1,656	$ 749	$ 479
Amortization of Discount Balances	11	7	11	2
Amortization of Premium Balances	(189)	(62)	(43)	(19)
Interest Income: Mortgage Loans - Held for Investment	$ 2,404	$ 1,601	$ 717	$ 462
Mortgage Securities - Trading				
Coupon Income	$ 0	$ 0	$ 0	$ 0
Amortization of Discount Balances	0	0	0	0
Amortization of Premium Balances	0	0	0	0
Interest Income: Mortgage Securities - Trading	$ 0	$ 0	$ 0	$ 0
Mortgage Securities - Available for Sale				
Coupon Income	$ 25,292	$ 18,901	$ 12,973	$ 8,965
Amortization of Discount Balances	206	264	234	175
Amortization of Premium Balances	(2,236)	(1,645)	(1,225)	(688)
Interest Income: Mortgage Securities -Available for Sale	$ 23,262	$ 17,520	$ 11,982	$ 8,452
RESIDENTIAL MORTGAGE ASSET BALANCES				
Mortgage Loans - Held for Sale				
Principal Value	$ 0	$ 0	$ 0	$ 0
Unamortized Premium	0	0	0	0
Unamortized Discount	0	0	0	0
Real Estate Owned	0	0	0	0
Reserve For Credit Losses	0	0	0	0
Market Valuation Account	0	0	0	0
Total Mortgage Loans - Held for Sale	$ 0	$ 0	$ 0	$ 0
Mortgage Loans - Held for Investment				

Principal Value	$ 514,837	$ 126,426	$ 69,154	$ 24,831
Unamortized Premium	12,389	1,535	686	191
Unamortized Discount	(142)	(153)	(160)	(171)
Real Estate Owned	196	0	0	0
Reserve For Credit Losses	(428)	(393)	(214)	(74)
Market Valuation Account	(1,377)	279	200	84
Total Mortgage Loans - Held for Investment	$ 525,475	$ 127,694	$ 69,666	$ 24,861
Mortgage Securities - Trading				
Principal Value	$ 0	$ 0	$ 0	$ 0
Unamortized Premium	0	0	0	0
Unamortized Discount	0	0	0	0
Reserve For Credit Losses	0	0	0	0
Market Valuation Account	0	0	0	0
Total Mortgage Securities - Trading	$ 0	$ 0	$ 0	$ 0
Mortgage Securities - Available for Sale				
Principal Value	$ 1,602,212	$ 1,234,636	$ 936,611	$ 548,976
Unamortized Premium	41,928	31,072	22,004	12,599
Unamortized Discount	(15,951)	(16,185)	(16,448)	(16,683)
Reserve For Credit Losses	(1,752)	(1,421)	(1,084)	(747)
Market Valuation Account	1,516	74	(3,269)	(3,847)
Total Mortgage Securities - Available for Sale	$ 1,627,953	$ 1,248,176	$ 937,814	$ 540,298

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 3 (CONTINUED)

<TABLE>
<CAPTION>

DETAIL OF INTEREST INCOME AND BALANCES FOR RESIDENTIAL MORTGAGE ASSETS (ALL DOLLARS IN THOUSANDS)	AT OR FOR YEAR ENDING DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
INTEREST INCOME ON RESIDENTIAL MORTGAGE ASSETS				
Mortgage Loans - Held for Sale				
Coupon Income	$ 8,858	$ 0	$ 0	$ 0
Amortization of Discount Balances	146	0	0	0
Amortization of Premium Balances	0	0	0	0
Interest Income: Mortgage Loans - Held for Sale	$ 9,004	$ 0	$ 0	$ 0
Mortgage Loans - Held for Investment				
Coupon Income	$ 122,661	$ 71,601	$ 5,466	$ 379
Amortization of Discount Balances	2	20	31	4
Amortization of Premium Balances	(10,421)	(6,293)	(313)	(4)
Interest Income: Mortgage Loans - Held for Investment	$ 112,242	$ 65,328	$ 5,184	$ 379
Mortgage Securities - Trading				

Coupon Income	$ 51,367	$ 0	$ 0	$ 0
Amortization of Discount Balances	26	0	0	0
Amortization of Premium Balances	(5,231)	0	0	0
Interest Income: Mortgage Securities - Trading	$ 46,162	$ 0	$ 0	$ 0
Mortgage Securities - Available for Sale				
Coupon Income	$ 64,910	$ 149,038	$ 66,131	$ 14,759
Amortization of Discount Balances	1,426	1,303	879	915
Amortization of Premium Balances	(13,698)	(18,391)	(5,794)	(559)
Interest Income: Mortgage Securities -Available for Sale	$ 52,638	$ 131,949	$ 61,216	$ 15,115
RESIDENTIAL MORTGAGE ASSET BALANCES				
Mortgage Loans - Held for Sale				
Principal Value	$ 265,922	$ 0	$ 0	$ 0
Unamortized Premium	666	0	0	0
Unamortized Discount	(1,059)	0	0	0
Real Estate Owned	384	0	0	0
Reserve For Credit Losses	0	0	0	0
Market Valuation Account	0	0	0	0
Total Mortgage Loans - Held for Sale	$ 265,915	$ 0	$ 0	$ 0
Mortgage Loans - Held for Investment				
Principal Value	$ 1,118,375	$ 1,519,124	$ 514,837	$ 26,411
Unamortized Premium	16,708	34,844	12,389	210
Unamortized Discount	0	0	(142)	(172)
Real Estate Owned	0	713	196	0
Reserve For Credit Losses	(3,784)	(2,855)	(428)	(79)
Market Valuation Account	0	0	(1,377)	80
Total Mortgage Loans - Held for Investment	$ 1,131,299	$ 1,551,826	$ 525,475	$ 26,450
Mortgage Securities - Trading				
Principal Value	$ 1,250,749	$ 0	$ 0	$ 0
Unamortized Premium	9,995	0	0	0
Unamortized Discount	(3,089)	0	0	0
Reserve For Credit Losses	0	0	0	0
Market Valuation Account	0	0	0	0
Total Mortgage Securities - Trading	$ 1,257,655	$ 0	$ 0	$ 0
Mortgage Securities - Available for Sale				
Principal Value	$ 17,281	$ 1,779,375	$ 1,602,212	$ 417,214
Unamortized Premium	0	51,329	41,928	9,433
Unamortized Discount	(8,015)	(12,442)	(15,951)	(16,860)
Reserve For Credit Losses	(1,189)	(2,076)	(1,752)	(411)
Market Valuation Account	(370)	(1,390)	1,516	(3,582)
Total Mortgage Securities - Available for Sale	$ 7,707	$ 1,814,796	$ 1,627,953	$ 405,794

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 4

<TABLE>
<CAPTION>

MORTGAGE ASSET CHARACTERISTICS (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>	<C>	<C>
Average Characteristics of Loans and Securities (Residential Mortgage Assets) at End of Period				
Single-Family Properties	100%	100%	100%	100%
Short-Term Adjustable Rate Mortgage Assets (First reset in 12 months or less)	77%	62%	77%	91%
Hybrid Loans (First reset in more than 12 months)	23%	38%	23%	9%
First Lien	100%	98%	100%	100%
Home Equity Loans (AAA and AA securities)	0%	2%	0%	0%
Average Credit Rating Equivalent	AA+	AA+	AA+	AA+
Reported Basis as % of Principal Value	100.57%	100.51%	101.72%	102.04%
Coupon Rate	7.21%	7.24%	7.42%	7.59%
Months to Next Coupon Adjustment (Short-Term Adjustable Rate Mortgage Assets)	4	4	4	4
Months to Next Coupon Adjustment (Hybrid Loans)	53	58	56	52
Months to Next Coupon Adjustment (Total Mortgage Assets)	15	24	15	8
For Short-Term Adjustable-Rate Residential Mortgage Assets				
Coupon Rate	7.33%	7.37%	7.59%	7.67%
Level of Index	4.90%	4.87%	5.61%	5.61%
Net Margin	1.94%	2.03%	1.98%	2.02%
Fully Indexed Coupon Rate	6.84%	6.90%	7.59%	7.63%
Coupon Rate Versus Fully-Indexed Rate	0.49%	0.47%	0.00%	0.04%
Net Life Cap	11.48%	11.63%	12.09%	12.09%
Percentage of Residential Mortgage Assets by Credit Type, by Reported Basis				
Mortgage Loans	52.5%	61.0%	58.5%	51.3%
Mortgage Securities: AAA/AA	47.2%	38.8%	41.3%	48.4%
Mortgage Securities: A/BBB	0.0%	0.0%	0.0%	0.0%
Mortgage Securities: Below BBB	0.3%	0.2%	0.2%	0.3%
Total Residential Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Residential Mortgage Assets (Reported Basis)	$ 2,667,916	$ 3,745,071	$ 3,810,471	$ 3,652,409
Percentage of Residential Mortgage Assets by Index, Adjustment Frequency, and Annualized Periodic Cap, By Principal Value				
1 Month LIBOR, adjusts monthly, no periodic cap	15.5%	11.3%	18.8%	20.2%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	17.5%	14.4%	16.2%	20.0%
6 Month LIBOR, adjusts every 6 months, no periodic cap	10.8%	8.2%	10.4%	11.6%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	0.9%	0.8%	0.9%	

	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
				1.0%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	0.6%	0.4%	0.4%	0.5%
6 Month Treasury, adjusts every 6 months, no periodic cap	0.4%	0.3%	0.4%	0.4%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	1.1%	1.0%	1.1%	1.3%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	20.4%	33.1%	21.5%	8.1%
7/1 Hybrid: 12 Month Treasury with 7 year initial coupon	1.3%	3.8%	21.5%	0.0%
12 Month Treasury, adjusts annually, 2% periodic cap	29.0%	24.6%	28.7%	35.2%
12 Month Treasury, adjusts annually, no periodic cap	0.0%	0.0%	0.3%	0.3%
Other	2.5%	2.1%	1.3%	1.4%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$ 2,652,711	$ 3,726,087	$ 3,745,963	$ 3,579,492
Net Residential and Commercial Mortgage Asset and U.S. Treasuries Growth				
Mortgage and U.S. Treasuries Acquisitions	$ 72,217	$ 764,918	$ 594,836	$ 603,803
Mortgage Principal Repayments	(409,118)	(414,719)	(425,292)	(306,112)
Amortization	(1,749)	(6,866)	(11,020)	(8,158)
Mark-to-Market Adjustments	(3,012)	(32,873)	0	0
Writedowns	0	0	0	(729)
Credit Losses	(248)	(320)	(462)	(49)
Sales	(678,949)	(375,539)	0	(9,289)
Change in Mortgage Assets and U.S. Treasuries (Reported Basis)	$ (1,020,859)	$ (65,399)	$ 158,062	$ 279,466

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 4 (CONTINUED)

<TABLE>
<CAPTION>

MORTGAGE ASSET CHARACTERISTICS (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Average Characteristics of Loans and Securities (Residential Mortgage Assets) at End of Period				
Single-Family Properties	100%	100%	100%	100%
Short-Term Adjustable Rate Mortgage Assets (First reset in 12 months or less)	98%	98%	98%	98%
Hybrid Loans (First reset in more than 12 months)	2%	2%	2%	2%
First Lien	100%	100%	100%	100%
Home Equity Loans (AAA and AA securities)	0%	0%	0%	0%
Average Credit Rating Equivalent	AA+	AA+	AA+	AA+
Reported Basis as % of Principal Value	102.23%	102.16%	102.21%	101.94%
Coupon Rate	7.71%	7.75%	7.73%	7.70%
Months to Next Coupon Adjustment (Short-Term				

Adjustable Rate Mortgage Assets)	4	4	4	5
Months to Next Coupon Adjustment (Hybrid Loans)	21	24	27	30
Months to Next Coupon Adjustment (Total Mortgage Assets)	4	4	5	5
For Short-Term Adjustable-Rate Residential Mortgage Assets				
Coupon Rate	7.73%	7.77%	7.75%	7.71%
Level of Index	5.68%	5.65%	5.77%	5.98%
Net Margin	2.05%	2.10%	2.15%	2.20%
Fully Indexed Coupon Rate	7.73%	7.75%	7.92%	8.18%
Coupon Rate Versus Fully-Indexed Rate	0.00%	0.02%	-0.17%	-0.47%
Net Life Cap	12.07%	12.01%	11.99%	11.88%
Percentage of Residential Mortgage Assets by Credit Type, by Reported Basis				
Mortgage Loans	46.1%	40.2%	33.8%	28.1%
Mortgage Securities: AAA/AA	53.6%	58.2%	64.5%	69.8%
Mortgage Securities: A/BBB	0.0%	0.7%	0.8%	1.0%
Mortgage Securities: Below BBB	0.3%	0.9%	0.9%	1.1%
Total Residential Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Residential Mortgage Assets (Reported Basis)	$ 3,372,943	$ 3,431,760	$ 3,363,131	$ 2,605,323
Percentage of Residential Mortgage Assets by Index, Adjustment Frequency, and Annualized Periodic Cap, By Principal Value				
1 Month LIBOR, adjusts monthly, no periodic cap	20.2%	12.4%	8.9%	2.6%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	21.5%	26.2%	27.5%	32.4%
6 Month LIBOR, adjusts every 6 months, no periodic cap	11.2%	11.4%	7.4%	1.9%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	1.2%	1.3%	1.5%	1.9%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	0.6%	0.6%	0.6%	0.8%
6 Month Treasury, adjusts every 6 months, no periodic cap	0.5%	0.5%	0.5%	0.7%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	1.6%	1.7%	1.8%	2.4%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	0.0%	0.0%	0.0%	0.0%
7/1 Hybrid: 12 Month Treasury with 7 year initial coupon	0.0%	0.0%	0.0%	0.0%
12 Month Treasury, adjusts annually, 2% periodic cap	41.6%	44.5%	50.3%	55.4%
12 Month Treasury, adjusts annually, no periodic cap	0.1%	0.1%	0.1%	0.1%
Other	1.5%	1.3%	1.4%	1.8%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$ 3,299,212	$ 3,359,213	$ 3,290,562	$ 2,555,857
Net Residential and Commercial Mortgage Asset and U.S. Treasuries Growth				
Mortgage and U.S. Treasuries Acquisitions	$ 342,283	$ 369,463	$ 962,890	$ 627,075
Mortgage Principal Repayments	(347,427)	(252,398)	(199,945)	(173,362)
Amortization	(7,921)	(6,512)	(5,109)	(3,818)
Mark-to-Market Adjustments	0	0	0	0
Writedowns	0	0	0	

				0
Credit Losses	(40)	(68)	(28)	(41)
Sales	(45,712)	(41,856)	0	0
Change in Mortgage Assets and U.S. Treasuries (Reported Basis)	$ (58,817)	$ 68,629	$ 757,808	$ 449,854

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 4 (CONTINUED)

<TABLE>
<CAPTION>

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

Adjustment Frequency, and Annualized Periodic Cap, By Principal Value				
1 Month LIBOR, adjusts monthly, no periodic cap	1.4%	2.3%	3.3%	6.6%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	36.2%	45.9%	54.4%	63.2%
6 Month LIBOR, adjusts every 6 months, no periodic cap	0.0%	0.0%	0.0%	0.0%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	2.5%	2.4%	3.3%	8.7%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	1.1%	1.7%	2.4%	0.0%
6 Month Treasury, adjusts every 6 months, no periodic cap	0.9%	1.3%	1.9%	3.6%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	0.0%	0.0%	0.0%	0.0%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	0.0%	0.0%	0.0%	0.0%
7/1 Hybrid: 12 Month Treasury with 7 year initial coupon	0.0%	0.0%	0.0%	0.0%
12 Month Treasury, adjusts annually, 2% periodic cap	55.7%	45.0%	32.8%	14.6%
12 Month Treasury, adjusts annually, no periodic cap	0.0%	0.0%	0.0%	0.0%
Other	2.2%	1.4%	1.9%	3.3%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$ 2,117,244	$ 1,361,062	$ 1,005,764	$ 573,807
Net Residential and Commercial Mortgage Asset and U.S. Treasuries Growth				
Mortgage and U.S. Treasuries Acquisitions	$ 875,968	$ 443,860	$ 496,184	$ 166,852
Mortgage Principal Repayments	(95,610)	(76,942)	(53,058)	(32,814)
Amortization	(2,209)	(1,436)	(1,023)	(531)
Mark-to-Market Adjustments	0	0	0	0
Writedowns	0	0	0	0
Credit Losses	(7)	0	0	0
Sales	(5)	2	1	0
Change in Mortgage Assets and U.S. Treasuries (Reported Basis)	$ 778,138	$ 365,484	$ 442,104	$ 133,507

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 4 (CONTINUED)

<TABLE>
<CAPTION>

MORTGAGE ASSET CHARACTERISTICS (ALL DOLLARS IN THOUSANDS)	AT OR FOR YEAR ENDING DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
Average Characteristics of Loans and Securities (Residential Mortgage Assets) at End of Period				
Single-Family Properties	100%	100%	100%	100%
Short-Term Adjustable Rate Mortgage Assets (First reset in 12 months or less)	77%	98%	100%	100%
Hybrid Loans (First reset in more than 12 months)	23%	2%	0%	0%
First Lien	100%	100%	100%	100%
Home Equity Loans (AAA and AA securities)	0%	0%	0%	0%
Average Credit Rating Equivalent	AA+	AA+	AA+	AA+
Reported Basis as % of Principal Value	100.57%	102.23%	101.81%	

				98.33%
Coupon Rate	7.21%	7.71%	7.75%	7.50%
Months to Next Coupon Adjustment (Short-Term Adjustable Rate Mortgage Assets)	4	4	5	3
Months to Next Coupon Adjustment (Hybrid Loans)	53	21	n/a	n/a
Months to Next Coupon Adjustment (Total Mortgage Assets)	15	4	5	3
For Short-Term Adjustable-Rate Residential Mortgage Assets				
Coupon Rate	7.33%	7.73%	7.75%	7.50%
Level of Index	4.90%	5.68%	5.58%	5.44%
Net Margin	1.94%	2.05%	2.24%	2.08%
Fully Indexed Coupon Rate	6.84%	7.73%	7.82%	7.52%
Coupon Rate Versus Fully-Indexed Rate	0.49%	0.00%	-0.07%	-0.02%
Net Life Cap	11.48%	12.07%	11.73%	11.54%
Percentage of Residential Mortgage Assets by Credit Type, by Reported Basis				
Mortgage Loans	52.5%	46.1%	24.5%	6.1%
Mortgage Securities: AAA/AA	47.2%	53.6%	73.0%	81.5%
Mortgage Securities: A/BBB	0.0%	0.0%	1.2%	5.8%
Mortgage Securities: Below BBB	0.3%	0.3%	1.3%	6.6%
Total Residential Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Residential Mortgage Assets (Reported Basis)	$ 2,667,916	$ 3,372,943	$ 2,155,469	$ 436,236
Percentage of Residential Mortgage Assets by Index, Adjustment Frequency, and Annualized Periodic Cap, By Principal Value				
1 Month LIBOR, adjusts monthly, no periodic cap	15.5%	20.2%	1.4%	7.6%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	17.5%	21.5%	36.2%	60.3%
6 Month LIBOR, adjusts every 6 months, no periodic cap	10.8%	11.2%	0.0%	0.0%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	0.9%	1.2%	2.5%	12.2%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	0.6%	0.6%	1.1%	0.0%
6 Month Treasury, adjusts every 6 months, no periodic cap	0.4%	0.5%	0.9%	4.9%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	1.1%	1.6%	0.0%	0.0%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	20.4%	0.0%	0.0%	0.0%
7/1 Hybrid: 12 Month Treasury with 7 year initial coupon	1.3%	0.0%	0.0%	0.0%
12 Month Treasury, adjusts annually, 2% periodic cap	29.0%	41.6%	55.7%	12.3%
12 Month Treasury, adjusts annually, no periodic cap	0.0%	0.1%	0.0%	0.0%
Other	2.5%	1.5%	2.2%	2.7%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$ 2,652,711	$ 3,299,212	$ 2,117,244	$ 443,625
Net Residential and Commercial Mortgage Asset and U.S. Treasuries Growth				
Mortgage and U.S. Treasuries Acquisitions	$ 2,035,774	$ 2,301,711	$ 1,982,864	$ 354,572
Mortgage Principal Repayments	(1,555,240)	(973,132)	(258,424)	

				(38,824)
Amortization	(27,794)	(23,361)	(5,200)	357
Mark-to-Market Adjustments	(35,885)	0	0	0
Writedowns	(729)	0	0	0
Credit Losses	(1,079)	(179)	(7)	(4)
Sales	(1,063,778)	(87,565)	0	0
Change in Mortgage Assets and U.S. Treasuries (Reported Basis)	$ (648,731)	$ 1,217,474	$ 1,719,233	$ 316,101

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 5

RESIDENTIAL MORTGAGE LOAN SUMMARY (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
Number of Loans	4,760	7,299	7,032	5,939
Principal Value	$ 1,384,681	$ 2,265,305	$ 2,191,767	$ 1,837,518
Reported Basis before Credit Reserve	1,400,996	2,284,254	2,227,427	1,875,433
Reported Basis after Credit Reserve	1,397,213	2,280,864	2,223,348	1,871,984
Estimated Bid-Side Market Value	1,386,290	2,283,738	2,219,772	1,872,775
Short-Term Adjustable Rate Loans (Initial reset in 12 months or less)	58.1%	37.6%	61.8%	81.6%
Hybrid Loans (Initial reset in more than 12 months)	41.9%	62.4%	38.2%	18.4%
Single-Family	100.0%	100.0%	100.0%	100.0%
"A" Quality Underwriting	100.0%	100.0%	100.0%	100.0%
First Lien	100.0%	100.0%	100.0%	100.0%
Primary Residence (Owner-Occupied)	91.0%	93.7%	90.6%	89.3%
Second Home	6.9%	4.9%	7.1%	7.9%
Investor Property	2.1%	1.4%	2.3%	2.8%
Average Loan Size	$ 291	$ 310	$ 312	$ 309
Loan Balance < Conventional Loan Balance Limit ($227,150 in 1998)	18.3%	12.6%	15.9%	18.8%
Loan Balance Greater Than $500,000	29.5%	25.9%	32.9%	36.4%
Original Loan-To-Value Ratio	76.4%	74.6%	76.1%	77.0%
Original Loan-to-Value Ratio > 80%	32.3%	24.3%	30.8%	34.6%
% of Original Loan-to-Value Ratio > 80% with Primary Mortgage Insurance or Pledged Account Collateral	97.0%	97.3%	97.0%	96.5%
Effective Average Original Loan-to-Value Ratio Including Primary Mortgage Insurance or Pledged Account Collateral	66.9%	68.0%	67.3%	66.8%
Year of Origination				
1995 and Prior Years' Origination	12.0%	8.7%	11.3%	16.6%
1996	7.1%	4.9%	5.9%	8.1%
1997	48.0%	34.2%	51.6%	63.8%
1998	32.9%	52.2%	31.2%	11.5%
Average Seasoning in Months	22	15	15	

Geographic Distribution of Properties Securing Loans				
Northern California	16.5%	24.7%	18.0%	12.6%
Southern California	15.7%	19.2%	16.9%	17.2%
Florida	7.8%	5.5%	7.5%	8.8%
New York	6.1%	4.2%	5.6%	6.7%
New Jersey	4.8%	3.8%	4.2%	4.2%
Other States (each less than 4% at December 31, 1998)	49.1%	42.5%	47.8%	50.5%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
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TABLE 5 (CONTINUED)	AT			
RESIDENTIAL MORTGAGE LOAN SUMMARY (ALL DOLLARS IN THOUSANDS)	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Number of Loans	5,041	4,651	3,983	2,795
Principal Value	$ 1,519,837	$ 1,348,839	$ 1,111,376	$ 716,137
Reported Basis before Credit Reserve	1,554,681	1,379,691	1,136,694	731,957
Reported Basis after Credit Reserve	1,551,826	1,378,328	1,135,765	730,035
Estimated Bid-Side Market Value	1,552,586	1,379,166	1,136,004	729,561
Short-Term Adjustable Rate Loans (Initial reset in 12 months or less)	96.4%	95.9%	94.8%	91.6%
Hybrid Loans (Initial reset in more than 12 months)	3.6%	4.2%	5.2%	8.4%
Single-Family	100.0%	100.0%	100.0%	100.0%
"A" Quality Underwriting	100.0%	100.0%	100.0%	100.0%
First Lien	100.0%	100.0%	100.0%	100.0%
Primary Residence (Owner-Occupied)	88.6%	90.6%	91.9%	94.3%
Second Home	8.5%	7.2%	6.0%	4.0%
Investor Property	2.9%	2.4%	2.1%	1.7%
Average Loan Size	$ 301	$ 290	$ 279	$ 256
Loan Balance < Conventional Loan Balance Limit ($227,150 in 1998)	18.1%	19.3%	19.8%	19.7%
Loan Balance Greater Than $500,000	36.5%	32.6%	27.0%	14.3%
Original Loan-To-Value Ratio	77.7%	76.5%	77.7%	73.7%
Original Loan-to-Value Ratio > 80%	37.5%	34.5%	32.8%	24.3%
% of Original Loan-to-Value Ratio > 80% with Primary Mortgage Insurance or Pledged Account Collateral	94.9%	95.6%	93.8%	94.5%
Effective Average Original Loan-to-Value Ratio Including Primary Mortgage Insurance or Pledged Account Collateral	66.1%	66.3%	69.2%	68.5%
Year of Origination				
1995 and Prior Years' Origination	22.7%	28.6%	39.3%	68.0%
1996	11.1%	13.9%	18.2%	29.9%
1997	66.2%	57.5%	42.5%	2.1%
1998	n/a	n/a	n/a	n/a
Average Seasoning in Months	18	19	22	33

Geographic Distribution of Properties Securing Loans				
Northern California	11.2%	12.5%	12.8%	16.9%
Southern California	18.2%	19.1%	20.9%	24.4%
Florida	9.4%	8.6%	8.2%	4.6%
New York	7.2%	6.4%	5.3%	3.8%
New Jersey	4.4%	4.2%	3.9%	3.2%
Other States (each less than 4% at December 31, 1998)	49.6%	49.0%	49.0%	47.2%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 5 (CONTINUED)

RESIDENTIAL MORTGAGE LOAN SUMMARY (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Number of Loans	2,172	478	257	101
Principal Value	$ 515,033	$ 126,426	$ 69,154	$ 24,831
Reported Basis before Credit Reserve	527,280	127,808	69,680	24,851
Reported Basis after Credit Reserve	525,475	127,694	69,666	24,861
Estimated Bid-Side Market Value	525,475	127,694	69,666	24,861
Short-Term Adjustable Rate Loans (Initial reset in 12 months or less)	100.0%	100.0%	100.0%	100.0%
Hybrid Loans (Initial reset in more than 12 months)	0.0%	0.0%	0.0%	0.0%
Single-Family	100.0%	100.0%	100.0%	100.0%
"A" Quality Underwriting	100.0%	100.0%	100.0%	100.0%
First Lien	100.0%	100.0%	100.0%	100.0%
Primary Residence (Owner-Occupied)	94.4%	99.0%	98.6%	100.0%
Second Home	4.0%	1.0%	1.4%	0.0%
Investor Property	2.0%	0.0%	0.0%	0.0%
Average Loan Size	$ 237	$ 264	$ 269	$ 246
Loan Balance < Conventional Loan Balance Limit ($227,150 in 1998)	21.7%	14.7%	12.9%	27.2%
Loan Balance Greater Than $500,000	7.6%	12.0%	13.1%	24.9%
Original Loan-To-Value Ratio	76.8%	77.5%	75.8%	77.0%
Original Loan-to-Value Ratio > 80%	25.3%	32.2%	22.8%	27.0%
% of Original Loan-to-Value Ratio > 80% with Primary Mortgage Insurance or Pledged Account Collateral	96.6%	100.0%	100.0%	100.0%
Effective Average Original Loan-to-Value Ratio Including Primary Mortgage Insurance or Pledged Account Collateral	73.2%	72.8%	72.5%	72.9%
Year of Origination				
1995 and Prior Years' Origination	92.3%	82.3%	65.5%	100.0%
1996	7.7%	17.7%	34.5%	0.0%
1997	n/a	n/a	n/a	n/a
1998	n/a	n/a	n/a	n/a
Average Seasoning in Months	37	9	4	7
Geographic Distribution of Properties Securing Loans				
Northern California	17.5%	34.1%	29.7%	30.0%
Southern California	26.0%	50.7%	42.8%	46.0%
Florida	4.2%	0.4%	0.7%	1.2%
New York	3.1%	0.0%	0.0%	0.0%
New Jersey	2.8%	0.3%	0.0%	1.3%
Other States (each less than 4% at December 31, 1998)	46.5%	14.6%	26.7%	21.4%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 5 (CONTINUED)

RESIDENTIAL MORTGAGE LOAN SUMMARY (All dollars in thousands)	AT DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
Number of Loans	4,760	5,041	2,172	109
Principal Value	$ 1,384,681	$ 1,519,837	$ 515,033	$ 26,411

Reported Basis before Credit Reserve	1,400,996	1,554,681	527,280	26,449
Reported Basis after Credit Reserve	1,397,213	1,551,826	525,475	26,450
Estimated Bid-Side Market Value	1,386,290	1,552,586	525,475	26,450
Short-Term Adjustable Rate Loans (Initial reset in 12 months or less)	58.1%	96.4%	100.0%	100.0%
Hybrid Loans (Initial reset in more than 12 months)	41.9%	3.6%	0.0%	0.0%
Single-Family	100.0%	100.0%	100.0%	100.0%
"A" Quality Underwriting	100.0%	100.0%	100.0%	100.0%
First Lien	100.0%	100.0%	100.0%	100.0%
Primary Residence (Owner-Occupied)	91.0%	88.6%	94.4%	100.0%
Second Home	6.9%	8.5%	4.0%	0.0%
Investor Property	2.1%	2.9%	2.0%	0.0%
Average Loan Size	$ 291	$ 301	$ 237	$ 242
Loan Balance < Conventional Loan Balance Limit ($227,150 in 1998)	18.3%	18.1%	21.7%	11.3%
Loan Balance Greater Than $500,000	29.5%	36.5%	7.6%	12.8%
Original Loan-To-Value Ratio	76.4%	77.7%	76.8%	76.0%
Original Loan-to-Value Ratio > 80%	32.3%	37.5%	25.3%	26.0%
% of Original Loan-to-Value Ratio > 80% with Primary Mortgage Insurance or Pledged Account Collateral	97.0%	94.9%	96.6%	100.0%
Effective Average Original Loan-to-Value Ratio Including Primary Mortgage Insurance or Pledged Account Collateral	66.9%	66.1%	73.2%	72.4%
Year of Origination				
1995 and Prior Years' Origination	12.0%	22.7%	92.3%	100.0%
1996	7.1%	11.1%	7.7%	n/a
1997	48.0%	66.2%	n/a	n/a
1998	32.9%	n/a	n/a	n/a
Average Seasoning in Months	22	18	37	4
Geographic Distribution of Properties Securing Loans				
Northern California	16.5%	11.2%	17.5%	30.0%
Southern California	15.7%	18.2%	26.0%	44.0%
Florida	7.8%	9.4%	4.2%	1.1%
New York	6.1%	7.2%	3.1%	0.0%
New Jersey	4.8%	4.4%	2.8%	1.2%
Other States (each less than 4% at December 31, 1998)	49.1%	49.6%	46.5%	23.7%

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SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
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TABLE 6

COMMERCIAL MORTGAGE LOAN SUMMARY (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>	<C>	<C>
INTEREST INCOME ON COMMERCIAL MORTGAGE ASSETS				
Commercial Mortgage Loans - Held for for Sale				
Coupon Income	$ 102	$ 0	$ 0	$ 0
Amortization of Discount Balances	1	0	0	0
Amortization of Premium Balances	0	0	0	0
Interest Income: Mortgage Securities -Available for Sale	$ 102	$ 0	$ 0	$ 0

COMMERCIAL MORTGAGE ASSET BALANCES				
Commercial Mortgage Loans - Held for Sale				
Principal Value	$ 8,324	$ 0	$ 0	$ 0
Unamortized Premium	0	0	0	0
Unamortized Discount	(37)	0	0	0
Real Estate Owned	0	0	0	0
Reserve For Credit Losses	0	0	0	0
Market Valuation Account	0	0	0	0
	-------	-------	-------	-------
Total Mortgage Loans - Held for Sale	$ 8,287	$ 0	$ 0	$ 0
COMMERCIAL MORTGAGE LOAN CHARACTERISTICS				
Number of Loans	8	0	0	0
Average Loan Size	$ 1,036	$ 0	$ 0	$ 0
Original Debt Service Coverage Ratio	1.32x	0	0	0
Original Loan-to-Value Ratio	70%	0%	0%	0%
Term	9	0	0	0
Prepay Protection (Years)	4	0	0	0
Average Seasoning in Months	7	0	0	0
Average Property Age	16	0	0	0
Lt. Industrial/Warehouse/R&D	37%	0%	0%	0%
Hopitality	37%	0%	0%	0%
Restaurant	10%	0%	0%	0%
Multi-Family	9%	0%	0%	0%
Office	8%	0%	0%	0%
Retail	0%	0%	0%	0%
Industrial	0%	0%	0%	0%
Geographic Distribution of Properties Securing Loans				
California	77%	0%	0%	0%
Nevada	8%	0%	0%	0%
North Carolina	12%	0%	0%	0%
Texas	4%	0%	0%	0%
Other States (no other states as of December 31, 1998)	0%	0%	0%	0%
Index				
6-month LIBOR	51%	0%	0%	0%
5-year Treasury	40%	0%	0%	0%
Other	9%	0%	0%	0%
Coupon Rate	9.71%	0%	0%	0%
Net Margin	3.88%	0%	0%	0%
Net Life Cap	13.45%	0%	0%	0%
Net Life Floor (for loans with life floors)	8.99%	0%	0%	0%
Months to Next Coupon Adjustment	37	0	0	0

</TABLE>

INFORMATION FOR PRIOR YEARS IS NOT INCLUDED AS THE COMPANY DID NOT OWN ANY SUCH ASSETS PRIOR TO 1998.

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 7

<TABLE>
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EARNING ASSET YIELD, INTEREST RATE SPREAD AND INTEREST RATE MARGIN	FOR THREE MONTHS ENDING			
	DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>	<C>	<C>
Coupon Rate (All Mortgage Assets & U.S. Treasuries)	7.17%	7.22%	7.52%	7.65%
Reported Basis as % of Principal Value	100.63%	101.13%	101.98%	102.21%
Coupon Yield on Reported Basis	7.12%	7.14%	7.37%	7.49%

Effect of Premium/Discount Amortization	-0.23%	-0.72%	-1.26%	-0.99%
Mortgage Assets and U.S. Treasuries Yield	6.89%	6.42%	6.11%	6.50%
Cash Yield	5.54%	5.68%	5.23%	5.51%
Earning Asset Yield	6.87%	6.42%	6.10%	6.49%
Cost of Funds of Short-Term Borrowings	5.59%	5.93%	5.88%	5.77%
Cost of Funds of Long-Term Borrowings	6.23%	6.46%	6.45%	6.44%
Total Cost of Funds	5.89%	6.15%	6.06%	6.01%
Cost of Hedging (as % of Borrowings)	0.04%	0.03%	0.19%	0.18%
Interest Rate Spread	0.94%	0.24%	-0.15%	0.30%
Net Interest Margin (Net Interest Income/Assets)	1.19%	0.52%	0.22%	0.75%
Net Interest Income/Average Equity	15.23%	7.04%	2.33%	7.45%
SELECTED OPERATING RATIOS AND RETURN ON EQUITY				
Credit Provisions as a % of Residential Mortgage Loans	0.05%	-0.06%	0.08%	0.07%
Credit Provisions as a % of Equity	0.62%	-0.87%	0.89%	0.70%
Operating Expenses (excluding one-time charges) to Average Assets	0.14%	0.10%	0.06%	0.22%
Operating Expenses (excluding one-time charges) to Average Equity	1.75%	1.41%	0.69%	2.24%
Efficiency Ratio (Op. Exp. (exc. one-time charges)/Net Int. Income)	11.51%	20.03%	29.65%	30.14%
GAAP Return on Common Equity	10.22%	-72.19%	-0.62%	3.10%
Taxable Income Return on Common Equity	10.68%	-14.97%	0.19%	4.86%
GAAP Return on Assets	0.80%	-4.76%	0.02%	0.37%
PREPAYMENT RATES				
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools and Mortgage Loans	32%	29%	34%	26%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools	33%	37%	40%	29%
Average Annual Conditional Prepayment Rate (CPR) of Mortgage Loans	31%	23%	28%	22%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 7 (CONTINUED)

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EARNING ASSET YIELD, INTEREST RATE SPREAD AND INTEREST RATE MARGIN	FOR THREE MONTHS ENDING			
	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Coupon Rate (All Mortgage Assets & U.S. Treasuries)	7.70%	7.77%	7.74%	7.70%
Reported Basis as % of Principal Value	102.20%	102.22%	102.15%	101.84%
Coupon Yield on Reported Basis	7.53%	7.60%	7.57%	7.56%
Effect of Premium/Discount Amortization	-0.98%	-0.79%	-0.71%	-0.68%
Mortgage Assets and U.S. Treasuries Yield	6.55%	6.81%	6.86%	6.88%
Cash Yield	5.59%	5.60%	5.52%	5.33%
Earning Asset Yield	6.54%	6.80%	6.86%	6.87%
Cost of Funds of Short-Term Borrowings	5.96%	5.98%	5.86%	5.62%
Cost of Funds of Long-Term Borrowings	6.40%	6.28%	n/a	n/a
Total Cost of Funds	6.09%	6.02%	5.86%	5.62%
Cost of Hedging (as % of Borrowings)	0.17%	0.14%	0.13%	0.12%
Interest Rate Spread	0.28%	0.64%	0.87%	1.13%
Net Interest Margin (Net Interest Income/Assets)	0.72%	1.12%	1.31%	1.57%
Net Interest Income/Average Equity	7.06%	11.13%	13.25%	15.30%
SELECTED OPERATING RATIOS AND RETURN ON EQUITY				
Credit Provisions as a % of Residential Mortgage Loans	0.06%	0.11%	0.10%	0.12%
Credit Provisions as a % of Equity	0.59%	1.09%	1.06%	1.17%
Operating Expenses (excluding one-time charges) to Average Assets	0.13%	0.13%	0.16%	0.20%
Operating Expenses (excluding one-time charges) to Average Equity	1.29%	1.33%	1.66%	1.97%
Efficiency Ratio (Op. Exp. (exc. one-time charges)/Net Int. Income)	18.25%	11.93%	12.51%	12.86%

GAAP Return on Common Equity	5.43%	8.60%	10.65%	12.44%
Taxable Income Return on Common Equity	6.06%	9.36%	11.55%	13.79%
GAAP Return on Assets	0.59%	0.88%	1.04%	1.25%
PREPAYMENT RATES				
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools and Mortgage Loans	27%	24%	23%	24%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools	30%	25%	22%	23%
Average Annual Conditional Prepayment Rate (CPR) of Mortgage Loans	24%	23%	28%	24%

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SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 7 (CONTINUED)

<TABLE>
<CAPTION>

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

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SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 7 (CONTINUED)

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<CAPTION>

EARNING ASSET YIELD, INTEREST RATE SPREAD AND INTEREST RATE MARGIN	FOR YEAR ENDING DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
Coupon Rate (All Mortgage Assets & U.S. Treasuries)	7.42%	7.72%	7.55%	7.16%
Reported Basis as % of Principal Value	101.47%	102.13%	100.68%	99.02%
Coupon Yield on Reported Basis	7.31%	7.56%	7.50%	7.23%
Effect of Premium/Discount Amortization	-0.82%	-0.81%	-0.55%	0.17%
Mortgage Assets and U.S. Treasuries Yield	6.49%	6.75%	6.95%	7.40%
Cash Yield	5.48%	5.53%	5.51%	5.43%
Earning Asset Yield	6.48%	6.74%	6.93%	7.36%
Cost of Funds of Short-Term Borrowings	5.81%	5.86%	5.71%	6.06%
Cost of Funds of Long-Term Borrowings	6.38%	6.31%	n/a	n/a
Total Cost of Funds	6.03%	5.92%	5.71%	6.06%
Cost of Hedging (as % of Borrowings)	0.11%	0.14%	0.13%	0.19%
Interest Rate Spread	0.34%	0.68%	1.09%	1.11%
Net Interest Margin (Net Interest Income/Assets)	0.65%	1.14%	1.69%	2.17%
Net Interest Income/Average Equity	7.54%	11.27%	12.90%	11.03%
SELECTED OPERATING RATIOS AND RETURN ON EQUITY				
Credit Provisions as a % of Residential Mortgage Loans	0.03%	0.10%	0.17%	0.22%
Credit Provisions as a % of Equity	0.36%	0.95%	1.29%	1.14%
Operating Expenses (excluding one-time charges) to Average Assets	0.13%	0.15%	0.26%	0.51%
Operating Expenses (excluding one-time charges) to Average Equity	1.52%	1.52%	1.94%	2.61%
Efficiency Ratio (Op. Exp. (exc. one-time charges)/Net Int. Income)	20.09%	13.47%	15.08%	23.66%
GAAP Return on Common Equity	-14.31%	8.87%	9.61%	7.28%
Taxable Income Return on Common Equity	0.04%	9.73%	11.68%	8.84%
GAAP Return on Assets	-1.05%	0.91%	1.27%	1.43%
PREPAYMENT RATES				
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools and Mortgage Loans	30%	25%	25%	19%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools	35%	25%	24%	19%
Average Annual Conditional Prepayment Rate (CPR) of Mortgage Loans	26%	24%	26%	5%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 8

<TABLE>
<CAPTION>

AVERAGE DAILY BALANCE SHEET (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>	<C>	<C>
Cash	$ 56,467	$ 32,316	$ 34,833	$ 27,907
Residential Mortgage Loans	1,867,851	2,332,743	1,867,851	1,546,869
Residential Mortgage Securities	1,144,012	1,472,594	1,622,388	1,745,368
Credit Reserve	(4,728)	(5,733)	(5,677)	(5,126)
Market Valuation Adjustment, Mortgage Assets	110	1,295	(4,401)	(4,272)
Commercial Mortgage Loans	5,137	0	0	0
Other Investments	48,050	0	0	0
Interest Rate Agreements	2,715	679	9,995	10,394
Market Valuation Adjustment, Interest Rate Agreements	0	0	(8,246)	(8,863)
Other Assets	114,020	128,846	136,765	98,835
Total Assets	3,233,634	3,962,741	3,653,508	3,411,112
Short-Term Borrowings	1,571,775	2,127,967	2,263,697	1,942,426
Long-Term Borrowings	1,395,639	1,526,785	1,047,828	1,124,190
Other Liabilities	12,806	14,737	13,464	14,602
Total Liabilities	2,980,220	3,669,488	3,324,989	3,081,218
Preferred Stock	26,736	26,736	26,736	26,736

Common Stock	280,504	305,633	321,266	321,420
Market Valuation Adjustment	110	1,295	(12,647)	(13,136)
Retained Earnings, after Dividend	(53,936)	(40,411)	(6,836)	(5,127)
Stockholders' Equity	$ 253,414	$ 293,253	$ 328,519	$ 329,894
Reported Basis of Total Assets	$ 3,233,524	$ 3,961,446	$ 3,666,155	$ 3,424,247
Equity, before Market Valuation Adjustments	253,304	291,958	341,166	343,029
BORROWING COMPOSITION (AT END OF PERIOD)				
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	49.1%	58.5%	54.9%	67.9%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	9.6%	8.0%	9.3%	11.3%
Long-Term Borrowings: Federal Funds, 10% cap	2.9%	2.6%	3.2%	4.2%
Long-Term Borrowings: 1 Year Treasury, 10% cap	17.7%	13.7%	14.7%	16.6%
Long-Term Borrowings: Fixed Rate until December 2002	20.7%	17.2%	18.0%	0.0%
Total Borrowings %	100.0%	100.0%	100.0%	100.0%
Total Borrowings $	$ 2,563,130	$ 3,533,054	$ 3,529,502	$ 3,369,297
LIQUIDITY (AT END OF PERIOD)				
Unrestricted Cash	$ 55,627	$ 3,811	$ 11,354	$ 6,468
Estimated Borrowing Capacity	61,647	113,764	145,285	174,702
Total Liquidity	$ 117,274	$ 117,575	$ 156,639	$ 181,170
Total Liquidity as Percent of Short-Term Borrowings	9%	6%	8%	8%
NET MORTGAGE ASSETS PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD) (EXCLUDING U.S. TREASURIES)				
Unamortized Premium of Mortgage Assets	$ 27,369	$ 30,653	$ 75,158	$ 85,048
Unamortized Discount of Mortgage Assets	(12,126)	(11,669)	(10,651)	(12,131)
Unamortized Deferred Bond Issuance Cost of Long-Term Debt	3,628	4,140	4,704	3,300
Net Unamortized Premium of Long-Term Debt	(5,783)	(6,451)	(6,970)	(5,551)
Net Premium	$ 13,088	$ 16,673	$ 62,242	$ 70,666
Net Premium as Percent of Equity (before Market Value Adjustments)	5.1%	6.5%	18.8%	21.2%
Net Premium as Percent of Common Equity (before MV Adjustments)	5.7%	7.2%	20.4%	23.0%
Net Premium as Percent of Assets (Reported Basis)	0.5%	0.4%	1.6%	1.9%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 8 (CONTINUED)

<TABLE>
<CAPTION>

AVERAGE DAILY BALANCE SHEET	AT OR FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Cash	$ 28,592	$ 35,647	$ 19,307	$ 12,147
Residential Mortgage Loans	1,360,029	1,155,099	758,445	574,781
Residential Mortgage Securities	1,914,118	2,136,442	2,111,832	1,658,629
Credit Reserve	(4,679)	(3,873)	(3,083)	(2,394)
Market Valuation Adjustment, Mortgage Assets	5,937	6,072	1,913	1,022
Commercial Mortgage Loans	0	0	0	0
Other Investments	0	0	0	0
Interest Rate Agreements	11,207	11,943	11,185	6,899
Market Valuation Adjustment, Interest Rate Agreements	(8,792)	(8,640)	(4,576)	(4,004)
Other Assets	117,643	85,689	75,928	58,856
Total Assets	3,424,055	3,418,379	2,970,951	2,305,936

Short-Term Borrowings	2,144,794	2,695,438	2,659,914	2,056,051
Long-Term Borrowings	910,870	355,028	0	0
Other Liabilities	20,912	24,714	20,530	15,691
Total Liabilities	3,076,576	3,075,181	2,680,444	2,071,742
Preferred Stock	26,733	26,733	28,946	29,545
Common Stock	328,384	321,492	265,561	208,426
Market Valuation Adjustment	(2,855)	(2,568)	(2,663)	(2,982)
Retained Earnings, after Dividend	(4,783)	(2,458)	(1,337)	(795)
Stockholders' Equity	$ 347,479	$ 343,199	$ 290,507	$ 234,194
Reported Basis of Total Assets	$ 3,426,910	$ 3,420,947	$ 2,973,614	$ 2,308,918
Equity, before Market Valuation Adjustments	350,334	345,767	293,170	237,176
BORROWING COMPOSITION (AT END OF PERIOD)				
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	62.0%	84.1%	100.0%	100.0%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	13.8%	9.9%	0.0%	0.0%
Long-Term Borrowings: Federal Funds, 10% cap	5.3%	6.0%	0.0%	0.0%
Long-Term Borrowings: 1 Year Treasury, 10% cap	18.9%	0.0%	0.0%	0.0%
Long-Term Borrowings: Fixed Rate until December 2002	0.0%	0.0%	0.0%	0.0%
Total Borrowings %	100.0%	100.0%	100.0%	100.0%
Total Borrowings $	$ 3,087,326	$ 3,137,140	$ 3,102,784	$ 2,373,279
LIQUIDITY (AT END OF PERIOD)				
Unrestricted Cash	$ 24,893	$ 28,758	$ 29,425	$ 12,985
Estimated Borrowing Capacity	182,713	206,442	160,338	140,561
Total Liquidity	$ 207,606	$ 235,200	$ 189,763	$ 153,546
Total Liquidity as Percent of Short-Term Borrowings	11%	9%	6%	6%
NET MORTGAGE ASSETS PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD) (EXCLUDING U.S. TREASURIES)				
Unamortized Premium of Mortgage Assets	$ 86,173	$ 86,934	$ 87,661	$ 65,107
Unamortized Discount of Mortgage Assets	(12,442)	(14,387)	(15,091)	(15,641)
Unamortized Deferred Bond Issuance Cost of Long-Term Debt	3,703	1,492	0	0
Net Unamortized Premium of Long-Term Debt	(5,795)	0	0	0
Net Premium	$ 71,639	$ 74,039	$ 72,569	$ 49,466
Net Premium as Percent of Equity (before Market Value Adjustments)	21.3%	21.4%	25.1%	20.3%
Net Premium as Percent of Common Equity (before MV Adjustments)	23.2%	23.2%	27.6%	23.1%
Net Premium as Percent of Assets (Reported Basis)	2.1%	2.1%	2.1%	1.9%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 8 (CONTINUED)

<TABLE>
<CAPTION>

AVERAGE DAILY BALANCE SHEET	AT OR FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Cash	$ 16,137	$ 18,854	$ 14,402	$ 14,639
Residential Mortgage Loans	143,368	93,991	45,313	25,279
Residential Mortgage Securities	1,347,617	1,010,853	688,697	457,841
Credit Reserve	(1,952)	(1,491)	(1,002)	(594)
Market Valuation Adjustment, Mortgage Assets	603	(2,279)	(3,865)	(3,880)
Commercial Mortgage Loans	0	0	0	0
Other Investments	0	0	0	0
Interest Rate Agreements	4,681	3,185	2,737	2,503
Market Valuation Adjustment, Interest Rate Agreements	(3,513)	(1,352)	(1,080)	(1,836)
Other Assets	41,430	30,129	21,566	13,094
Total Assets	1,548,371	1,151,890	766,768	507,046
Short-Term Borrowings	1,351,510	999,229	651,643	435,979
Long-Term Borrowings	0	0	0	0
Other Liabilities	14,898	8,728	2,472	2,324
Total Liabilities	1,366,408	1,007,957	654,115	438,303
Preferred Stock	29,671	15,179	0	0
Common Stock	156,594	132,924	117,695	73,998
Market Valuation Adjustment	(2,910)	(3,631)	(4,945)	(5,716)
Retained Earnings, after Dividend	(1,392)	(539)	(97)	461
Stockholders' Equity	$ 181,963	$ 143,933	$ 112,653	$ 68,743
Reported Basis of Total Assets	$ 1,551,281	$ 1,155,521	$ 771,713	$ 512,762
Equity, before Market Valuation Adjustments	184,873	147,564	117,598	74,459
BORROWING COMPOSITION (AT END OF PERIOD)				
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	100.0%	100.0%	100.0%	100.0%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	0.0%	0.0%	0.0%	0.0%
Long-Term Borrowings: Federal Funds, 10% cap	0.0%	0.0%	0.0%	0.0%
Long-Term Borrowings: 1 Year Treasury, 10% cap	0.0%	0.0%	0.0%	0.0%
Long-Term Borrowings: Fixed Rate until December 2002	0.0%	0.0%	0.0%	0.0%
Total Borrowings %	100.0%	100.0%	100.0%	100.0%
Total Borrowings $	$ 1,953,103	$ 1,225,094	$ 896,214	$ 508,721
LIQUIDITY (AT END OF PERIOD)				
Unrestricted Cash	$ 11,068	$ 14,599	$ 10,407	$ 9,705
Estimated Borrowing Capacity	123,995	99,126	69,581	29,153
Total Liquidity	$ 135,063	$ 113,725	$ 79,988	$ 38,858
Total Liquidity as Percent of Short-Term Borrowings	7%	9%	9%	8%
NET MORTGAGE ASSETS PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD) (EXCLUDING U.S. TREASURIES)				
Unamortized Premium of Mortgage Assets	$ 54,318	$ 32,607	$ 22,690	$ 12,790
Unamortized Discount of Mortgage Assets	(16,093)	(16,338)	(16,608)	(16,854)
Unamortized Deferred Bond Issuance Cost of Long-Term Debt	0	0	0	0
Net Unamortized Premium of Long-Term Debt	0	0	0	0
Net Premium	$ 38,225	$ 16,270	$ 6,082	$ (4,064)
Net Premium as Percent of Equity (before Market Value Adjustments)	18.1%	10.0%	4.8%	-5.7%
Net Premium as Percent of Common Equity (before MV Adjustments)	21.1%	12.2%	4.8%	-5.7%
Net Premium as Percent of Assets (Reported Basis)	1.7%	1.2%	0.6%	-0.7%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 8 (CONTINUED)

<TABLE>
<CAPTION>

AVERAGE DAILY BALANCE SHEET	AT OR FOR YEAR ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
Cash	$ 37,944	$ 24,001	$ 16,016	$ 4,272
Residential Mortgage Loans	1,905,883	964,768	77,215	5,006
Residential Mortgage Securities	1,494,378	1,956,452	877,907	204,284
Credit Reserve	(5,316)	(3,514)	(1,262)	(92)
Market Valuation Adjustment, Mortgage Assets	306	(1,134)	(2,347)	(78)
Commercial Mortgage Loans	1,295	0	0	0
Other Investments	12,111	0	0	0
Interest Rate Agreements	5,910	10,325	3,280	2,039
Market Valuation Adjustment, Interest Rate Agreements	(3,354)	(2,482)	(1,948)	(1,046)
Other Assets	119,684	84,693	26,606	5,107
Total Assets	3,568,841	3,033,108	995,467	219,492
Short-Term Borrowings	1,975,866	2,390,132	861,316	174,926
Long-Term Borrowings	1,275,048	319,076	0	0
Other Liabilities	13,899	20,488	7,131	2,342
Total Liabilities	3,264,813	2,729,696	868,447	177,268
Preferred Stock	26,736	27,978	11,274	0
Common Stock	307,089	281,405	120,436	43,390
Market Valuation Adjustment	(3,048)	(3,617)	(4,295)	(1,124)
Retained Earnings, after Dividend	(26,749)	(2,354)	(395)	(42)
Stockholders' Equity	$ 304,028	$ 303,412	$ 127,020	$ 42,224
Reported Basis of Total Assets	$ 3,571,889	$ 3,036,725	$ 999,762	$ 220,616
Equity, before Market Valuation Adjustments	307,076	307,029	131,315	43,349
BORROWING COMPOSITION (AT END OF PERIOD)				
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	49.1%	62.0%	100.0%	100.0%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	9.6%	13.8%	0.0%	0.0%
Long-Term Borrowings: Federal Funds, 10% cap	2.9%	5.3%	0.0%	0.0%
Long-Term Borrowings: 1 Year Treasury, 10% cap	17.7%	18.9%	0.0%	0.0%
Long-Term Borrowings: Fixed Rate until December 2002	20.7%	0.0%	0.0%	0.0%
Total Borrowings %	100.0%	100.0%	100.0%	100.0%
Total Borrowings $	$ 2,563,130	$ 3,087,326	$ 1,953,103	$ 370,316
LIQUIDITY (AT END OF PERIOD)				
Unrestricted Cash	$ 55,627	$ 24,893	$ 11,068	$ 4,825
Estimated Borrowing Capacity	61,647	182,713	123,995	38,698
Total Liquidity	$ 117,274	$ 207,606	$ 135,063	$ 43,523
Total Liquidity as Percent of Short-Term Borrowings	9%	11%	7%	12%
NET MORTGAGE ASSETS PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD) (EXCLUDING U.S. TREASURIES)				
Unamortized Premium of Mortgage Assets	$ 23,614	$ 86,173	$ 54,318	$ 9,644
Unamortized Discount of Mortgage Assets	(8,371)	(12,442)	(16,093)	(17,032)
Unamortized Deferred Bond Issuance Cost of Long-Term Debt	3,628	3,703	0	0
Net Unamortized Premium of Long-Term Debt	(5,783)	(5,795)	0	0
Net Premium	$ 13,088	$ 71,639	$ 38,225	$ (7,389)
Net Premium as Percent of Equity (before Market Value Adjustments)	5.1%	21.3%	18.1%	-10.3%
Net Premium as Percent of Common Equity (before MV Adjustments)	5.7%	23.2%	21.1%	-10.3%
Net Premium as Percent of Assets (Reported Basis)	0.5%	2.1%	1.7%	-1.7%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 9

<TABLE>
<CAPTION>

ESTIMATED PERIOD-END BID-SIDE MARKET VALUE / REALIZABLE VALUE	AT OR FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998

<S>	<C>	<C>	<C>	<C>
Cash	$ 68,484	$ 23,486	$ 32,914	$ 32,202
Residential Mortgage Loans	1,386,290	2,283,738	2,219,772	1,872,775
Residential Mortgage Securities	1,265,362	1,459,702	1,570,842	1,770,566
Commercial Mortgage Loans	8,388	0	0	0
Other Investments	48,009	0	0	0
Interest Rate Agreements	2,517	2,285	7,397	11,294
Other Assets	41,393	34,824	36,476	36,521
Short-Term Borrowings	1,257,570	2,067,166	1,936,158	2,288,018
Long-Term Borrowings	1,302,330	1,464,947	1,591,961	1,080,530
Other Liabilities	12,568	10,094	22,774	21,998
"Mark-To-Market" of Total Equity	247,975	261,828	316,507	332,812
Preference Value of Preferred Equity	28,195	28,195	28,195	28,195
"Mark-To-Market" of Common Equity	$ 219,780	$ 233,633	$ 288,312	$ 304,617
"Mark-To-Market" of Common Equity / Common Share Outstanding	$ 19.53	$ 19.74	$ 20.48	$ 21.65
Reported Common Equity Per Common Share Outstanding	$ 20.27	$ 19.51	$ 20.89	$ 21.53
AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES				
Actual Average Equity/Assets	7.83%	7.37%	9.31%	10.02%
"At-Risk" Assets at Period End	$ 1,523,280	$ 2,358,524	$ 2,299,199	$ 2,662,466
"At-Risk" Equity/Assets at Period End	16.73%	10.92%	13.96%	12.38%
Average Risk-Adjusted Capital Guideline	6.33%	6.43%	7.37%	7.76%
Average Balance Sheet Capacity Utilization	81%	87%	79%	77%
Ending Actual Equity/Assets	9.00%	6.77%	8.30%	8.88%
Ending Risk-Adjusted Capital Guideline	6.55%	6.08%	6.48%	7.59%
Excess Capital	$ 50,226	$ 25,559	$ 64,465	$ 49,552
INVESTMENT OF RISK-ADJUSTED CAPITAL				
Equity Invesments in Assets with Short-Term Funding				
Agencies	18.7%	20.6%	19.9%	22.1%
Mortgage Securities Rated "AAA" or "AA"	25.8%	30.7%	26.3%	28.0%
Mortgage Securities Rated "A" or below	0.0%	0.0%	0.0%	0.0%
Commercial Mortgage Loans	3.2%	0.0%	0.0%	0.0%
US Treasuries	1.3%	0.0%	0.0%	0.0%
Residential Mortgage Loans	5.3%	17.0%	12.6%	18.2%
Equity Investment in Assets with Short-Term Funding	54.3%	68.3%	58.8%	68.3%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)				
SMFC 97-A	3.6%	3.6%	2.9%	2.8%
Mortgage Loans in Sequoia	16.5%	18.1%	17.8%	14.1%
Equity Investment in Assets with Long-Term, Non-Recourse Funding	20.1%	21.7%	20.7%	

				16.9%
Equity Investment in RWT Holdings, Inc.	5.9%	3.0%	3.0%	3.0%
Excess Capital	19.7%	7.0%	17.5%	11.8%
Total Market-Value of Capital %	100.0%	100.0%	100.0%	100.0%
Total Capital Available per Risk-Adjusted Capital	$ 255,438	$ 256,571	$ 314,679	$ 331,548
Capital Utilization at Period-end	80%	93%	82%	88%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 9 (CONTINUED)

<TABLE>
<CAPTION>

ESTIMATED PERIOD-END BID-SIDE MARKET VALUE / REALIZABLE VALUE (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Cash	$ 49,549	$ 57,696	$ 29,425	$ 12,985
Residential Mortgage Loans	1,552,586	1,379,166	1,136,004	729,561
Residential Mortgage Securities	1,814,796	2,059,595	2,227,389	1,874,679
Commercial Mortgage Loans	0	0	0	0
Other Investments	0	0	0	0
Interest Rate Agreements	10,203	10,951	11,572	7,879
Other Assets	25,156	26,048	25,857	19,291
Short-Term Borrowings	1,914,525	2,639,773	3,102,784	2,373,279
Long-Term Borrowings	1,172,938	497,465	0	0
Other Liabilities	29,882	39,410	34,881	25,518
"Mark-To-Market" of Total Equity	334,945	356,808	292,582	245,598
Preference Value of Preferred Equity	28,195	28,195	28,195	30,989
"Mark-To-Market" of Common Equity	$ 306,750	$ 328,613	$ 264,387	$ 214,610
"Mark-To-Market" of Common Equity/Common Share Outstanding	$ 21.47	$ 22.54	$ 19.95	$ 18.03
Reported Common Equity Per Common Share Outstanding	$ 21.55	$ 22.61	$ 20.11	$ 18.17
AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES				
Actual Average Equity/Assets	10.22%	10.11%	9.86%	10.27%
"At-Risk" Assets at Period End	$ 2,300,353	$ 3,057,821	$ 3,424,506	$ 2,643,064
"At-Risk" Equity/Assets at Period End	14.54%	11.65%	8.56%	9.29%
Average Risk-Adjusted Capital Guideline	8.07%	9.04%	9.52%	10.10%
Average Balance Sheet Capacity Utilization	79%	89%	96%	98%
Ending Actual Equity/Assets	9.71%	10.12%	8.55%	9.28%
Ending Risk-Adjusted Capital Guideline	7.51%	8.59%	9.41%	10.09%

Excess Capital	$ 76,589	$ 53,027	$ (27,047)	$ (20,519)
INVESTMENT OF RISK-ADJUSTED CAPITAL				
Equity Invesments in Assets with Short-Term Funding				
Agencies	24.0%	25.7%	35.7%	37.0%
Mortgage Securities Rated "AAA" or "AA"	27.6%	28.6%	36.3%	37.1%
Mortgage Securities Rated "A" or below	0.0%	5.9%	6.4%	7.6%
Commercial Mortgage Loans	0.0%	0.0%	0.0%	0.0%
US Treasuries	0.0%	0.0%	0.0%	0.0%
Residential Mortgage Loans	8.2%	17.9%	30.8%	26.6%
Equity Investment in Assets with Short-Term Funding	59.8%	78.1%	109.2%	108.3%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)				
SMFC 97-A	2.7%	0.0%	0.0%	0.0%
Mortgage Loans in Sequoia	14.7%	7.1%	0.0%	0.0%
Equity Investment in Assets with Long-Term, Non-Recourse Funding	17.4%	7.1%	0.0%	0.0%
Equity Investment in RWT Holdings, Inc.	0.0%	0.0%	0.0%	0.0%
Excess Capital	22.8%	14.9%	-9.2%	-8.3%
Total Market-Value of Capital %	100.0%	100.0%	100.0%	100.0%
Total Capital Available per Risk-Adjusted Capital	$ 335,345	$ 355,797	$ 294,952	$ 246,109
Capital Utilization at Period-end	77%	85%	109%	108%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 9 (CONTINUED)

<TABLE>
<CAPTION>

ESTIMATED PERIOD-END BID-SIDE MARKET VALUE / REALIZABLE VALUE	AT OR FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Cash	$ 11,068	$ 14,599	$ 10,407	$ 9,705
Residential Mortgage Loans	525,475	127,694	69,666	24,861
Residential Mortgage Securities	1,627,953	1,248,176	937,814	540,298
Commercial Mortgage Loans	0	0	0	0
Other Investments	0	0	0	0
Interest Rate Agreements	6,200	3,286	2,835	2,534
Other Assets	16,778	11,766	8,864	4,987
Short-Term Borrowings	1,953,103	1,225,094	896,214	508,721
Long-Term Borrowings	0	0	0	0
Other Liabilities	23,129	16,871	9,005	5,542
"Mark-To-Market" of Total Equity	211,241	163,557	124,366	

				68,123
Preference Value of Preferred Equity	31,194	31,194	0	0
	-------------	-------------	-------------	-------------
"Mark-To-Market" of Common Equity	$ 180,047	$ 132,363	$ 124,366	$ 68,123
"Mark-To-Market" of Common Equity / Common Share Outstanding	$ 16.37	$ 14.59	$ 14.60	$ 12.34
Reported Common Equity Per Common Share Outstanding	$ 16.50	$ 14.75	$ 14.59	$ 12.34
AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES				
Actual Average Equity/Assets	11.92%	12.77%	15.24%	14.52%
"At-Risk" Assets at Period End	$ 2,184,197	$ 1,403,478	$ 1,028,331	$ 581,313
"At-Risk" Equity/Assets at Period End	9.66%	11.65%	12.09%	11.72%
Average Risk-Adjusted Capital Guideline	10.22%	10.74%	11.37%	12.81%
Average Balance Sheet Capacity Utilization	86%	84%	75%	88%
Ending Actual Equity/Assets	9.66%	11.65%	12.09%	11.72%
Ending Risk-Adjusted Capital Guideline	9.97%	10.32%	10.77%	11.72%
Excess Capital	$ (7,835)	$ 18,664	$ 13,566	$ 26
INVESTMENT OF RISK-ADJUSTED CAPITAL				
Equity Invesments in Assets with Short-Term Funding				
Agencies	43.2%	48.0%	44.9%	36.0%
Mortgage Securities Rated "AAA" or "AA"	35.8%	22.2%	24.4%	33.6%
Mortgage Securities Rated "A" or below	0.0%	11.4%	14.8%	27.1%
Commercial Mortgage Loans	0.0%	0.0%	0.0%	0.0%
US Treasuries	0.0%	0.0%	0.0%	0.0%
Residential Mortgage Loans	25.1%	7.0%	5.0%	3.3%
	-------------	-------------	-------------	-------------
Equity Investment in Assets with Short-Term Funding	104.1%	88.6%	89.1%	100.0%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)				
SMFC 97-A	0.0%	0.0%	0.0%	0.0%
Mortgage Loans in Sequoia	0.0%	0.0%	0.0%	0.0%
	-------------	-------------	-------------	-------------
Equity Investment in Assets with Long-Term, Non-Recourse Funding	0.0%	0.0%	0.0%	0.0%
Equity Investment in RWT Holdings, Inc.	0.0%	0.0%	0.0%	0.0%
Excess Capital	-4.1%	11.4%	10.9%	0.0%
	-------------	-------------	-------------	-------------
Total Market-Value of Capital %	100.0%	100.0%	100.0%	100.0%
Total Capital Available per Risk-Adjusted Capital	$ 191,496	$ 163,557	$ 124,366	$ 68,123
Capital Utilization at Period-end	104%	89%	89%	100%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 9 (CONTINUED)

<TABLE>
<CAPTION>

ESTIMATED PERIOD-END BID-SIDE MARKET VALUE / REALIZABLE VALUE (ALL DOLLARS IN THOUSANDS)	AT OR FOR YEAR ENDING DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
Cash	$ 68,484	$ 49,549	$ 11,068	$ 4,825
Residential Mortgage Loans	1,386,290	1,552,586	525,475	26,450
Residential Mortgage Securities	1,265,362	1,814,796	1,627,953	405,794
Commercial Mortgage Loans	8,388	0	0	0
Other Investments	48,009	0	0	0
Interest Rate Agreements	2,517	10,203	6,200	2,521
Other Assets	41,393	25,156	16,778	3,671
Short-Term Borrowings	1,257,570	1,914,525	1,953,103	370,316
Long-Term Borrowings	1,302,330	1,172,938	0	0
Other Liabilities	12,568	29,882	23,129	4,803
"Mark-To-Market" of Total Equity	247,975	334,945	211,241	68,142
Preference Value of Preferred Equity	28,195	28,195	31,194	0
"Mark-To-Market" of Common Equity	$ 219,780	$ 306,750	$ 180,047	$ 68,142
"Mark-To-Market" of Common Equity / Common Share Outstanding	$ 19.53	$ 21.47	$ 16.37	$ 12.35
Reported Common Equity Per Common Share Outstanding	$ 20.27	$ 21.55	$ 16.50	$ 12.38
AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES				
Actual Average Equity/Assets	8.60%	10.11%	13.13%	19.65%
"At-Risk" Assets at Period End	$ 1,523,280	$ 2,300,353	$ 2,184,197	$ 441,557
"At-Risk" Equity/Assets at Period End	16.73%	14.54%	9.66%	15.47%
Average Risk-Adjusted Capital Guideline	6.98%	9.09%	10.93%	13.45%
Average Balance Sheet Capacity Utilization	81%	90%	83%	68%
Ending Actual Equity/Assets	9.00%	9.71%	9.66%	15.47%
Ending Risk-Adjusted Capital Guideline	6.55%	7.51%	9.97%	12.59%
Excess Capital	$ 50,226	$ 76,589	$ (7,835)	$ 12,117
INVESTMENT OF RISK-ADJUSTED CAPITAL				
Equity Invesments in Assets with Short-Term Funding				
Agencies	18.7%	24.0%	43.2%	29.3%
Mortgage Securities Rated "AAA" or "AA"	25.8%	27.6%	35.8%	22.7%
Mortgage Securities Rated "A" or below	0.0%	0.0%	0.0%	26.7%
Commercial Mortgage Loans	3.2%	0.0%	0.0%	0.0%
US Treasuries	1.3%	0.0%	0.0%	0.0%
Residential Mortgage Loans	5.3%	8.2%	25.1%	3.5%
Equity Investment in Assets with Short-Term Funding	54.3%	59.8%	104.1%	82.2%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)				
SMFC 97-A	3.6%	2.7%	0.0%	0.0%
Mortgage Loans in Sequoia	16.5%	14.7%	0.0%	0.0%
Equity Investment in Assets with Long-Term, Non-Recourse Funding	20.1%	17.4%	0.0%	0.0%

Equity Investment in RWT Holdings, Inc.	5.9%	0.0%	0.0%	0.0%
Excess Capital	19.7%	22.8%	-4.1%	17.8%
Total Market-Value of Capital %	100.0%	100.0%	100.0%	100.0%
Total Capital Available per Risk-Adjusted Capital	$ 255,438	$ 335,345	$ 191,496	$ 68,232
Capital Utilization at Period-end	80%	77%	104%	82%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 10

<TABLE>
<CAPTION>

CREDIT PROVISIONS AND CREDIT RESERVES (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING			
	DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>	<C>	<C>
RESIDENTIAL MORTGAGE LOANS				
Credit Provision During Period	$ 394	$ (638)	$ 763	$ 601
Actual Losses During Period	0	51	133	7
Cumulative Actual Losses	267	267	216	83
Residential Mortgage Loan Credit Reserve at End of Period	3,784	3,390	4,079	3,450
Residential Mortgage Loan Credit-Related Mark-to-Market Reserves	1,185	1,686	0	0
Annualized Residential Mortgage Loan Credit Provision as % of Average Reported Basis of Residential Mortgage Loans Held for Investment	0.17%	-0.22%	0.16%	0.16%
Residential Mortgage Loan Credit-Related Reserves as % of Reported Basis of Residential Mortgage Loans at Period End	0.35%	0.22%	0.18%	0.18%
Non-Performing Assets: 90+ Days Delinquent, Foreclosures, Bankruptcies, and REO				
Number of Loans	14	17	21	19
Non-Performing Assets Loan Balance	$ 3,926	$ 4,862	$ 4,947	$ 4,358
Non-Performing Assets as % of Reported Basis of Mortgage Loans	0.28%	0.21%	0.22%	0.23%
Non-Performing Assets as % of Reported Basis of Total Assets	0.11%	0.13%	0.13%	0.12%
Residential Mortgage Loan Credit-Related Reserves as % of Non-Performing Assets	127%	104%	82%	79%
Credit Experience of Residential Mortgage Loans				
Liquidated Defaulted Loans (Cumulative)	14	14	9	7
Average Loss Severity Experience (Cumulative)	9%	9%	11%	6%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Non-Performing Mortgage Loans				
At 10% Loss Severity	$ 394	$ 460	$ 504	$ 444
At 20% Loss Severity	788	920	1,009	888
At 30% Loss Severity	1,182	1,380	1,513	1,331
At 40% Loss Severity	1,576	1,840	2,017	1,775
Residential Mortgage Loan Credit-Related Reserves at End of Period	4,969	5,076	4,079	3,450
RESIDENTIAL MORTGAGE SECURITIES				
Credit Provision During Period	$ 0	$ 0	$ 0	$ 0
Actual Losses During Period	248	268	329	42
Cumulative Actual Losses	1,001	753	485	156
Residential Mortgage Securities Credit Reserve at End of Period	1,189	1,436	1,705	2,035
Annualized Residential Mortgage Securities Credit Provision as % of Average Reported Basis of Residential Mortgage Securities Rated < BBB	0.0%	0.0%	0.0%	0.0%
Residential Mortgage Securities Credit Reserve as % of Reported Basis of Residential Mortgage Securities Rated < BBB at End of Period	12.8%	15.6%	18.7%	22.3%
Reported Basis of Res. Mortgage Securities Rated < BBB at End of Period	$ 9,266	$ 9,182	$ 9,116	$ 9,137

Credit Experience of Loans in Pools Underlying Residential Mortgage Securities Rated < BBB (Since Acquisition)				
Resolved Defaulted Loans (Cumulative)	476	424	351	284
Average Loss Severity Experience (Cumulative)	22%	22%	21%	21%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Seriously Delinquent Loans in Mortgage Pools Underlying < BBB Rated Securities Default:				
At 10% Loss Severity	$ 215	$ 312	$ 429	$ 480
At 20% Loss Severity	627	555	712	951
At 30% Loss Severity	1,117	958	910	1,170
At 40% Loss Severity	1,627	1,405	1,385	1,824
Residential Mortgage Securities Credit Reserve at End of Period	$ 1,189	$ 1,436	$ 1,705	$ 2,035

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 10 (CONTINUED)

<TABLE>
<CAPTION>

CREDIT PROVISIONS AND CREDIT RESERVES (All dollars in thousands)	AT OR FOR THREE MONTHS ENDING			
	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
RESIDENTIAL MORTGAGE LOANS				
Credit Provision During Period	$ 1,516	$ 473	$ 299	$ 215
Actual Losses During Period	23	40	0	13
Cumulative Actual Losses	76	53	13	13
Residential Mortgage Loan Credit Reserve at End of Period	2,855	1,363	929	630
Residential Mortgage Loan Credit-Related Mark-to-Market Reserves	0	0	0	0
Annualized Residential Mortgage Loan Credit Provision as % of Average Reported Basis of Residential Mortgage Loans Held for Investment	0.45%	0.16%	0.16%	0.15%
Residential Mortgage Loan Credit-Related Reserves as % of Reported Basis of Residential Mortgage Loans at Period End	0.18%	0.10%	0.08%	0.09%
Non-Performing Assets: 90+ Days Delinquent, Foreclosures, Bankruptcies, and REO				
Number of Loans	17	13	12	6
Non-Performing Assets Loan Balance	$ 3,903	$ 2,792	$ 2,366	$ 1,220
Non-Performing Assets as % of Reported Basis of Mortgage Loans	0.25%	0.20%	0.21%	0.17%
Non-Performing Assets as % of Reported Basis of Total Assets	0.11%	0.08%	0.07%	0.05%
Residential Mortgage Loan Credit-Related Reserves as % of Non-Performing Assets	73%	49%	39%	52%
Credit Experience of Residential Mortgage Loans				
Liquidated Defaulted Loans (Cumulative)	6	4	1	1
Average Loss Severity Experience (Cumulative)	7%	6%	7%	7%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Non-Performing Mortgage Loans				
At 10% Loss Severity	$ 396	$ 283	$ 241	$ 124
At 20% Loss Severity	793	567	481	248
At 30% Loss Severity	1,189	850	722	372
At 40% Loss Severity	1,586	1,133	962	496
Residential Mortgage Loan Credit-Related Reserves at End of Period	2,855	1,363	929	630
RESIDENTIAL MORTGAGE SECURITIES				
Credit Provision During Period	$(1,000)	$ 470	$ 477	$ 480
Actual Losses During Period	17	28	29	29
Cumulative Actual Losses	113	97	69	40
Residential Mortgage Securities Credit Reserve at End of Period	2,076	3,093	2,651	2,203
Annualized Residential Mortgage Securities Credit Provision as % of Average Reported Basis of Residential Mortgage Securities Rated < BBB	-20.9%	6.4%	6.6%	6.6%
Residential Mortgage Securities Credit Reserve as % of Reported Basis of Residential Mortgage Securities Rated				

< BBB at End of Period	22.8%	10.6%	9.1%	7.6%
Reported Basis of Res. Mortgage Securities Rated < BBB at End of Period	$ 9,109	$29,189	$29,113	$28,955
Credit Experience of Loans in Pools Underlying Residential Mortgage Securities Rated <BBB (Since Acquisition)				
Resolved Defaulted Loans (Cumulative)	256	182	137	90
Average Loss Severity Experience (Cumulative)	21%	23%	24%	25%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Seriously Delinquent Loans in Mortgage Pools Underlying < BBB Rated Securities Default:				
At 10% Loss Severity	$ 389	$ 724	$ 109	$ 80
At 20% Loss Severity	894	2,286	1,488	792
At 30% Loss Severity	1,163	3,789	3,702	2,845
At 40% Loss Severity	1,825	6,437	6,410	5,103
Residential Mortgage Securities Credit Reserve at End of Period	$ 2,076	$ 3,093	$ 2,651	$ 2,203

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 10 (CONTINUED)

<TABLE>
<CAPTION>

CREDIT PROVISIONS AND CREDIT RESERVES (All dollars in thousands)	AT OR FOR THREE MONTHS ENDING			
	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
RESIDENTIAL MORTGAGE LOANS				
Credit Provision During Period	$ 35	$ 178	$ 140	$ (5)
Actual Losses During Period	0	0	0	0
Cumulative Actual Losses	0	0	0	0
Residential Mortgage Loan Credit Reserve at End of Period	428	393	214	74
Residential Mortgage Loan Credit-Related Mark-to-Market Reserves	0	0	0	0
Annualized Residential Mortgage Loan Credit Provision as % of Average Reported Basis of Residential Mortgage Loans Held for Investment	0.10%	0.76%	1.23%	-0.08%
Residential Mortgage Loan Credit-Related Reserves as % of Reported Basis of Residential Mortgage Loans at Period End	0.08%	0.31%	0.31%	0.30%
Non-Performing Assets: 90+ Days Delinquent, Foreclosures, Bankruptcies, and REO				
Number of Loans	7	3	2	1
Non-Performing Assets Loan Balance	$ 1,249	$ 404	$ 279	$ 190
Non-Performing Assets as % of Reported Basis of Mortgage Loans	0.24%	0.32%	0.40%	0.77%
Non-Performing Assets as % of Reported Basis of Total Assets	0.06%	0.03%	0.03%	0.03%
Residential Mortgage Loan Credit-Related Reserves as % of Non-Performing Assets	34%	97%	77%	39%
Credit Experience of Residential Mortgage Loans				
Liquidated Defaulted Loans (Cumulative)	0	0	0	0
Average Loss Severity Experience (Cumulative)	0%	0%	0%	0%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Non-Performing Mortgage Loans				
At 10% Loss Severity	$ 127	$ 41	$ 28	$ 19
At 20% Loss Severity	253	82	56	39
At 30% Loss Severity	380	123	85	58
At 40% Loss Severity	506	164	113	77
Residential Mortgage Loan Credit-Related Reserves at End of Period	428	393	214	74
RESIDENTIAL MORTGAGE SECURITIES				
Credit Provision During Period	$ 337	$ 338	$ 337	$ 336
Actual Losses During Period	7	--	--	--
Cumulative Actual Losses	11	4	4	4
Residential Mortgage Securities Credit Reserve at End of Period	1,752	1,421	1,084	747
Annualized Residential Mortgage Securities Credit Provision as % of Average Reported Basis of Residential Mortgage				

Securities Rated < BBB	4.7%	4.7%	4.7%	4.7%
Residential Mortgage Securities Credit Reserve as % of Reported Basis of Residential Mortgage Securities Rated < BBB at End of Period	6.1%	4.9%	3.8%	2.7%
Reported Basis of Res. Mortgage Securities Rated < BBB at End of Period	$ 28,935	$ 28,906	$ 28,858	$ 28,051
Credit Experience of Loans in Pools Underlying Residential Mortgage Securities Rated <BBB (Since Acquisition)				
Resolved Defaulted Loans (Cumulative)	59	28	15	4
Average Loss Severity Experience (Cumulative)	27%	22%	16%	10%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Seriously Delinquent Loans in Mortgage Pools Underlying < BBB Rated Securities Default:				
At 10% Loss Severity	$ 63	$ 61	$ 40	$ 20
At 20% Loss Severity	608	123	91	39
At 30% Loss Severity	2,040	1,131	1,364	597
At 40% Loss Severity	3,647	3,041	3,148	2,162
Residential Mortgage Securities Credit Reserve at End of Period	$ 1,752	$ 1,421	$ 1,084	$ 747

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 10 (CONTINUED)

<TABLE>
<CAPTION>

CREDIT PROVISIONS AND CREDIT RESERVES	AT OR FOR YEAR ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
RESIDENTIAL MORTGAGE LOANS				
Credit Provision During Period	$ 1,120	$ 2,503	$ 349	$ 79
Actual Losses During Period	191	76	0	0
Cumulative Actual Losses	267	76	0	0
Residential Mortgage Loan Credit Reserve at End of Period	3,784	2,855	428	79
Residential Mortgage Loan Credit-Related Mark-to-Market Reserves	1,185	0	0	0
Annualized Residential Mortgage Loan Credit Provision as % of Average Reported Basis of Residential Mortgage Loans Held for Investment	0.06%	0.26%	0.45%	1.58%
Residential Mortgage Loan Credit-Related Reserves as % of Reported Basis of Residential Mortgage Loans at Period End	0.35%	0.18%	0.08%	0.30%
Non-Performing Assets: 90+ Days Delinquent, Foreclosures, Bankruptcies, and REO				
Number of Loans	14	17	7	0
Non-Performing Assets Loan Balance	$ 3,926	$ 3,903	$ 1,249	$ 0
Non-Performing Assets as % of Reported Basis of Mortgage Loans	0.28%	0.25%	0.24%	0.00%
Non-Performing Assets as % of Reported Basis of Total Assets	0.11%	0.11%	0.06%	0.00%
Residential Mortgage Loan Credit-Related Reserves as % of Non-Performing Assets	127%	73%	34%	n/a
Credit Experience of Residential Mortgage Loans				
Liquidated Defaulted Loans (Cumulative)	14	6	0	0
Average Loss Severity Experience (Cumulative)	9%	7%	0%	0%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Non-Performing Mortgage Loans				
At 10% Loss Severity	$ 394	$ 396	$ 127	$ 0
At 20% Loss Severity	788	793	253	0
At 30% Loss Severity	1,182	1,189	380	0
At 40% Loss Severity	1,576	1,586	506	0
Residential Mortgage Loan Credit-Related Reserves at End of Period	4,969	2,855	428	79
RESIDENTIAL MORTGAGE SECURITIES				
Credit Provision During Period	$ 0	$ 427	$ 1,348	$ 414
Actual Losses During Period	888	104	7	4
Cumulative Actual Losses	1,001	113	11	4
Residential Mortgage Securities Credit Reserve at End of Period	1,189	2,076	1,752	411

Annualized Residential Mortgage Securities Credit Provision as % of Average Reported Basis of Residential Mortgage Securities Rated < BBB	0.0%	1.7%	4.7%	2.9%
Residential Mortgage Securities Credit Reserve as % of Reported Basis of Residential Mortgage Securities Rated < BBB at End of Period	12.8%	22.8%	6.1%	1.4%
Reported Basis of Res. Mortgage Securities Rated < BBB at End of Period	$ 9,266	$ 9,109	$ 28,935	$ 28,869
Credit Experience of Loans in Pools Underlying Residential Mortgage Securities Rated <BBB (Since Acquisition)				
Resolved Defaulted Loans (Cumulative)	476	256	59	2
Average Loss Severity Experience (Cumulative)	22%	21%	27%	9%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Seriously Delinquent Loans in Mortgage Pools Underlying < BBB Rated Securities Default:				
At 10% Loss Severity	$ 215	$ 389	$ 63	$ 15
At 20% Loss Severity	627	894	608	29
At 30% Loss Severity	1,117	1,163	2,040	103
At 40% Loss Severity	1,627	1,825	3,647	768
Residential Mortgage Securities Credit Reserve at End of Period	$ 1,189	$ 2,076	$ 1,752	$ 411

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 11

<TABLE>
<CAPTION>

SHARES OUTSTANDING AND PER SHARE DATA	AT OR FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DEC. 31, 1998	SEP. 30, 1998	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>	<C>	<C>
Common Shares Outstanding at Period End	11,251,556	11,832,956	14,078,933	14,070,557
Shares Entitled to Dividends				
Common (RWT)	11,251,556	11,832,956	13,768,056	14,107,100
Class A Preferred (converted 9/95)	0	0	0	0
Class B Preferred (RTW-PB)	909,518	909,518	909,518	909,518
Total	12,161,074	12,742,474	14,677,574	15,016,618
Common Dividend Declared	$ 0.000	$ 0.000	$ 0.010	$ 0.270
Class A Preferred Dividend Declared	n/a	n/a	n/a	n/a
Class B Preferred Dividends Declared	$ 0.755	$ 0.755	$ 0.755	$ 0.755
Common Dividend Total	$ 0	$ 0	$ 138	$ 3,809
Class A Preferred Dividend Total	0	0	0	0
Class B Preferred Dividends Total	687	687	687	687
Total Dividend	$ 687	$ 687	$ 825	$ 4,496
Taxable Income Earned	$ 6,735	$ (9,240)	$ 838	$ 4,528
Dividend Pay-Out Ratio for Period	10%	-7%	98%	99%
Cumulative Dividend Pay-Out Ratio	110%	125%	102%	102%
Warrants Outstanding at Period End (expired 12/31/97)	0	0	0	0
Average Shares Outstanding During Period				
Common	11,350,536	13,247,908	14,106,828	14,123,951
Class A Preferred	0	0	0	0
Class B Preferred	909,518	909,518	909,518	909,518
Total	12,260,054	14,157,426	15,016,346	15,033,469

Calculation of "Diluted" Common Shares				
Average Common Shares	11,350,536	13,247,908	14,106,828	14,123,951
Potential Dilution Due to Warrants	0	0	0	0
Potential Dilution Due to Options	59,038	0	149,030	110,474
Total Average "Diluted" Common Shares	11,409,574	13,247,908	14,255,858	14,234,425
Net Income to Common Shareholders	$ 5,789	$ (47,866)	$ (491)	$ 2,450
Total Average "Diluted" Common Shares	11,409,574	13,247,908	14,255,858	14,234,425
Earnings Per Share ("Diluted")	$ 0.51	$ (3.61)	$ (0.03)	$ 0.17
Earnings Per Share ("Basic")	$ 0.51	$ (3.61)	$ (0.03)	$ 0.17

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 11 (CONTINUED)

<TABLE>
<CAPTION>

SHARES OUTSTANDING AND PER SHARE DATA	AT OR FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Common Shares Outstanding at Period End	14,284,657	14,576,477	13,251,847	11,905,957
Shares Entitled to Dividends				
Common (RWT)	14,284,657	14,576,477	13,251,847	11,905,957
Class A Preferred (converted 9/95)	0	0	0	0
Class B Preferred (RTW-PB)	909,518	909,518	909,518	999,638
Total	15,194,175	15,485,995	14,161,365	12,905,595
Common Dividend Declared	$ 0.350	$ 0.600	$ 0.600	$ 0.600
Class A Preferred Dividend Declared	n/a	n/a	n/a	n/a
Class B Preferred Dividends Declared	$ 0.755	$ 0.755	$ 0.755	$ 0.755
Common Dividend Total	$ 5,000	$ 8,746	$ 7,951	$ 7,144
Class A Preferred Dividend Total	0	0	0	0
Class B Preferred Dividends Total	686	687	687	755
Total Dividend	$ 5,686	$ 9,433	$ 8,638	$ 7,899
Taxable Income Earned	$ 5,586	$ 8,151	$ 8,315	$ 7,912
Dividend Pay-Out Ratio for Period	102%	116%	104%	100%
Cumulative Dividend Pay-Out Ratio	103%	103%	100%	98%
Warrants Outstanding at Period End (expired 12/31/97)	0	149,466	236,297	272,304
Average Shares Outstanding During Period				
Common	14,375,992	14,316,678	12,997,566	11,605,171
Class A Preferred	0	0	0	0
Class B Preferred	909,518	909,518	990,725	1,005,515
Total	15,285,510	15,226,196	13,988,291	12,610,686
Calculation of "Diluted" Common Shares				
Average Common Shares	14,375,992	14,316,678	12,997,566	11,605,171
Potential Dilution Due to Warrants	57,139	130,489	182,137	258,422
Potential Dilution Due to Options	99,383	177,434	291,227	253,274
Total Average "Diluted" Common Shares	14,532,514	14,624,601	13,470,930	12,116,867
Net Income to Common Shareholders	$ 4,397	$ 6,859	$ 7,034	$ 6,456
Total Average "Diluted" Common Shares	14,532,514	14,624,601	13,470,930	12,116,867
Earnings Per Share ("Diluted")	$ 0.30	$ 0.47	$ 0.52	$ 0.53
Earnings Per Share ("Basic")	$ 0.31	$ 0.48	$ 0.54	$ 0.56

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 11 (CONTINUED)

<TABLE>

<CAPTION>

SHARES OUTSTANDING AND PER SHARE DATA	AT OR FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Common Shares Outstanding at Period End	10,996,572	9,069,653	8,520,116	5,521,376
Shares Entitled to Dividends				
Common (RWT)	10,996,572	9,069,653	8,520,116	5,521,376
Class A Preferred (converted 9/95)	0	0	0	0
Class B Preferred (RTW-PB)	1,006,250	1,006,250	0	0
Total	12,002,822	10,075,903	8,520,116	5,521,376
Common Dividend Declared	$ 0.410	$ 0.400	$ 0.400	$ 0.460
Class A Preferred Dividend Declared	n/a	n/a	n/a	n/a
Class B Preferred Dividends Declared	$ 0.755	$ 0.386	n/a	n/a
Common Dividend Total	$ 4,508	$ 3,628	$ 3,408	$ 2,540
Class A Preferred Dividend Total	0	0	0	0
Class B Preferred Dividends Total	760	388	0	0
Total Dividend	$ 5,268	$ 4,016	$ 3,408	$ 2,540
Taxable Income Earned	$ 5,429	$ 4,048	$ 3,142	$ 2,549
Dividend Pay-Out Ratio for Period	97%	99%	108%	100%
Cumulative Dividend Pay-Out Ratio	98%	98%	98%	93%
Warrants Outstanding at Period End (expired 12/31/97)	412,894	1,076,431	1,563,957	1,665,063
Average Shares Outstanding During Period				
Common	9,705,138	8,732,326	7,813,974	5,521,376
Class A Preferred	0	0	0	0
Class B Preferred	1,006,250	514,063	0	0
Total	10,711,388	9,246,389	7,813,974	5,521,376
Calculation of "Diluted" Common Shares				
Average Common Shares	9,705,138	8,732,326	7,813,974	5,521,376
Potential Dilution Due to Warrants	570,415	621,455	603,426	443,984
Potential Dilution Due to Options	176,919	162,393	182,832	164,227
Total Average "Diluted" Common Shares	10,452,472	9,516,174	8,600,232	6,129,587
Net Income to Common Shareholders	$ 4,084	$ 2,998	$ 2,500	$ 1,954
Total Average "Diluted" Common Shares	10,452,472	9,516,174	8,600,232	6,129,587
Earnings Per Share ("Diluted")	$ 0.39	$ 0.32	$ 0.29	$ 0.32
Earnings Per Share ("Basic")	$ 0.42	$ 0.34	$ 0.32	$ 0.35

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 11 (CONTINUED)

<TABLE>
<CAPTION>

SHARES OUTSTANDING AND PER SHARE DATA	AT OR FOR YEAR ENDING			
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DEC. 31, 1998	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
Common Shares Outstanding at Period End	11,251,556	14,284,657	10,996,572	5,517,299
Shares Entitled to Dividends				
Common (RWT)	11,251,556	14,284,657	10,996,572	5,517,299
Class A Preferred (converted 9/95)	0	0	0	0
Class B Preferred (RTW-PB)	909,518	909,518	1,006,250	0
Total	12,161,074	15,194,175	12,002,822	5,517,299
Common Dividend Declared	$ 0.280	$ 2.150	$ 1.670	$ 0.460
Class A Preferred Dividend Declared	n/a	n/a	n/a	$ 0.500
Class B Preferred Dividends Declared	$ 3.020	$ 3.020	$ 1.141	n/a
Common Dividend Total	$ 3,947	$ 28,840	$ 14,084	$ 2,537
Class A Preferred Dividend Total	0	0	0	833
Class B Preferred Dividends Total	2,747	2,815	1,148	0
Total Dividend	$ 6,694	$ 31,655	$ 15,232	$ 3,370

Taxable Income Earned	$ 2,861	$ 29,964	$ 15,168	$ 3,832
Dividend Pay-Out Ratio for Period	234%	106%	100%	88%
Cumulative Dividend Pay-Out Ratio	110%	103%	98%	89%
Warrants Outstanding at Period End (expired 12/31/97)	0	0	412,894	1,665,063
Average Shares Outstanding During Period				
Common	13,199,819	13,334,163	7,950,175	2,487,857
Class A Preferred	0	0	0	826,185
Class B Preferred	909,518	953,435	382,155	0
-				
Total	0	14,287,598	8,332,330	3,314,042
Calculation of "Diluted" Common Shares				
Average Common Shares	13,199,819	13,334,163	7,950,175	3,314,042
Potential Dilution Due to Warrants	0	191,513	618,618	221,112
Potential Dilution Due to Options	0	154,734	175,391	168,649
-				
Total Average "Diluted" Common Shares	13,199,819	13,680,410	8,744,184	3,703,803
Net Income to Common Shareholders	$ (40,117)	$ 24,746	$ 11,537	$ 3,155
Total Average "Diluted" Common Shares	13,199,819	13,680,410	8,744,184	3,703,803
-				
Earnings Per Share ("Diluted")	$ (3.04)	$ 1.81	$ 1.32	$ 0.85
Earnings Per Share ("Basic")	$ (3.04)	$ 1.86	$ 1.45	$ 0.95

</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-34 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."

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:

Exhibit Number	Exhibit
3.1	Articles of Amendment and Restatement of the Registrant (a)
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)
3.4	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 (the "Preferred Stock") (f)
4.2	Specimen Common Stock Certificate (a)
4.3	Specimen Class B 9.74% Cumulative Convertible Preferred Stock Certificate (f)
4.4	Indenture dated as of June 1, 1997 between Sequoia Mortgage Trust 1 (a wholly-owned, consolidated subsidiary of the Registrant) and First Union National Bank, as Trustee (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)
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)
10.4	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	Clearance Agreement, dated December 1, 1996, between the Registrant and Bankers Trust Company (d)
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]
10.14	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)
10.27	[Reserved]
10.29	Form of Dividend Reinvestment Plan (b)
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
10.32	Administrative Personnel and Facilities Agreement dated as of April 1, 1998, between Redwood Trust, Inc. and RWT Holdings, Inc.
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.

</TABLE>

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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.
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.
11.1	Statement re: Computation of Per Share Earnings
21	List of Subsidiaries (k)
23	Consent of Accountants
27	Financial Data Schedule

</TABLE>

(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.

(b) Reports on Form 8-K:

None.

GLOSSARY

As used in this document, the capitalized and other terms listed below have the meanings indicated.

"Agency" means GNMA, FNMA or FHLMC.

"Agency Certificates" means GNMA, FNMA and FHLMC Certificates.

"amortized cost" means, with respect to Mortgage Assets, the purchase price as adjusted for subsequent amortization of discount or premium and for principal repayments.

"ARM" means a Mortgage Loan or any Mortgage Loan underlying a Mortgage Security that features adjustments of the underlying interest rate at predetermined times based on an agreed margin to an established index. An ARM is usually subject to periodic interest rate and/or payment caps and a lifetime interest rate cap.

"Asset Acquisition/Capital Allocation Policies" means the policies established by the Board of Directors, including a majority of the Independent Directors, establishing the guidelines for management in the type and quantity of Mortgage Assets that may be purchased by the Company, which policies include, without limitation, the asset acquisition policies, the credit risk management policies and the capital and leverage policies.

"Capital Stock" means the Common Stock, Preferred Stock, and any additional classes of Capital Stock authorized by the Board of Directors in the future.

"reported basis" means the value placed on an asset or liability for balance sheet presentation purposes.

"CMOs" or "Collateralized Mortgage Obligations" means adjustable-hybrid- or fixed-rate debt obligations (bonds) that are collateralized by Mortgage Loans or mortgage certificates. CMOs are structured so that principal and interest payments received on the collateral are sufficient to make principal and interest payments on the bonds. Such bonds may be issued by United States government-sponsored entities or private issuers in one or more classes with fixed or adjustable interest rates, maturities and degrees of subordination which are characteristics designed for the investment objectives of different bond purchasers.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Mortgage Assets" means Commercial Mortgage Loans and Commercial Mortgage Securities.

"Commercial Mortgage Loans" means Mortgage Loans secured by commercial property.

"Commercial Mortgage Securities" means Mortgage Securities representing an interest in, or secured by, Commercial Mortgage Loans.

"Commodity Exchange Act" means the Commodity Exchange Act, as amended (7 U.S.C. ** 1 et seq.)

"Common Stock" means the Company's shares of Common Stock, $0.01 par value per share.

"Company" means Redwood Trust, Inc., a Maryland corporation.

"Conforming Mortgage Loan" means Single-Family Mortgage Loans that either comply with requirements for inclusion in credit support programs sponsored by FHLMC or FNMA or are FHA or VA Loans.

"coupon rate" means, with respect to Mortgage Assets, the annualized cash interest income actually received from the asset, expressed as a percentage of the face value of the asset. The difference between the gross margin and the net margin reflects loan servicing fees and other pre-determined contractual deductions. The fully-

indexed gross coupon rate equals the current yield on the ARM index (six month LIBOR, one year Treasury, etc.) plus the gross margin. The actual coupon rate paid by the borrower may be lower than the fully-indexed gross rate at the initiation of the loan if originated at a "teaser rate" or during periods of rising interest rates due to the limitations of the ARM adjustment schedule and the periodic and life caps. If so, the coupon rate paid by the borrower would move towards the fully-indexed gross rate over time.

"DERs" means dividend equivalent rights under the Company's Stock Option Plan.

"DRP" means the Dividend Reinvestment and Stock Purchase Plan adopted by the Company.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"Exercise Price" means the price payable to the Company to exercise an outstanding Warrant or Stock Option.

"face value" means, with respect to Mortgage Assets, the outstanding principal balance of Mortgage Loans or Mortgage Securities comprising the Mortgage Assets. In the absence of credit losses, the face value equals the sum of the principal repayments that will be received by the Company over the life of the Mortgage Asset.

"FASB" means the Financial Accounting Standards Board.

"FHA" means the United States Federal Housing Administration.

"FHLMC" or "Freddie Mac" means the Federal Home Loan Mortgage Corporation.

"FNMA" or "Fannie Mae" means the Federal National Mortgage Association.

"fully-indexed coupon rate" means, with respect to ARMs, the rate that would be paid by the borrower ("gross") or received by the Company as owner of the Mortgage Asset ("net") if the coupon rate on the ARM were able to adjust immediately to a market rate without being subject to adjustment periods, periodic caps, or life caps. It is equal to the current yield of the ARM index plus the gross or net margin.

"GAAP" means Generally Accepted Accounting Principles.

"GNMA" means the Government National Mortgage Association.

"gross margin" means, with respect to ARMs, the amount to be added to the underlying index to determine the coupon rate to be paid by the borrower. The term "gross" is used to differentiate payments made by the borrower with the lower "net" payments actually received by the Company after the acquisition of a Mortgage Asset.

"GSE" means government-sponsored entity, such as FNMA or FHLMC.

"hybrid mortgage loans" means a type of mortgage loan with an initial period to the first rate adjustment greater than one year.

"haircut" means the over-collateralization amount required by a lender in connection with certain collateralized borrowings.

"HUD" means the Department of Housing and Urban Development.

"Independent Director" means a director of the Company who is not an officer or employee of the Company.

"interest-only strip" or "IO" means a type of mortgage security which receives a portion of the interest payments from an underlying pool of mortgage loans but will receive little or no principal payments.

"interest rate adjustment indices" means, in the case of Mortgage Assets, any of the objective indices based on the market interest rates of a specified debt instrument (such as United States Treasury Bills in the case of the Treasury Index and United States dollar deposits in London in the case of LIBOR) or based on the average interest rate of a combination of debt instruments (such as the 11th District Cost of Funds Index), used as a reference base to reset the interest rate for each adjustment period on the Mortgage Asset, and in the case of borrowings, is used herein to mean the market interest rates of a specified debt instrument (such as reverse repurchase agreements for Mortgage Securities) as well as any of the objective indices described above that are used as a reference base to reset the interest rate for each adjustment period under the related borrowing instrument.

"interest rate adjustment period" means, in the case of Mortgage Assets, the period of time set forth in the debt instrument that determines when the interest rate is adjusted and, with respect to borrowings, is used to mean the term to reset or maturity of a short-term, fixed-rate debt instrument (such as a 30-day reverse repurchase agreement) as well as the period of time set forth in a long-term, adjustable-rate debt instrument that determines when the interest rate is adjusted.

"Interest Rate Agreements" means interest rate options, interest rate swaps, interest rate swaptions, interest rate futures and options on interest rate futures.

"Investment Company Act" means the Investment Company Act of 1940, as amended.

"ISOs" means qualified incentive stock options granted under the Stock Option Plan, which meet the requirements of Section 422 of the Code.

"LIBOR" means London Inter-Bank Offered Rate as it may be defined, and for a period of time specified, in a Mortgage Asset or borrowing of the Company.

"lifetime interest rate cap" or "life cap" means, with respect to adjustable rate Mortgage Assets, in the case of an adjustable-rate Mortgage Loan, the maximum coupon rate that may accrue during any period over the term of such Mortgage Loan as stated in the governing instruments evidencing such Mortgage Loan, and in the case of an adjustable-rate Mortgage Security, the maximum average coupon rate that may accrue during any period over the term of such Mortgage Security as stated in the governing instruments thereof. With respect to certain long-term borrowings, the maximum coupon rate that may accrue during any period over the term of such borrowing.

"liquidity capital cushion" is a term defined in the Company's Risk-Adjusted Capital Policy. It represents a portion of the capital the Company is required to maintain as part of this policy in order to continue to make asset acquisitions. The liquidity capital cushion is that part of the required base which is in excess of the Company's haircut requirements.

"Long-Term Debt" means, generally, debt with maturities greater than one year.

"Mezzanine Securities" means Mortgage Securities rated below the two highest levels but no lower than a single "B" level under the S&P rating system (or comparable level under other rating systems) and are supported by one or more classes of Subordinated Securities which bear Realized Losses prior to the classes of Mezzanine Securities.

"Mortgage Assets" means (i) Single-Family Mortgage Assets, (ii) Multifamily Mortgage Assets, and (iii) Commercial Mortgage Assets.

"Mortgage Equity Interest" means the ownership of the equity portion of a mortgage spread lending subsidiary trust wherein the assets of the trust are funded with long-term debt, the debt and other liabilities of the trust are non-recourse to the Company, and liquidity risk is essentially eliminated.

"Mortgage Loans" means Single-Family Mortgage Loans, Multifamily Mortgage Loans and Commercial Mortgage Loans.

"Mortgage Note" means a promissory note evidencing a Mortgage Loan.
"Mortgage Securities" means (i) Pass-Through Certificates and (iii) CMOs.

"Multifamily Mortgage Loans" means Mortgage Loans secured by multifamily (in excess of four units) property.

"Multifamily Mortgage Securities" means Mortgage Securities representing an interest in, or secured by, Multifamily Mortgage Loans.

"Net Income" is the income of the Company as calculated using Generally Accepted Accounting Principles (GAAP); Net Income may differ from taxable income.

"net margin" is part of the calculation of the coupon rate to be received by the Company as owner of an ARM. The term "net" is used to differentiate payments actually received by the Company from a Mortgage Asset from the higher "gross" payment made by the borrower.

"Nonconforming Mortgage Loans" means conventional Single-Family and Multifamily Mortgage Loans that do not conform to one or more requirements of FHLMC or FNMA for participation in one or more of such agencies' mortgage loss credit support programs.

"NQSOs" means options to acquire Company Common Stock granted pursuant to the Stock Option Plan, which do not meet the requirements of Section 422 of the Code.

"Ownership Limit" means 9.8% of the outstanding shares of Capital Stock, as may be increased or reduced by the Board of Directors of the Company.

"Pass-Through Certificates" means securities (or interests therein) evidencing undivided ownership interests in a pool of Mortgage Loans, the holders of which receive a "pass-through" of the principal and interest paid in connection with the underlying Mortgage Loans in accordance with the specific pool structure.

"periodic interest rate cap" or "periodic cap" means, with respect to ARMs, the maximum change in the coupon rate permissible under the terms of the loan at each coupon adjustment date. Periodic caps limit both the speed by which the coupon rate can adjust upwards in a rising interest rate environment and the speed by which the coupon rate can adjust downwards in a falling rate environment.

"Preferred Stock" means the Class B 9.74% Cumulative Convertible Preferred Stock.

"principal-only strip" or "PO" means a type of mortgage security which receives a portion of the principal payments from an underlying pool of mortgage loans but will receive little or no interest payments.

"Privately-Issued Certificates" means privately-issued Pass-Through Certificates issued by the Company or an affiliate of the Company or other third party issuer.

"Qualified REIT Real Estate Assets" means Pass-Through Certificates, Mortgage Loans, Agency Certificates, and other assets of the type described in section

856(c) (6) (B) of the Code.

"Qualified REIT Subsidiary" means a corporation whose stock is entirely owned by the REIT at all times during such corporation's existence.

"Qualifying Interests" means "mortgages and other liens on and interests in real estate," as defined in Section 3(c) (5) (C) under the Investment Company Act.

"rating" means (i) the rating assigned to an asset by one or more of the four nationally-recognized rating agencies as adjusted to the rating scale under the S&P rating system, (ii) in the case of assets rated differently by such rating agencies, the rating deemed by management to most appropriately reflect such asset's credit quality or (iii) for unrated assets, the Company's deemed comparable rating.

"Realized Losses" means losses incurred in respect of Mortgage Assets upon foreclosure sales and other liquidations of underlying mortgaged priorities that result in failure to recover all amounts due on the loans secured thereby.

"Redwood Commercial Funding, Inc." or "RCF" means a wholly-owned subsidiary of Holdings, a taxable affiliate of the Company.

"Redwood Financial Services, Inc." or "RFS" means a wholly-owned subsidiary of Holdings, a taxable affiliate of the Company.

"Redwood Residential Funding, Inc." or "RFS" means a wholly-owned subsidiary of Holdings, a taxable affiliate of the Company.

"REIT" means Real Estate Investment Trust.

"REMIC" means Real Estate Mortgage Investment Conduit.

"residuals" means the right to receive the remaining or residual cash flows from a pool of Mortgage Loans or Mortgage Securities after distributing required amounts to the holders of interests in or obligations backed by such loans or securities and after payment of any required pool expenses.

"reverse repurchase agreement" means a borrowing device evidenced by an agreement to sell securities or other assets to a third-party and a simultaneous agreement to repurchase them at a specified future date and price, the price difference constituting the interest on the borrowing.

"Risk-Adjusted Capital Policy" means the policy established by the Company, which limits management's ability to acquire additional assets during such times, that the actual capital base of the Company is less than a required amount defined in the policy. The required amount is the sum of the haircuts required by the Company's secured lenders (the required haircut) and the additional capital levels called for under the policy which are determined with reference to the various risks inherent in the Company's Mortgage Assets (the liquidity capital cushion).

"RWT Holdings, Inc." or "Holdings" means a taxable affiliate of the Company.

"SEC" means the United States Securities and Exchange Commission.

"Senior Securities" means a class of Mortgage Security that has a priority right to receive principal and/or interest from the underlying pool of Mortgage Loans.

"Senior-Subordinated Mortgage Securities" means a series of Pass-Through Certificates of CMOs in which one or more classes have a priority right to receive principal and/or interest payments from the underlying pool of Mortgage Loans.

"Sequoia" means the special-purpose finance subsidiary of Redwood Trust, Inc.

"Servicer" means a servicer or subservicer of the Mortgage Loans pursuant to a servicing agreement with the Company or other third-parties.

"SFAS" means Statement of Financial Accounting Standards issued by the FASB.

"Short-Term Debt" means reverse repurchase agreements, notes payable, revolving lines of credit and/or any other collateralized short-term borrowings.

"Single-Family Mortgage Assets" means Single-Family Mortgage Loans and Single-Family Mortgage Securities.

"Single-Family Mortgage Loans" means Mortgage Loans secured by single-family (one- to four-units) residential property.

"Single-Family Mortgage Securities" means Mortgage Securities representing an interest in, or secured by, Single-Family Mortgage Loans.

"Stock Option Plan" means the Amended and Restated 1994 Executive and Non-employee Stock Option Plan adopted by the Company.

"Subordinated Securities" means a class of Mortgage Securities that is subordinated to one or more other classes of Mortgage Securities, all of which classes share the same collateral.

"Treasury Department" means the United States Department of Treasury.

"UBTI" means "unrelated business taxable income" as defined in Section 512 of the Code.

"VA" means the United States Department of Veterans Affairs.

"VA Loans" means Mortgage Loans partially guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended.

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 17, 1999

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 17, 1999
/s/ Douglas B. Hansen	Douglas B. Hansen Director, President and Chief Financial Officer (Principal Financial Officer)	March 17, 1999
/s/ Vickie L. Rath	Vickie L. Rath Vice President, Treasurer and Controller (Principal Accounting Officer)	March 17, 1999
/s/ Thomas C. Brown	Thomas C. Brown Director	March 17, 1999
/s/ Marianne Byerwalter	Mariann Byerwalter Director	March 17, 1999
/s/ Dan A. Emmett	Dan A. Emmett Director	March 17, 1999
/s/ Thomas F. Farb	Thomas F. Farb Director	March 17, 1999
/s/ Nello Gonfiantini	Nello Gonfiantini Director	March 17, 1999
/s/ Charles J. Toeniskoetter	Charles J. Toeniskoetter Director	March 17, 1999

</TABLE>

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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, 1998

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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
ASSETS		
Mortgage loans: held-for-sale		
Residential	$ 265,914	$ --
Commercial	8,287	--
	274,201	--
Mortgage loans: held-for-investment, net		
Residential	1,131,300	1,551,826
	1,131,300	1,551,826
Mortgage securities: trading	1,257,655	--
Mortgage securities: available-for-sale, net	7,707	1,814,796
US Treasury securities	48,009	--
Cash and cash equivalents	55,627	24,892
Restricted cash	12,857	24,657
Interest rate agreements	2,517	2,100
Accrued interest receivable	18,482	23,119
Investment in RWT Holdings, Inc.	15,124	--
Loan to RWT Holdings, Inc.	6,500	--
Receivable from RWT Holdings, Inc.	445	--
Other assets	2,024	2,807

	$ 2,832,448	$ 3,444,197
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt	$ 1,257,570	$ 1,914,525
Long-term debt, net	1,305,560	1,172,801
Accrued interest payable	10,820	14,476
Accrued expenses and other liabilities	3,022	2,172
Dividends payable	686	5,686
	2,577,658	3,109,660
Commitments and contingencies (See Note 12)		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.01 per share; Class B 9.74% Cumulative Convertible 909,518 shares authorized, issued and outstanding ($28,882 aggregate liquidation preference)	26,736	26,736
Common stock, par value $0.01 per share; 49,090,482 shares authorized; 11,251,556 and 14,284,657 issued and outstanding	113	143
Additional paid-in capital	279,201	324,555
Accumulated other comprehensive income	(370)	(10,071)
Cumulative earnings	6,412	43,783
Cumulative distributions to stockholders	(57,302)	(50,609)
	254,790	334,537
	$ 2,832,448	$ 3,444,197

</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)

<TABLE>
<CAPTION>

	Years Ended December 31, 1998	1997	1996
INTEREST INCOME			
Mortgage loans: held-for-sale			
Residential	$ 9,005	$ --	$ --
Commercial	102	--	--
	9,107	--	--
Mortgage loans: held-for-investment			
Residential	112,242	65,328	5,184
	112,242	65,328	5,184
Mortgage securities: trading	46,162	--	--
Mortgage securities: available-for-sale	52,638	131,950	61,240
US Treasury securities	575	--	--
Cash and cash equivalents	2,080	1,326	860
Total interest income	222,804	198,604	67,284

INTEREST EXPENSE			
Short-term debt	114,763	140,140	49,191
Long-term debt	81,361	20,137	--
Total interest expense	196,124	160,277	49,191
Net interest rate agreements expense	3,514	3,741	1,158
NET INTEREST INCOME	23,166	34,586	16,935
Provision for credit losses	1,120	2,930	1,696
Equity in (earnings) losses of RWT Holdings, Inc.	4,676	--	--
Operating expenses	5,876	4,658	2,554
Other (income) expenses	(139)	--	--
Income before unrealized and realized gains (losses) on assets	11,633	26,998	12,685
Net unrealized and realized gains (losses) on assets	(38,943)	563	--
Income (loss) before preferred dividend and change in accounting principle	(27,310)	27,561	12,685
Less cash dividends on Class B preferred stock	2,747	2,815	1,148
Income (loss) before change in accounting principle	(30,057)	24,746	11,537
Cumulative transition effect of adopting SFAS No. 133 (See Note 2)	(10,061)	--	--
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (40,118)	$ 24,746	$ 11,537
EARNINGS PER SHARE:			
Basic:			
Income (loss) before change in accounting principle	$ (2.28)	$ 1.86	$ 1.45
Cumulative transition effect of adopting SFAS No. 133	$ (0.76)	$ --	$ --
Net income (loss)	$ (3.04)	$ 1.86	$ 1.45
Diluted:			
Income (loss) before change in accounting principle	$ (2.28)	$ 1.81	$ 1.32
Cumulative transition effect of adopting SFAS No. 133	$ (0.76)	$ --	$ --
Net income (loss)	$ (3.04)	$ 1.81	$ 1.32
Weighted average shares of common stock and common stock equivalents:			
Basic	13,199,819	13,334,163	7,950,175
Diluted	13,199,819	13,680,410	8,744,184

</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		Common stock		Additional	Accumulated other
	Shares	Amount	Shares	Amount	paid-in capital	comprehensive income
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	--	$ --	5,517,299	$ 55	$ 73,895	$ (5,476)
Comprehensive income:						
Income (loss) before preferred dividend	--	--	--	--	--	--
Net unrealized gain on assets available-for-sale	--	--	--	--	--	2,016
Total comprehensive income	--	--	--	--	--	--
Issuance of preferred stock	1,006,250	29,579	--	--	--	--
Issuance of common stock	--	--	5,479,273	55	113,612	--
Dividends declared:						
Preferred	--	--	--	--	--	--
Common	--	--	--	--	--	--
Balance, December 31, 1996	1,006,250	29,579	10,996,572	110	187,507	(3,460)
Comprehensive income:						
Income (loss) before preferred dividend	--	--	--	--	--	--
Net unrealized loss on assets available-for-sale	--	--	--	--	--	(6,611)
Total comprehensive income	--	--	--	--	--	--
Conversion of preferred stock	(96,732)	(2,843)	96,732	1	2,842	--
Issuance of common stock	--	--	4,031,353	41	157,321	--
Repurchase of common stock	--	--	(840,000)	(9)	(23,115)	--
Dividends declared:						
Preferred	--	--	--	--	--	--
Common	--	--	--	--	--	--
Balance, December 31, 1997	909,518	26,736	14,284,657	143	324,555	(10,071)
Comprehensive income:						
Income (loss) before preferred dividend and change in accounting principle	--	--	--	--	--	--
Reclassification adjustment due to adoption of SFAS No. 133	--	--	--	--	--	19,457

Net unrealized loss on assets available-for-sale	--	--	--	--	--	(9,756)
Total comprehensive income	--	--	--	--	--	--
Cumulative transition effect of adopting SFAS 133	--	--	--	--	--	--
Issuance of common stock	--	--	98,399	1	1,563	--
Repurchase of common stock	--	--	(3,131,500)	(31)	(46,917)	--
Dividends declared:						
Preferred	--	--	--	--	--	--
Common	--	--	--	--	--	--
Balance, December 31, 1998	909,518	$ 26,736	11,251,556	$ 113	$ 279,201	$ (370)

</TABLE>

<TABLE>
<CAPTION>

	Cumulative earnings	Cumulative distributions to stockholders	Total
<S>	<C>	<C>	<C>
Balance, December 31, 1995	$ 3,537	$ (3,721)	$ 68,290
Comprehensive income:			
Income (loss) before preferred dividend	12,685	--	12,685
Net unrealized gain on assets available-for-sale	--	--	2,016
Total comprehensive income	--	--	14,701
Issuance of preferred stock	--	--	29,579
Issuance of common stock	--	--	113,667
Dividends declared:			
Preferred	--	(1,148)	(1,148)
Common	--	(14,084)	(14,084)
Balance, December 31, 1996	16,222	(18,953)	211,005
Comprehensive income:			
Income (loss) before preferred dividend	27,561	--	27,561
Net unrealized loss on assets available-for-sale	--	--	(6,611)
Total comprehensive income	--	--	20,950
Conversion of preferred stock	--	--	0
Issuance of common stock	--	--	157,362
Repurchase of common stock	--	--	(23,124)
Dividends declared:			
Preferred	--	(2,815)	(2,815)
Common	--	(28,841)	(28,841)
Balance, December 31, 1997	43,783	(50,609)	334,537
Comprehensive income:			
Income (loss) before preferred dividend and change in accounting principle	(27,310)	--	(27,310)
Reclassification adjustment due to adoption of SFAS			

No. 133	--	--	19,457
Net unrealized loss on assets available-for-sale	--	--	(9,756)
Total comprehensive income	--	--	(17,609)
Cumulative transition effect of adopting SFAS 133	(10,061)	--	(10,061)
Issuance of common stock	--	--	1,564
Repurchase of common stock	--	--	(46,948)
Dividends declared:			
Preferred	--	(2,747)	(2,747)
Common	--	(3,946)	(3,946)
Balance, December 31, 1998	$ 6,412	$ (57,302)	$ 254,790

</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, 1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) available to common stockholders	$ (40,118)	$ 24,746	$ 11,537
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	32,046	27,066	6,042
Provision for credit losses on mortgage assets	1,120	2,930	1,696
Equity in (earnings) losses of RWT Holdings, Inc.	4,676	--	--
Net unrealized and realized (gains) losses on assets	38,943	(563)	--
Cumulative effect of adopting SFAS No. 133	10,061	--	--
Purchases of mortgage loans: held-for-sale	(8,296)	--	--
Proceeds from sales of mortgage loans: held-for-sale	688,941	--	--
Principal payments on mortgage loans: held-for-sale	202,965	--	--
Purchases of mortgage securities: trading	(149,934)	--	--
Principal payments on mortgage securities: trading	433,314	--	--
Purchases of US Treasury securities	(49,704)	--	--
Purchases of interest rate agreements	(12,349)	--	--
Proceeds from sales of interest rate agreements	2,769	--	--
(Increase) decrease in accrued interest receivable	4,637	(8,985)	(12,267)
(Increase) decrease in other assets	595	11	(985)
Increase (decrease) in accrued interest payable	(3,656)	416	12,770
Increase in accrued expenses and other liabilities	850	1,411	534
Net cash provided by operating activities	1,156,861	47,032	19,327
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of mortgage loans: held-for-investment	(1,596,673)	(1,322,732)	(527,597)
Proceeds from sales of mortgage loans: held-for-investment	369,119	--	--
Principal payments on mortgage loans: held-for-investment	475,905	288,982	26,482
Purchases of mortgage securities: available-for-sale	(231,167)	(978,979)	(1,455,267)
Proceeds from sales of mortgage securities: available-for-sale	9,296	88,284	--
Principal payments on mortgage securities: available-for-sale	443,057	684,150	231,942
Purchases of interest rate agreements	(2,024)	(7,892)	(4,427)
Net (increase) decrease in restricted cash	11,800	(24,657)	--
Investment in RWT Holdings, Inc., net of dividends received	(19,800)	--	--
Loans to RWT Holdings, Inc., net of repayments	(6,500)	--	--
Increase in receivable from RWT Holdings, Inc.	(445)	--	--
Net cash used in investing activities	(547,432)	(1,272,844)	(1,728,867)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of (repayments on) short-term debt	(656,955)	(38,578)	1,582,787
Proceeds from issuance of long-term debt	635,193	1,285,197	--
Repayments on long-term debt	(502,601)	(112,798)	--
Net proceeds from issuance of preferred stock	--	--	29,579
Net proceeds from issuance of common stock	1,564	157,362	113,667
Repurchases of common stock	(46,948)	(23,124)	--
Increase (decrease) in dividends payable - preferred	--	(73)	760
Dividends paid on common stock	(8,946)	(28,350)	(11,010)

Net cash provided by (used in) financing activities	(578,693)	1,239,636	1,715,783
Net increase in cash and cash equivalents	30,735	13,824	6,243
Cash and cash equivalents at beginning of year	24,892	11,068	4,825
Cash and cash equivalents at end of year	$ 55,627	$ 24,892	$ 11,068
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 199,762	$ 160,690	$ 36,831
Non-cash transactions			
Conversion of preferred stock	$ --	$ 2,843	$ --

</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, 1998

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 the equity interest in Holdings. The Company acquires and manages real estate mortgage assets ("Mortgage Assets") which may be acquired as whole loans ("Mortgage Loans") or as mortgage securities representing interests in or obligations backed by pools of mortgage loans ("Mortgage Securities"). The Company currently acquires Mortgage Assets that are secured by single-family or commercial real estate properties throughout the United States. The Company utilizes both debt and equity to finance its acquisitions. The Company may also use other securitization techniques to enhance the value and liquidity of the Company's Mortgage Assets and may sell Mortgage Assets from time to time.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Redwood Trust and Sequoia. Substantially all of the assets of Sequoia are pledged or subordinated to support long-term debt in the form of collateralized mortgage bonds ("Long-Term Debt") and are not available for the satisfaction of general claims of the Company. The Company's exposure to loss on the assets pledged as collateral is limited to its net investment, as the Long-Term Debt is non-recourse to the Company. All significant inter-company balances and transactions with Sequoia have been eliminated in the consolidation of the Company. Certain amounts for prior periods have been reclassified to conform to the 1998 presentation.

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

USE OF ESTIMATES

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

Fair Value. Management estimates the fair value of its financial instruments using available market information and other appropriate valuation methodologies. The fair value of a financial instrument, as defined by Statement of Financial Accounting Standards ("SFAS") No. 107, Disclosures about Fair Value of Financial Instruments, is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Management's estimates are inherently subjective in nature and involve matters of uncertainty and judgement to interpret relevant market and other data. Accordingly, amounts realized in actual sales may differ from the fair values presented in Notes 3, 6 and 9.

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

ADOPTION OF SFAS NO. 133

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

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

MORTGAGE ASSETS

The Company's Mortgage Assets consist of Mortgage Loans and Mortgage Securities. Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible. Discounts and premiums relating to Mortgage Assets are amortized into interest income over the lives of the Mortgage Assets using methods that approximate the effective yield method. Gains or losses on the sale of Mortgage Assets are based on the specific identification method.

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

Some of the Mortgage Loans purchased by the Company for which securitization or sale is contemplated are committed for sale by the Company to Holdings, or a subsidiary of Holdings, under a Master Forward Commitment Agreement. As the forward commitment is entered into on the same date that the Company purchases 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 sales to Holdings or subsidiaries of Holdings.

Mortgage Loans: Held-for-Investment

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

Mortgage Securities: Trading

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

accounted for in accordance with SFAS No. 115, Accounting for Certain

Investments in Debt and Equity Securities. Accordingly, such securities are recorded at their estimated fair market value. Unrealized and realized gains and losses on these securities are recognized as a component of "Net Unrealized and Realized Gains (Losses) on Assets" on the Consolidated Statements of Operations.

Mortgage Securities: Available-for-Sale

Prior to the adoption of SFAS No. 133, the Company, in accordance with SFAS No. 115, classified all of its Mortgage Securities as available-for-sale investments as the Company, from time to time, sold some of its Mortgage Securities as part of its overall management of its balance sheet. Effective July 1, 1998, the Company reclassified all of its short-funded Mortgage Securities as trading investments, while all equity-funded Mortgage Securities remained in the available-for-sale classification. All Mortgage Securities classified as available-for-sale are carried at 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.

US TREASURY SECURITIES

US Treasury securities include notes issued by the US Government. Interest is recognized as revenue when earned according to the terms of the Treasury securities. Discounts and premiums are amortized into interest income over the life of the security using methods that approximate the effective yield method. Such securities are recorded at their estimated fair market value with unrealized gains and losses recognized as a component of "Net Unrealized and Realized Gains (Losses) on Assets" on the Consolidated Statements of Operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less. As of December 31, 1998, cash equivalents include $25 million in repurchase agreements.

RESTRICTED CASH

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

INTEREST RATE AGREEMENTS

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

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

Interest Rate Agreements Classified as Trading

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

Interest Rate Agreements Classified as Hedges

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

Prior to the adoption of SFAS No. 133, Interest Rate Agreements that were hedging Mortgage Securities available-for-sale were carried at fair value with unrealized gains and losses reported as a component of Accumulated Other Comprehensive Income in stockholders' equity, consistent with the reporting of unrealized gains and losses on the related securities. Similarly, Interest Rate Agreements that were used to hedge Mortgage Loans, Short-Term Debt or Long-Term Debt were carried at amortized cost. Realized gains and losses from the settlement or early termination of Interest Rate Agreements were deferred and amortized into net interest income over the remaining term of the original Interest Rate Agreement, or, if shorter, over the remaining term of the associated hedged asset or liability, as adjusted for estimated future principal repayments.

DEBT

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

INCOME TAXES

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

Under the Internal Revenue Code of 1986, a dividend declared by a REIT in October, November or December of a calendar year and payable to shareholders of record as of a specified date in such month, will be deemed to have been paid by 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. Because the Company had already distributed more dividends than it had earned in taxable income as of December 31, 1998, the preferred dividend paid in January 1999 is not considered taxable income to shareholders in 1998.

NET INCOME PER SHARE

Net income per share for the years ended December 31, 1998, 1997 and 1996 is shown in accordance with SFAS No. 128, Earnings Per Share, which was effective for fiscal years ended after December 15, 1997 and requires restatement of prior period earnings per share ("EPS"). Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income available to common stockholders by the weighted average number of common shares and common equivalent shares outstanding during the period. The common equivalent shares are calculated using the treasury stock method, which assumes

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

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

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT SHARE DATA)	YEARS ENDED DECEMBER 31, 1998	1997	1996
<S>	<C>	<C>	<C>
NUMERATOR:			
Numerator for basic and diluted earnings per share--			
Income (loss) before preferred dividend and change in accounting principle	$ (27,310)	$ 27,561	$ 12,685
Cash dividends on Class B preferred stock	(2,747)	(2,815)	(1,148)
Income (loss) before change in accounting principle	(30,057)	24,746	11,537
Cumulative transition effect of adopting SFAS No. 133	(10,061)	--	--
Basic and Diluted EPS - Net income (loss) available			

to common stockholders	$ (40,118)	$ 24,746	$ 11,537
DENOMINATOR:			
Denominator for basic earnings per share-- Weighted average number of common shares outstanding during the period	13,199,819	13,334,163	7,950,175
Net effect of dilutive stock options	--	191,513	175,391
Net effect of dilutive stock warrants (a)	--	154,734	618,618
Denominator for diluted earnings per share--	13,199,819	13,680,410	8,744,184
BASIC:			
Income (loss) before change in accounting principle	$ (2.28)	$ 1.86	$ 1.45
Cumulative transition effect of adopting SFAS No. 133	$ (0.76)	--	--
Net income per share	$ (3.04)	$ 1.86	$ 1.45
DILUTED:			
Income (loss) before change in accounting principle	$ (2.28)	$ 1.81	$ 1.32
Cumulative transition effect of adopting SFAS No. 133	$ (0.76)	--	--
Net income per share	$ (3.04)	$ 1.81	$ 1.32

</TABLE>

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

COMPREHENSIVE INCOME

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

RECENT ACCOUNTING PRONOUNCEMENT

In October 1998, the Financial Accounting Standards Board issued SFAS No. 134, Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. SFAS No. 134 amends SFAS No. 65, Accounting for Certain Mortgage Backed Securities, to require that after an entity that is engaged in mortgage banking activities has securitized mortgage loans that are held for sale, it must classify the resulting retained mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. This statement is effective for the first fiscal quarter beginning after December 15, 1998, with earlier application encouraged. At this time, the impact of adopting this statement is not known.

NOTE 3. MORTGAGE ASSETS

At December 31, 1998 and 1997, investments in Mortgage Assets consisted of interests in adjustable-rate, hybrid or fixed-rate mortgages on residential and commercial properties. The hybrid mortgages have an initial fixed coupon rate for three to ten years followed by annual adjustments. Agency Mortgage Securities ("Agency Securities") represent securitized interests in pools of adjustable-rate mortgages from the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. The Agency Securities are guaranteed as to principal and interest by these United States government-sponsored entities. The original maturity of the majority of the Mortgage Assets is thirty years; the actual maturity is subject to change based on the prepayments of the underlying mortgage loans.

At December 31, 1998 and 1997, the average annualized effective yield after taking into account the amortization expense due to prepayments on the Mortgage Assets was 6.95% and 6.86%, respectively, based on the reported cost of the assets. Of the Mortgage Assets owned by the Company at December 31, 1998, 76% are adjustable-rate mortgages, 23% are hybrid mortgages and 1% are fixed-rate mortgages. The coupons on 64% of the adjustable-rate Mortgage Assets are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months or 2% every year) while another 36% are not limited by such periodic caps. Most of the coupons on the adjustable-rate Mortgage Assets owned by the Company are limited by lifetime caps. At December 31, 1998 and 1997, the weighted average lifetime cap on the adjustable-rate Mortgage Assets was 11.48% and 12.08%, respectively.

At December 31, 1998 and 1997 Mortgage Assets consisted of the following:

MORTGAGE LOANS: HELD-FOR-SALE

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 1998
<S>	<C>

Current Face	$ 274,630
Unamortized Discount	(1,099)
Unamortized Premium	670
Carrying Value	$ 274,201

</TABLE>

At September 30, 1998, the Company elected to reclassify certain short-funded Mortgage Loans from held-for-investment to held-for-sale. As a result, the Company recognized a lower of cost or market loss adjustment of $6.5 million for the year ended December 31, 1998. Also during the year ended December 31, 1998, the Company sold Mortgage Loans held-for-sale with an amortized cost of $684.4 million for proceeds of $689.0 million, resulting in a net gain of $4.6 million. There were no such sales during the years ended December 31, 1997 and 1996. The lower of cost or market adjustments and net gains on sales are reflected as a component of "Net Unrealized and Realized Gains (Losses) on Assets" on the Consolidated Statements of Operations.

MORTGAGE LOANS: HELD-FOR-INVESTMENT

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Current Face	$ 1,118,375	$ 1,519,837
Unamortized Discount	--	--
Unamortized Premium	16,709	34,844
Amortized Cost	1,135,084	1,554,681
Allowance for Credit Losses	(3,784)	(2,855)
Carrying Value	$ 1,131,300	$ 1,551,826

</TABLE>

During the year ended December 31, 1998, the Company sold Mortgage Loans held-for-investment with an amortized cost of $370.1 million for proceeds of $369.1 million, resulting in a net loss of $1.0 million. There

were no such sales during the years ended December 31, 1997 and 1996. This loss is reflected as a component of "Net Unrealized and Realized Gains (Losses) on Assets" on the Consolidated Statements of Operations.

MORTGAGE SECURITIES: TRADING

<TABLE>
<CAPTION>

	DECEMBER 31, 1998		
(IN THOUSANDS)	AGENCY	NON-AGENCY	TOTAL
<S>	<C>	<C>	<C>
Current Face	$ 609,826	$ 640,923	$ 1,250,749
Unamortized Discount	(5)	(3,084)	(3,089)
Unamortized Premium	7,602	2,393	9,995
Carrying Value	$ 617,423	$ 640,232	$ 1,257,655

</TABLE>

Effective July 1, 1998, the Company elected to reclassify all of its short-funded Mortgage Securities from available-for-sale to trading (see Note 2). As a result of this reclassification, the Company recognized an $11.9 million reclassification loss adjustment (gross gains of $0.4 million, gross losses of $12.3 million), which was transferred from other comprehensive income to current earnings effective July 1, 1998. Additionally, for the year ended December 31, 1998, the Company recognized a mark-to-market loss of $17.5 million on Mortgage Securities classified as trading. The entire net unrealized loss of $29.4 million is reflected as a component of "Net Unrealized and Realized Gains (Losses) on Assets" on the Consolidated Statements of Operations.

MORTGAGE SECURITIES: AVAILABLE-FOR-SALE

<TABLE>
<CAPTION>

	DECEMBER 31, 1998			DECEMBER 31, 1997		
(IN THOUSANDS)	AGENCY	NON-AGENCY	TOTAL	AGENCY	NON-AGENCY	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current Face	--	$ 17,281	$ 17,281	$ 953,937	$ 825,438	$ 1,779,375
Unamortized Discount	--	(8,015)	(8,015)	(174)	(12,268)	(12,442)
Unamortized Premium	--	--	--	32,722	18,606	51,328
Amortized Cost	--	9,266	9,266	986,485	831,776	1,818,261
Allowance for Credit Losses	--	(1,189)	(1,189)	--	(2,076)	(2,076)
Gross Unrealized Gains	--	313	313	2,598	3,984	6,582
Gross Unrealized Losses	--	(683)	(683)	(4,286)	(3,685)	(7,971)

Carrying Value	--	$ 7,707	$ 7,707	$ 984,797	$ 829,999	$ 1,814,796

</TABLE>

During the years ended December 31, 1998 and 1997, the Company sold Mortgage Securities available-for-sale with an amortized cost of $9.3 million and $87.6 million, respectively. Proceeds and realized gains and losses on the sales of Mortgage Securities available-for-sale for the years ended December 31, 1998 and 1997 are presented below. No such sales occurred for the year ended December 31, 1996.

<TABLE>
<CAPTION>

(IN THOUSANDS)	1998	1997
<S>	<C>	<C>
Proceeds from sales	$ 9,296	$ 88,284
Gross gains	$ 6	$ 746
Gross losses	--	(28)
Write-down on related interest rate agreements	--	(155)
Net gain on sales	$ 6	$ 563

</TABLE>

The Company also recognized a $0.7 million loss on the write-down of certain Mortgage Securities available-for-sale during the first quarter of 1998. The gains and losses on the sales and write-downs of Mortgage Securities available-for-sale are reflected as a component of "Net Unrealized and Realized Gains (Losses) on Assets" on the Consolidated Statements of Operations.

NOTE 4. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the Allowance for Credit Losses activity:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
(IN THOUSANDS)	1998	1997	1996
<S>	<C>	<C>	<C>
Balance at beginning of year	$ 4,931	$ 2,180	$ 490
Provision for credit losses	1,120	2,930	1,696
Charge-offs	(1,078)	(179)	(6)
Balance at end of year	$ 4,973	$ 4,931	$ 2,180

</TABLE>

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

NOTE 5. COLLATERAL FOR LONG-TERM DEBT

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

The components of the Bond Collateral are summarized as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Mortgage loans: held-for-sale	$ 197,646	--
Mortgage loans: held-for-investment, net	1,131,300	$1,191,487
Restricted cash	12,857	24,657
Accrued interest receivable	7,707	7,401
	$1,349,510	$1,223,545

</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 6. INTEREST RATE AGREEMENTS

At December 31, 1998, all of the Company's Interest Rate Agreements were classified as trading, and therefore, reported at fair value. The amortized cost and carrying value of the Company's Interest Rate Agreements classified as hedges at December 31, 1997 are summarized as follows:

(IN THOUSANDS)	DECEMBER 31, 1997
Amortized Cost	$ 10,781
Gross Unrealized Gains	650
Gross Unrealized Losses	(9,331)
Carrying Value	$ 2,100

On July 1, 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 loss of $5.9 million as a result of mark-to-market adjustments on interest rate agreements classified as trading. This loss is reflected as a component of "Net Unrealized and Realized Gains (Losses) on Assets" on the Consolidated Statements of Operations.

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

	NOTIONAL AMOUNTS		CREDIT EXPOSURE (a)	
(IN THOUSANDS)	DECEMBER 31, 1998	DECEMBER 31, 1997	DECEMBER 31, 1998	DECEMBER 31, 1997
Interest Rate Options	$3,569,200	$4,862,200	--	--
Interest Rate Swaps	440,000	473,000	$ 8,673	$ 12,392
Interest Rate Futures	--	58,000	--	46
Total	$3,915,200	$5,393,200	$ 8,673	$ 12,438

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

Interest Rate Options, which may include caps, floors, call and put corridors, options on futures and swaption collars (collectively, "Options"), are agreements which transfer, modify or reduce interest rate risk in exchange for the payment of a premium when the contract is initiated. Interest rate cap agreements provide cash flows to the Company to the extent that a specific interest rate index exceeds a fixed rate. Conversely, 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. Call (put) corridors will cause the Company to incur a gain (loss) to the extent that the yield of the specified index is below (above) the strike rate at the time of the option expiration. The maximum gain or loss on a call or put corridor is established at the time of the transaction by establishing minimum and maximum index rates. The Company will receive cash on the options on futures if the futures price exceeds (is below) the call (put) option strike price at the expiration of the option. 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 Company's credit risk on the Options is limited to the carrying value of the Options agreements. The credit risk on options on futures is limited due by the fact that the exchange and its members are required to satisfy the obligations of any member that fails to perform.

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

Interest Rate Futures ("Futures") are contracts for the delivery of securities or cash in which the seller agrees to deliver on a specified future date, a specified instrument (or the cash equivalent), at a specified price or yield. Under these agreements, if the Company has sold (bought) the futures, the Company will generally receive additional cash flows if interest rates rise (fall). Conversely, the Company will generally pay additional cash flows if interest rates fall (rise). Similar to options on futures, the credit risk on futures is limited by the requirement that the exchange and its members make good on obligations of any member that fails to perform.

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

NOTE 7. SHORT-TERM DEBT

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

At December 31, 1998, the Company had $1.3 billion of Short-Term Debt outstanding with a weighted average borrowing rate of 5.62% and a weighted average remaining maturity of 48 days. This debt was collateralized with $1.3 billion of Mortgage Assets and US Treasury securities. At December 31, 1997, the Company had $1.9 billion of Short-Term Debt outstanding with a weighted average borrowing rate of 6.00% and a weighted average remaining maturity of 64 days. This debt was collateralized with $2.0 billion of Mortgage Assets.

Holdings may borrow under several of the Company's Short-Term Debt agreements as a co-borrower. As of December 31, 1998, Holdings had no outstanding borrowings under these agreements.

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

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Within 30 days	$ 428,292	$ 823,545
30 to 90 days	714,114	533,543
Over 90 days	115,164	557,437
Total Short-Term Debt	$1,257,570	$1,914,525

</TABLE>

For the years ended December 31, 1998, 1997 and 1996, the average balance of Short-Term Debt was $2.0 billion, $2.4 billion and $0.9 billion with a weighted average interest cost of 5.81%, 5.86% and 5.71%, respectively. The maximum balance outstanding during the years ended December 31, 1998, 1997 and 1996 was $2.5 billion, $3.1 billion and $2.0 billion, respectively.

NOTE 8. LONG-TERM DEBT

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

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

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

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Long-Term Debt	$ 1,303,405	$ 1,170,709
Unamortized premium on Long-Term Debt	5,783	5,795
Deferred bond issuance costs	(3,628)	(3,703)
Total Long-Term Debt	$ 1,305,560	$ 1,172,801

</TABLE>

<TABLE>

<S>	<C>	<C>
Range of weighted-average interest rates, by series	5.75% to 6.55%	6.06% to 6.50%
Stated maturities	2017 - 2029	2024 - 2029
Number of series	3	2

</TABLE>

For the years ended December 31, 1998 and 1997, 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 6.38% and 6.31%, respectively. At December 31, 1998 and 1997, interest payable on Long-Term Debt was $4.2 million and $2.6 million, respectively, and is reflected as a component of Accrued Interest Payable on the Consolidated Balance Sheets.

NOTE 9. 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, 1998 and 1997.

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
-				
<S>	<C>	<C>	<C>	<C>
Assets				
Mortgage Loans: held-for-sale	$ 274,201	$ 274,302	--	--
Mortgage Loans: held-for-investment	$1,131,300	$1,120,376	$1,551,826	$1,552,585
Mortgage Securities: trading	$1,257,655	$1,257,655	--	--
Mortgage Securities: available-for-sale	$ 7,707	$ 7,707	$1,814,796	$1,814,796
US Treasury Securities	$ 48,009	$ 48,009	--	--
Interest Rate Agreements	$ 2,517	$ 2,517	$ 2,100	$ 1,522
Investment in RWT Holdings, Inc.	$ 15,124	$ 15,124	--	--
Liabilities				
Long-Term Debt	$1,305,560	$1,302,330	$1,172,801	$1,172,938

</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 10. STOCKHOLDERS' EQUITY

CLASS B 9.74% CUMULATIVE CONVERTIBLE PREFERRED STOCK

On August 8, 1996, the Company issued 1,006,250 shares of Class B Preferred Stock ("Preferred Stock"). Each share of the Preferred Stock is convertible at the option of the holder at any time into one share of Common Stock. After September 30, 1999, the Company can either redeem or, under certain circumstances, cause a conversion of the Preferred Stock. The Preferred Stock pays a dividend equal to the greater of (i) $0.755 per quarter or (ii) an amount equal to the quarterly dividend declared on the number of shares of the Common Stock into which the Preferred Stock is convertible. The Preferred Stock ranks senior to the Company's Common Stock as to the payment of dividends and liquidation rights. The liquidation preference entitles the holders of the

Preferred Stock to receive $31.00 per share plus any accrued dividends before any distribution is made on the Common Stock.

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

STOCK OPTION PLAN

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

The number of shares of Common Stock available under the Plan for options and Awards, subject to certain anti-dilution provisions, is 15% of the Company's total outstanding shares of Common Stock. The total outstanding shares are determined as the highest number of shares outstanding prior to any stock repurchases. At December 31, 1998 and 1997, 273,312 and 1,158,404 shares of Common Stock, respectively, were available for grant. Of the shares of Common Stock available for grant, no more than 500,000 shares of Common Stock shall be cumulatively available for grant as ISOs. At December 31, 1998 and 1997, 381,298 and 354,265 ISOs had been granted, respectively. The exercise price for ISOs granted under the Plan may not be less than the fair market value of shares of Common Stock at the time the ISO is granted. All stock options granted under the Plan vest no earlier than ratably over a four-year period from the date of grant and expire within ten years after the date of grant.

The Company's Plan permits certain stock options granted under the plan to accrue stock DERs. For the years ended December 31, 1998, 1997 and 1996, the stock DERs accrued on NQSOs that had a stock DER feature resulted in charges to operating expenses of $55,222, $437,393 and $328,374, respectively. Stock DERs represent shares of stock which are issuable to holders of stock options when the holders exercise the underlying stock options. The number of stock DER shares accrued is based on the level of the Company's dividends and on the price of the stock on the related dividend payment date.

A summary of the status of the Company's Plan as of December 31 and changes during the years ending on those dates is presented below.

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT SHARE DATA)	1998 SHARES	1998 WEIGHTED AVERAGE EXERCISE PRICE	1997 SHARES	1997 WEIGHTED AVERAGE EXERCISE PRICE	1996 SHARES	1996 WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding options at January 1	840,644	$29.79	421,583	$19.05	310,857	$ 9.48
Options granted	929,125	$16.73	460,328	$37.08	141,300	$36.01
Options exercised	(29,723)	$ 0.11	(54,485)	$ 0.89	(42,083)	$ 0.11
Options canceled	(2,699)	$29.81	--	--	--	--
Dividend equivalent rights earned	2,440	--	13,218	--	11,509	--
Outstanding options at December 31	1,739,787	$23.68	840,644	$29.79	421,583	$19.05
Options exercisable at year-end	336,121	$25.95	81,774	$22.10	27,109	$24.48
Weighted average fair value of options granted during the year	$ 1.63		$ 3.17		$ 2.34	

</TABLE>

The following table summarizes information about stock options outstanding at December 31, 1998.

<TABLE>
<CAPTION>

	RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING: NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE: NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
<S>		<C>	<C>	<C>	<C>	<C>
	$0 to 8	55,948	6.6	$ 1.00	42,629	$ 0.89
	12 to 19	737,745	9.2	$ 15.18	94,738	$ 18.18
	20 to 30	445,192	8.9	$ 22.12	35,403	$ 22.39
	36 to 38	379,800	8.0	$ 37.45	158,642	$ 37.43
	45 to 53	121,102	8.5	$ 45.68	4,709	$ 48.97
	$0 to 53	1,739,787	8.7	$ 23.49	336,121	$ 25.95

</TABLE>

At December 31, 1998, 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. Accordingly, no compensation cost has been recognized for its Plan. Had compensation cost for the Company's Plan been determined consistent with SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

		YEAR ENDED DECEMBER 31, 1998	1997	1996
<S>	<C>	<C>	<C>	<C>
Net income (loss)	As reported	$ (40,118)	$ 24,746	$ 11,537
(IN THOUSANDS)	Pro Forma	$ (40,674)	$ 24,504	$ 11,535
Basic net income (loss)	As reported	$ (3.04)	$ 1.86	$ 1.45
per share	Pro Forma	$ (3.08)	$ 1.84	$ 1.45
Diluted net income (loss)	As reported	$ (3.04)	$ 1.81	$ 1.32
per share	Pro Forma	$ (3.08)	$ 1.79	$ 1.32

</TABLE>

For purposes of determining values for use in the above tables, the 1998 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 post-option dividend growth rate of 10%. No adjustments have been made for forfeitures or non-transferability. 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.

STOCK REPURCHASES

In 1997, the Company's Board of Directors approved the repurchase of 1,455,000 shares of the Company's Common Stock. In 1998, the Company's Board of Directors approved the repurchase of an additional 4,000,000 shares of the Company's Common Stock. Pursuant to this repurchase program, the Company repurchased 3,131,500 shares of its Common Stock for $46.9 million during 1998 and 840,000 shares of its Common Stock for $23.1 million during 1997. The repurchased shares have been returned to the Company's authorized but unissued shares of Common Stock.

NOTE 11. RELATED PARTY TRANSACTIONS

PURCHASES OF MORTGAGE LOANS

During the second quarter of 1998, the Company purchased $525.4 million of Mortgage Loans from Holdings. The Company purchased the Mortgage Loans at their fair market value on the trade date.

SALE OF MORTGAGE LOANS

During December 1998, the Company purchased $8.3 million of commercial mortgage loans. Pursuant to the Master Forward Commitment Agreement with Redwood Commercial Funding ("RCF"), a subsidiary of Holdings, the Company committed to sell the Mortgage Loans to RCF during the first quarter of 1999 at the same price for which the Company acquired the Mortgage Loans.

OTHER

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

The Company shares many of the operating expenses of Holdings, including personnel and related expenses, subject to full reimbursement by Holdings. During the year ended December 31, 1998, a total of $2.3 million of Holdings' operating expenses were paid by the Company and $1.9 million was reimbursed by Holdings. At December 31, 1998, amounts due to the Company from Holdings for operating expenses totaled $444,831.

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, 1998, there were no amounts due to the Company from Holdings for credit support fees.

NOTE 12. COMMITMENTS AND CONTINGENCIES

At December 31, 1998, the Company had entered into commitments to purchase $393,750 of Interest Rate Agreements for settlement in January 1999 and sell $8.3 million of Mortgage Loans to RCF for settlement in February 1999.

At December 31, 1998, the Company is obligated under non-cancelable operating leases with expiration dates through 2001. The future minimum lease payments under these non-cancelable leases are as follows: 1999 through 2000 - $311,528; 2001 - $122,625.

NOTE 13. SUBSEQUENT EVENT

On March 4, 1999, the Company's Board of Directors authorized the repurchase of additional shares of its Common Stock pursuant to its stock repurchase program. The maximum number of additional shares authorized for repurchase under this new program is 1,000,000. During the first quarter of 1999 through March 17, 1999, pursuant to its stock repurchase program (see Note 10), the Company repurchased 932,100 shares of the Company's Common Stock for $13.9 million.

NOTE 14. 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
1998				
Operating results:				
Interest income	$ 53,861	$ 53,783	$ 61,558	$ 53,602
Interest expense	46,097	50,169	56,170	43,688
Interest rate agreement expense	1,378	1,624	247	265
Net interest income	6,386	1,990	5,141	9,649
Income (loss) before change in accounting principle	2,450	(491)	(37,805)	5,789
Cumulative transition effect of adopting SFAS No. 133	--	--	(10,061)	--
Net income (loss) available to common stockholders	2,450	(491)	(47,866)	5,789
Per share data:				
Income (loss) before change in accounting principle - diluted	0.17	(0.03)	(2.85)	0.51
Cumulative transition effect of adopting SFAS No. 133	--	--	(0.76)	--
Net income (loss) - diluted	0.17	(0.03)	(3.61)	0.51
Dividends declared per common share (a)	0.270	0.010	--	--
Dividends declared per preferred share	0.755	0.755	0.755	0.755
1997				
Operating results:				
Interest income	$ 38,568	$ 49,509	$ 56,543	$ 53,984
Interest expense	28,900	38,958	45,888	46,531
Interest rate agreement expense	595	839	1,038	1,269
Net interest income	9,073	9,712	9,617	6,184
Net income (loss) available to common stockholders	6,456	7,034	6,859	4,397
Per share data:				
Net income (loss) - diluted	0.530	0.520	0.470	0.300
Dividends declared per common share	0.600	0.600	0.600	0.350
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.

[PRICEWATERHOUSECOOPERS, LLP LETTERHEAD]

REPORT OF INDEPENDENT ACCOUNTANTS

February 18, 1999

To The Board of Directors and Shareholders
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. and Subsidiary (the Company) at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 audits. We conducted our audits of these statements in accordance with generally accepted auditing standards 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 audits provide a reasonable basis for the opinion expressed above.

In July 1998, the Company adopted Financial Accounting Standards Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This change is discussed in Notes 2, 3 and 6 of the Notes to Consolidated Financial Statements.

/s/ PRICEWATERHOUSECOOPERS, LLP

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, 1998

RWT HOLDINGS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 1998
ASSETS	
Residential mortgage loans: held-for-sale	$ 12,247
Cash and cash equivalents	9,711
Accrued interest receivable	78
Other assets	742
	$ 22,778
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES	
Loan from Redwood Trust, Inc.	$ 6,500
Payable to Redwood Trust, Inc.	445
Accrued expenses and other liabilities	557
	7,502
Commitments and contingencies (See Note 9)	
STOCKHOLDERS' EQUITY	
Series A preferred stock, par value $0.01 per share; 10,000 shares authorized; 3,960 issued and outstanding ($3,960 aggregate liquidation preference)	19,800
Common stock, par value $0.01 per share; 10,000 shares authorized; 2,000 issued and outstanding	--
Additional paid-in capital	200
Accumulated deficit	(4,724)
	15,276
	$ 22,778

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except share data)

	For the period April 1, 1998 (commencement of operations) to December 31, 1998
INCOME	
Interest Income - Mortgage loans	$ 2,803
Interest Income - Cash and cash equivalents	350
Net unrealized and realized gains on assets	18
	3,171
INTEREST EXPENSE	
Short-term debt	2,503
Credit support fees	139
Loans from Redwood Trust, Inc.	18
	2,660
Total Income after Interest Expense	511
OPERATING EXPENSES	
Compensation and benefits	3,395
General and administrative	1,840

	5,235
NET LOSS	$(4,724)

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the period April 1, 1998
(commencement of operations) to December 31, 1998
(In thousands, except share data)

<TABLE>
<CAPTION>

	Series A Preferred stock Shares	Series A Preferred stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total
Balance, April 1, 1998	--	$ --	--	$ --	$ --	$ --	$ --	$ --
Issuance of preferred stock Series A	3,960	19,800	--	--	--	--	--	19,800
Issuance of common stock	--	--	2,000	--	200	--	--	200
Comprehensive income:								
Net loss	--	--	--	--	--	--	(4,724)	(4,724)
Balance, December 31, 1998	3,960	$ 19,800	2,000	$ --	$ 200	$ --	$ (4,724)	$ 15,276

</TABLE>

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

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

<TABLE>
<CAPTION>

	For the period April 1, 1998 (commencement of operations) to December 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (4,724)
Adjustments to reconcile net loss to net cash used in operating activities:	
Purchases of mortgage loans: held for sale	(543,296)
Proceeds from sales of mortgage loans: held for sale	525,418
Principal payments on mortgage loans	5,622
Amortization of mortgage asset premium and discount, net	27
Net unrealized and realized gains on assets	(18)
Increase in accrued interest receivable	(78)
Increase in other assets	(742)
Increase in amounts due to Redwood Trust	445
Increase in accrued expenses and other liabilities	557
Net cash used in operating activities	(16,789)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from short-term debt	519,347
Repayments on short-term debt	(519,347)
Loans from Redwood Trust	10,500
Repayment of loans from Redwood Trust	(4,000)
Net proceeds from issuance of preferred stock	19,800
Net proceeds from issuance of common stock	200
Net cash provided by financing activities	26,500
Net increase in cash and cash equivalents	9,711
Cash and cash equivalents at beginning of period	--
Cash and cash equivalents at end of period	$ 9,711
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 2,518

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE 1. THE COMPANY

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements for the period ended December 31, 1998 include the accounts of Holdings and its subsidiaries. All significant intercompany balances and transactions with Holdings' consolidated subsidiaries have been eliminated.

USE OF ESTIMATES

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

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

ADOPTION OF SFAS NO. 133

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

MORTGAGE LOANS: HELD-FOR-SALE

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

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

CASH AND CASH EQUIVALENTS

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

INTEREST RATE AGREEMENTS

Holdings maintains an overall interest-rate risk-management strategy that incorporates the use of derivative Interest Rate Agreements to minimize significant unplanned fluctuations in earnings that are caused by interest-rate volatility. Holdings currently designates Interest Rate Agreements as trading instruments. There were no outstanding Interest Rate Agreements at 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.

COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income, requires Holdings to classify items of "other comprehensive income" by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. As of December 31, 1998 there was no other comprehensive income.

RECENT ACCOUNTING PRONOUNCEMENT

In October 1998, the Financial Accounting Standards Board issued SFAS No. 134, Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. SFAS No. 134 amends SFAS No. 65, Accounting for Certain Mortgage Backed Securities, to require that after an entity that is engaged in mortgage banking activities has securitized mortgage loans that are held for sale, it must classify the resulting retained mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. This statement is effective for the first fiscal quarter beginning after December 15, 1998, with earlier application encouraged. At this time the impact of adopting this statement is not known.

NOTE 3. MORTGAGE ASSETS

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

MORTGAGE LOANS: HELD-FOR-SALE

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 1998
<S>	<C>
Current Face	$12,072
Unamortized Premium	175
Carrying Value	$12,247

</TABLE>

These Mortgage Loans are carried at the lower of cost or market. As a result, Holdings recognized a lower of cost or market loss adjustment of $11,118 which is reflected as a component of "Net unrealized and realized gains on assets" on the Consolidated Statement of Operations.

NOTE 4. SHORT-TERM DEBT

During the second quarter of 1998, Holdings entered into reverse repurchase agreements ("Short-Term Debt") in order to finance acquisitions of a portion of its Mortgage Loans. The average balance of Short-Term Debt outstanding during the period April 1, 1998 to December 31, 1998 was $54.6 million with a weighted average borrowing rate of 6.30%. The maximum balance outstanding during the period April 1, 1998 to December 31, 1998 was $367 million. Holdings did not enter into reverse repurchase agreements in the third and fourth quarters.

Holdings may borrow under several of Redwood Trust's Short-Term Debt agreements as a co-borrower. As of December 31, 1998, Holdings had no outstanding borrowings under these agreements.

NOTE 5. INCOME TAXES

The provision for income taxes for the period from April 1, 1998 (commencement of operations) through December 31, 1998 amounted to $ 2,400 and represents minimum California franchise taxes. The effective tax rate differs from the statutory federal income tax rate primarily due to state limitations on recognizing the benefit of net operating losses (NOL).

The primary components of temporary differences that give rise to deferred taxes at December 31, 1998 are:

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 1998
<S>	<C>
Deferred tax assets:	
Tax benefit of NOL	$ 1,890
Total deferred tax assets	1,890
Valuation allowance	(1,890)
Net deferred tax asset	--

</TABLE>

Due to the uncertainty of realization of the NOL, a valuation allowance has been provided to eliminate the deferred tax assets at December 31, 1998. The increase in the valuation allowance amounted to $1.9 million for the period ended December 31, 1998.

At December 31, 1998, Holdings had net operating loss carryforwards of approximately $4.7 million for both federal and state income tax purposes. The federal and state carryforwards expire through 2013 and 2003, respectively.

NOTE 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying values and estimated fair values of Holdings' financial instruments at December 31, 1998.

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 1998	
	CARRYING VALUE	FAIR VALUE
<S>	<C>	<C>
Assets		
Mortgage Loans: held-for-sale	$12,247	$12,255

</TABLE>

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

NOTE 7. STOCKHOLDERS' EQUITY

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

Holdings issued 3,960 shares of Preferred Stock to Redwood Trust, 1,980 shares on April 1, 1998 and 1,980 shares on October 29, 1998. The Preferred Stock entitles Redwood Trust to receive 99% of the aggregate amount of any such dividends or distributions made by Holdings. The holders of the Common Stock are entitled to receive the remaining 1% of the aggregate amount of such dividends or distributions. The Preferred Stock ranks senior to the Common Stock as to the payment of dividends and liquidation rights. The liquidation preference entitles the holders of the Preferred Stock to receive $1,000 per share liquidation preference before any distribution is made on the Common Stock. After the liquidation preference, the holders of Preferred Stock are entitled to 99% of any remaining assets.

NOTE 8. RELATED PARTY TRANSACTIONS

SALE OF MORTGAGE LOANS

During the second quarter of 1998, Holdings sold Mortgage Loans for $525.4 million. Of this amount, $161.8 million and $363.6 million of Mortgage Loans were sold to Redwood Trust and Sequoia Mortgage Funding Corporation (a subsidiary of Redwood Trust), respectively. The components of the sales transaction for the period ended December 31, 1998 are presented below.

(IN THOUSANDS)	DECEMBER 31, 1998
Proceeds from sales	$525,418
Cost basis of loans	525,396
Net gain on sales	$ 22

PURCHASE OF MORTGAGE LOANS

During December 1998, Redwood Trust purchased $8.3 million of commercial mortgage loans. Pursuant to the Master Forward Commitment Agreement with Redwood Trust (See Note 2), RCF committed to purchase the Mortgage Loans during the first quarter of 1999 at the same price for which Redwood Trust acquired the Mortgage Loans.

OTHER

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

Redwood Trust shares many of the operating expenses of Holdings, including personnel and related expenses, subject to full reimbursement by Holdings. During the period ended December 31, 1998, a total of $2.3 million of Holdings' operating expenses were paid by Redwood Trust and $1.9 million was reimbursed by Holdings. As of December 31, 1998, amounts due to Redwood Trust from Holdings for operating expenses totaled $444,831.

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, which are reflected in the

accompanying Consolidated Statement of Operations, on borrowings subject to this arrangement. These fees are consistent with industry standards. At December 31, 1998, there were no amounts due to Redwood Trust for credit support fees.

NOTE 9. COMMITMENTS AND CONTINGENCIES

At December 31, 1998, Holdings is obligated under non-cancelable operating leases with expiration dates through 2003. The future minimum lease payments under these non-cancelable leases are as follows: 1999 - $526,625; 2000 - $504,577; 2001 - $460,120; 2002 - $290,376; 2003 - $266,178.

Rent expense was $192,113 for the period ended December 31, 1998.

At December 31, 1998, RCF had entered into a commitment to purchase $8.3 million of Mortgage Loans from Redwood Trust for settlement in February 1999.

NOTE 10. SUBSEQUENT EVENT

RFS operated as a division of Holdings during 1998. Effective January 1, 1999, RFS commenced operations as a wholly-owned subsidiary of Holdings.

[PRICEWATERHOUSECOOPERS LLP LETTERHEAD]

REPORT OF INDEPENDENT ACCOUNTANTS

February 18, 1999

To The Board of Directors and Shareholders
RWT Holdings, Inc.

In our opinion, the accompanying consolidated balance sheet 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. and Subsidiaries (the Company) at December 31, 1998, and the results of its operations and its cash flows for the period from April 1, 1998 (commencement of operations) to December 31, 1998 in conformity with generally accepted accounting principles. 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 generally accepted auditing standards 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 audits provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS, LLP

REDWOOD TRUST, INC.
INDEX TO EXHIBIT

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10.31	RWT Holdings, Inc. Series A Preferred Stock Purchase Agreement, dated March 1, 1998	
10.32	Administrative Personnel and Facilities Agreement, dated as of April 1, 1998, between Redwood Trust, Inc. and RWT Holdings, Inc.	
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.	
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., Redwood Financial Services, Inc. and Redwood Trust, Inc.	
10.34	Form of Master Forward Commitment Agreements for RWT Holding, Inc., Redwood Residential Funding, Inc., Redwood Commercial Funding, Inc. and Redwood Financial Services, Inc.	
11.1	Computation of Earnings per Share	

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EXHIBIT 10.31

RWT HOLDINGS, INC.

SERIES A PREFERRED STOCK PURCHASE AGREEMENT

MARCH 1, 1998

RWT HOLDINGS, INC.

SERIES A PREFERRED STOCK PURCHASE AGREEMENT

THIS SERIES A PREFERRED STOCK PURCHASE AGREEMENT (this "Agreement") is entered into as of March 1, 1998, by and among RWT HOLDINGS, INC., a Delaware corporation (the "Company"), and REDWOOD TRUST, INC., a Maryland corporation (the "Purchaser").

RECITALS

WHEREAS, the Company has authorized the sale and issuance on the terms and conditions set forth herein of an aggregate of One Thousand Nine Hundred Eighty (1,980) shares of its Series A Preferred Stock, par value One Cent ($0.01) per share (the "Series A Preferred Stock") and may authorize from time to time additional shares of Series A Preferred Stock for issuance and sale pursuant to the terms and conditions hereof (all shares of Series A Preferred Stock to be issued and sold hereunder, the "Shares").

WHEREAS, Purchaser desires to purchase the Shares on the terms and conditions set forth herein; and

WHEREAS, the Company desires to issue and sell the Shares to Purchaser on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises hereinafter set forth, the parties hereto agree as follows:

1. AGREEMENT TO SELL AND PURCHASE.

1.1 AUTHORIZATION OF SHARES. On or prior to the Closing (as defined in Section 2 below), the Company shall have authorized the sale and issuance to Purchaser of the Shares. The Shares shall have the rights, preferences, privileges and restrictions set forth in the Certificate of Incorporation of the Company in the form attached hereto as Exhibit A (the "Charter").

1.2 SALE AND PURCHASE. Subject to the terms and conditions hereof, the Company hereby agrees to issue and sell to Purchaser, and Purchaser agrees, severally and not jointly, to purchase from the Company at the Closing the Shares being acquired at the Closing, at a purchase price of Five Thousand and 00/100 Dollars ($5,000.00) per share.

2. CLOSING, DELIVERY AND PAYMENT.

2.1 CLOSING. The initial closing of the sale and purchase of the Shares under this Agreement shall take place at 10:00 a.m. on April 1, 1998, and subsequent closings shall take place at such time and place as the Company and Purchaser may mutually agree orally or in writing (each such closing is herein referred to as the "Closing" and each such date is herein referred to as the "Closing Date").

2.2 DELIVERY. At the Closing, subject to the terms and conditions hereof, the Company will deliver to Purchaser certificates representing the number of Shares to be purchased at the Closing by Purchaser, against payment of the purchase price therefor by check or wire transfer payable to the order of the Company, cancellation of indebtedness or any combination of the foregoing.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

Except as set forth on a Schedule of Exceptions delivered by the Company to Purchaser at the Closing, the Company hereby represents and warrants to Purchaser as of the Closing Date as follows:

3.1 ORGANIZATION, GOOD STANDING AND QUALIFICATION. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite corporate power and authority to own and operate its properties and assets, to execute and deliver this Agreement, to issue and sell the Shares and to carry out the provisions of this Agreement and to carry on its business as presently conducted and as presently proposed to be conducted. The Company is duly qualified and is authorized to transact business and is in good standing as a foreign corporation in each jurisdiction in which the failure to so qualify would have a material adverse effect on its business, properties, prospects or financial condition.

3.2 SUBSIDIARIES. The Company owns no equity securities of any other corporation, limited partnership or similar entity. The Company is not a participant in any joint venture, partnership or similar arrangement.

3.3 CAPITALIZATION; VOTING RIGHTS. As of the initial Closing Date, the authorized capital stock of the Company, immediately prior to the Closing, will consist of Ten Thousand (10,000) shares of Common Stock, par value One Cent ($0.01) per share, One Thousand (1,000) shares of which are issued and outstanding, and Ten Thousand (10,000) shares of Preferred Stock, par value One Cent ($0.01) per share, which are designated Series A Preferred Stock (the "Series A Preferred Stock"), none of which are issued and outstanding. All issued and outstanding shares of Common Stock (a) have been duly authorized and validly issued, (b) are fully paid and nonassessable, and (c) were issued in compliance with all applicable state and federal laws concerning the issuance of securities. The rights, preferences, privileges and restrictions of the Shares are as stated in the Charter and this Agreement. There are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of refusal), proxy or stockholder agreements, or agreements of any kind for the purchase or acquisition from the Company of any of its securities. When issued in compliance with the provisions of this Agreement and the Charter, the Shares will be duly and validly issued, fully paid and nonassessable, and will be free of any liens or encumbrances; provided, however, that the Shares may be subject to restrictions on transfer under state and/or federal securities laws as set forth herein or as otherwise required by such laws at the time a transfer is proposed.

3.4 AUTHORIZATION; BINDING OBLIGATIONS. All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization of this Agreement, the performance of all obligations of the Company hereunder and thereunder at the Closing and the authorization, sale, issuance and delivery of the Shares pursuant hereto and pursuant to the Charter has been taken or will be taken prior to the Closing. This Agreement, when executed and delivered by the Company, will be a valid and binding obligation of the Company enforceable in accordance with its terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights; (b) general principles of equity that restrict the availability of equitable remedies; and (c) to the extent that the enforceability of the indemnification provisions may be limited by applicable laws. The sale of the Shares is not and will not be subject to any preemptive right or rights of first refusal that have not been properly waived or complied with.

3.5 LIABILITIES. The Company has no material liabilities and, to the best of its knowledge, knows of no material contingent liabilities not disclosed in the financial statements delivered under Section 6.1 that are required to be disclosed therein pursuant to GAAP, except current liabilities incurred in the ordinary course of business subsequent to the date hereof which have not been, either in any individual case or in the aggregate, materially adverse.

3.6 OBLIGATIONS TO RELATED PARTIES. There are no material obligations of the Company to officers, directors, stockholders, or employees of the Company other than (a) for payment of salary for services rendered during the last month, (b) reimbursement for reasonable expenses incurred on behalf of the Company not to exceed $50,000 in the aggregate and (c) for other standard employee benefits made generally available to all employees. Except as may be disclosed in the financial statements, the Company is not a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

3.7 TITLE TO PROPERTIES AND ASSETS; LIENS, ETC. The Company has good and marketable title to its properties and assets, including the properties and assets reflected in the most recent balance sheet included in the financial statements, and good title to its leasehold estates, in each case subject to no mortgage, pledge, lien, lease, encumbrance or charge, other than (a) those resulting from taxes which have not yet become delinquent, (b) minor liens and encumbrances which do not materially detract from the value of the property subject thereto or materially impair the operations of the Company, and (c) those that have otherwise arisen in the ordinary course of business, including borrowing arrangements. All facilities, machinery, equipment, fixtures and other properties owned, leased or used by the Company are in good operating condition and repair and are reasonably fit and usable for the purposes for which they are being used. The Company is in compliance with all material terms of each lease to which it is a party or is otherwise bound.

3.8 COMPLIANCE WITH OTHER INSTRUMENTS. The Company is not in violation or default of any term of its Charter or Bylaws, or of any provision of any mortgage, indenture, agreement, instrument or contract to which it is a party or by which it is bound or of any judgment, decree, order, writ or, to its knowledge, any statute, rule or regulation applicable to the Company which violation or default would have a material adverse effect on the business, assets, liabilities, financial condition, operations or prospects of the Company. The execution, delivery, and performance of and compliance with this Agreement and the issuance and sale of the Shares pursuant hereto will not, with or without the passage of time or giving of notice, result in any such violation or default, or be in conflict with or constitute a default under any such term, or result in the creation of any mortgage, pledge, lien, encumbrance or charge upon any of the properties or assets of the Company or the suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to the Company, its business or operations or any of its assets or properties.

3.9 LITIGATION. There is no action, suit, proceeding or investigation pending or to the Company's knowledge currently threatened in writing against the Company that questions the validity of this Agreement or the right of the Company to enter into any of such agreements, or to consummate the transactions contemplated hereby or thereby, or which might result, either individually or in the aggregate, in any material advance change in the assets, business, property, condition, affairs or prospects of the Company, financially or otherwise, or any change in the current equity ownership of the Company, nor is the Company aware that there is any basis for the foregoing. The foregoing includes, without limitation, actions pending or threatened in writing (or any

basis therefor known to the Company) involving the prior employment of any of the Company's employees, their use in connection with the Company's business of any information or techniques allegedly proprietary to any of their former employers, or their obligations under any agreements with prior employers. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company currently pending or which the Company intends to initiate.

3.10 TAX RETURNS AND PAYMENTS. The Company has filed all tax returns (federal, state and local) required to be filed by it. These returns are true and correct in all material respects. All taxes shown to be due and payable on such returns, any assessments imposed, and to the Company's knowledge all other taxes due and payable by the Company on or before the Closing have been paid or will be paid prior to the time they become delinquent. The Company has no knowledge of any liability of any tax to be imposed upon its properties or assets as of the date of this Agreement that is not adequately provided for.

3.11 EMPLOYEES. The Company has no collective bargaining agreements with any of its employees. There is no labor union organizing activity pending or, to the Company's knowledge, threatened with respect to the Company. To the Company's knowledge, no employee of the Company, nor any consultant with whom the Company has contracted, is in violation of any term of any employment contract, proprietary information agreement or any other agreement relating to the right of any such individual to be employed by, or to contract with, the Company because of the nature of the business conducted or to be conducted by the Company or to the use by such individual of his or her best efforts on behalf of the Company; and to the Company's knowledge the continued employment by the Company of its present employees, and the performance of the Company's contracts with its independent contractors, will not result in any such violation. The Company has not received any notice alleging that any such violation has occurred. No employee of the Company has been granted the right to continued employment by the Company or to any material compensation following termination of employment with the Company. The Company is not aware that any officer or key employee, or that any group of key employees, intends to terminate their employment with the Company, nor does the Company have a present intention to terminate the employment of any officer, key employee or group of key employees.

3.12 COMPLIANCE WITH LAWS; PERMITS. To its knowledge, the Company is not in violation of any applicable statute, rule, regulation, order or restriction of any domestic or foreign government or any instrumentality or agency thereof in respect of the conduct of its business or the ownership of its properties which violation would materially and adversely affect the business, assets, liabilities, financial condition, operations or prospects of the Company. No governmental orders, permissions, consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the valid execution and delivery of this Agreement and the issuance of the Shares, except such as has been duly and validly obtained or filed, or with respect to any filings that must be made after the Closing, as will be filed within the applicable periods therefor. The Company has all franchises, permits, licenses and any similar authority necessary for the conduct of its business as now being conducted by it, the lack of which could materially and adversely affect the business, properties, prospects or financial condition of the Company and believes it can obtain, without undue burden or expense, any similar authority for the conduct of its business as planned to be conducted.

3.13 OFFERING VALID. Assuming the accuracy of the representations and warranties of Purchaser contained in Section 4.2 hereof, the offer, sale and issuance of the Shares will be exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") and will have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws. Neither the Company nor any agents on its behalf has solicited or will solicit any offers to sell or has offered to sell or will offer to sell all or any part of the Shares to any person or persons so as to bring the sale of such Shares by the Company within the registration provisions of the Securities Act or the registration or permitting requirements of any state securities laws.

4. REPRESENTATIONS AND WARRANTIES OF PURCHASER.

Purchaser hereby represents and warrants to the Company as of the Closing Date as follows (such representations and warranties do not lessen or obviate the representations and warranties of the Company set forth in this Agreement):

4.1 REQUISITE POWER AND AUTHORITY. Purchaser has all necessary power and authority under all applicable provisions of law to execute and deliver this Agreement and to carry out their provisions. All actions on Purchaser's part required for the lawful execution and delivery of this Agreement have been or will be effectively taken prior to the Closing. Upon its execution and delivery, assuming the due authorization, execution and delivery hereof and thereof by the Company, this Agreement will be a valid and binding obligation of Purchaser, enforceable in accordance with its terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights, (b) general principles of equity that restrict the availability of equitable remedies, and (c) to the extent that the enforceability of the indemnification provisions may be limited by applicable laws.

4.2 INVESTMENT REPRESENTATIONS. Purchaser understands the Shares have not been registered under the Securities Act. Purchaser also understands that the Shares are being offered and sold pursuant to an exemption from registration contained in the Securities Act based in part upon Purchaser's representations contained in the Agreement. Purchaser hereby represents and warrants as follows:

(a) PURCHASER BEARS ECONOMIC RISK. Purchaser has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests. Purchaser must bear the economic risk of this investment indefinitely unless the Shares are registered pursuant to the Securities Act, or an exemption from registration thereunder is available. Purchaser understands that the Company has no present intention of registering the Shares or any shares of its Common Stock. Purchaser also understands that there is no assurance that any exemption from registration under the Securities Act will be available and that, even if available, such exemption may not allow Purchaser to transfer all or any portion of the Shares under the circumstances, in the amounts or at the times Purchaser might propose.

(b) ACQUISITION FOR OWN ACCOUNT. Purchaser is acquiring the Shares for Purchaser's own account for investment only, and not with a view towards their distribution.

(c) PURCHASER CAN PROTECT ITS INTEREST. Purchaser represents that by reason of its, or of its management's, business or financial experience, Purchaser has the capacity to protect its own interests in connection with the transactions contemplated in this Agreement. Further, Purchaser is aware of no publication of any advertisement in connection with the transactions contemplated in the Agreement.

(d) ACCREDITED INVESTOR. Purchaser represents that it is an accredited investor within the meaning of Regulation D under the Securities Act.

(e) RULE 144. Purchaser acknowledges and agrees that the Shares must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Purchaser has been advised or is aware of the provisions of Rule 144 promulgated under the Securities Act as in effect from time to time, which permits limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things: the availability of certain current public information about the Company, the resale occurring following the required holding period under Rule 144 and the number of shares being sold during any three-month period not exceeding specified limitations.

4.3 TRANSFER RESTRICTIONS. Purchaser acknowledges and agrees that the Shares are subject to restrictions on transfer.

5. CONDITIONS TO CLOSING.

5.1 CONDITIONS TO PURCHASER'S OBLIGATION AT THE CLOSING. Purchaser's obligation to purchase Shares at the Closing is subject to the satisfaction or waiver, at or prior to the Closing Date, of the following conditions:

(a) REPRESENTATIONS AND WARRANTIES TRUE; PERFORMANCE OF OBLIGATIONS. The representations and warranties made by the Company in Section 3 hereof shall be true and correct in all material respects as of the Closing Date with the same force and effect as if they had been made as of the Closing Date, and the Company shall have performed all obligations and conditions herein required to be performed or observed by it on or prior to the Closing.

(b) LEGAL INVESTMENT. On the Closing Date, the sale and issuance of the Shares shall be legally permitted by all laws and regulations to which Purchaser and the Company are subject.

(c) CONSENTS, PERMITS AND WAIVERS. The Company shall have obtained any and all authorizations, consents, permits and waivers necessary or appropriate for consummation of the transactions contemplated by this Agreement (except for such as may be properly obtained subsequent to the Closing).

(d) CORPORATE DOCUMENTS. The Company shall have delivered to Purchaser or its counsel, copies of all corporate documents of the Company as Purchaser shall reasonably request.

(e) PROCEEDINGS AND DOCUMENTS. All corporate and other proceedings in connection with the transactions contemplated at the Closing hereby and all documents and instruments incident to such transactions shall be reasonably satisfactory in substance and form to Purchaser and Purchaser shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

5.2 CONDITIONS TO OBLIGATIONS OF THE COMPANY. The Company's obligation to issue and sell the shares at the Closing is subject to the satisfaction or waiver, on or prior to such Closing, of the following conditions:

(a) REPRESENTATIONS AND WARRANTIES TRUE. The representations and warranties made by Purchaser in Section 4 hereof shall be true and correct in all material respects at the date of the Closing, with the same force and effect as if they had been made on and as of said date.

(b) PERFORMANCE OF OBLIGATIONS. Purchaser shall have performed and complied with all agreements and conditions herein required to be performed or complied with by Purchaser on or before the Closing.

(c) CONSENTS, PERMITS AND WAIVERS. The Company shall have obtained any and all consents, permits and waivers necessary or appropriate for consummation of the transactions contemplated by this Agreement (except for such as may be properly obtained subsequent to the Closing).

6A. AFFIRMATIVE COVENANTS OF THE COMPANY.

The Company covenants and agrees with the Purchaser that, so long as any of the Shares remain outstanding:

6.1 FINANCIAL STATEMENTS. The Company shall deliver to the Purchaser as soon as available all financial statements it prepares, including at a minimum the following:

(a) as soon as available and in any event within 20 days after the end of each of the first three quarterly fiscal periods of each fiscal year of the Company, the consolidated balance sheets of the Company and its consolidated Subsidiaries as at the end of such period and the related unaudited consolidated statements of income and retained earnings and of cash flows for the Company and its consolidated Subsidiaries for such period and the portion of the fiscal year through the end of such period, setting forth in each case in comparative form the figures for the previous year, accompanied by a certificate of a Responsible Officer of the Company, which certificate shall state that said consolidated financial statements fairly present the consolidated financial condition and results of operations of the Company and its Subsidiaries in accordance with GAAP, consistently applied, as at the end of, and for, such period (subject to normal year-end audit adjustments);

(b) as soon as available and in any event within 60 days after the end of each fiscal year of the Company, the consolidated balance sheets of the Company and its consolidated Subsidiaries as at the end of such fiscal year and the related consolidated statements of income and retained earnings and of cash flows for the Company and its consolidated Subsidiaries for such year, setting forth in

each case in comparative form the figures for the previous year, accompanied by an opinion thereon of independent certified accountants of recognized national standing previously approved by the Purchaser, which opinion shall not be qualified as to scope of audit or going concern and shall state that said consolidated financial statements fairly present the consolidated financial condition and results of operations of the Company and its consolidated Subsidiaries as at the end of, and for, such fiscal year in accordance with GAAP;

(c) from time to time such other information regarding the financial condition, operations, or business of the Company as the Purchaser may reasonably request, including but not limited to requesting quarterly audited financial statements.

The Company agrees to cooperate fully and in a timely fashion with its independent accountants in connection with their audits. The Company will furnish to the Purchaser, at the time it furnishes each set of financial statements pursuant to paragraphs (a) and (b) above, a certificate of a Responsible Officer of the Company to the effect that, to the best of such Responsible Officer's knowledge, the Company during such fiscal period or year has observed or performed all of its covenants and other agreements, and satisfied every condition, contained in this Agreement and the Charter to be observed, performed or satisfied by it, except as specified in such certificate (and, if any failure to observe, perform or satisfy has occurred and is continuing, describing the same in reasonable detail and describing the action the Company has taken or proposes to take with respect thereto).

6.2 LITIGATION. The Company will promptly, and in any event within 10 days after service of process on any of the following, give the Purchaser notice of all legal or arbitrable proceedings affecting the Company or any of its Subsidiaries that questions or challenges the validity or enforceability of any of the provisions of this Agreement or the Charter or as to which there is a reasonable likelihood of adverse determination which would result in a material adverse effect.

6.3 EXISTENCE, ETC. The Company will:

(a) preserve and maintain its legal existence and all of its material rights, privileges, licenses and franchises;

(b) comply with the requirements of all applicable laws, rules, regulations and orders of Government Authorities (including, without limitation, all environmental laws) if failure to comply with such requirements would be reasonably likely (either individually or in the aggregate) to have a material adverse effect on its property, business or financial condition, or prospects;

(c) keep adequate records and books of account, in which complete entries will be made in accordance with GAAP consistently applied; and

(d) not move its chief executive office from the address: 591 Redwood Highway, Suite 3140, Mill Valley, California 94941, unless it shall have provided the Purchaser 30 days prior written notice of such change.

6.4 COOPERATION AND ACCESS TO RECORDS. The Company agrees to cooperate fully and in a timely fashion with the Purchaser's requests for information or access to data, reports, records and personnel made for purposes of the Purchaser's compliance with securities law reporting and filing requirements, federal and state tax reporting and filing requirements or any other legal or regulatory reporting and filing requirements applicable to the Purchaser. As part of this cooperation, the Company will agree to provide the following information:

(a) keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities; and

(b) permit: (1) representatives of the Purchaser to (A) visit and inspect any of its properties and examine and make abstracts from any of its books and records at any reasonable time and as often as may reasonably be desired by the Purchaser (but, prior to the occurrence of a default under this Agreement or the Charter, only upon not less than two Business Days' prior notice), and (B) discuss the business, operations, properties and financial and other condition of the Company with officers and employees of the Company, and with its independent certified public accountants, and (ii) representatives of the Purchaser to conduct periodic operational audits of the Company's business and operations.

6.5 NOTICES. The Company shall give notice to the Purchaser promptly of the occurrence of any default under this Agreement or the Charter.

6.6 INSURANCE. The Company agrees to obtain and maintain insurance with responsible companies in such amounts and against such risks as are usually carried by corporations engaged in similar businesses similarly situated, and furnish the Purchaser on request full information as to all such insurance, and to provide within five (5) days after receipt, certificates or other documents evidencing the renewal of each such policy. The Purchaser will file claims and process recoveries under any such policy or any policy of the Purchaser.

6B. NEGATIVE COVENANTS.

6.7 NEGATIVE COVENANTS. The Company covenants and agrees with the Purchaser that, so long as any of the Shares remain outstanding:

(a) TOTAL INDEBTEDNESS TO ADJUSTED NET WORTH RATIO. The Company will not permit its ratio at any date of Total Indebtedness to Adjusted Net Worth to be more than 10.0:1.0.

(b) LOAN INDEBTEDNESS TO GAAP NET WORTH. The Company will not permit its ratio at any date of Loan Indebtedness to GAAP Net Worth to be more than 2.0:1.0.

(c) MINIMUM GAAP NET WORTH. The Company will not permit its GAAP Net Worth as of the last day of any fiscal quarter to be less than the sum of (1) $7,000,000, plus (2) fifty percent (50%) of (A) the cash proceeds of any sale or issuance of equity securities of the Company or any Subsidiary of the Company (or of any options, warrants or rights in respect of any such equity securities) which issuance takes place after the initial Closing Date, plus (B)

cumulative after-tax earnings earned after the date hereof less cumulative dividends paid after the initial Closing Date.

7. MISCELLANEOUS.

7.1 GOVERNING LAW. This Agreement shall be governed in all respects by the laws of the State of California as such laws are applied to agreements between California residents entered into and performed entirely in California.

7.2 SURVIVAL. The representations, warranties, covenants and agreements made herein shall survive any investigation made by Purchaser and the closing of the transactions contemplated hereby. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by the

Company hereunder solely as of the date of such certificate or instrument.

7.3 SUCCESSORS AND ASSIGNS. Except as otherwise expressly provided herein, the provisions hereof inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of the Shares from time to time.

7.4 ENTIRE AGREEMENT. This Agreement, the Exhibits and Schedules hereto, and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein.

7.5 SEVERABILITY. In case any of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

7.6 AMENDMENT AND WAIVER.

(a) This Agreement may be amended or modified only upon the written consent of the Company and holders of at least fifty percent (50%) of the Shares.

(b) The obligations of the Company and the rights of the holders of the Shares under the Agreement may be waived only with the written consent of the holders of at least fifty percent (50%) of the Shares.

7.7 DELAYS OR OMISSIONS. It is agreed that no delay or omission to exercise any right, power or remedy accruing to any party, upon any breach, default or noncompliance by the other party under this Agreement shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of or in any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent or approval of any kind or character on any party's part of any breach, default or noncompliance under this Agreement or any waiver on such party's part of any provisions or conditions of the Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies under this Agreement by law, or otherwise afforded to any party, shall be cumulative and not alternative.

7.8 WAIVER OF CONFLICTS. Each party to this Agreement acknowledges that legal counsel for the Company, Tobin & Tobin, has also acted for Purchaser in this transaction and has, in the past and may continue in the future to perform legal services for Purchaser and its affiliates in matters unrelated to the transactions contemplated by this Agreement. Each party to this Agreement hereby (a) acknowledges that they have had an opportunity to ask for and have obtained information relevant to such representation, including disclosure of the reasonably foreseeable adverse consequences of such representation; (b) acknowledges that with respect to the transactions contemplated herein, Tobin & Tobin has represented the Company and Purchaser; and (c) gives its informed consent to Tobin & Tobin's representation of the Company and Purchaser in the transactions contemplated by this Agreement and Tobin & Tobin's representation of Purchaser and its affiliates in matters unrelated to such transactions.

7.9 NOTICES. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified; (b) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid;

or (c) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Company and Purchaser at the address set forth on the signature page hereof or at such other address as the Company or Purchaser may designate by ten (10) days advance written notice to the other parties hereto.

7.10 EXPENSES. Each party shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery and performance of this Agreement.

7.11 ATTORNEYS' FEES. In the event that any dispute among the parties to this Agreement should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

7.12 TITLES AND SUBTITLES. The titles of sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

7.13 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

7.14 PRONOUNS. All pronouns contained herein, and any variations thereof, shall be deemed to refer to the masculine, feminine or neutral, singular or plural, as to the identity of the parties hereto may require.

8. DEFINITIONS.

"Adjustable Net Worth" shall mean at any date the sum of (1) GAAP Net Worth, plus (2) the amount of reserves of the Company and its consolidated Subsidiaries, if any, for credit losses (as reflected on the financial statements referred to in 6.1 above), minus (3) the amount of the unrealized gains on debt securities (as defined in FASB 115) of the Company and its consolidated Subsidiaries, if any, plus (4) the amount of unrealized losses on debt securities (as defined in FASB 115) of the Company and its consolidated Subsidiaries, if any, plus (5) the amount of Loan Indebtedness, minus (6) the excess of the amount of assets securing nonrecourse indebtedness over the amount of such nonrecourse indebtedness.

"Agreement" shall mean this Series A Preferred Stock Purchase Agreement, as may be amended, supplemented or otherwise modified from time to time.

"Business Day" shall mean any other than (i) a Saturday or Sunday, or (ii) a day in which the New York Stock Exchange, the Federal Reserve Bank of New York or the Custodian is authorized or obligated by law or executive order to be closed.

"Default" shall mean that the Company during such fiscal period or year has not observed or not performed all of its covenants and other agreements, and not satisfied every condition, contained in this Agreement and the Charter to be observed, performed or satisfied by it.

"GAAP" shall mean generally accepted accounting principles as in effect from time to time in the United States.

"GAAP Net Worth" shall mean the excess of total assets of the Company and its consolidated Subsidiaries, if any, over Total Liabilities of the Company determined in accordance with GAAP.

"Government Authority" shall mean any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any court or arbitrator having jurisdiction over the Company, any of its Subsidiaries or any of its properties.

"Loan" shall mean any loan made to the Company or any Subsidiary of the Company from time to time under the Lending and Credit Support Agreement, dated as of April 1, 1998, between the Company and the Purchaser.

"Loan Indebtedness" shall mean, at any date, the principal amount of Loans outstanding on such date.

"Requirements of Law" shall mean, as to any person, the Articles or Certificate of Incorporation and Bylaws or other organization or governing documents of such Person, and any law, treaty, rule or regulation, or a final and binding determination of an arbitration or a determination of a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such person or any of its property is subject.

"Responsible Officer" shall mean, as to any Person, the chief executive officer or, with respect to financial matters, the chief financial officer of such Person.

"Subsidiary" shall mean, with respect to any Person, any corporation, partnership or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person.

"Total Indebtedness" shall mean total indebtedness for borrowed monies of the Company and its consolidated Subsidiaries, if any, determined in accordance with GAAP, less the amount of any nonrecourse indebtedness of the Company and its consolidated Subsidiaries.

"Total Liabilities" shall mean total liabilities of the Company and its consolidated Subsidiaries, if any, determined in accordance with GAAP.

IN WITNESS WHEREOF, the parties hereby have executed the SERIES A PREFERRED STOCK PURCHASE AGREEMENT as of the date set forth in the first paragraph hereof.

COMPANY:

RWT HOLDINGS, INC.

By: /s/ Vickie L. Rath

Vickie L. Rath

Address: 591 Redwood Highway
Suite 3140
Mill Valley, California 94941

PURCHASER:

REDWOOD TRUST, INC.

By: /s/ George E. Bull

George E. Bull

Address: 591 Redwood Highway
Suite 3100
Mill Valley, California 94941

EXHIBIT 10.32

==

ADMINISTRATIVE PERSONNEL
AND FACILITIES AGREEMENT

Dated as of April 1, 1998

REDWOOD TRUST, INC.

and

RWT HOLDINGS, INC.

==

EXHIBIT 10.32.1

==

FIRST AMENDMENT

TO

ADMINISTRATIVE PERSONNEL
AND FACILITIES AGREEMENT

Dated as of December 1, 1998

REDWOOD TRUST, INC.

and

RWT HOLDINGS, INC.

==

ADMINISTRATIVE PERSONNEL
AND FACILITIES AGREEMENT

THIS FIRST AMENDMENT, made effective as of the 1st day of December, 1998 (the "Effective Date"), is by and between Redwood Trust, Inc., a Maryland corporation ("REIT"), and RWT Holdings, Inc., a Delaware corporation ("Holdings"). References to REIT or Holdings herein shall include any wholly-owned subsidiaries of REIT or Holdings from time to time, unless the context otherwise requires.

BACKGROUND

A. REIT owns all of the Series A Preferred Stock of Holdings;

B. Holdings and REIT entered into an Administrative Personnel and Facilities Agreement (the "Agreement"), dated as of April 1, 1998, to provide for the sharing of certain administrative personnel and facilities.

C. Subsequent to entering into the Agreement, Holdings established its chief executive office at 125 East Sir Francis Drake Boulevard, Suite 300, Larkspur, California 94939.

D. The parties desire to acknowledge the Holdings' relocation to the above-referenced site and to re-affirm the provisions of the Agreement in light of such relocation.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, the parties hereto agree as follows:

1. Agreement Re-affirmed. Except as herein provided, all of the terms and conditions of the Agreement are hereby re-affirmed by REIT and Holdings and the provisions of the Agreement shall remain in full force and effect notwithstanding the relocation of Holdings' chief executive office to 125 East Sir Francis Drake Boulevard, Suite 300, Larkspur, California 94939.

2. Change of Notice Address. From and after the date hereof, the address for notices to Holdings under Section 6 of the Agreement shall be as follows:

   Holdings: RWT Holdings, Inc.
   125 East Sir Francis Drake Boulevard
   Suite 300
   Larkspur, California 94939
   Attn: Vickie L. Rath

3. Execution in Counterparts. This First Amendment may be executed in one or more counterparts, any of which shall constitute an original as against any party whose signature appears on it, and all of which shall together constitute a single instrument. This First Amendment shall become binding when one or more counterparts individually or taken together, bear the signatures of both parties.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed by their officers as of the day and year first above written.

REDWOOD TRUST, INC.

By: /s/ Douglas B. Hansen

Name: Douglas B. Hansen

Title: President

RWT HOLDINGS, INC.

By: /s/ Vickie L. Rath

Name: Vickie L. Rath

Title: Treasurer

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ADMINISTRATIVE PERSONNEL
AND FACILITIES AGREEMENT

THIS AGREEMENT, made effective as of the 1st day of April, 1998 (the "Effective Date"), is by and between Redwood Trust, Inc., a Maryland corporation ("REIT"), and RWT Holdings, Inc., a Delaware corporation ("Holdings"). References to REIT or Holdings herein shall include any wholly-owned subsidiaries of REIT or Holdings from time to time, unless the context otherwise requires.

BACKGROUND

A. REIT owns all of the Series A Preferred Stock of Holdings;

B. Holdings desires that REIT share with Holdings certain administrative personnel and facilities, and REIT desires that Holdings share with REIT certain administrative personnel and facilities.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, the parties hereto agree as follows:

1. Administrative Personnel and Facilities.

(a) REIT and Holdings agree to share such office space and equipment (including computer equipment), and the services of such administrative and other personnel, and items ancillary to the foregoing, as each may require to carry on its business. REIT and Holdings shall monitor the on-going use of facilities and personnel by REIT and Holdings, respectively, and within 15 days after the end of each fiscal quarter shall agree upon a written allocation (by time used or other appropriate measure) of facilities used by each and a list of personnel used by each setting forth a percentage allocation of time devoted by each person to each party.

(b) REIT and Holdings shall pay to each of their respective share (as determined by their mutual agreement) of the following expenses that relate to the provision of any personnel or facilities pursuant to this Section 1:

(i) rent (including related local property taxes and property insurance costs), telephone, utilities, office furniture, equipment and machinery (including computers, to the extent utilized) and other office expenses not specifically allocated to the activities of REIT or Holdings; and

(ii) personnel expense (including salary, bonuses, benefits and taxes); and

(iii) other general overhead expenses related to the foregoing.

Each party shall be responsible for all third-party fees and expenses billed separately to it, such as accounting and legal fees and expenses.

2. Limits of Company Responsibility. Neither party assumes responsibility under this Agreement other than to share the facilities and personnel called for hereunder in good faith and neither party shall be responsible for any of its actions hereunder, including those of its shareholders, directors, officers and employees acting in accordance with this Agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties. Each party shall reimburse, indemnify and hold harmless the other party, its shareholders, directors, officers and employees of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever in respect of or arising

from any acts or

omissions of such party, its shareholders, directors, officers and employees constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties.

3. Terms; Termination. This Agreement shall remain in force until the second anniversary of the Effective Date, and thereafter, it shall be automatically renewed for a term of one (1) year unless a written notice is delivered by either party within 30 days prior to the end of the term or any renewal term of this Agreement.

4. Action Upon Termination. From and after the effective date of termination of this Agreement, each party shall forthwith:

   (a) Agree with the other party on written allocations of facilities and personnel covering the period following the date of the last quarterly allocation agreed upon to the date of termination; and

   (b) Based on such allocations, pay over to the other party any money due for the account of such party pursuant to this Agreement or otherwise.

5. Assignment. This Agreement shall not be assignable by either party without the consent of the other party, except in the case of an assignment by either party to a corporation or other organization which is a successor (by merger, consolidation or purchase of assets) to such party, in which case such successor organization shall be bound hereunder by the terms of said assignment in the same manner as the party succeeded is bound hereunder.

6. Notices. Any notice, report or other communication required or permitted to be given hereunder shall be in writing, unless some other method of giving such notice, report or other communication is accepted by the party to whom it is given, and shall be given by being delivered at the following addresses of the parties hereto:

REIT:	Redwood Trust, Inc. 591 Redwood Highway Suite 3100 Mill Valley, CA 94941 Attn: George E. Bull
Holdings:	RWT Holdings, Inc. 591 Redwood Highway Suite 3140 Mill Valley, CA 94941 Attn: Vickie L. Rath

Either party may at any time give notice in writing to the other party of a change of its address for the purpose of this Section 10.

7. No Joint Venture. REIT and Holdings are not partners or joint venturers with each other and nothing herein shall be construed to make them such partners or joint venturers or impose any liability as such on either of them.

8. Amendments. This Agreement shall not be amended, changed, modified, terminated or discharged in whole or in part, and the performance of any obligation hereunder may not be waived, except by an instrument in writing signed by both parties hereto, or their respective successors or permitted assigns, or otherwise as provided herein.

9. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity of any other provision, and all other provisions shall remain in full force and effect.

10. Entire Agreement. This instrument contains the entire agreement between the parties as to the rights granted and the obligations assumed in this instrument.

11. Waiver. Any forbearance by a party to this Agreement in exercising any right or remedy under this Agreement or otherwise afforded by applicable laws shall not be a waiver of or preclude the exercise of that or any other right or remedy.

12. Governing Law. This Agreement shall be governed by, construed under

and interpreted in accordance with the laws of the State of California.

13. Headings and Cross References. The section headings hereof have been inserted for convenience of reference only and shall not be construed to affect the meaning, construction or effect of this Agreement. Any reference made in this Agreement to a "Section" or "Subsection" shall be construed, respectively, as referring to a section of this Agreement or a subsection of a section of this Agreement.

14. Execution in Counterparts. This Agreement may be executed in one or more counterparts, any of which shall constitute an original as against any party whose signature appears on it, and all of which shall together constitute a single instrument. This Agreement shall become binding when one or more counterparts individually or taken together, bear the signatures of both parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their officers as of the day and year first above written.

REDWOOD TRUST, INC.

By: /s/ Douglas B. Hansen

Name: Douglas B.Hansen

Title: President

RWT HOLDINGS, INC.

By: /s/ Vickie L. Rath

Name: Vickie L. Rath

Title: Treasurer

EXHIBIT 10.32.1

==

FIRST AMENDMENT

TO

ADMINISTRATIVE PERSONNEL
AND FACILITIES AGREEMENT

Dated as of December 1, 1998

REDWOOD TRUST, INC.

and

RWT HOLDINGS, INC.

==

ADMINISTRATIVE PERSONNEL
AND FACILITIES AGREEMENT

THIS FIRST AMENDMENT, made effective as of the 1st day of December, 1998 (the "Effective Date"), is by and between Redwood Trust, Inc., a Maryland corporation ("REIT"), and RWT Holdings, Inc., a Delaware corporation ("Holdings"). References to REIT or Holdings herein shall include any wholly-owned subsidiaries of REIT or Holdings from time to time, unless the context otherwise requires.

BACKGROUND

A. REIT owns all of the Series A Preferred Stock of Holdings;

B. Holdings and REIT entered into an Administrative Personnel and Facilities Agreement (the "Agreement"), dated as of April 1, 1998, to provide for the sharing of certain administrative personnel and facilities.

C. Subsequent to entering into the Agreement, Holdings established its chief executive office at 125 East Sir Francis Drake Boulevard, Suite 300, Larkspur, California 94939.

D. The parties desire to acknowledge the Holdings' relocation to the above-referenced site and to re-affirm the provisions of the Agreement in light of such relocation.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, the parties hereto agree as follows:

1. Agreement Re-affirmed. Except as herein provided, all of the terms and conditions of the Agreement are hereby re-affirmed by REIT and Holdings and the provisions of the Agreement shall remain in full force and effect notwithstanding the relocation of Holdings' chief executive office to 125 East Sir Francis Drake Boulevard, Suite 300, Larkspur, California 94939.

2. Change of Notice Address. From and after the date hereof, the address for notices to Holdings under Section 6 of the Agreement shall be as follows:

Holdings: RWT Holdings, Inc.
125 East Sir Francis Drake Boulevard
Suite 300
Larkspur, California 94939
Attn: Vickie L. Rath

3. Execution in Counterparts. This First Amendment may be executed in one or more counterparts, any of which shall constitute an original as against any party whose signature appears on it, and all of which shall together constitute a single instrument. This First Amendment shall become binding when one or more counterparts individually or taken together, bear the signatures of both parties.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed by their officers as of the day and year first above written.

REDWOOD TRUST, INC.

By: /s/ Douglas B. Hansen

Name: Douglas B. Hansen

Title: President

RWT HOLDINGS, INC.

By: /s/ Vickie L. Rath

Name: Vickie L. Rath

Title: Treasurer

EXHIBIT 10.33

==

LENDING AND CREDIT SUPPORT AGREEMENT

Dated as of April 1, 1998

RWT HOLDINGS, INC.
REDWOOD RESIDENTIAL FUNDING, INC.
REDWOOD COMMERCIAL FUNDING, INC.
REDWOOD FINANCIAL SERVICES, INC.
as Borrowers

and

REDWOOD TRUST, INC.
as Lender

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Exhibit A	-	Form of Promissory Note
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Exhibit C	-	Form of Credit Support Commitment

LENDING AND CREDIT SUPPORT AGREEMENT

LENDING AND CREDIT SUPPORT AGREEMENT, dated as of April 1, 1998, between RWT HOLDINGS, INC., a Delaware corporation ("Holdings"), REDWOOD RESIDENTIAL FUNDING, INC., a Delaware corporation ("Residential"), REDWOOD COMMERCIAL FUNDING, INC., a Delaware corporation ("Commercial"), REDWOOD FINANCIAL SERVICES, INC., a Delaware corporation ("Financial"), and such other subsidiaries of Holdings as may from time to time execute a copy of this Agreement and the Note (collectively, the "Borrowers" and each individually, a "Borrower") and REDWOOD TRUST, INC., a Maryland corporation (the "Lender").

RECITALS

The Borrowers have requested that the Lender from time to time consider making revolving credit loans to them for working capital purposes or to finance certain residential and/or commercial mortgage loans owned or to be acquired by the Borrowers, and the Lender is prepared to consider making such loans upon the terms and conditions hereof. The Borrowers have further requested that the Lender from time to time consider lending credit support to the Borrowers to facilitate Borrowers' financings from third-party lenders and Borrowers' hedging arrangements with counterparties. Such credit support may be provided by the Lender by guarantying a Borrower's borrowings from third-party lenders or by entering into co-borrowing or co-obligor arrangements with a Borrower. The Lender is prepared to consider lending such credit support upon the terms and conditions hereof. Accordingly, the parties hereto agree as follows:

Section 1. Definitions and Accounting Matters.

1.01 Certain Defined Terms. As used herein, the following terms shall have the following meanings (all terms defined in this Section 1.01 or in other provisions of this Agreement in the singular to have the same meanings when used in the plural and vice versa):

"Adjusted Net Worth" shall mean at any date the sum of (1) GAAP Net Worth, plus (2) the amount of reserves of Holdings and its consolidated Subsidiaries, if any, for credit losses (as reflected on the financial statements referred to in 7.01 below), minus (3) the amount of the unrealized gains on debt securities (as defined in FASB 115) of Holdings and its consolidated Subsidiaries, if any, plus (4) the amount of unrealized losses on debt securities (as defined in FASB 115) of Holdings and its consolidated Subsidiaries, if any, plus (5) the amount of Loan Indebtedness, minus (6) the excess of the amount of assets securing nonrecourse indebtedness over the amount of such nonrecourse indebtedness.

"Affiliate" means, (i) with respect to Lender, Sequoia Mortgage Funding Corporation and any other wholly-owned subsidiaries in corporate, trust or other form, whether owned directly or indirectly, and (ii) with respect to the Borrowers, any affiliate of any Borrower as such term is defined in the United States Bankruptcy Code in effect from time to time.

"Agreement" shall mean this Lending and Credit Support Agreement, as may be amended, supplemented or otherwise modified from time to time.

"Applicable Margin" shall mean 3.5% unless a different percentage shall be indicated in the related Commitment pursuant to Section 2.03(b) hereof.

"Bankruptcy Code" shall mean the United States Bankruptcy Code of 1978, as amended from time to time.

"Borrower" and "Borrowers" shall have the meanings provided in the heading hereof.

"Business Day" shall mean any day other than (i) a Saturday or Sunday, or (ii) a day in which the New York Stock Exchange, the Federal Reserve Bank of New York or the Custodian is authorized or obligated by law or executive order to be closed.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall have the meaning assigned to such term in Section 4.01(b) hereof.

"Credit Support" shall have the meaning specified in Section 2.B. hereof.

"Credit Support Commitment" shall mean a commitment issued pursuant to Section 2.B. hereof.

"Credit Support Documents" shall mean any form of guarantee or co-borrowing agreement and related documentation entered into pursuant to Section 2.B.

"Custodial Agreement" shall mean each Custodial Agreement among a Borrower, the Custodian and a third-party lender to the Borrower holding a first priority security interest in Collateral, as the same shall be modified and supplemented and in effect from time to time.

"Custodian" shall mean Bankers Trust Company of California, N.A., its successors and permitted assigns, unless a different entity is named in any Commitment.

"Default" shall mean an Event of Default or an event that with notice or lapse of time or both would become an Event of Default.

"Dollars" and "$" shall mean lawful money of the United States of America.

"Effective Date" shall mean the date upon which the conditions precedent set forth in Section 5.01 shall have been satisfied.

"Eligible Mortgage Loan" shall mean a Mortgage Loan secured by a first mortgage lien on a one-to-four family residential property or multifamily or commercial property acceptable to the Lender as

Collateral.

"Event of Default" shall have the meaning assigned thereto in Section 8 hereof.

"Funding Date" shall mean the date on which a Loan is made hereunder or a Credit Support becomes effective hereunder.

"GAAP" shall mean generally accepted accounting principles as in effect from time to time in the United States.

"GAAP Net Worth" shall mean the excess of total assets of Holdings and its consolidated Subsidiaries, if any, over Total Liabilities of Holdings determined in accordance with GAAP.

"Governmental Authority" shall mean any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any court or arbitrator having jurisdiction over a Borrower, any of its Subsidiaries or any of its properties.

"Interest Period" shall mean with respect to any Loan:

(a) initially, the period commencing on the Funding Date, with respect to such Loan and ending one month thereafter; and

(b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Loan and ending one month thereafter.

provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period pertaining to a Loan would otherwise end on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) any Interest Period that would otherwise extend beyond the Termination Date shall end on the Termination Date; and

(iii) any Interest Period pertaining to a Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the Last Business Day of a calendar month.

"Lender" shall have the meaning assigned thereto in the heading hereto.

"LIBOR" shall mean the arithmetic mean of the London interbank offered rates for one-month U.S. dollar deposits in the London market based on quotations at four major banks selected by the Lender, which rates appear in the display designated as page "LIUS01M" on the Bloomberg Financial Markets Commodities News (or such other comparable displaying LIBOR quotations on the Bloomberg service) as of 11:00 a.m., London Time, on the date of determination. LIBOR shall be determined separately for each Interest Period.

"Lien" shall mean any mortgage, lien, pledge, charge, security interest or similar encumbrance.

"Loan" shall have the meaning specified in Section 2.A. hereof.

"Loan Commitment" shall mean a commitment issued pursuant to Section 2.B. hereof.

"Loan Documents" shall mean, collectively, this Agreement, the Note and the Custodial Agreement.

"Loan Indebtedness" shall mean, at any date, the principal amount of Loans outstanding on such date.

"Mortgage File" shall have the meaning assigned thereto in the Custodial Agreement.

"Mortgage Loan" shall mean a mortgage loan which the Borrower has designated to be pledged to secure a Loan or Credit Support as herein provided, and which Mortgage Loan includes, without limitation, (i) a Mortgage Note and related mortgage or deed of trust and/or security agreements and (ii) all right, title and interest of the Borrower in and to the Mortgaged Property covered by such mortgage or deed of trust.

"Mortgage Loan Documents" shall mean, with respect to a Mortgage Loan, the documents comprising the Mortgage File for such Mortgage Loan.

"Mortgage Loan Schedule" shall have the meaning assigned thereto in the Custodial Agreement.

"Mortgage Note" shall mean the promissory note or other evidence of the indebtedness of a mortgagor/borrower with respect to a Mortgage Loan.

"Mortgaged Property" means the real property (including all improvements, buildings, fixtures, building equipment and personal property thereon and all additions, alterations and replacements made at any time with respect to the foregoing) and all other collateral securing repayment of the debt evidenced by a Mortgage Note.

"Mortgagor" means the obligor on a Mortgage Note.

"Note" shall mean the promissory note provided for by Section 2.02(a) hereof for Loans and any promissory note delivered in substitution or exchange therefor, in each case as the same shall be modified and supplemented and in effect from time to time.

"Person" shall mean any individual, corporation, company, voluntary association, partnership, joint venture, limited liability company, trust, unincorporated association or government (or any agency, instrumentality or political subdivision thereof).

"Post-Default Rate" shall mean, in respect of any principal of any Loan or any other amount under this Agreement, the Note or any other Loan Document that is not paid when due to the Lender (whether at stated maturity, by acceleration, by optional or mandatory prepayment or otherwise), a rate per annum during the period from and including the due date to but excluding the date on which such amount is paid in full equal to 2% per annum plus the rate otherwise applicable.

"Regulations G, T, U and X" shall mean Regulations G, T, U and X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

"Requirements of Law" shall mean, as to any person, the Articles or Certificate of Incorporation and Bylaws or other organization or governing documents of such Person, and any law, treaty, rule or regulation, or a final and binding determination of an arbitration or a determination of a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such person or any of its property is subject.

"Responsible Officer" shall mean, as to any Person, the chief executive officer or, with respect to financial matters, the chief financial officer of such Person.

"Secured Obligations" shall have the meaning assigned thereto in Section 4.01(c) hereof.

"Servicer" shall have the meaning assigned thereto in Section 11.14(b) hereof.

"Servicing Agreement" shall have the meaning assigned thereto in Section 11.14(b) hereof.

"Subsidiary" shall mean, with respect to any Person, any corporation, partnership or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person.

"Termination Date" shall mean April 1, 2000 or such earlier date on which this Agreement shall terminate in accordance with the provisions hereof or by operation of law.

"Total Indebtedness" shall mean total indebtedness for borrowed monies of Holdings and its consolidated Subsidiaries, if any, determined in accordance with GAAP, less the amount of any nonrecourse indebtedness of Holdings and its consolidated Subsidiaries.

"Total Liabilities" shall mean total liabilities of Holdings and its consolidated Subsidiaries, if any, determined in accordance with GAAP.

"Uniform Commercial Code" shall mean the Uniform Commercial Code as in effect on the date hereof in the State of California; provided that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection of the security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than California, "Uniform Commercial Code" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection.

1.02 Accounting Terms and Determinations. Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Lender hereunder shall be prepared, in accordance with GAAP.

Section 2.A. Loans, Notes and Prepayments.

2.01 Loans.

(a) The Lender agrees to consider from time to time each Borrower's requests that the Lender make, on the terms and conditions of this Agreement, loans (individually, a "Loan"; collectively, the "Loans") to the Borrower in Dollars, from and including the Effective Date to and including the Termination Date. This Agreement is not a commitment to lend but rather sets forth the procedures to be used in connection with periodic requests for Loans. Each Borrower hereby acknowledges that the Lender is under no obligation to agree to make, or to make, any Loan pursuant to this Agreement.

(b) Subject to the terms and conditions of this Agreement, during such period each Borrower may borrow, repay and reborrow hereunder.

(c) In no event shall a Loan be made when any Default or Event of Default has occurred and is continuing.

2.02 Notes.

(a) The Loans made by the Lender shall be evidenced by a single promissory note of the Borrowers substantially in the form of Exhibit A hereto (the "Note"), dated the date hereof, payable to the Lender in a principal amount equal to the amount of the Loans outstanding from time to time. The Lender shall have the right to have its Note subdivided, by exchange for promissory notes of lesser denominations or otherwise.

(b) The date, amount and interest rate of each Loan made by the Lender to a Borrower, and each payment made on account of the principal thereof, shall be recorded by the Lender on its books and, prior to any transfer of the Note, endorsed by the Lender on the schedule attached to the Note or any continuation thereof; provided, that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower to make a payment when due of any amount owing hereunder or under the Note in respect of the Loans.

(c) The Borrowers shall be jointly and severally liable for all loans made hereunder.

2.03 Procedure for Borrowing.

(a) Each Borrower may request a borrowing hereunder, on any Business Day during the period from and including the Effective Date to and including the Termination Date, by delivering to the Lender, with a copy to the Custodian, an irrevocable written request for borrowing, which request must be countersigned by Holdings if Holdings is not the requesting Borrower and must be received by the Lender prior to 10:00 a.m. (California time) at least three (3) Business Days prior to the requested Funding Date unless otherwise agreed by the Lender. Such request for borrowing shall (i) specify whether the Loan is for working capital purposes or to finance acquisition of Mortgage Loans, (ii) attach a schedule identifying the Eligible Mortgage Loans, if any, that the Borrower proposes to pledge to the Lender and be included in the Collateral in connection with such borrowing, and (iii) specify the requested Funding Date.

(b) Upon the Borrower's request for a borrowing, the Lender may, at its option, offer to make a Loan to the Borrower by executing and delivering, via telecopy or delivered by hand, a commitment to the Borrower in the form of Exhibit B (the "Loan Commitment") attached hereto no later than 11:00 a.m. (California time) one (1) Business Day after its receipt of such a request for borrowing. Such Loan Commitment shall identify the Lender and the Borrower, attach a schedule identifying the Eligible Mortgage Loans, if any, proposed to be pledged by the Borrower to the Lender on such Funding Date which are acceptable to the Lender to be pledged as Collateral hereunder, and shall set forth (i) the Funding Date, (ii) the amount of the Loan to be made on such Funding Date, and (iii) the Applicable Margin, and may contain additional terms or conditions which may or may not be inconsistent with this Agreement. In the event there is a conflict between the terms of this Agreement and the terms of the Loan Commitment, the terms of the Loan Commitment shall control. Each Loan Commitment, together with this Agreement, shall be conclusive evidence of the terms of the Loan(s) covered thereby.

(c) The Borrower shall, no later than 3:00 p.m. (California time) on the Business Day that it receives a Loan Commitment from the Lender, either:

(i) decline the offer contained in such Loan Commitment by notifying the Lender, in accordance with the notice provision set forth in Section 7.06 hereof, by telephone so that effect; or

(ii) accept such offer contained in such Loan Commitment by notifying the Lender, in accordance with the notice provision set forth in Section 7.06 hereof, by telephone to that effect.

Notwithstanding the foregoing, the Borrower shall be deemed to have accepted such offer, and such Loan Commitment, together with this Agreement, shall be conclusive evidence of the terms of the Loan covered thereby, unless the Borrower has declined such offer by the time set forth above.

(d) The Borrower shall release or cause to be delivered to the Custodian no later than 12:00 p.m., California time, two (2) Business Days prior to the requested Funding Date, the Mortgage File pertaining to each Eligible Mortgage Loan, if any, to be pledged to the Lender and included in the Collateral on such requested Funding Date, in accordance with the terms and conditions of the Custodial Agreement.

(e) Subject to Section 5 hereof, each loan will be made available to the Borrower by the Lender transferring, via wire transfer, to an escrow account or account maintained by the Borrower prior to 3:00 p.m., California time, on the Funding Date, the aggregate amount of such borrowing in funds immediately available to the Borrower. The Borrower shall deliver to the Custodian and the Lender, no later than 11:00 a.m. on the first Business Day after the Funding

Date, a notice of the Lender's security interest in respect of all Mortgage Loans pledged to the Lender on such Funding Date.

2.04 Repayment of Loans; Interest.

(a) Each Borrower hereby promises to repay in full the outstanding principal amount of each Loan no later than the date (the "Stated Maturity") which is six months after the Funding Date of such Loan.

(b) Each Borrower hereby promises to pay to the Lender interest on the unpaid principal amount of each Loan for the period from and including the date of such Loan to but excluding the date such Loan shall be paid in full, at a rate per annum equal to LIBOR plus the Applicable Margin. Notwithstanding the foregoing, each Borrower hereby promises to pay to the Lender interest at the applicable Post-Default Rate on any principal of any Loan and on any other amount payable by the Borrower hereunder or under the Note, that shall not be paid in full when due (whether at Stated Maturity, by acceleration or by mandatory prepayment or otherwise), for the period from and including the due date thereof to but excluding the date the same is paid in full. Accrued interest on each Loan shall be payable monthly commencing on the date one month from the Funding Date and on each successive date which is one month thereafter or the date of final payment of principal on such Loan, except that interest payable at the Post-Default Rate shall be payable from time to time on demand. Promptly after the determination of any interest rate provided for herein or any change therein, the Lender shall give notice thereof to the Borrowers.

2.05 Voluntary Prepayments. The Borrowers may prepay the outstanding principal of any Loan, in whole or in part, at any time prior to the Stated Maturity thereof.

Section 2.B. Credit Support.

2.06 Issuance of Credit Support.

(a) The Lender agrees to consider from time to time each Borrower's requests that the Lender issue credit support of loans made to the Borrower by third parties or of hedging arrangements entered into by the Borrower with counterparties on the terms and conditions of this Agreement from and including the Effective Date to and including the Termination Date. Such credit support could be in the form of guarantees by the Lender or co-borrowing or co-obligor arrangements with the Borrower in which the Lender is jointly and severally liable for the Borrower's borrowings thereunder (individually, a "Credit Support"; collectively, the "Credit Supports"). This Agreement is not a commitment to enter into Credit Supports but rather sets forth the procedures to be used in connection with periodic requests for Credit Supports. The Borrowers hereby acknowledge that the Lender is under no obligation to agree to enter into, or to enter into, any Credit Support pursuant to this Agreement.

(b) Subject to the terms and conditions of this Agreement, during such period each Borrower may borrow, repay and reborrow amounts from third parties covered by Credit Supports issued hereunder.

(c) In no event shall Credit Support Documents be entered into when any Default or Event of Default has occurred and is continuing.

2.07 Credit Supports. The Credit Supports entered by the Lender shall be evidenced by such Credit

2.08 Procedure for Obtaining Credit Supports.

(a) Each Borrower may request Credit Support hereunder, on any Business Day during the period from and including the Effective Date to and including the Termination Date, by delivering to the Lender, with a copy to the Custodian, an irrevocable written request for Credit Support, which request must be received by the Lender prior to 10:00 a.m. (California time), at least three (3) Business Days prior to the requested Funding Date unless otherwise agreed by the Lender. Such request for Credit Support shall (i) specify whether the Credit Support is for borrowings from third parties or hedging arrangements, (ii) attach a schedule identifying the Eligible Mortgage Loans, if any, that the Borrower proposes to pledge to the Lender and be included in the Collateral on a subordinated basis in connection with such Credit Support, and (iii) specify the requested Funding Date.

(b) Upon the Borrower's request for Credit Support, the Lender may, at its option, offer to enter into Credit Support Documents in favor of the Borrower by executing and delivering via telecopy or delivered by hand, a commitment in the form of Exhibit C (the "Credit Support Commitment") attached hereto no later than 11:00 a.m. (California time), one (1) Business Day after its receipt of such a request for Credit Support. Such Credit Support Commitment shall identify the Lender and the Borrower, attach a schedule identifying the Eligible Mortgage Loans, if any, proposed to be pledged by the Borrower to the Lender on such

Funding Date which are acceptable to the Lender to be pledged as Collateral hereunder and shall set forth (i) the Funding Date, (ii) the amount of the Credit Support to be entered into on such Funding Date, and (iii) the Applicable Margin, and may contain additional terms and conditions which may or may not be inconsistent with this Agreement. In the event there is a conflict between the terms of this Agreement and the terms of the Credit Support Commitment, the terms of the Credit Support Commitment shall control. Each Credit Support Commitment, together with this Agreement, shall be conclusive evidence of the terms of the Credit Support(s) covered thereby.

(c) The Borrower shall, no later than 3:00 p.m. (California time) on the Business Day that it receives a Credit Support Commitment from the Lender, either:

(i) decline the offer contained in such Credit Support Commitment by notifying the Lender, in accordance with the notice provision set forth in Section 7.06 hereof, by telephone to that effect; or

(ii) accept such offer contained in such Credit Support Commitment by notifying the Lender, in accordance with the notice provision set forth in Section 7.06 hereof, by telephone to that effect.

Notwithstanding the foregoing, the Borrower shall be deemed to have accepted such offer, and such Credit Support Commitment, together with this Agreement, shall be conclusive evidence of the terms of the Credit Support covered thereby, unless the Borrower has declined such offer by the time set forth above.

(d) The Borrower shall release or cause to be delivered to the Custodian no later than 12:00 p.m., California time, two (2) Business Days prior to the requested Funding Date, the Mortgage File pertaining to each Eligible Mortgage Loan, if any, to be pledged to the Lender and included in the Collateral on such requested Funding Date, in accordance with the terms and conditions of the Custodial Agreement.

(e) Subject to Section 5 hereof, such Credit Support will be made available to the Borrower by the Lender on or prior to 3:00 p.m., California time, on such Funding Date. The Borrower shall deliver to the Custodian and the Lender, no later than 11:00 a.m. on the first Business Day after

the Funding Date, a notice of the Lender's security interest in respect of all Mortgage Loans pledged to the Lender on such Funding Date.

2.09 Repayment of Credit Support Disbursements; Interest. Each Borrower hereby promises to make payments to the Lender in respect of any amount expended by the Lender pursuant to any Credit Support on the following terms and conditions, unless otherwise provided in the related Credit Support Commitment:

(a) The amount of any such expenditure, whether used to repay principal, interest or other amounts due to the third-party lender, shall be treated as principal of a Loan, the Stated Maturity of which is the first Business Day following the date of the expenditure; and

(b) Interest will be payable on such constructive Loan at the Post-Default Rate and on the same terms as if such Loan was in default with respect to repayment of principal due on the Stated Maturity thereof as set forth in (a) above.

2.10 Credit Support Fee. As compensation for the Lender's issuance of each Credit Support, the Borrowers agree to pay the Lender a Credit Support Fee on each Funding Date in an amount equal to .0035 per annum times the principal amount of the loan or other payment obligation or exposure which is the subject of such Credit Support, unless a different fee amount is otherwise agreed upon and reflected on the Credit Support Commitment. Such amount will be calculated based on the actual number of days such Credit Support is in effect and a 360-day year and will be payable monthly, in arrears.

Section 3. Payments; Computations; Etc.

3.01 Payments.

(a) Except to the extent otherwise provided herein, all payments of principal, interest and other amounts to be made by the Borrowers under this Agreement and the Note, shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to the Lender at the following account maintained by the Lender: [ ], For the A/C of [ ], ABA# [ ], Attn: [ ], not later than 1:00 p.m., California time, on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day). The Borrowers acknowledge that they have no rights of withdrawal from the foregoing account.

(b) Except to the extent otherwise expressly provided herein, if the due date of any payment under this Agreement or the Note would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day, and interest shall be payable for any principal so extended for the period of such extension.

3.02 Computations. Interest on the Loans shall be computed on the basis of a 360-day year for the actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable.

Section 4. Collateral Security.

4.01 Collateral; Security Interest.

(a) The Custodian shall hold the Mortgage Loan Documents as bailee and agent for the Lender, as holder of a subordinated security interest in the Collateral.

(b) All of each Borrower's right, title and interest in, to and under each of the following items of property, whether now owned or hereafter acquired, now existing or hereafter created and wherever located, is hereinafter referred to as the "Collateral":

(i) all Mortgage Loans;

(ii) all Mortgage Loan Documents, including without limitation all promissory notes and any other collateral pledged or otherwise relating to such Mortgage Loans, together with all files, documents, instruments, surveys, certificates, correspondence, appraisals, computer programs, computer storage media, accounting records and other books and records relating thereto;

(iii) all mortgage guaranties and insurance (issued by governmental agencies or otherwise) and any mortgage insurance certificate or other document evidencing such mortgage guaranties or insurance relating to all Mortgage Loans pledged to the Lender hereunder and all claims and payments thereunder;

(iv) all agreements pursuant to which Mortgage Loans are acquired and all documents related thereto;

(v) all other insurance policies and insurance proceeds relating to all Mortgage Loans pledged to the Lender hereunder or the related Mortgaged Property;

(vi) all "general intangibles" as defined in the Uniform Commercial Code relating to or constituting any and all of the foregoing; and

(v) any and all replacements, substitutions, distributions on or proceeds of any and all of the foregoing.

(c) Each Borrower hereby assigns, pledges and grants, effective as of the first Business Day after the related Funding Date, a security interest in all of its right, title and interest in, to and under the Collateral, subject to the rights of any third-party lenders holding a first priority security interest therein, to the Lender to secure the repayment of principal of and interest on all Loans and all other amounts owing to the Lender hereunder, under the Note, any Credit Supports entered into by the Lender and under the other Loan Documents (collectively, the "Secured Obligations"). Each Borrower agrees to mark its computer records and tapes to evidence the interests granted to the Lender hereunder.

4.02 Further Documentation. At any time and from time to time, upon the written request of the Lender, and at the sole expense of the Borrowers, the Borrowers will promptly and duly execute and deliver, or will promptly cause to be executed and delivered, such further instruments and documents and take such further action as the Lender may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and owners herein granted, including, without limitation, the filing of any financing or continuation statements under the Uniform Commercial Code in effect in any jurisdiction with respect to the Liens created hereby. The Borrowers also hereby authorize the Lender to file any such financing or continuation statement without the signature of the Borrower to the extent permitted by applicable law. A carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement for filing in any jurisdiction.

4.03 Changes in Locations, Name, Etc. No Borrower shall (i) change the location of its chief executive office/chief place of business from that specified in Section 6 hereof or (ii) change its name, identity or corporate structure (or the equivalent) or change the location where it maintains its records with respect to the Collateral unless it shall have given the Lender at least

30 days prior written notice thereof and shall have delivered to the Lender all Uniform Commercial Code financing statements and amendments thereto as Lender may request and taken all other actions deemed necessary by Lender to continue its perfected status in the Collateral with the same or better priority.

4.04 Lender's Appointment as Attorney-in-Fact.

(a) Each Borrower hereby irrevocably constitutes and appoints the Lender and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Borrower and in the name of the Borrower or in its own name, from time to time in the Lender's discretion (which the Lender shall exercise only in the event of an Event of Default shall have occurred and be continuing), for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foreign, the Borrower hereby gives the Lender the power and right, on behalf of the Borrower, without assent by, but with notice to, the Borrower, to do the following, subject to the rights of any third-party lenders with a first priority security interest in the applicable Collateral:

(i) in the name of the Borrower or its own name, or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances or other instruments of the payment of moneys due under any mortgage insurance or with respect to any other Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or where otherwise deemed appropriate by the Lender for the purpose of collecting any and all such moneys due under any such mortgage insurance or with respect to any other Collateral whenever payable;

(ii) to pay or discharge taxes and Liens levied or placed on or threatened against the Collateral; and

(a) to direct any party liable for any payment under any Collateral to make payment of any and all moneys due or to become due thereunder directly to the Lender or as the Lender shall direct; (B) to ask or demand for, collect, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (C) to sign and endorse any invoices, assignments, verifications, notices and other documents in connection with any of the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any thereof and to enforce any right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Borrower with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described in clause (E) above and, in connection therewith, to give such discharges or releases as the Lender may deem appropriate; and (G) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Lender were the absolute owner thereof for all purposes, and to do, at Lender's option and the Borrower's expense, at any time, or from time to time, all acts and things which the Lender deems necessary to protect, preserve or realize upon the Collateral and the Lender's Liens thereon and to effect the intent of this Agreement, all as fully and effectively as the Borrower might do.

Each Borrower hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

(b) Each Borrower also authorizes the Lender, at any time and from time to time, to execute, in connection with the sale provided in Section 4.07 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

(c) The powers conferred on the Lender are solely to protect the Lender's interests in the Collateral and shall not impose any duty upon the Lender to exercise any such powers. The Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither the Lender nor any of its officers, directors or employees shall be responsible to the Borrowers for any act or failure to act hereunder, except for its own gross negligence or willful misconduct.

4.05 Performance by Lender of Borrower's Obligations. If any Borrower fails to perform or comply with any of its agreements contained in the Loan Documents and the Lender shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the expenses of the Lender incurred in connection with such performance or compliance, together with interest thereon at a rate per annum equal to the Post-Default Rate, shall be payable by the Borrower to the Lender on demand and shall constitute Secured Obligations.

4.06 Proceeds. Subject to the rights of any third-party lenders with first priority security interests in any Collateral, if an Event of Default shall occur and be continuing, (a) all proceeds of Collateral received by any Borrower consisting of cash, checks and other near-cash items shall be held by the Borrower in trust for the Lender, segregated from other funds of the Borrower, and shall forthwith upon receipt by the Borrower be turned over to the Lender in the exact form received by the Borrower (duly endorsed by the Borrower to the Lender, if required) and (b) any and all such proceeds received by the Lender (whether from the Borrower or otherwise) may, in the sole discretion of the Lender, be held by the Lender as collateral security for, and/or then or at any time thereafter may be applied by the Lender against, the Secured Obligations (whether matured or unmatured), such application to be in such order as the Lender shall elect. Any balance of such proceeds remaining after the Secured Obligations shall have been paid in full and this Agreement shall have been terminated shall be paid over to the Borrowers or to whomever may be lawfully entitled to receive the same. For purposes hereof, proceeds shall include, but not be limited to, all principal and interest payments, all prepayments and payoffs, insurance claims, condemnation awards, sale proceeds, real estate owned rents and any other income and all other amounts received with respect to the Collateral.

4.07 Remedies. Subject to the rights of any third-party lenders with first priority security interests in the Collateral, if an Event of Default shall occur and be continuing, the Lender may exercise, in addition to all other rights and remedies granted to it in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Secured Obligations, all rights and remedies of a secured party under the Uniform Commercial Code. Without limiting the generality of the foregoing, the Lender without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Borrowers or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels or as an entirety at public or private sale or sales, at any exchange, broker's

board or office of the Lender or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Borrowers, which right or equity is hereby waived or released. Each Borrower further agrees, at the Lender's request, to assemble the Collateral and make it available to the Lender at places which the Lender shall reasonably select, whether at the Borrower's premises or elsewhere. The Lender shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Lender hereunder, including, without limitation, reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Secured Obligations, in such order as the Lender may elect, and only after such application and after the payment by the Lender of any other amount required or permitted by any provision of law, including, without limitation, Section 9-504(1)(c) of the Uniform Commercial Code, need the Lender account for the surplus, if any, to the Borrowers. To the extent permitted by applicable law, each Borrower waives all claims, damages and demands it may acquire against the Lender arising out of the exercise by the Lender of any of its rights hereunder, other than those claims, damages and demands arising from the gross negligence or willful misconduct of the Lender. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition. Each Borrower shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are sufficient to pay the Secured Obligations and the fees and disbursements of any attorneys employed by the Lender to collect such deficiency.

4.08 Limitation on Duties Regarding Presentation of Collateral. The Lender's duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Uniform Commercial Code or otherwise, shall be to deal with it in the same manner as the Lender deals with similar property for its own account. Neither the Lender nor any of its directors, officers or employees shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of any Borrower or otherwise.

4.09 Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

4.10 Release of Security Interest. Upon termination of this Agreement and repayment to the Lender of all Secured Obligations and the performance of all obligations under all Credit Supports and other Loan Documents, the Lender shall release its security interest in any remaining Collateral.

Section 5. Conditions Precedent.

5.01 Initial Loan and Credit Supports. The obligation of the Lender to make its initial Loan and enter into the initial Credit Supports hereunder is subject to the satisfaction, immediately prior to or concurrently with the making of such Loan and the issuance of such Credit Supports, of the following conditions precedent: (a) Loan Documents. The Lender shall have received the following documents, each of which shall be satisfactory to the Lender in form and substance:

(i) Note. the Note, duly completed and executed;

(ii) Custodial Agreement. the Custodial Agreement, if any, duly executed and delivered by the related Borrower and the Custodian; and

(iii) Credit Supports. one or more agreements constituting Credit Supports, duly executed and delivered by the Borrower and the Lender.

In addition, the Borrowers shall have taken such other action as the Lender shall have requested in order to perfect the security interests created pursuant to the Agreement; and

(b) Organization Documents. A good standing certificate and certified copies of the charter and bylaws (or equivalent documents) of each Borrower and of all corporate or other authority for each Borrower with respect to the execution, delivery and performance of the Loan Documents and each other document to be delivered by the Borrowers from time to time in connection herewith (and the Lender may conclusively rely on such certificate until it receives notice in writing from any Borrower to the contrary);

(c) Legal Opinion. A legal opinion of counsel to the Borrowers, with such scope and substance and in such form as may be acceptable to the Lender; and

(d) Other Documents. Such other documents as the Lender may reasonably request.

5.02 Initial and Subsequent Loans and Credit Supports. The making of each Loan to a Borrower and issuance of each Credit Support (including the initial Loan and initial Credit Supports) on any Business Day is subject to the following further conditions precedent, both immediately prior to the making of such Loan or issuance of such Credit Support and also after giving effect thereto and to the intended use thereof:

(a) no Default or Event of Default shall have occurred and be continuing;

(b) (i) both immediately prior to the making of such Loan or issuance of such Credit Support and also after giving effect thereto and to the intended use thereof, the representations and warranties made by each Borrower in Section 6 hereof, and in each of the other Loan Documents, shall be true and complete on and as of the date of the making of such Loan or issuance of such Credit Support in all material respects (in the case of the representations and warranties in Section 6.10, solely with respect to Mortgage Loans included in the Collateral, if any) with the same force and effect as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date) and (ii) with respect to any Credit Support being issued to support a third party borrowing to finance the acquisition or maintenance of assets, the value of such assets must be equal to or greater than the sum of such third party indebtedness plus any Loan obtained to facilitate such acquisition or maintenance. The Lender shall have received an officer's certificate signed by a Responsible Officer of the Borrower certifying as to the truth and accuracy of the above, which certificate shall specifically include a statement that the Borrower is in compliance with all governmental licenses and authorizations and is qualified to do business and in good standing in all required jurisdictions;

(c) the aggregate outstanding principal amount of the Loans at the time shall not exceed $100,000,000 and the aggregate outstanding principal amount covered by Credit Supports at the time shall not exceed $1,000,000,000; and

(d) the Lender shall have completed its due diligence review of the Mortgage Loan Documents for each Loan and such other documents, records, agreements, instruments,

mortgaged properties or information relating to such Loans as the Lender deems necessary to review, including without limitation, a review of any related Servicing Agreement, and such review shall be satisfactory to the Lender in its sole discretion.

Section 6. Representations and Warranties.

Each Borrower represents and warrants to the Lender that throughout the term of this Agreement:

6.01 Existence. The Borrower (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (b) has all requisite corporate or other power, and has all governmental licenses, authorizations, consents and approvals, necessary to own its assets and carry on its business as now being or as proposed to be conducted, the lack of which would be reasonably likely to have a material adverse effect on its property, business or financial condition, or prospects; and (c) is qualified to do business and is in good standing in all other jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify would be reasonably likely (either individually or in the aggregate) to have a material adverse effect on its property, business or financial condition, or prospects.

6.02 Financial Condition. Holdings has heretofore furnished to the Lender a copy of its consolidated balance sheets and the consolidated balance sheets of its consolidated Subsidiaries for the first quarterly fiscal period of 1998. Holdings has also heretofore furnished to the Lender the related consolidated statements of income and retained earnings and of cash flows for Holdings and its consolidated Subsidiaries for the first quarterly fiscal period of 1998. All such financial statements are complete and correct and fairly present the consolidation financial condition of Holdings and its Subsidiaries and the consolidated results of their operations for the fiscal period needed on said date, all in accordance with GAAP applied on a consistent basis.

6.03 Litigation. There are no actions, suits, arbitrations, investigations or proceedings pending or, to its knowledge, threatened against the Borrower or any of its Subsidiaries or affecting any of the property thereof before any Governmental Authority, (i) as to which individually or in the aggregate there is a reasonable likelihood of an adverse decision which would be reasonably likely to have a material adverse effect on the property, business or financial condition, or prospects of the Borrower or (ii) which questions the validity or enforceability of any of the Loan Documents or any action to be taken in connection with the transactions contemplated hereby.

6.04 No Breach. Neither (a) the execution and delivery of the Loan Documents or (b) the consummation of the transactions therein contemplated in compliance with the terms and provisions thereof will conflict with or result in a breach of the charter or bylaws of the Borrower, or any applicable law, rule or regulation, or any order, writ, injunction or decree of any Governmental Authority, or any Servicing Agreement or other material agreement or instrument to which the Borrower, or any of its Subsidiaries, is a party or by which any of them or any of their property is bound or to which any of them is subject, or constitute a default under any such material agreement or instrument, or (except for the Liens created pursuant to this

Agreement) result in the creation or imposition of any Lien upon any property of the Borrower or any of its Subsidiaries pursuant to the terms of any such agreement or instrument.

6.05 Action. The Borrower has all necessary corporate or other power, authority and legal right to execute, deliver and perform its obligations under each of the Loan Documents; the execution, delivery and performance by the Borrower of each of the Loan Documents have been duly authorized by all necessary corporate or other action on its part; and each Loan Document has been duly and validly executed and delivered by the Borrower and constitutes a legal, valid and

binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

6.06 Approvals. No authorizations, approvals or consents of, and no filings or registrations with, any Governmental Authority, or any securities exchange, are necessary for the execution, delivery or performance by the Borrower of the Loan Documents or for the legality, validity or enforceability thereof, except for filings and recordings in respect of the Liens created pursuant to this Agreement.

6.07 Margin Regulations. Neither the making of any Loan hereunder, nor the use of the proceeds thereof, will violate or be consistent with the provisions of Regulation G, T, U or X.

6.08 Taxes. The Borrower and its Subsidiaries have filed all Federal income tax returns and all other material tax returns that are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by any of them, except for any such taxes, if any, that are being appropriately contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves have been provided. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of taxes and other governmental charges are, in the opinion of the Borrower, adequate.

6.09 Investment Company Act. Neither the Borrower nor any of its Subsidiaries is an "investment company," or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

6.10 Collateral; Collateral Security.

(a) The Borrower has not assigned, pledged, or otherwise conveyed or encumbered any Mortgage Loan to any other Person, and immediately prior to the pledge of such Mortgage Loan, the Borrower was the sole owner of such Mortgage Loan and had good and marketable title thereto, free and clear of all Liens, in each case except for Liens granted in favor of third-party lenders to the Borrower identified to the Lender prior to each Funding Date or Liens to be released simultaneously with the Liens granted in favor of the Lender hereunder.

(b) The provisions of this Agreement are effective to create in favor of the Lender a valid security interest in all right, title and interest of the Borrower in, to and under the Collateral.

(c) Upon receipt by the Custodian of each Mortgage Note, duly endorsed in blank, the Lender shall have a valid security interest therein, in the Mortgage Loan evidenced thereby and in the Borrower's interest in the related Mortgaged Property, which security interest may be subordinate to the security interest of third-party lenders to the Borrower.

(d) Upon the filing of financing statements on Form UCC-1 naming the Lender as "Secured Party" and the Borrower as "Debtor," and describing the Collateral, in the appropriate jurisdictions and recording offices, the security interests granted hereunder in the Collateral will constitute fully perfected security interests under the Uniform Commercial Code in all right, title and interest of the Borrower in, to and under such Collateral the perfection of a security interest in which can be effected by filing under the Uniform Commercial Code, which security interest may be subordinate to the security interest of third-party lenders to the Borrower.

6.11 Chief Executive Office. Holdings' and Residential's chief executive offices on the Effective Date are each located at 591 Redwood Highway, Suite 3140, Mill Valley, California 94941; and Commercial's chief executive office on the Effective Date is located at 6160 Plumas Street, Reno, Nevada 89509.

6.12 Location of Books and Records. The location where the Borrower keeps its books and records, including all computer tapes and records relating to the Collateral is its chief executive office.

Section 7A. Affirmative Covenants of the Borrower.

Each Borrower covenants and agrees with the Lender that, so long as any Loan or Credit Support is outstanding and until payment in full of all Secured Obligations:

7.01 Financial Statements. Holdings shall deliver to the Lender as soon as available all financial statements it prepares, including at a minimum the following:

(a) as soon as available and in any event within 20 days after the end of each of the first three quarterly fiscal periods of each fiscal year of Holdings, the consolidated balance sheets of Holdings and its consolidated Subsidiaries as at the end of such period and the related unaudited consolidated statements of income and retained earnings and of cash flows for Holdings and its consolidated Subsidiaries for such period and the portion of the fiscal year through the end of such period, setting forth in each case in comparative form the figures for the previous year, accompanied by a certificate of a Responsible Officer of Holdings, which certificate shall state that said consolidated financial statements fairly present the consolidated financial condition and results of operations of Holdings and its Subsidiaries in accordance with GAAP, consistently applied, as at the end of, and for, such period (subject to normal year-end audit adjustments);

(b) as soon as available and in any event within 60 days after the end of each fiscal year of Holdings, the consolidated balance sheets of Holdings and its consolidated Subsidiaries as at the end of such fiscal year and the related consolidated statements of income and retained earnings and of cash flows for Holdings and its consolidated Subsidiaries for such year, setting forth in each case in comparative form the figures for the previous year, accompanied by an opinion thereon of independent certified public accountants of recognized national standing previously approved by the Lender, which opinion shall not be qualified as to scope of audit or going concern and shall state that said consolidated financial statements fairly present the consolidated financial condition and results of operations of Holdings and its consolidated Subsidiaries as at the end of, and for, such fiscal year in accordance with GAAP, and a certificate of such accountants stating that, in making the examination necessary for their opinion, they obtained no knowledge, except as specifically stated, of any Default or Event of Default;

(c) from time to time such other information regarding the financial condition, operations, or business of Holdings as the Lender may reasonably request, including but not limited to quarterly audited financial statements.

Holdings agrees to cooperate fully and in a timely fashion with its independent accountants in connection with their audits. Holdings will furnish to the Lender, at the time it furnishes each set of financial statements pursuant to paragraphs (a) and (b) above, a certificate of a Responsible Officer of Holdings to the effect that, to the best of such Responsible Officer's knowledge, the Borrower and its consolidated Subsidiaries during such fiscal period or year have observed or performed all of their covenants and other agreements, and satisfied every condition, contained in this Agreement and the other Loan Documents to be observed, performed or satisfied by them, and that such Responsible Officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate (and, if any Default or Event of Default has occurred and is continuing, describing the same in reasonable detail and describing the action Holdings has taken or proposes to take with respect thereto).

7.02 Litigation. The Borrower will promptly, and in any event within 10 days after service of process on any of the following, give the Lender notice of all legal or arbitrable proceedings affecting the Borrower or any of its Subsidiaries that questions or challenges the validity or enforceability of any of the Loan Documents or as to which there is a reasonable likelihood of adverse determination which would result in a material adverse effect.

7.03 Existence, Etc. The Borrower will:

(a) preserve and maintain its legal existence and all of its material rights, privileges, licenses and franchises (provided, that nothing in this Section 7.03 shall prohibit any transaction expressly permitted under Section 7.04 hereof);

(b) comply with the requirements of all applicable laws, rules, regulations and orders of Government Authorities (including, without limitation, all environmental laws) if failure to comply with such requirements would be reasonably likely (either individually or in the aggregate) to have a material adverse effect on its property, business or financial condition, or prospects;

(c) keep adequate records and books of account, in which complete entries will be made in accordance with GAAP consistently applied; and

(d) not move its chief executive office from the address referred to in Section 6.11 unless it shall have provided the Lender 30 days prior written notice of such change.

7.04 Cooperation and Access to Records. The Borrower agrees to cooperate fully and in a timely fashion with the Lender's requests for information or access to data, reports, records and personnel made for purposes of the Lender's compliance with securities law reporting and filing requirements, federal and state tax reporting and filing requirements or any other legal or regulatory reporting and filing requirements applicable to it. As part of this cooperation, the Borrower will agree to provide the following information:

(a) keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities; and

(b) permit: (i) representatives of the Lender to (A) visit and inspect any of its properties and examine and make abstracts from any of its books and records at any reasonable time and as often as may reasonably be desired by the Lender (but, prior to the occurrence of an Event of Default, only upon not less than two (2) Business Days' prior notice), and (B) discuss the business, operations, properties and financial and other condition of the Borrower with officers and employees of the Borrower, and with its independent certified public accountants, and (ii) representatives of the Lender to conduct periodic operational audits of the Borrower's business and operations

7.05 Notices. The Borrower shall give notice to the Lender:

(a) promptly of the occurrence of any Default or Event of Default; and

(b) promptly of any default related to any Collateral and any event or change in circumstances, in each case which could reasonably be expected to have a material adverse effect on the Borrower's property, business or financial condition, or prospects.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower has taken or proposes to take with respect thereto.

7.06 Insurance. The Borrower agrees to obtain and maintain insurance with responsible companies in such amounts and against such risks as are usually carried by corporations engaged in similar businesses similarly situated, and furnish the Lender on request full information as to all such insurance, and to provide within five (5) days after receipt, certificates or other documents evidencing the renewal of each such policy. The Borrower will file claims and process recoveries under any such policy or any policy of the Lender.

Section 7B. Negative Covenants.

Each Borrower covenants and agrees with the Lender that, so long as any Loan or Credit Support is outstanding and until payment in full of all Secured Obligations:

7.07 Total Indebtedness to Adjusted Net Worth Ratio. Holdings will not permit its ratio at any date of Total Indebtedness to Adjusted Net Worth to be more than 10.0:1.0.

7.08 Loan Indebtedness to GAAP Net Worth. Holdings will not permit its ratio at any date of Loan Indebtedness to GAAP Net Worth to be more that 2.0:1.0.

7.09 Minimum GAAP Net Worth. Holdings will not permit its GAAP Net Worth as of the last day of any fiscal quarter to be less than the sum of (1) $7,000,000, plus (2) fifty percent (50%) of (A) the cash proceeds of any sale or issuance of equity securities of any Borrower (or of any options, warrants or rights in respect of any such equity securities) which issuance takes place after the date of this Agreement, plus (B) cumulative after-tax earnings earned after the date hereof less cumulative dividends paid after the date of this Agreement.

Section 8. Events of Default.

Each of the following events shall constitute an event of default (an "Event of Default") hereunder:

(a) the Borrowers shall default in the payment of any principal of or interest on any Loan when due (whether at Stated Maturity, upon acceleration or at mandatory or optional prepayment) or any Credit Support when due; or

(b) the Borrowers shall default in the payment of any other amount payable hereunder or under any other Loan Document after notification by the Lender of such default, and such default shall have continued unremedied for five Business Days; or

(c) any representation, warranty or certification made or deemed made herein or in any other Loan Document by any Borrower or any certificate furnished to the Lender pursuant to the provisions thereof, shall prove to have been false or misleading in any material respect as of the time made or furnished; or

(d) any Borrower shall fail to comply with the requirements of Section 7.03 (as to existence), Section 7.04, Section 7.05, Section 7.06, Section 7.07 or Section 7.08 hereof; or any Borrower shall otherwise fail to comply with the requirements of Section 7.03 hereof and such default shall continue unremedied for a period of five Business Days; or any Borrower shall fail to observe or perform any other agreement contained in this Agreement or any other Loan Document and such failure to observe or perform shall continue unremedied for a period of seven Business Days; or

(e) a final judgment or judgments for the payment of money in excess of $5,000,000 in the aggregate shall be rendered against any Borrower or any Subsidiary of a Borrower by one or more courts, administrative tribunals or other bodies having jurisdiction over them and the same shall not be discharged (or provision shall not be made for such discharge) or bonded, or a stay of execution thereof shall not be procured, within 60 days from the date of entry thereof and the Borrower or any such Subsidiary shall not, within said period of 60 days, or such longer period during which execution of the same shall have been stayed or bonded, appeal therefrom and cause the execution thereof to be stayed during such appeal; or

(f) any Borrower shall admit in writing its inability to pay its debts as such debts become due; or

(g) any Borrower or any Subsidiary of a Borrower shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, examiner or liquidator of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its creditors, (iii) commerce a voluntary case under the Bankruptcy Code, (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement or winding-up, or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Bankruptcy Code or (vi) take any corporate or other action for the purpose of effecting any of the foregoing; or

(h) a proceeding or case shall be commenced with respect to any Borrower or any Subsidiary of a Borrower, without the application or consent of the Borrower or any such Subsidiary, in any court of competent jurisdiction, seeking (i) its reorganization, liquidation, dissolution, arrangement or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a receiver, custodian, trustee, examiner, liquidator or the like of the Borrower or any such Subsidiary or of all or any substantial part of its property, or (iii) similar relief in respect of the Borrower or any such Subsidiary under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days; or an order for relief against the Borrower or any such Subsidiary shall be entered in an involuntary case under the Bankruptcy Code; or

(i) the Custodial Agreement shall for whatever reason be terminated or cease to be in full force and effect, or the enforceability thereof shall be contested by any Borrower; or

(j) any Borrower grants, or suffers to exist, any Lien not contemplated herein or the Liens contemplated hereby cease to be perfected Liens on any Collateral; or

(i) any materially adverse change in the properties, business or financial condition, or prospects of any Borrower or any Subsidiary of a Borrower, in each case as determined by the Lender in its sole discretion, or the existence of any other condition which, in the Lender's sole discretion, constitutes a material impairment of the Borrowers' collective ability to perform their obligations under this Agreement, the Note, the Credit Supports or any other Loan Document.

Section 9. Remedies Upon Default.

(a) Upon the occurrence of one or more Events of Default other than those referred to in Section 8(g) or (h), the Lender may immediately declare the principal amount of the Loans then outstanding under the Note to be immediately due and payable, together with all interest thereon and fees and expenses accruing under this Agreement; provided that upon the occurrence of an Event of Default referred to in Sections 8(g) or (h) such amounts shall immediately and automatically become due and payable without any further action by any Person. Upon such declaration or such automatic acceleration, the balance then outstanding on the Note shall become immediately due and payable, without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrowers.

(b) Upon the occurrence of one or more Events of Default, the Lender shall have the right to obtain physical possession of the files of the Borrowers relating to the Collateral and all documents relating to the Collateral which are then or may thereafter come in to the possession of any Borrower or any third party acting for any Borrower and each Borrower shall deliver to the Lender such assignments as the Lender shall request. The Lender shall be entitled to specific performance of all agreements of the Borrowers contained in this Agreement.

Section 10. No Duty on Lender's Part.

The powers conferred on the Lender hereunder are solely to protect the Lender's interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to the Borrowers for any act or failure to act hereunder, except for its own gross negligence or willful misconduct.

Section 11. Miscellaneous.

11.01 Waiver. No failure on the part of the Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any Loan Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

11.02 Notices. Except as otherwise expressly permitted by this Agreement, all notices, requests and other communications provided for herein and under the Custodial Agreement (including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement) shall be given or made in writing (including, without limitation, by telex or telecopy) delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof); or, as to any party, at such other address as shall be designated by such party in a written notice to each other party. Except as otherwise provided in this Agreement and except for notices given under Section 2 (which shall be effective only on receipt), all such communications shall be deemed to have been duly given when transmitted by telex or telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid.

11.03 Indemnification and Expenses.

(a) The Borrowers agree, jointly and severally, to hold the Lender harmless from and indemnify the Lender against all liabilities, losses, damages, judgments, costs and expenses of any kind which may be imposed on, incurred by, or asserted against the Lender, relating to or arising out of, this Agreement, the Note, the Credit Supports, any other Loan Document or any transaction contemplated hereby or thereby, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Note, the Credit Supports, any other Loan Document or any transaction contemplated hereby or thereby, that, in each case, results from anything other than the Lender's gross negligence or willful misconduct. In any suit, proceeding or action brought by the Lender in connection with any Mortgage Loan for any sum owing thereunder, or to enforce any provisions of any Mortgage Loan, the Borrowers will save, indemnify and hold the Lender harmless form and against all expense, loss or damage suffered by reason of any defense, set-off, counterclaim, recoupment or reduction or liability whatsoever of the account debtor or obligor thereunder, arising out of a breach by a Borrower of any obligations thereunder or arising out of any other agreement, indebtedness or liability at any time owing to or in favor of such account debtor or obligor or its successors from a Borrower. The Borrowers also agree to reimburse the Lender for all of its costs and expenses incurred in

connection with the enforcement or the preservation of the Lender's rights under this Agreement, the Note, the Credit Supports, any other Loan Document or any transaction contemplated hereby or thereby, including without limitation the reasonable fees and disbursements of its counsel. The Borrowers hereby acknowledge that, notwithstanding the fact that the Note and Credit Supports are secured by the Collateral, the obligations of the Borrowers under the Note and Credit Supports are recourse obligations of the Borrowers.

(b) The Borrowers agree to pay as and when billed by the Lender all of the out-of-pocket costs and expenses incurred by the Lender in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement, the Note, the Credit Supports, any other Loan Document or any other documents prepared in connection herewith or therewith. The Borrowers agree to pay as and when billed by the Lender all of the out-of-pocket costs and expenses incurred in connection with the consummation and administration of the transactions contemplated hereby and thereby including, without limitation, (i) all the reasonable fees, disbursements and expenses of Tobin & Tobin, counsel to the Lender and any local counsel to the Lender, and (ii) all the reasonable due diligence, inspection, testing and review costs and expenses incurred by the Lender with respect to Collateral under this Agreement, including, but not limited to, those costs and expenses incurred by the Lender pursuant to Section 11.14 hereto.

11.04 Amendments. Except as otherwise expressly provided in this Agreement, any provision of this Agreement may be modified or supplemented only by an instrument in writing signed by the Borrowers and the Lender and any provision of this Agreement may be waived by the Lender.

11.05 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

11.06 Survival. The obligations of the Borrowers under Sections 3.03 and 11.03 hereof shall survive the repayment of the Loans and the Credit Supports and the termination of this Agreement. In addition, each representation and warranty made, or deemed to be made by a request for a borrowing, herein or pursuant hereto shall survive the making of such representation and warranty, and the Lender shall not be deemed to have waived, by reason of making any Loan, any Default that may arise by reason of such representation or warranty proving to have been false or misleading, notwithstanding that the Lender may have had notice or knowledge or reason to believe that such representation or warranty was false or misleading at the time such Loan was made.

11.07 Captions. The table of contents and captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

11.08 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart.

11.09 Agreement Constitutes Security Agreement; Governing Law. This Agreement shall be governed by California law without reference to choice of law doctrine, and shall constitute a security agreement within the meaning of the Uniform Commercial Code.

11.10 SUBMISSION TO JURISDICTION; WAIVERS. EACH BORROWER HEREBY

IRREVOCABLY AND UNCONDITIONALLY:

(A) SUBMITS FOR ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT, THE NOTE, THE

CREDIT SUPPORTS, AND THE OTHER LOAN DOCUMENTS, OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NON-EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATE OF CALIFORNIA, THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA FOR THE NORTHERN DISTRICT OF CALIFORNIA, AND APPELLATE COURTS FROM ANY THEREOF;

(B) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS AND, TO THE EXTENT PERMITTED BY LAW, WAIVES ANY OBJECTION THAT IT MAY NOW OR THEREAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME;

(C) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, TO ITS ADDRESS SET FORTH UNDER ITS SIGNATURE BELOW OR AT SUCH OTHER ADDRESS OF WHICH THE LENDER SHALL HAVE BEEN NOTIFIED; AND

(D) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT TO SUE IN ANY OTHER JURISDICTION.

11.11 WAIVER OF JURY TRIAL. EACH OF THE BORROWERS AND THE LENDER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

11.12 Acknowledgments. Each Borrower hereby acknowledges that:

(a) the Lender has no fiduciary relationship to the Borrower, and the relationship between the Borrower and the Lender is solely that of debtor and creditor; and

(b) no joint venture exists between the Lender and the Borrower.

11.13 Termination. This Agreement may be terminated by the Lender or Holdings by delivering written notice of such termination to each of the other parties hereto at least 60 days prior to the effective date of termination. Termination of this Agreement shall not affect the terms of Loans or Credit Supports at the time outstanding and shall otherwise be subject to Section 11.06 hereof.

11.14 Servicing.

(a) The Borrowers covenant to cause the servicing of the Mortgage Loans to be maintained in conformity with accepted and prudent servicing practices in the industry for the same type of mortgage loans as the Mortgage Loans and in a manner at least equal in quality to the servicing the Borrowers provide to other mortgage loans which they own.

(b) The Mortgage Loans will be serviced by one or more third-party servicers (each such third-party servicer, the "Servicer"). The Borrowers (i) shall provide a copy of each servicing agreement to the Lender, which servicing agreement shall be in form and substance acceptable to the Lender (the "Servicing Agreement"); and (ii) hereby irrevocably assign to the Lender and Lender's successors and assigns all right, title, interest and the benefits of the Servicing Agreements with respect to the Mortgage Loans.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written.

BORROWERS

RWT HOLDINGS, INC.

By: /s/ Vickie L. Rath

Title: Treasurer

Address for Notices:

591 Redwood Highway
Suite 3140
Mill Valley, California 94941
Attn: Vickie L. Rath
Telecopier No.: (415) 381-1773
Telephone No.: (415) 389-7373

REDWOOD RESIDENTIAL
FUNDING, INC.

By: /s/ Vickie L. Rath

Title: Treasurer

Address for Notices:

591 Redwood Highway
Suite 3140
Mill Valley, California 94941
Attn: Vickie L. Rath
Telecopier No.: (415) 381-1773
Telephone No.: (415) 389-7373

REDWOOD COMMERCIAL
FUNDING, INC.

By: /s/ Vickie L. Rath

Title: Treasurer

Address for Notices:

6160 Plumas Street
Reno, Nevada 89509
Attn: Vickie L. Rath
Telecopier No.: (415) 381-1773
Telephone No.: (415) 389-7373

REDWOOD FINANCIAL SERVICES, INC.

By: /s/ Vickie L. Rath

Title: Treasurer

Address for Notices:

591 Redwood Highway
Suite 3140
Mill Valley, California 94941
Attn: Vickie L. Rath
Telecopier No.: (415) 381-1773
Telephone No.: (415) 389-7373

LENDER

REDWOOD TRUST, INC.

By: /s/ Douglas B. Hansen

Title: President

Address for Notices:

591 Redwood Highway
Suite 3100
Mill Valley, California 94941
Attn: Douglas B. Hansen, President
Telecopier No.: (415) 381-1773
Telephone No.: (415) 389-7373

EXHIBIT A

[FORM OF PROMISSORY NOTE]

FOR VALUE RECEIVED, RWT HOLDINGS, INC., a Delaware corporation ("Holdings"), REDWOOD RESIDENTIAL FUNDING, INC., a Delaware corporation ("Residential"), REDWOOD COMMERCIAL FUNDING, INC., a Delaware corporation ("Commercial"), REDWOOD FINANCIAL SERVICES, INC., a Delaware corporation ("Financial"), and each additional subsidiary of Holdings that may sign this Note (collectively, the "Borrowers" and each individually, a "Borrower") hereby promise, jointly and severally, to pay to the order of REDWOOD TRUST, INC., a Maryland corporation (the "Lender"), at the principal office of the Lender at 591 Redwood Highway, Suite 3100, Mill Valley, California 94941, in lawful money of the United States, and in immediately available funds, the principal sum of the aggregate unpaid principal amount of the Loans made by the Lender to the Borrowers under the Agreement, on the dates and in the principal amounts provided in the related Loan Commitments issued under the Agreement, and to pay interest on the unpaid principal amount of each such Loan, at such office, in like money and funds, for the period commencing on the date of such Loan until such Loan shall be paid in full, at the rates per annum and on the dates provided in each such Loan Commitment.

The date, amount and interest rate of each Loan made by the Lender to a Borrower, and each payment made on account of the principal thereof, shall be recorded by the Lender on its books and, prior to any transfer of the Note, endorsed by the Lender on the schedule attached hereto or any continuation thereof; provided, that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower to make a payment when due of any amount owing under the Agreement or hereunder in respect of the Loans made by the Lender.

This Note is the Note referred to in the Lending and Credit Support Agreement dated as of April 1, 1998 (as amended, supplemented or otherwise modified and in effect from time to time, the "Agreement") between the Borrowers and the Lender, and evidences Loans made by the Lender thereunder. Terms used but not defined in this Note have the respective meanings assigned to them in the Agreement.

The Borrowers agree to pay all the Lender's costs of collection and enforcement (including reasonable attorneys' fees and disbursements of Lender's counsel) in respect of this Note when incurred, including, without limitation, reasonable attorneys' fees through appellate proceedings.

Notwithstanding the pledge of the Collateral, each Borrower hereby acknowledges, admits and agrees that the Borrower's obligations under this Note are recourse obligations of the Borrower to which the Borrower pledges its full faith and credit.

The Borrowers, and any indorsers or guarantors hereof, (a) severally waive diligence, presentment, protest and demand and also notice of protest, demand, dishonor and nonpayments of this Note, (b) expressly agree that this Note, or any payment hereunder, may be extended from time to time, and consent to the acceptance of further Collateral, the release of any Collateral for this Note, the release of any party primarily or secondarily liable hereon, and (c) expressly agree that it will not be necessary for the Lender, in order to enforce payment of this Note, to first institute or exhaust the Lender's remedies against the Borrowers or any other party liable hereon or against any Collateral for this Note. No extension of time for the payment of this Note, or any installment hereof, made by agreement by the Lender with any person now or hereafter liable for the payment of this Note, shall affect the liability under this Note of any Borrower, even if the Borrower is not a party to such agreement; provided, however, that the Lender and any Borrower, by written agreement between them, may affect the liability of the Borrower.

Any reference herein to the Lender shall be deemed to include and apply to every subsequent holder of this Note. Reference is made to the Agreement for provisions concerning prepayments, Collateral, acceleration and other material terms affecting this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED UNDER THE LAWS OF THE STATE OF CALIFORNIA (WITHOUT REFERENCE TO CHOICE OF LAW DOCTRINE) WHOSE LAWS THE BORROWER EXPRESSLY ELECTS TO APPLY TO THIS NOTE. THE BORROWER AGREES THAT ANY ACTION OR PROCEEDING BROUGHT TO ENFORCE OR ARISING OUT OF THIS NOTE MAY BE COMMENCED IN THE COURTS OF THE STATE OF CALIFORNIA.

RWT HOLDINGS, INC.

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

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

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

REDWOOD RESIDENTIAL
FUNDING, INC.

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

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

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

REDWOOD COMMERCIAL
FUNDING, INC.

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

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

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

REDWOOD FINANCIAL SERVICES, INC.

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

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

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

SCHEDULE OF LOANS

This Note evidences Loans made under the within-described Agreement to the Borrowers, on the dates, in the principal amounts and bearing interest at the rates set forth below, and subject to the payments and prepayments of principal set forth below:

<TABLE>
<CAPTION>

Date Made	Borrower	Principal Amount of Loan	Amount Paid or Prepaid	Unpaid Principal Amount	Notation Made By
<S>	<C>	<C>	<C>	<C>	<C>

</TABLE>

[FORM OF LOAN COMMITMENT]

VIA FACSIMILE

RWT Holdings, Inc. [or other Borrower]
591 Redwood Highway, Suite 3140
Mill Valley, California 94941

Loan Commitment No.:_______________

Ladies and Gentlemen:

We hereby offer to make a Loan to you with the characteristics set forth below, subject to the terms and conditions set forth in the Lending and Credit Support Agreement, dated as of April 1, 1998 (the "Agreement"; capitalized terms used but not otherwise defined herein shall have the meaning given them in the Agreement), you and us:

Lender:	Redwood Trust, Inc.
Borrower:	RWT Holdings, Inc. [or other Borrower]
Loan Amount:	$_______________
Funding Date:	________________
Applicable Margin:	________basis points (_________%)
Mortgage Loans to be Pledged on Funding Date:	See Schedule I attached hereto
Borrower's account information and wire transfer instructions:	________________

If you would like to accept or decline our offer set forth above, please notify us by telephone immediately. If we have not heard from you within one (1) Business Day from the date set forth under our signature below, you will be deemed to have accepted our offer.

REDWOOD TRUST, INC.

By:_________________________________
Name:_______________________________
Title:______________________________

Date:_______________________________

EXHIBIT C

[FORM OF CREDIT SUPPORT COMMITMENT]

VIA FACSIMILE

RWT Holdings, Inc. [or other Borrower]
591 Redwood Highway, Suite 3140
Mill Valley, California 94941

Credit Support Commitment No.:____________

Ladies and Gentlemen:

We hereby offer to extend Credit Support in your favor with the characteristics set forth below, subject to the terms and conditions set forth in the Lending and Credit Support Agreement, dated as of April 1, 1998 (the "Agreement"; capitalized terms used but not otherwise defined herein shall have the meaning given them in the Agreement), you and us:

Lender:	Redwood Trust, Inc.
Borrower:	RWT Holdings, Inc. [or other Borrower]
Loan Amount:	$_______________
Funding Date:	________________
Applicable Margin:	________basis points (_________%)
Mortgage Loans to be Pledged on Funding Date (if any):	See Schedule I attached hereto
Third-Party Lender:.	___________________________
Credit Support Documents:	___________________________
Credit Support Fee:	___________________________

If you would like to accept or decline our offer set forth above, please notify us by telephone immediately. If we have not heard from you within one (1) Business Day from the date set forth under our signature below, you will be deemed to have accepted our offer.

REDWOOD TRUST, INC.

By:_________________________________
Name:_______________________________
Title:______________________________

Date:_______________________________

EXHIBIT 10.34

MASTER FORWARD COMMITMENT AGREEMENT

THIS MASTER FORWARD COMMITMENT AGREEMENT (the "Agreement") is entered into and effective as of October 1, 1998 by and between REDWOOD TRUST, INC. (the "REIT") and RWT HOLDINGS, INC. ("Holdings").

W I T N E S S E T H:

WHEREAS, the REIT acquires and holds in portfolio residential and commercial mortgage loans ("Mortgage Loans") in the normal course of its business; and

WHEREAS, Holdings desires to acquire certain types of Mortgage Loans for purposes of selling such loans in whole loan sale transactions or securitizing such loans in a REMIC or other securitization transaction; and

WHEREAS, the REIT and Holdings desire to set forth the terms and conditions under which the REIT will offer to sell Mortgage Loans to Holdings from time to time and Holdings will commit to purchase from the REIT such Mortgage Loans; and

WHEREAS, the REIT and Holdings desire to set forth their specific rights and duties with respect to such Mortgage Loans prior to and following delivery thereof to Holdings.

NOW, THEREFORE, in consideration of the agreements herein contained, the REIT and Holdings agree as follows:

Section 1. Definitions. Each term defined in this Section, when used in this Agreement, shall, unless the context otherwise requires, have the following meaning:

"Code" means the Internal Revenue Code of 1986, as amended.

"Commitment" means, in the case of any Mortgage Loans offered to Holdings for purchase, the related commitment made by Holdings to acquire such Mortgage Loans from the REIT.

"Commitment Term" means, with respect to any Commitment, the period commencing on the date on which such Commitment becomes effective and ending on the 90th day after the later of (a) such effective date or (b) the date on which the REIT purchases the Mortgage Loans that are the subject of the Commitment, or such later day as may be mutually agreed upon by the REIT and Holdings.

"Eligible Mortgage Loans" means Mortgage Loans that meet the loan eligibility criteria specified in writing by Holdings from time to time, but excluding any Mortgage Loans that are 60 or more days delinquent on the Settlement Date therefor, unless expressly determined to be includable by Holdings in its sole discretion.

"Expenses" means all expenses associated with the acquisition of Mortgage Loans, including, without limitation, costs associated with production, marketing, hedging, underwriting, funding, document control, file control and quality control.

"Law" means any constitutional provision, statute or other law, rule, regulation or interpretation of any government or any agency, bureau, board, commission, court, department official, political subdivision, tribunal or other instrumentality of any government, whether federal, state or local, domestic or foreign, or any decree, injunction, judgment, order, ruling, assessment or writ.

"Mortgage Loan" means any mortgage loan (a) that is owned or acquired by the REIT during the term of this Agreement, and (b) that the REIT offers to sell to Holdings hereunder.

"REMIC" means any real estate mortgage investment conduit as defined in Section 860D(a) of the Code.

"reverse repurchase agreement" means any reverse repurchase agreement entered into and effective from time to time by and between the REIT and/or Holdings and a counterparty-purchaser.

"Settlement Date" means, as to any Mortgage Loans, the earliest of:

(i) the date on which such Mortgage Loans are sold by Holdings as part of a whole loan sale;

(ii) the date on which such Mortgage Loans are contributed to a REMIC or other securitization vehicle by Holdings; or

(iii) the last day of the applicable Commitment Term for such Mortgage Loans.

Section 2. The REIT's Rights and Obligations Under the Commitment.

(a) Subject to and upon compliance with the terms and conditions of this Agreement, the REIT agrees to offer from time to time Mortgage Loans which constitute Eligible Mortgage Loans for sale to Holdings. Each such offer will be in the form of a Commitment to be signed by Holdings upon acceptance of such offer. The REIT agrees to sell all of its rights with respect to Mortgage Loans covered by a signed Commitment pursuant to the terms thereof and this Agreement.

(b) It is expressly understood that the REIT may acquire assets for its portfolio including Eligible Mortgage Loans and the REIT shall be under no obligation to sell such other assets to Holdings pursuant to the terms of this Agreement unless it determines, in its sole discretion, to issue a Commitment to Holdings with respect thereto.

Section 3. Holdings's Rights and Obligations Under the Commitments.

(a) Subject to and upon compliance with the terms and conditions of this Agreement, Holdings agrees to purchase and assume all of the REIT's rights and obligations with respect to Mortgage Loans covered by a Commitment accepted by Holdings.

(b) It is expressly understood that, except as otherwise provided in Section 2(a) hereof, Holdings shall be under no obligation pursuant to this Agreement to purchase any Mortgage Loans which the REIT may offer to sell from its portfolio.

Section 4. Purchase Price. The purchase price to be paid by Holdings for Mortgage Loans will be specified in the Commitment relating to such Mortgage Loans. The purchase price will be a percentage of the outstanding principal balance of the Mortgage Loans as of the Settlement Date for such loans.

Section 5. Settlement.

(a) At any time during the Commitment Term for a pool of Mortgage Loans, Holdings may schedule a Settlement Date within such Commitment Term by delivering written notice to the REIT not less than three (3) business days prior to such proposed Settlement Date. The REIT agrees to use reasonable efforts to facilitate the transfer of such Mortgage Loans on the Settlement Date so specified by Holdings.

(b) On the Settlement Date for a Commitment, (i) the REIT shall sell and assign to Holdings all of the REIT's rights with respect to each pool of Mortgage Loans subject to settlement on such Settlement Date, as identified by Holdings, and (ii) shall purchase and assume all of the REIT's rights and obligations with respect to such loans, in each case pursuant to the terms and conditions of this Agreement.

(c) To the extent Holdings causes a Settlement Date to occur prior to the 90th day after the effective date of the related Commitment, Holdings shall pay to the REIT on such Settlement Date in addition to the purchase price an amount equal to: (i) the purchase price, times (ii) .0025, times (iii) ((A) 90 minus the number of days from such effective date to but not including the Settlement Date, divided by (B) 360).

Section 6. No Security for Commitment. Holdings will not be required to deliver any security to support its purchase obligation under any Commitment, regardless of any changes in the fair market value of the Mortgage Loans covered by such Commitment between the time of entering into the Commitment and the Settlement Date thereunder.

Section 7. Obligation to Purchase Limited to Eligible Mortgage Loans; Repurchase Obligation.

(a) Notwithstanding any provision in this Agreement to the contrary, Holdings shall have no obligation to purchase Mortgage Loans covered by a Commitment hereunder unless such Mortgage Loans qualify as Eligible Mortgage Loans on, and are not incapable of delivery because they failed to close or were paid off prior to, the Settlement Date.

(b) The parties agree that Holdings shall not amend or modify the general loan eligibility criteria without obtaining the prior written consent of the REIT.

(c) In the case of any Mortgage Loans purchased or to be purchased by Holdings hereunder and determined, by the mutual agreement of the REIT and Holdings, not to qualify as Eligible Mortgage Loans as of the related Settlement Date, the REIT shall, if Holdings so elects (i) retain such Mortgage Loans if not theretofore purchased by Holdings or (ii) if already purchased by Holdings, repurchase such Mortgage Loans at a price equal to the price paid by Holdings for such Mortgage Loans, net of any principal payments received by Holdings on or in respect of Mortgage Loans prior to the date of such repurchase.

(d) In the case of Mortgage Loans purchased or to be purchased by Holdings hereunder and determined by Holdings to qualify as Eligible Mortgage Loans but to be unmarketable (for reasons including, without limitation, relating to loan characteristics or insufficient volume of loans with similar characteristics), Holdings may request that the REIT either (i) retain such Mortgage Loans if not theretofore purchased by Holdings or (ii) repurchase such Mortgage Loans; it being understood that the REIT shall be under no obligation to honor either of such requests. In the event that the REIT agrees to repurchase such Mortgage Loans, the repurchase price shall equal the "fair market value" of such Mortgage Loans as determined in accordance with a methodology approved by the respective boards of directors of the REIT and Holdings.

Section 8. Allocation of Risks, Expenses and Payments.

(a) Prior to each Settlement Date, the REIT shall be the legal and beneficial owner of the Mortgage Loans and accordingly:

   (i) the REIT shall bear (x) all prepayment risk and (y) all credit risk of the related Mortgage Loans;

   (ii) any payments accruing on such Mortgage Loans shall be solely for the account of the REIT;

   (iii) the portion of any repurchase or other debt obligation attributable to interest accruing on a reverse repurchase agreement or other debt obligation entered into by the REIT with respect to such Mortgage Loans prior to such Settlement Date shall be charged to the account of the REIT; and

   (iv) the REIT shall bear, and shall not be reimbursed for, any Expenses it might incur in respect of such Mortgage Loans.

(b) On and after each Settlement Date, legal and beneficial ownership of the Mortgage Loans shall be transferred to Holdings and accordingly:

   (i) Holdings shall thereafter bear (x) all prepayment risk and (y) all credit risk of the related Mortgage Loans;

   (ii) any payments accruing on such Mortgage Loans shall be for the sole account of Holdings;

   (iii) the portion of the repurchase or other debt obligation attributable to interest accruing on a reverse repurchase agreement or other debt obligation entered into by Holdings with respect to such Mortgage Loans subsequent to the Settlement Date shall be charged to the account of Holdings; and

   (iv) Holdings shall bear any Expenses it might incur in respect of such Mortgage Loans.

Section 9. Notice Requirements.

(a) Holdings shall notify the REIT of the Mortgage Loans subject to each Settlement Date at least three (3) business days prior to such Settlement Date as provided in Section 5(a) above.

(b) Contemporaneously with each Settlement Date, the REIT shall notify the counterparty-purchaser to any reverse repurchase agreement or the obligee under any other debt obligation entered into by the REIT with respect to the related Mortgage Loans of (i) the transfer to Holdings of such Mortgage Loans pursuant to the terms and conditions of this Agreement and (ii) the assumption, if any, by Holdings of the rights and obligations under any reverse repurchase agreement or any debt obligation to which such counterparty-purchaser or obligee is a party.

Section 10. Indemnification.

(a) Subject to Sections 7 and 8 hereof, Holdings agrees to indemnify and hold harmless the REIT from and against all costs, including without limitation reasonable attorney's fees, damages, liabilities, losses or expenses of any nature, relating to (i) any obligations with respect to any Mortgage Loans that arise on or after the related Settlement Date or (ii) any failure by Holdings to purchase the REIT's rights or assume the REIT's obligations with respect to any Mortgage Loans as required under this Agreement.

(b) Subject to Sections 7 and 8 hereof, the REIT agrees to indemnify and hold harmless Holdings from and against all costs, including without limitation, reasonable attorney's fees, damages, liabilities, losses or expenses of any nature, relating to (i) any obligations with respect to any Mortgage Loans that arise prior to the related Settlement Date or (ii) any failure by the REIT to sell and assign any Mortgage Loans to Holdings as required under this Agreement.

Section 11. Term of Agreement.

(a) The term of this Agreement shall be for one year from the date first written above and shall thereafter be automatically renewed for successive one-year periods; provided, however, that

this Agreement may be terminated upon sixty (60) days' written notice by either party to the other.

(b) Notwithstanding any termination of this Agreement pursuant to Section 11(a) hereof, the provisions of Sections 4(c), 7(c), 7(d), 8, 10 and 12 hereof and this Section 11(b) shall survive any such termination. In addition, upon any such termination of this Agreement, any Commitment or portion thereof which remains unfulfilled shall survive such termination.

Section 12. Miscellaneous.

(a) Waiver of Law. No provision of the Law is waived except as expressly provided herein; provided, however, that the REIT and Holdings hereby expressly waive the provisions of the Law to the full extent permitted by the Law in order to uphold the provisions and validity of this Agreement and to cause this Agreement to be valid, binding and enforceable in accordance with its terms upon each of them and their respective transferees, successors and assigns.

(b) Notices. Unless otherwise specified in this Agreement, any notice required by this Agreement shall be transmitted in writing or by any other form of communication (including without limitation electronic mail) acceptable to the party to whom it is given, addressed to the President, with a copy to the Treasurer, of the party to whom it is given, and shall be effective and deemed delivered only when received by such persons.

(c) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

(d) Captions. The captions to the sections, subsections and paragraphs in this Agreement are inserted for convenience only and shall not affect the construction or interpretation hereof.

(e) Counterparts and Duplicate Originals. This Agreement and all amendments hereto may be executed in several counterparts and each counterpart shall constitute a duplicate of the same instrument.

(f) Successors. Anything in this Agreement to the contrary notwithstanding, any transferee, successor or assign, whether voluntary, by operation of law or otherwise, of the shares of the REIT or Holdings shall be subject to and bound by the terms and conditions of this Agreement as fully as though such person was a signatory hereto.

(g) Severability. Any provision hereof prohibited by or unlawful or unenforceable under any applicable law of any jurisdiction shall as to such jurisdiction be ineffective without affecting any other provision of this Agreement. To the full extent, however, that the provisions of such applicable law may be waived, they are hereby waived to the end that this Agreement be deemed to be a valid and binding agreement enforceable in accordance with its terms.

(h) Arbitration. Any controversy or claim arising out of, or relating to this Agreement, the breach hereof or thereof, or coverage of this arbitration provision, shall be settled by arbitration which shall be in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration of such issues, including the determination of any amount of damages suffered by either party hereto by reason of the acts or omissions of either party, shall be final and binding upon both parties. Notwithstanding the foregoing, the arbitrator shall not be authorized to award punitive damages with respect to any such claim or controversy. Neither party shall seek punitive damages relating to any matter under, arising out of or relating to this Agreement in any other forum.

(i) Third Parties. This Agreement is for the sole benefit of the parties hereto. No creditor of either party shall have any right to enforce any of the provisions hereof against the other party to this

Agreement. Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the parties to this Agreement and their respective permitted transferees, successors and assigns of shares pursuant to Section 12(f) hereof, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third party to either party to this Agreement, nor shall any provision give any third person any right of subrogation or action over or against either party to this Agreement.

(j) Assignment. Neither this Agreement nor either party's rights or obligations under it are assignable without the written consent of the other party, which consent may be withheld for any reason whatsoever (whether or not reasonable).

(k) Recovery of Expenses. In the event a dispute arises with respect to this Agreement, the party prevailing in such dispute shall be entitled to recover all expenses, including without limitation reasonable attorney's fees and expenses, incurred in ascertaining such party's rights, in preparing to enforce, or in enforcing such party's rights under this Agreement, whether or not it was necessary for such party to institute suit.

(l) Other Remedies. Subject to Section 12(h) hereof, the parties hereto shall have all remedies for breach of this Agreement available to them provided by law or equity. Without limiting the generality of the foregoing, the parties agree that in addition to all other rights and remedies available at law or in equity, the parties shall be entitled to obtain specific performance of the obligations of each party to this Agreement and immediate injunctive relief and that in the event any action or proceeding is brought in equity to enforce the same, neither party will use, as a defense, that there is an adequate remedy at law. The failure by either party to this Agreement to exercise any such remedy does not constitute a waiver of that remedy in the future.

(m) Intention of Parties. It is the express intent of the parties hereto that each conveyance of Mortgage Loans from the REIT to Holdings pursuant to a Commitment be, and be construed as, an absolute sale thereof on the Settlement Date. It is, further, not the intention of the parties that prior to such conveyances, this Agreement or the Commitments be deemed to effect a sale of the Mortgage Loans or to create a borrowing arrangement between the REIT and Holdings. However, in the event that, notwithstanding the intent of the parties, such assets are held for purposes of any Law to be the property of Holdings prior to the applicable Settlement Date, or if for any other reason this Agreement is held or deemed to create a borrowing arrangement between the REIT and Holdings, then (i) this Agreement shall be deemed to be a security agreement within the meaning of the Uniform Commercial Code of the State of California and (ii) this Agreement and the Confirmations shall be deemed to be an assignment and a grant by Holdings to the REIT of a security interest in all of the assets subject thereto, whether now owned or hereafter acquired.

(n) Servicing. During the Commitment Term of each Commitment, the REIT agrees to cause the servicing of the Mortgage Loans subject to such Commitment to be maintained in accordance with accepted and prudent mortgage servicing practices of prudent mortgage lending institutions which service mortgage loans in the jurisdictions where the related mortgaged properties are located. The REIT will pay the servicing fees of any servicers employed for such purposes and, in the case of any Mortgage Loans serviced by Holdings, will pay the servicing fee specified in the related Commitment.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

REDWOOD TRUST, INC.

By: /s/ Douglas B. Hansen

Douglas B. Hansen

RWT HOLDINGS, INC.

By: /s/ Vickie L. Rath

Vickie L. Rath

EXHIBIT 11.1

REDWOOD TRUST, INC.
Statement Re: Computation of Per Share Earnings

<TABLE>
<CAPTION>

<S>	Twelve Months Ended December 31, 1998 <C>	Twelve Months Ended December 31, 1997 <C>	Twelve Months Ended December 31, 1996 <C>
Basic:			
Average common shares outstanding	13,199,819	13,334,163	7,950,175
Total	13,199,819	13,334,163	7,950,175
Net Income	($40,117,961)	$ 24,746,164	$ 11,537,318
Per Share Amount	($ 3.04)	$ 1.86	$ 1.45
Diluted:			
Average common shares outstanding	13,199,819	13,334,163	7,950,175
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method	--	191,513	175,391
Net effect of dilutive stock warrants outstanding during the period -- based on the treasury stock method	--	154,734	618,618
Total	13,199,819	13,680,410	8,744,184
Net Income	($40,117,961)	$ 24,746,164	$ 11,537,318
Per Share Amount	($ 3.04)	$ 1.81	$ 1.32

</TABLE>

EXHIBIT 23

(PRICEWATERHOUSECOOPERS LETTERHEAD)

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 18, 1999, appearing on page F-22 of this Form 10-K relating to the consolidated financial statements of Redwood Trust, Inc. and Subsidiary, and our report dated February 18, 1999 appearing on page F-34 of this Form 10-K relating to the consolidated financial statements of RWT Holdings, Inc. and Subsidiaries.

/s/ PricewaterhouseCoopers LLP
San Francisco, California
March 24, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM DECEMBER 31, 1998 ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>

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