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

FORM 10-Q

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

For the Quarterly Period Ended: June 30, 2020

OR

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

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

REDWOOD TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

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

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

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

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

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

Common Stock, $0.01 par value per share	114,944,552	shares outstanding as of August 4, 2020

REDWOOD TRUST, INC.
2020 FORM 10-Q REPORT
TABLE OF CONTENTS

		Page
PART I —	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements	2
	Consolidated Balance Sheets at June 30, 2020 (Unaudited) and December 31, 2019	2
	Consolidated Statements of Income (Loss) for the Three and Six Months Ended June 30, 2020 and 2019 (Unaudited)	3
	Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2020 and 2019 (Unaudited)	4
	Consolidated Statements of Changes in Stockholders' Equity for the Three and Six Months Ended June 30, 2020 and 2019 (Unaudited)	5
	Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2020 and 2019 (Unaudited)	7
	Notes to Consolidated Financial Statements (Unaudited)	9
	Note 1. Organization	9
	Note 2. Basis of Presentation	9
	Note 3. Summary of Significant Accounting Policies	12
	Note 4. Principles of Consolidation	16
	Note 5. Fair Value of Financial Instruments	23
	Note 6. Residential Loans	32
	Note 7. Business Purpose Residential Loans	34
	Note 8. Multifamily Loans	37
	Note 9. Real Estate Securities	37
	Note 10. Other Investments	42
	Note 11. Derivative Financial Instruments	44
	Note 12. Other Assets and Liabilities	46
	Note 13. Short-Term Debt	47
	Note 14. Asset-Backed Securities Issued	49
	Note 15. Long-Term Debt	50
	Note 16. Commitments and Contingencies	52
	Note 17. Equity	56
	Note 18. Equity Compensation Plans	59
	Note 19. Mortgage Banking Activities, Net	61
	Note 20. Other Income	62
	Note 21. General and Administrative Expenses and Other Expenses	63
	Note 22. Taxes	64
	Note 23. Segment Information	64
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	69
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	98
Item 4.	Controls and Procedures	98
PART II —	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	99
Item 1A.	Risk Factors	101
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	101
Item 3.	Defaults Upon Senior Securities	101
Item 4.	Mine Safety Disclosures (Not Applicable)	101
Item 5.	Other Information	101
Item 6.	Exhibits	105
Signatures		107

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In Thousands, except Share Data) (Unaudited)	June 30, 2020	December 31, 2019
ASSETS [1]		
Residential loans, held-for-sale, at fair value	$ 20,199	$ 536,385
Residential loans, held-for-investment, at fair value	4,514,131	7,178,465
Business purpose residential loans, held-for-sale, at fair value	379,795	331,565
Business purpose residential loans, held-for-investment, at fair value	3,402,405	3,175,178
Multifamily loans, held-for-investment, at fair value	489,075	4,408,524
Real estate securities, at fair value	316,436	1,099,874
Other investments	429,840	358,130
Cash and cash equivalents	528,612	196,966
Restricted cash	44,496	93,867
Goodwill and intangible assets	64,610	161,464
Derivative assets	357	35,701
Other assets	171,586	419,321
Total Assets	$ 10,361,542	$ 17,995,440
LIABILITIES AND EQUITY [1]		
Liabilities		
Short-term debt, net	$ 662,807	$ 2,329,145
Derivative liabilities	1,932	163,424
Accrued expenses and other liabilities	166,013	206,893
Asset-backed securities issued, at fair value	6,856,086	10,515,475
Long-term debt, net	1,738,128	2,953,272
Total liabilities	9,424,966	16,168,209
Commitments and Contingencies (see *Note 16)*		
Equity		
Common stock, par value $0.01 per share, 395,000,000 and 270,000,000 shares authorized; 114,940,197 and 114,353,036 issued and outstanding	1,149	1,144
Additional paid-in capital	2,279,625	2,269,617
Accumulated other comprehensive (loss) income	(29,391)	41,513
Cumulative earnings	801,170	1,579,124
Cumulative distributions to stockholders	(2,115,977)	(2,064,167)
Total equity	936,576	1,827,231
Total Liabilities and Equity	$ 10,361,542	$ 17,995,440

____

(1) Our consolidated balance sheets include assets of consolidated variable interest entities ("VIEs") that can only be used to settle obligations of these VIEs and liabilities of consolidated VIEs for which creditors do not have recourse to Redwood Trust, Inc. or its affiliates. At June 30, 2020 and December 31, 2019, assets of consolidated VIEs totaled $7,984,618 and $11,931,869, respectively. At June 30, 2020 and December 31, 2019, liabilities of consolidated VIEs totaled $7,140,221 and $10,717,072, respectively. See *Note 4* for further discussion.

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

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

(In Thousands, except Share Data)	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	2020	2019	2020	2019
Interest Income				
Residential loans	$ 54,974	$ 77,288	$ 134,410	$ 153,238
Business purpose residential loans	53,419	3,996	106,073	6,785
Multifamily loans	4,870	35,917	45,042	57,305
Real estate securities	10,027	25,017	28,336	49,467
Other interest income	6,656	6,324	14,166	12,788
Total interest income	129,946	148,542	328,027	279,583
Interest Expense				
Short-term debt	(16,907)	(24,275)	(39,974)	(46,493)
Asset-backed securities issued	(65,304)	(70,113)	(165,802)	(125,408)
Long-term debt	(20,455)	(21,832)	(43,561)	(43,595)
Total interest expense	(102,666)	(116,220)	(249,337)	(215,496)
Net Interest Income	27,280	32,322	78,690	64,087
Non-interest Income (Loss)				
Mortgage banking activities, net	(5,772)	19,160	(34,183)	31,469
Investment fair value changes, net	152,228	3,138	(718,604)	23,297
Other income, net	955	4,859	3,392	9,484
Realized gains, net	25,965	2,827	29,817	13,513
Total non-interest income (loss), net	173,376	29,984	(719,578)	77,763
General and administrative expenses	(30,092)	(26,255)	(62,760)	(49,414)
Other expenses	(5,083)	(2,452)	(96,498)	(3,490)
Net Income (Loss) before (Provision for) Benefit from Income Taxes	165,481	33,599	(800,146)	88,946
(Provision for) benefit from income taxes	(37)	(2,333)	22,192	(3,216)
Net Income (Loss)	$ 165,444	$ 31,266	$ (777,954)	$ 85,730
Basic earnings (loss) per common share	$ 1.41	$ 0.31	$ (6.82)	$ 0.88
Diluted earnings (loss) per common share	$ 1.00	$ 0.30	$ (6.82)	$ 0.78
Basic weighted average shares outstanding	114,383,289	96,983,764	114,229,928	94,846,431
Diluted weighted average shares outstanding	147,099,079	130,696,954	114,229,928	128,499,431

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

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

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	2020	2019	2020	2019
Net Income (Loss)	$ 165,444	$ 31,266	$ (777,954)	$ 85,730
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities	52,393	8,562	(28,126)	15,280
Reclassification of unrealized loss (gain) on available-for-sale securities to net income	2,718	(2,822)	(11,080)	(12,315)
Net unrealized loss on interest rate agreements	—	(9,501)	(32,806)	(15,339)
Reclassification of unrealized loss on interest rate agreements to net income	1,029	—	1,108	—
Total other comprehensive income (loss)	56,140	(3,761)	(70,904)	(12,374)
Total Comprehensive Income (Loss)	$ 221,584	$ 27,505	$ (848,858)	$ 73,356

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

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

For the Three Months Ended June 30, 2020

(In Thousands, except Share Data)	Common Stock													
(Unaudited)	Shares		Amount		Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)		Cumulative Earnings		Cumulative Distributions to Stockholders		Total
March 31, 2020	114,837,533	$	1,148	$	2,275,808	$	(85,531)	$	635,726	$	(2,101,949)	$	725,202
Net income	—		—		—		—		165,444		—		165,444
Other comprehensive income	—		—		—		56,140		—		—		56,140
Employee stock purchase and incentive plans	102,664		1		(235)		—		—		—		(234)
Non-cash equity award compensation	—		—		4,052		—		—		—		4,052
Common dividends declared ($0.125 per share)	—		—		—		—		—		(14,028)		(14,028)
June 30, 2020	114,940,197	$	1,149	$	2,279,625	$	(29,391)	$	801,170	$	(2,115,977)	$	936,576

For the Six Months Ended June 30, 2020

(In Thousands, except Share Data)	Common Stock													
(Unaudited)	Shares		Amount		Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)		Cumulative Earnings		Cumulative Distributions to Stockholders		Total
December 31, 2019	114,353,036	$	1,144	$	2,269,617	$	41,513	$	1,579,124	$	(2,064,167)	$	1,827,231
Net loss	—		—		—		—		(777,954)		—		(777,954)
Other comprehensive loss	—		—		—		(70,904)		—		—		(70,904)
Issuance of common stock	350,088		3		5,544		—		—		—		5,547
Employee stock purchase and incentive plans	237,073		2		(2,776)		—		—		—		(2,774)
Non-cash equity award compensation	—		—		7,240		—		—		—		7,240
Common dividends declared ($0.445 per share)	—		—		—		—		—		(51,810)		(51,810)
June 30, 2020	114,940,197	$	1,149	$	2,279,625	$	(29,391)	$	801,170	$	(2,115,977)	$	936,576

For the Three Months Ended June 30, 2019

(In Thousands, except Share Data)	Common Stock													
(Unaudited)	Shares		Amount		Additional Paid-In Capital		Accumulated Other Comprehensive Income		Cumulative Earnings		Cumulative Distributions to Stockholders		Total
March 31, 2019	96,866,464	$	969	$	1,996,358	$	52,684	$	1,464,405	$	(1,964,489)	$	1,549,927
Net income	—		—		—		—		31,266		—		31,266
Other comprehensive loss	—		—		—		(3,761)		—		—		(3,761)
Issuance of common stock	791,191		8		12,503		—		—		—		12,511
Employee stock purchase and incentive plans	57,366		—		18		—		—		—		18
Non-cash equity award compensation	—		—		4,165		—		—		—		4,165
Common dividends declared ($0.30 per share)	—		—		—		—		—		(30,094)		(30,094)
June 30, 2019	97,715,021	$	977	$	2,013,044	$	48,923	$	1,495,671	$	(1,994,583)	$	1,564,032

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)

For the Six Months Ended June 30, 2019

(In Thousands, except Share Data)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
(Unaudited)	Shares	Amount					
December 31, 2018	84,884,344	$ 849	$ 1,811,422	$ 61,297	$ 1,409,941	$ (1,934,715)	$ 1,348,794
Net income	—	—	—	—	85,730	—	85,730
Other comprehensive loss	—	—	—	(12,374)	—	—	(12,374)
Issuance of common stock	12,291,191	123	189,985	—	—	—	190,108
Direct stock purchase and dividend reinvestment plan	399,838	4	6,303	—	—	—	6,307
Employee stock purchase and incentive plans	139,648	1	(1,921)	—	—	—	(1,920)
Non-cash equity award compensation	—	—	7,255	—	—	—	7,255
Common dividends declared ($0.60 per share)	—	—	—	—	—	(59,868)	(59,868)
June 30, 2019	97,715,021	$ 977	$ 2,013,044	$ 48,923	$ 1,495,671	$ (1,994,583)	$ 1,564,032

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

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

(In Thousands) (Unaudited)	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash Flows From Operating Activities:		
Net (loss) income	$ (777,954)	$ 85,730
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Amortization of premiums, discounts, and securities issuance costs, net	4,083	144
Depreciation and amortization of non-financial assets	8,962	696
Originations of held-for-sale loans	(457,510)	(84,924)
Purchases of held-for-sale loans	(2,720,245)	(2,534,886)
Proceeds from sales of held-for-sale loans	3,126,860	2,123,794
Principal payments on held-for-sale loans	48,901	49,894
Net settlements of derivatives	(183,373)	(25,751)
Non-cash equity award compensation expense	7,240	7,255
Goodwill impairment expense	88,675	—
Market valuation adjustments	765,647	(48,172)
Realized gains, net	(29,817)	(13,513)
Net change in:		
Accrued interest receivable and other assets	254,368	(108,985)
Accrued interest payable and accrued expenses and other liabilities	(80,219)	(9,744)
Net cash provided by (used in) operating activities	55,618	(558,462)
Cash Flows From Investing Activities:		
Originations of loan investments	(263,544)	(84,638)
Purchases of loan investment	—	(49,489)
Proceeds from sales of loan investments	1,574,160	2,780
Principal payments on loan investments	1,136,000	619,085
Purchases of real estate securities	(52,260)	(242,970)
Purchases of multifamily securities held in consolidated securitization trusts	—	(68,601)
Sales of multifamily securities held in consolidated securitization trusts	142,990	—
Proceeds from sales of real estate securities	621,730	241,217
Principal payments on real estate securities	16,405	39,041
Purchases of servicer advance investments	(179,419)	(68,976)
Principal repayments from servicer advance investments	75,478	111,662
Acquisition of 5 Arches, net of cash acquired	—	(3,714)
Net investment in participation in loan warehouse facility	—	38,209
Net investment in multifamily loan fund	10,203	(28,673)
Other investing activities, net	(21,342)	(7,616)
Net cash provided by investing activities	3,060,401	497,317
Cash Flows From Financing Activities:		
Proceeds from borrowings on short-term debt	3,655,530	2,731,731
Repayments on short-term debt	(5,322,519)	(2,675,308)
Proceeds from issuance of asset-backed securities	827,644	330,534
Repayments on asset-backed securities issued	(673,323)	(416,789)
Proceeds from issuance of long-term debt	944,282	—
Deferred long-term debt issuance costs paid	(7,830)	—
Repayments on long-term debt	(2,128,805)	—
Net settlements of derivatives	(84,336)	—
Net proceeds from issuance of common stock	5,707	198,333
Taxes paid on equity award distributions	(2,934)	—
Dividends paid	(51,810)	(59,868)
Other financing activities, net	4,650	(467)
Net cash (used in) provided by financing activities	(2,833,744)	108,166
Net increase in cash, cash equivalents and restricted cash	282,275	47,021
Cash, cash equivalents and restricted cash at beginning of period[1]	290,833	205,077
Cash, cash equivalents and restricted cash at end of period[1]	$ 573,108	$ 252,098

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

(In Thousands) **(Unaudited)**	**Six Months Ended June 30,**	
	2020	**2019**
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 267,787	$ 203,086
Taxes	209	4,158
Supplemental Noncash Information:		
Real estate securities retained from loan securitizations	$ 46,560	$ 5,462
Retention of mortgage servicing rights from loan securitizations and sales	—	868
(Deconsolidation) consolidation of multifamily loans held in securitization trusts	(3,849,779)	1,481,554
(Deconsolidation) consolidation of multifamily ABS	(3,706,789)	1,408,002
Transfers from loans held-for-sale to loans held-for-investment	706,775	518,521
Transfers from residential loans to real estate owned	9,645	5,098
Right-of-use asset obtained in exchange for operating lease liability	5,362	13,016

(1) Cash, cash equivalents, and restricted cash at June 30, 2020 includes cash and cash equivalents of $ 529 million and restricted cash of $ 44 million, and at December 31, 2019 includes cash and cash equivalents of $197 million and restricted cash of $ 94 million.

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

Note 1. Organization

Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on making credit-sensitive investments in single-family residential and multifamily mortgages and related assets and engaging in mortgage banking activities. Our goal is to provide attractive returns to shareholders through a stable and growing stream of earnings and dividends, as well as through capital appreciation. We operate our business in three segments: Residential Lending, Business Purpose Lending, and Third-Party Investments.

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

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

Redwood was incorporated in the State of Maryland on April 11, 1994, and commenced operations on August 19, 1994. On March 1, 2019, Redwood completed the acquisition of 5 Arches, LLC ("5 Arches"), at which time 5 Arches became a wholly-owned subsidiary of Redwood. On October 15, 2019, Redwood acquired CoreVest American Finance Lender, LLC and certain affiliated entities ("CoreVest"), at which time CoreVest became wholly owned by Redwood. References herein to “Redwood,” the “company,” “we,” “us,” and “our” include Redwood Trust, Inc. and its consolidated subsidiaries, unless the context otherwise requires.

Note 2. Basis of Presentation

The consolidated financial statements presented herein are at June 30, 2020 and December 31, 2019, and for the three and six months ended June 30, 2020 and 2019. These interim unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in our annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") — as prescribed by the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) — have been condensed or omitted in these interim financial statements according to these SEC rules and regulations. Management believes that the disclosures included in these interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2019. In the opinion of management, all normal and recurring adjustments to present fairly the financial condition of the company at June 30, 2020 and results of operations for all periods presented have been made. The results of operations for the three and six months ended June 30, 2020 should not be construed as indicative of the results to be expected for the full year.

Principles of Consolidation

In accordance with GAAP, we determine whether we must consolidate transferred financial assets and variable interest entities (“VIEs”) for financial reporting purposes. We currently consolidate the assets and liabilities of certain Sequoia securitization entities issued prior to 2012 where we maintain an ongoing involvement ("Legacy Sequoia"), as well as entities formed in connection with the securitization of Redwood Choice expanded-prime loans ("Sequoia Choice"). We also consolidate the assets and liabilities of certain Freddie Mac K-Series and Freddie Mac Seasoned Loans Structured Transaction ("SLST") securitizations we invested in. Finally, we consolidated the assets and liabilities of certain CoreVest American Finance Lender ("CAFL") securitizations beginning in the fourth quarter of 2019, in connection with our acquisition of CoreVest. Each securitization entity is independent of Redwood and of each other and the assets and liabilities are not owned by and are not legal obligations of Redwood Trust, Inc. Our exposure to these entities is primarily through the financial interests we have purchased or retained, although for the consolidated Sequoia and CAFL entities we are exposed to certain financial risks associated with our role as a sponsor, servicing administrator, or depositor of these entities or as a result of our having sold assets directly or indirectly to these entities.

Note 2. Basis of Presentation - (continued)

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

During the first quarter of 2020, we sold subordinate securities issued by four of these Freddie Mac K-Series securitization trusts and determined that we should derecognize the associated assets and liabilities of each of these entities for financial reporting purposes. We deconsolidated $3.86 billion of multifamily loans and other assets and $3.72 billion of multifamily ABS issued and other liabilities, for which we realized market valuation losses of $72 million, which were recorded through Investment fair value changes, net on our consolidated statements of income (loss) for the three months ended March 31, 2020.

We also consolidate two partnerships ("Servicing Investment" entities) through which we have invested in servicing-related assets. We maintain an 80% ownership interest in each entity and have determined that we are the primary beneficiary of these partnerships.

Beginning in the first quarter of 2019, we consolidated 5 Arches, LLC ("5 Arches"), an originator of business purpose residential loans, pursuant to the exercise of our purchase option and the acquisition of the remaining equity in the company. In the fourth quarter of 2019, we acquired and consolidated CoreVest, an originator and portfolio manager of business purpose residential loans.

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

Use of Estimates

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

Acquisitions

In May 2018, Redwood acquired a 20% minority interest in 5 Arches, an originator of business purpose residential loans. On March 1, 2019, we completed the acquisition of the remaining 80% interest in 5 Arches. On October 15, 2019, we acquired CoreVest, an originator and portfolio manager of business purpose residential loans. Refer to our Annual Report on Form 10-K for the year ended December 31, 2019 for additional information regarding these acquisitions, including purchase price allocations.

Note 2. Basis of Presentation - (continued)

In connection with the acquisitions of 5 Arches and CoreVest, we identified and recorded finite-lived intangible assets totaling $25 million and $57 million, respectively. The amortization period for each of these assets and the activity for the six months ended June 30, 2020 is summarized in the table below.

Table 2.1 – Intangible Assets – Activity

(Dollars in Thousands)	Carrying Value at December 31, 2019	Additions	Amortization Expense	Carrying Value at June 30, 2020	Weighted Average Amortization Period (in years)
Borrower network	$ 43,952	$ —	$ (3,236)	$ 40,716	7
Broker network	15,083	—	(1,810)	13,273	4
Non-compete agreements	8,236	—	(1,583)	6,653	3
Tradenames	3,472	—	(667)	2,805	3
Developed technology	1,613	—	(450)	1,163	2
Loan administration fees on existing loan assets	433	—	(433)	—	—
Total	$ 72,789	$ —	$ (8,179)	$ 64,610	6

All of our intangible assets are amortized on a straight-line basis. Estimated future amortization expense is summarized in the table below.

Table 2.2 – Intangible Asset Amortization Expense by Year

(In Thousands)	June 30, 2020
2020 (6 months)	$ 7,746
2021	15,304
2022	12,800
2023	10,091
2024	7,073
2025 and thereafter	11,596
Total Future Intangible Asset Amortization	$ 64,610

We recorded total goodwill of $89 million in 2019 as a result of the total consideration exceeding the fair value of the net assets acquired from 5 Arches and CoreVest. The goodwill was attributed to the expected business synergies and expansion into business purpose loan markets, as well as access to the knowledgeable and experienced workforces continuing to provide services to the business. We expect $75 million of this goodwill to be deductible for tax purposes. For reporting purposes, we included the intangible assets and goodwill from these acquisitions within the Business Purpose Lending segment.

Note 2. Basis of Presentation - (continued)

During the first quarter of 2020, as a result of the deterioration in economic conditions caused by the spread of the COVID-19 pandemic (the "pandemic"), and its impact on our business, including a significant decline in the market price of our common stock, we determined that it was more likely than not that the fair value of our Business Purpose Lending reporting unit was lower than its carrying amount, including goodwill. Based on this analysis, we determined that an interim goodwill impairment test should be performed as of March 31, 2020 and prepared updated cash flow projections for the reporting unit, resulting in a reduction in the long-term forecasts of profitability for our Business Purpose Lending reporting unit as compared to the prior year forecasts. Using these projections, we concluded that the fair value of our Business Purpose Lending reporting unit was less than its carrying value, including goodwill. As a result of this evaluation, we recorded a non-cash $89 million goodwill impairment expense through Other expenses on our consolidated statements of income (loss) during the three months ended March 31, 2020. In conjunction with our assessment of goodwill, we also assessed our intangible assets for impairment at March 31, 2020 and determined they were not impaired. On a quarterly basis, we evaluate our finite-lived intangible assets for impairment indicators and additionally evaluate the useful lives of our intangible assets to determine if revisions to the remaining periods of amortization are warranted.

The liability resulting from the contingent consideration arrangement with 5 Arches was recorded at its acquisition-date fair value of $25 million as part of total consideration for the acquisition of 5 Arches. These contingent earn-out payments were classified as a contingent consideration liability and carried at fair value prior to March 31, 2020. During the three months ended March 31, 2020, we made a cash payment of $11 million and granted $3 million of Redwood common stock in connection with the first anniversary of the purchase date. Additionally, as a result of an amendment to the agreement, we reclassified the contingent liability to a deferred liability, as the remaining payments became payable on a set timetable without any remaining contingencies. At June 30, 2020, the carrying value of this deferred liability was $15 million and was recorded as a component of Accrued expenses and other liabilities on our consolidated balance sheets. During the three and six months ended June 30, 2020, we recorded $0.1 million and $0.4 million of contingent consideration expense, respectively, through Other expenses on our consolidated statements of income (loss). See *Note 16* for additional information on our contingent consideration liability.

The following unaudited pro forma financial information presents Net interest income, Non-interest income, and Net income of Redwood, 5 Arches, and CoreVest combined, for the three and six months ended June 30, 2019, as if the acquisitions occurred as of January 1, 2018. These pro forma amounts have been adjusted to include the amortization of intangible assets and acquisition-related compensation expense for both periods, and to exclude the income statement impacts related to our equity method investment in 5 Arches. The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated financial results of operations that would have been reported if the acquisitions had been completed as of January 1, 2018 and should not be taken as indicative of our future consolidated results of operations.

Table 2.3 – Unaudited Pro Forma Financial Information

(In Thousands)	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Supplementary pro forma information:		
Net interest income	$ 44,353	$ 87,743
Non-interest income	35,495	78,471
Net income	44,218	100,246

Note 3. Summary of Significant Accounting Policies

Significant Accounting Policies

Included in *Note 3* to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2019 is a summary of our significant accounting policies. Provided below is a summary of additional accounting policies that are significant to the company’s consolidated financial position and results of operations for the three and six months ended June 30, 2020.

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

Available-for-Sale Securities

Upon adoption of ASU 2016-13, "Financial Instruments - Credit Losses" in the first quarter of 2020, we modified our policy for recording impairments on available-for-sale securities. This new guidance requires that credit impairments on our available-for-sale securities be recorded in earnings using an allowance for credit losses, with the allowance limited to the amount by which the security's fair value is less than its amortized cost basis. The allowance for credit losses is calculated using a discounted cash flow approach and is measured as the difference between the beneficial interest's amortized cost and the estimate of cash flows expected to be collected, discounted at the effective interest rate used to accrete the beneficial interest. Any allowance for credit losses in excess of the unrealized losses on the beneficial interests are accounted for as a prospective reduction of the effective interest rate. No allowance is recorded for beneficial interests in an unrealized gain position. Favorable changes in the discounted cash flows will result in a reduction in the allowance for credit losses, if any. Any reduction in allowance for credit losses is recorded in earnings. If the allowance for credit losses has been reduced to zero, the remaining favorable changes are reflected as a prospective increase to the effective interest rate. If we intend to sell or it is more likely than not that we will be required to sell the security before it recovers in value, the entire impairment amount will be recognized in earnings with a corresponding adjustment to the security's amortized cost basis.

Goodwill

Pursuant to our adoption of ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" in the first quarter of 2020, we modified our goodwill impairment testing policy. We first assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If, based on that assessment, we believe it is more likely than not that the fair value of the reporting unit is less than its carrying value, we measure the fair value of reporting unit and record a goodwill impairment charge for the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill. Any such impairment charges would be recorded through Other expenses on our consolidated statements of income (loss).

Recent Accounting Pronouncements

Newly Adopted Accounting Standards Updates ("ASUs")

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." This new guidance amends previous guidance by removing and modifying certain existing fair value disclosure requirements, while adding other new disclosure requirements. This new guidance is effective for fiscal years beginning after December 15, 2019. We adopted this new guidance, as required, in the first quarter of 2020, which did not have a material impact on our consolidated financial statements but impacted certain of our fair value footnote disclosures.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This new guidance simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This new guidance is effective for fiscal years beginning after December 15, 2019. We adopted this new guidance, as required, in the first quarter of 2020, which did not have a material impact on our consolidated financial statements.

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

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses." This new guidance provides a new impairment model that is based on expected losses rather than incurred losses to determine the allowance for credit losses. This new guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018. In November 2018, the FASB issued ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses," which clarifies the scope of the amendments in ASU 2016-13. In April 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments," which is intended to clarify this guidance. In May 2019, the FASB issued ASU 2019-05, "Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief," which provides an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost. In November 2019, the FASB issued ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses," which is intended to clarify Codification guidance. In February 2020, the FASB issued ASU 2020-02, "Financial Instruments - Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) (SEC Update)," and in March 2020, the FASB issued ASU 2020-03, "Codification Improvements to Financial Instruments." These updates amend certain sections of the guidance. We currently have only a small balance of loans receivable that are not carried at fair value and would be subject to this new guidance for allowance for credit losses. Separately, we accounted for our available-for-sale securities under the other-than-temporary impairment ("OTTI") model for debt securities prior to the issuance of this new guidance. This new guidance requires that credit impairments on our available-for-sale securities be recorded in earnings using an allowance for credit losses, with the allowance limited to the amount by which the security's fair value is less than its amortized cost basis. Subsequent reversals in credit loss estimates are recognized in income. We adopted this guidance, as required, in the first quarter of 2020, which did not have a material impact on our consolidated financial statements.

Other Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. This new guidance is effective for all entities as of March 12, 2020 through December 31, 2022. We are currently evaluating the impact the adoption of this standard would have on our consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, "Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)." This new guidance clarifies the interaction of the accounting for equity securities, equity method investments, and certain forward contracts and purchased options. This new guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. We plan to adopt this new guidance by the required date and do not anticipate that this update will have a material impact on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This new guidance simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and by clarifying and amending existing guidance. This new guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. We plan to adopt this new guidance by the required date and do not anticipate that this update will have a material impact on our consolidated financial statements.

Balance Sheet Netting

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

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

The table below presents financial assets and liabilities that are subject to master netting arrangements or similar agreements categorized by financial instrument, together with corresponding financial instruments and corresponding collateral received or pledged at June 30, 2020 and December 31, 2019.

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

June 30, 2020 (In Thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in Consolidated Balance Sheet	Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet	Gross Amounts Not Offset in Consolidated Balance Sheet [1]		Net Amount
				Financial Instruments	Cash Collateral (Received) Pledged	
Liabilities [2]						
Loan warehouse debt	$ (449,560)	$ —	$ (449,560)	$ 449,560	$ —	$ —
Security repurchase agreements	(311,888)	—	(311,888)	311,888	—	—
Total Liabilities	$ (761,448)	$ —	$ (761,448)	$ 761,448	$ —	$ —

December 31, 2019 (In Thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in Consolidated Balance Sheet	Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet	Gross Amounts Not Offset in Consolidated Balance Sheet [1]		Net Amount
				Financial Instruments	Cash Collateral (Received) Pledged	
Assets [2]						
Interest rate agreements	$ 19,020	$ —	$ 19,020	$ (14,178)	$ (915)	$ 3,927
TBAs	5,755	—	5,755	(5,755)	—	—
Futures	137	—	137	—	—	137
Total Assets	$ 24,912	$ —	$ 24,912	$ (19,933)	$ (915)	$ 4,064
Liabilities [2]						
Interest rate agreements	$ (148,765)	$ —	$ (148,765)	$ 14,178	$ 134,587	$ —
TBAs	(13,359)	—	(13,359)	5,755	6,673	(931)
Loan warehouse debt	(432,126)	—	(432,126)	432,126	—	—
Security repurchase agreements	(1,096,578)	—	(1,096,578)	1,096,578	—	—
Total Liabilities	$ (1,690,828)	$ —	$ (1,690,828)	$ 1,548,637	$ 141,260	$ (931)

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

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

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

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

Note 4. Principles of Consolidation

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

Analysis of Consolidated VIEs

At June 30, 2020, we consolidated Legacy Sequoia, Freddie Mac SLST, Freddie Mac K-Series and CAFL securitization entities that we determined were VIEs and for which we determined we were the primary beneficiary. Each of these entities is independent of Redwood and of each other and the assets and liabilities of these entities are not owned by and are not legal obligations of ours. Our exposure to these entities is primarily through the financial interests we have retained, although for the consolidated Sequoia and CAFL entities we are exposed to certain financial risks associated with our role as a sponsor, servicing administrator, or depositor of these entities or as a result of our having sold assets directly or indirectly to these entities. At June 30, 2020, the estimated fair value of our investments in the consolidated Legacy Sequoia, Sequoia Choice, Freddie Mac SLST, Freddie Mac K-Series and CAFL entities was $6 million, $204 million, $336 million, $25 million, and $206 million, respectively.

During the first quarter of 2020, we sold subordinate securities issued by four of these Freddie Mac K-Series securitization trusts and determined that we should derecognize the associated assets and liabilities of each of these entities for financial reporting purposes. We deconsolidated $3.86 billion of multifamily loans and other assets and $3.72 billion of multifamily ABS issued and other liabilities, for which we realized market valuation losses of $72 million, which were recorded through Investment fair value changes, net on our consolidated statements of income (loss) for the three months ended March 31, 2020.

Beginning in 2018, we consolidated two Servicing Investment entities formed to invest in servicing-related assets that we determined were VIEs and for which we determined we were the primary beneficiary. At June 30, 2020, we held an 80% ownership interest in, and were responsible for the management of, each entity. See *Note 10* for a further description of these entities and the investments they hold and *Note 12* for additional information on the minority partner's interest. Additionally, beginning in 2018, we consolidated an entity that was formed to finance servicer advances that we determined was a VIE and for which we, through our control of one of the aforementioned partnerships, were the primary beneficiary. The servicer advance financing consists of non-recourse short-term securitization debt, secured by servicer advances. We consolidate the securitization entity, but the securitization entity is independent of Redwood and the assets and liabilities are not owned by and are not legal obligations of Redwood. See *Note 13* for additional information on the servicer advance financing. At June 30, 2020, the estimated fair value of our investment in the Servicing Investment entities was $68 million.

Note 4. Principles of Consolidation - (continued)

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

Table 4.1 – Assets and Liabilities of Consolidated VIEs

June 30, 2020 **(Dollars in Thousands)**	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Servicing Investment**	**Total Consolidated VIEs**
Residential loans, held-for-investment	$ 304,632	$ 2,064,388	$ 2,145,111	$ —	$ —	$ —	$ 4,514,131
Business purpose residential loans, held-for-investment	—	—	—	—	2,615,038	—	2,615,038
Multifamily loans, held-for-investment	—	—	—	489,075	—	—	489,075
Other investments	—	—	—	—	—	290,805	290,805
Cash and cash equivalents	—	—	—	—	—	2,773	2,773
Restricted cash	145	9	—	—	—	30,416	30,570
Accrued interest receivable	529	8,236	6,627	1,342	11,087	6,725	34,546
Other assets	916	—	940	—	5,824	—	7,680
Total Assets	$ 306,222	$ 2,072,633	$ 2,152,678	$ 490,417	$ 2,631,949	$ 330,719	$ 7,984,618
Short-term debt	$ —	$ —	$ —	$ —	$ —	$ 244,437	$ 244,437
Accrued interest payable	230	6,474	5,149	1,182	8,458	134	21,627
Accrued expenses and other liabilities	—	9	—	—	—	18,062	18,071
Asset-backed securities issued	300,357	1,861,777	1,812,008	464,691	2,417,253	—	6,856,086
Total Liabilities	$ 300,587	$ 1,868,260	$ 1,817,157	$ 465,873	$ 2,425,711	$ 262,633	$ 7,140,221
Number of VIEs	20	10	2	1	12	3	48

December 31, 2019 **(Dollars in Thousands)**	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Servicing Investment**	**Total Consolidated VIEs**
Residential loans, held-for-investment	$ 407,890	$ 2,291,463	$ 2,367,215	$ —	$ —	$ —	$ 5,066,568
Business purpose residential loans, held-for-investment	—	—	—	—	2,192,552	—	2,192,552
Multifamily loans, held-for-investment	—	—	—	4,408,524	—	—	4,408,524
Other investments	—	—	—	—	—	184,802	184,802
Cash and cash equivalents	—	—	—	—	—	9,015	9,015
Restricted cash	143	27	—	—	—	21,766	21,936
Accrued interest receivable	655	9,824	7,313	13,539	9,572	4,869	45,772
Other assets	460	—	445	—	1,795	—	2,700
Total Assets	$ 409,148	$ 2,301,314	$ 2,374,973	$ 4,422,063	$ 2,203,919	$ 220,452	$ 11,931,869
Short-term debt	$ —	$ —	$ —	$ —	$ —	$ 152,554	$ 152,554
Accrued interest payable	395	7,732	5,374	12,887	7,485	187	34,060
Accrued expenses and other liabilities	—	27	—	—	—	14,956	14,983
Asset-backed securities issued	402,465	2,037,198	1,918,322	4,156,239	2,001,251	—	10,515,475
Total Liabilities	$ 402,860	$ 2,044,957	$ 1,923,696	$ 4,169,126	$ 2,008,736	$ 167,697	$ 10,717,072
Number of VIEs	20	9	2	5	10	3	49

Note 4. Principles of Consolidation - (continued)

The following table presents income (loss) from these VIEs for the three and six months ended June 30, 2020 and 2019.

Table 4.2 – Income (Loss) from Consolidated VIEs

	Three Months Ended June 30, 2020						
(Dollars in Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Servicing Investment**	**Total Consolidated VIEs**
Interest income	$ 2,686	$ 22,565	$ 21,187	$ 4,870	$ 32,978	$ 4,540	$ 88,826
Interest expense	(1,518)	(19,117)	(15,845)	(4,378)	(24,446)	(1,797)	(67,101)
Net interest income	1,168	3,448	5,342	492	8,532	2,743	21,725
Non-interest income							
Investment fair value changes, net	(230)	39,753	26,867	1,599	16,313	3,292	87,594
Total non-interest income, net	(230)	39,753	26,867	1,599	16,313	3,292	87,594
General and administrative expenses	—	—	—	—	—	(712)	(712)
Other expenses	—	—	—	—	—	(1,065)	(1,065)
Income from Consolidated VIEs	$ 938	$ 43,201	$ 32,209	$ 2,091	$ 24,845	$ 4,258	$ 107,542

	Six Months Ended June 30, 2020						
(Dollars in Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Servicing Investment**	**Total Consolidated VIEs**
Interest income	$ 5,880	$ 47,647	$ 43,173	$ 45,042	$ 62,988	$ 8,623	$ 213,353
Interest expense	(4,040)	(40,627)	(32,022)	(42,728)	(48,101)	(3,374)	(170,892)
Net interest income	1,840	7,020	11,151	2,314	14,887	5,249	42,461
Non-interest income							
Investment fair value changes, net	(621)	(29,916)	(115,295)	(84,910)	(51,533)	(8,593)	(290,868)
Total non-interest income, net	(621)	(29,916)	(115,295)	(84,910)	(51,533)	(8,593)	(290,868)
General and administrative expenses	—	—	—	—	—	(743)	(743)
Other expenses	—	—	—	—	—	817	817
Income (Loss) from Consolidated VIEs	$ 1,219	$ (22,896)	$ (104,144)	$ (82,596)	$ (36,646)	$ (3,270)	$ (248,333)

	Three Months Ended June 30, 2019						
(Dollars in Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Servicing Investment**	**Total Consolidated VIEs**
Interest income	$ 4,776	$ 26,828	$ 11,597	$ 35,917	$ —	$ 3,579	$ 82,697
Interest expense	(3,981)	(23,134)	(8,557)	(34,441)	—	(3,401)	(73,514)
Net interest income	795	3,694	3,040	1,476	—	178	9,183
Non-interest income							
Investment fair value changes, net	(123)	2,879	8,037	3,246	—	1,069	15,108
Total non-interest income, net	(123)	2,879	8,037	3,246	—	1,069	15,108
General and administrative expenses	—	—	—	—	—	(41)	(41)
Other expenses	—	—	—	—	—	(242)	(242)
Income from Consolidated VIEs	$ 672	$ 6,573	$ 11,077	$ 4,722	$ —	$ 964	$ 24,008

Note 4. Principles of Consolidation - (continued)

	Six Months Ended June 30, 2019						
(Dollars in Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Servicing Investment**	**Total Consolidated VIEs**
Interest income	$ 9,629	$ 52,490	$ 23,391	$ 57,305	$ —	$ 6,926	$ 149,741
Interest expense	(8,096)	(45,247)	(17,304)	(54,760)	—	(7,014)	(132,421)
Net interest income	1,533	7,243	6,087	2,545	—	(88)	17,320
Non-interest income							
Investment fair value changes, net	(497)	6,144	14,402	6,365	—	2,499	28,913
Total non-interest income, net	(497)	6,144	14,402	6,365	—	2,499	28,913
General and administrative expenses	—	—	—	—	—	(70)	(70)
Other expenses	—	—	—	—	—	(468)	(468)
Income from Consolidated VIEs	$ 1,036	$ 13,387	$ 20,489	$ 8,910	$ —	$ 1,873	$ 45,695

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

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

Analysis of Unconsolidated VIEs with Continuing Involvement

Since 2012, we have transferred residential loans to51 Sequoia securitization entities sponsored by us that are still outstanding as of June 30, 2020, and accounted for these transfers as sales for financial reporting purposes, in accordance with ASC 860. We also determined we were not the primary beneficiary of these VIEs as we lacked the power to direct the activities that will have the most significant economic impact on the entities. For certain of these transfers to securitization entities, for the transferred loans where we held the servicing rights prior to the transfer and continued to hold the servicing rights following the transfer, we recorded mortgage servicing rights ("MSRs") on our consolidated balance sheets, and classified those MSRs as Level 3 assets. We also retained senior and subordinate securities in these securitizations that we classified as Level 3 assets. Our continuing involvement in these securitizations is limited to customary servicing obligations associated with retaining servicing rights (which we retain a third-party sub-servicer to perform) and the receipt of interest income associated with the securities we retained.

Note 4. Principles of Consolidation - (continued)

The following table presents information related to securitization transactions that occurred during the three and six months ended June 30, 2020 and 2019.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2020**	**2019**	**2020**	**2019**
Principal balance of loans transferred	$ —	$ 400,836	$ 1,573,703	$ 749,093
Trading securities retained, at fair value	—	1,792	43,362	3,508
AFS securities retained, at fair value	—	1,069	3,198	1,954

The following table summarizes the cash flows during the three and six months ended June 30, 2020 and 2019 between us and the unconsolidated VIEs sponsored by us and accounted for as sales since 2012.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2020**	**2019**	**2020**	**2019**
Proceeds from new transfers	$ —	$ 410,281	$ 1,610,761	$ 762,652
MSR fees received	2,475	3,105	5,165	6,165
Funding of compensating interest, net	(205)	(47)	(297)	(137)
Cash flows received on retained securities	6,788	6,743	13,369	14,289

The following table presents the key weighted-average assumptions used to measure MSRs and securities retained at the date of securitization for securitizations completed during the three and six months ended June 30, 2020 and 2019.

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

	Three Months Ended June 30, 2020		Three Months Ended June 30, 2019	
At Date of Securitization	**Senior IO Securities**	**Subordinate Securities**	**Senior IO Securities**	**Subordinate Securities**
Prepayment rates	N/A	N/A	16 %	15 %
Discount rates	N/A	N/A	14 %	7 %
Credit loss assumptions	N/A	N/A	0.20 %	0.20 %

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019	
At Date of Securitization	**Senior IO Securities**	**Subordinate Securities**	**Senior IO Securities**	**Subordinate Securities**
Prepayment rates	41 %	13 %	16 %	15 %
Discount rates	16 %	6 %	14 %	7 %
Credit loss assumptions	0.21 %	0.22 %	0.20 %	0.20 %

Note 4. Principles of Consolidation - (continued)

The following table presents additional information at June 30, 2020 and December 31, 2019, related to unconsolidated VIEs sponsored by Redwood and accounted for as sales since 2012.

Table 4.6 – Unconsolidated VIEs Sponsored by Redwood

(In Thousands)	June 30, 2020	December 31, 2019
On-balance sheet assets, at fair value:		
Interest-only, senior and subordinate securities, classified as trading	$ 25,038	$ 88,425
Subordinate securities, classified as AFS	117,675	140,649
Mortgage servicing rights	18,727	40,254
Maximum loss exposure (1)	$ 161,440	$ 269,328
Assets transferred:		
Principal balance of loans outstanding	$ 9,918,493	$ 10,299,442
Principal balance of loans 30+ days delinquent	291,191	41,809

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

The following table presents key economic assumptions for assets retained from unconsolidated VIEs and the sensitivity of their fair values to immediate adverse changes in those assumptions at June 30, 2020 and December 31, 2019.

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

June 30, 2020 (Dollars in Thousands)	MSRs	Senior Securities (1)	Subordinate Securities
Fair value at June 30, 2020	$ 18,727	$ 21,524	$ 121,189
Expected life (in years)(2)	4	3	12
Prepayment speed assumption (annual CPR) (2)	21 %	28 %	24 %
Decrease in fair value from:			
10% adverse change	$ 1,477	$ 1,855	$ 1,361
25% adverse change	3,435	4,489	4,246
Discount rate assumption (2)	12 %	14 %	6 %
Decrease in fair value from:			
100 basis point increase	$ 548	$ 196	$ 10,543
200 basis point increase	1,061	652	19,824
Credit loss assumption (2)	N/A	0.22 %	0.22 %
Decrease in fair value from:			
10% higher losses	N/A	$ —	$ 1,888
25% higher losses	N/A	—	4,706

Note 4. Principles of Consolidation - (continued)

December 31, 2019 **(Dollars in Thousands)**	**MSRs**	**Senior Securities (1)**	**Subordinate Securities**
Fair value at December 31, 2019	$ 40,254	$ 48,765	$ 180,309
Expected life (in years)(2)	6	6	14
Prepayment speed assumption (annual CPR) (2)	11 %	14 %	16 %
Decrease in fair value from:			
10% adverse change	$ 1,643	$ 1,908	$ 205
25% adverse change	3,913	5,086	1,434
Discount rate assumption (2)	11 %	12 %	5 %
Decrease in fair value from:			
100 basis point increase	$ 1,447	$ 1,079	$ 18,127
200 basis point increase	2,795	2,482	33,630
Credit loss assumption (2)	N/A	0.21 %	0.21 %
Decrease in fair value from:			
10% higher losses	N/A	$ —	$ 1,804
25% higher losses	N/A	—	4,520

(1) Senior securities included $22 million and $49 million of interest-only securities at June 30, 2020 and December 31, 2019, respectively.

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

Analysis of Unconsolidated Third-Party VIEs

Third-party VIEs are securitization entities in which we maintain an economic interest, but do not sponsor. Our economic interest may include several securities and other investments from the same third-party VIE, and in those cases, the analysis is performed in consideration of all of our interests. The following table presents a summary of our interests in third-party VIEs at June 30, 2020 and December 31, 2019, grouped by asset type.

Table 4.8 – Third-Party Sponsored VIE Summary

(In Thousands)	**June 30, 2020**	**December 31, 2019**
Mortgage-Backed Securities		
Senior	$ 11,336	$ 127,094
Mezzanine	—	508,195
Subordinate	162,387	235,510
Total Mortgage-Backed Securities	173,723	870,799
Excess MSR	15,883	16,216
Total Investments in Third-Party Sponsored VIEs	$ 189,606	$ 887,015

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

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

Note 5. Fair Value of Financial Instruments

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

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

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

The following table presents the carrying values and estimated fair values of assets and liabilities that are required to be recorded or disclosed at fair value at June 30, 2020 and December 31, 2019.

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

	June 30, 2020		December 31, 2019	
(In Thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Residential loans, held-for-sale at fair value	$ 20,098	$ 20,098	$ 536,385	$ 536,509
Residential loans, held-for-investment	4,514,131	4,514,131	7,178,465	7,178,465
Business purpose residential loans, held-for-sale	379,795	379,795	331,565	331,565
Business purpose residential loans, held-for-investment	3,402,405	3,402,405	3,175,178	3,175,178
Multifamily loans	489,075	489,075	4,408,524	4,408,524
Trading securities	142,699	142,699	860,540	860,540
Available-for-sale securities	173,737	173,737	239,334	239,334
Servicer advance investments (1)	266,948	266,948	169,204	169,204
MSRs (1)	19,661	19,661	42,224	42,224
Excess MSRs (1)	36,197	36,197	31,814	31,814
Shared home appreciation options (1)	40,851	40,851	45,085	45,085
Cash and cash equivalents	528,612	528,612	196,966	196,966
Restricted cash	44,496	44,496	93,867	93,867
Accrued interest receivable	44,134	44,134	71,058	71,058
Derivative assets	357	357	35,701	35,701
REO (2)	9,780	10,014	9,462	10,389
Margin receivable (2)	2,746	2,746	209,776	209,776
FHLBC stock (2)	5,000	5,000	43,393	43,393
Guarantee asset (2)	770	770	1,686	1,686
Pledged collateral (2)	33,105	33,105	32,945	32,945
Liabilities				
Short-term debt facilities	$ 418,370	$ 418,370	$ 2,176,591	$ 2,176,591
Short-term debt - servicer advance financing	244,437	244,437	152,554	152,554
Accrued interest payable	37,024	37,024	60,655	60,655
Margin payable (3)	—	—	1,700	1,700
Guarantee obligation (3)	12,350	10,995	14,009	13,754
Contingent consideration (3)	14,953	14,953	28,484	28,484
Derivative liabilities	1,932	1,932	163,424	163,424
ABS issued at fair value	6,856,086	6,856,086	10,515,475	10,515,475
FHLBC long-term borrowings	1,000	1,000	1,999,999	1,999,999
Other long-term debt, net	1,088,609	1,082,327	183,520	184,666
Convertible notes, net	509,868	469,360	631,125	661,985
Trust preferred securities and subordinated notes, net	138,651	55,800	138,628	99,045

(1) These investments are included in Other investments on our consolidated balance sheets.
(2) These assets are included in Other assets on our consolidated balance sheets.
(3) These liabilities are included in Accrued expenses and other liabilities on our consolidated balance sheets.

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

During the three and six months ended June 30, 2020, we elected the fair value option for $10 million and $78 million of securities, respectively, $58 million and $2.69 billion of residential loans (principal balance), respectively, $230 million and $696 million of business purpose residential loans (principal balance), respectively, $21 million and $179 million of servicer advance investments, respectively, $2 million and $11 million of excess MSRs, respectively, and zero and $4 million of shared home appreciation options, respectively. We anticipate electing the fair value option for all future purchases of residential and business purpose residential loans that we intend to sell to third parties or transfer to securitizations, as well as for certain securities we purchase, including IO securities and fixed-rate securities rated investment grade or higher.

The following table presents the assets and liabilities that are reported at fair value on our consolidated balance sheets on a recurring basis at June 30, 2020 and December 31, 2019, as well as the fair value hierarchy of the valuation inputs used to measure fair value.

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

June 30, 2020	Carrying	Fair Value Measurements Using		
(In Thousands)	Value	Level 1	Level 2	Level 3
Assets				
Residential loans	$ 4,534,229	$ —	$ —	$ 4,534,229
Business purpose residential loans	3,782,200	—	—	3,782,200
Multifamily loans	489,075	—	—	489,075
Trading securities	142,699	—	—	142,699
Available-for-sale securities	173,737	—	—	173,737
Servicer advance investments	266,948	—	—	266,948
MSRs	19,661	—	—	19,661
Excess MSRs	36,197	—	—	36,197
Shared home appreciation options	40,851	—	—	40,851
Derivative assets	357	—	—	357
Pledged collateral	33,105	33,105	—	—
FHLBC stock	5,000	—	5,000	—
Guarantee asset	770	—	—	770
Liabilities				
Derivative liabilities	$ 1,932	$ —	$ —	$ 1,932
ABS issued	6,856,086	—	—	6,856,086

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

December 31, 2019 (In Thousands)	Carrying Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets				
Residential loans	$ 7,714,745	$ —	$ —	$ 7,714,745
Business purpose residential loans	3,506,743	—	—	3,506,743
Multifamily loans	4,408,524	—	—	4,408,524
Trading securities	860,540	—	—	860,540
Available-for-sale securities	239,334	—	—	239,334
Servicer advance investments	169,204	—	—	169,204
MSRs	42,224	—	—	42,224
Excess MSRs	31,814	—	—	31,814
Shared home appreciation options	45,085	—	—	45,085
Derivative assets	35,701	6,531	19,020	10,150
Pledged collateral	32,945	32,945	—	—
FHLBC stock	43,393	—	43,393	—
Guarantee asset	1,686	—	—	1,686
Liabilities				
Contingent consideration	$ 28,484	$ —	$ —	$ 28,484
Derivative liabilities	163,424	13,368	148,766	1,290
ABS issued	10,515,475	—	—	10,515,475

The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2020.

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

	Assets								
(In Thousands)	Residential Loans	Business Purpose Residential Loans	Multifamily Loans	Trading Securities	AFS Securities	Servicer Advance Investments	MSRs	Excess MSRs	Shared Home Appreciation Options
Beginning balance - December 31, 2019	$ 7,714,745	$ 3,506,743	$ 4,408,524	$ 860,540	$ 239,334	$ 169,204	$ 42,224	$ 31,814	$ 45,085
Acquisitions	2,751,590	—	—	77,889	31,181	179,419	—	10,906	3,517
Originations	—	721,054	—	—	—	—	—	—	—
Sales	(4,695,048)	(44,172)	—	(566,537)	(55,193)	—	—	—	—
Principal paydowns	(907,360)	(272,052)	(5,830)	(8,114)	(8,293)	(75,477)	—	—	(1,080)
Deconsolidations	—	—	(3,849,779)	—	—	—	—	—	—
Gains (losses) in net income (loss), net	(328,313)	(121,961)	(63,840)	(221,079)	(33,292)	(6,198)	(22,563)	(6,523)	(6,671)
Other settlements, net [1]	(1,385)	(7,412)	—	—	—	—	—	—	—
Ending balance - June 30, 2020	$ 4,534,229	$ 3,782,200	$ 489,075	$ 142,699	$ 173,737	$ 266,948	$ 19,661	$ 36,197	$ 40,851

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

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

	Assets		Liabilities	
(In Thousands)	**Guarantee Asset**	**Derivatives** [2]	**Contingent Consideration**	**ABS Issued**
Beginning balance - December 31, 2019	$ 1,686	$ 8,860	$ 28,484	$ 10,515,475
Acquisitions	—	—	—	827,645
Principal paydowns	—	—	(13,353)	(673,324)
Deconsolidations	—	—	—	(3,706,789)
Gains (losses) in net income (loss), net	(916)	20,643	(446)	(106,921)
Other settlements, net [1]	—	(31,078)	(14,685)	—
Ending balance - June 30, 2020	$ 770	$ (1,575)	$ —	$ 6,856,086

(1) Other settlements, net for residential and business purpose residential loans represents the transfer of loans to REO, and for derivatives, the settlement of forward sale commitments and the transfer of the fair value of loan purchase or interest rate lock commitments at the time loans are acquired to the basis of residential and single-family rental loans. Other settlements, net for contingent consideration reflects the reclassification from a contingent liability to a deferred liability during the period due to an amendment in the underlying agreement. See *Note 16* for further discussion.

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

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

The following table presents the portion of gains or losses included in our consolidated statements of income (loss) that were attributable to Level 3 assets and liabilities recorded at fair value on a recurring basis and held at June 30, 2020 and 2019. Gains or losses incurred on assets or liabilities sold, matured, called, or fully written down during the three and six months ended June 30, 2020 and 2019 are not included in this presentation.

Table 5.4 – Portion of Net Gains (Losses) Attributable to Level 3 Assets and Liabilities Still Held at June 30, 2020 and 2019 Included in Net Income

	Included in Net Income			
	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2020	2019	2020	2019
Assets				
Residential loans at Redwood	$ (359)	$ 48,575	$ (746)	$ 80,615
Business purpose residential loans	31,187	3,038	(21,026)	4,032
Net investments in consolidated Sequoia entities [(1)]	39,558	2,487	(30,502)	5,191
Net investments in consolidated Freddie Mac SLST entities [(1)]	26,867	8,037	(115,295)	14,402
Net investments in consolidated Freddie Mac K-Series entities [(1)]	1,599	3,246	(13,180)	6,365
Net investments in consolidated CAFL entities [(1)]	17,125	—	(50,721)	—
Trading securities	30,647	17,771	(79,633)	38,658
Servicer advance investments	(136)	432	(6,198)	1,440
MSRs	(1,591)	(7,334)	(16,507)	(11,518)
Excess MSRs	2,971	(66)	(6,523)	(502)
Shared home appreciation options	884	—	(6,670)	—
Loan purchase and interest rate lock commitments	357	5,534	357	5,567
Other assets - Guarantee asset	(135)	(277)	(916)	(196)
Liabilities				
Loan purchase commitments	$ 2,137	$ (756)	$ (1,634)	$ (772)

(1) Represents the portion of net gains or losses included in our consolidated statements of income (loss) related to loans and the associated ABS issued at our consolidated securitization entities held at June 30, 2020 and 2019, which netted together represent the change in value of our investments at the consolidated VIEs.

The following table presents information on assets recorded at fair value on a non-recurring basis at June 30, 2020. This table does not include the carrying value and gains or losses associated with the asset types below that were not recorded at fair value on our consolidated balance sheets at June 30, 2020.

Table 5.5 – Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis at June 30, 2020

June 30, 2020	Carrying	Fair Value Measurements Using			Gain (Loss) for	
(In Thousands)	Value	Level 1	Level 2	Level 3	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Assets						
REO	$ 1,712	$ —	$ —	$ 1,712	$ (36)	$ (31)

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

The following table presents the net market valuation gains and losses recorded in each line item of our consolidated statements of income for the three and six months ended June 30, 2020 and 2019.

Table 5.6 – Market Valuation Gains and Losses, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2020**	**2019**	**2020**	**2019**
Mortgage Banking Activities, Net				
Residential loans held-for-sale, at fair value	$ (2,014)	$ 3,379	$ (15,494)	$ 6,912
Residential loan purchase and forward sale commitments	621	16,888	22,056	28,199
Single-family rental loans held-for-sale, at fair value	1,210	1,313	12,677	2,917
Single-family rental loan purchase and interest rate lock commitments	—	569	341	709
Residential bridge loans	(1,260)	1,012	(5,194)	1,098
Risk management derivatives, net	—	(7,431)	(52,832)	(12,415)
Total mortgage banking activities, net [1]	$ (1,443)	$ 15,730	$ (38,446)	$ 27,420
Investment Fair Value Changes, Net				
Residential loans held-for-investment, at Redwood	$ 104	$ 35,548	$ (93,532)	$ 63,656
Single-family rental loans held-for-investment	2,222	—	(20,806)	—
Residential bridge loans held-for-investment	21,774	(318)	(16,828)	(621)
Trading securities	42,246	18,442	(221,079)	40,302
Servicer advance investments	(136)	432	(6,198)	1,440
Excess MSRs	2,971	(65)	(6,523)	(502)
Net investments in Legacy Sequoia entities [2]	(230)	(123)	(621)	(497)
Net investments in Sequoia Choice entities [2]	39,753	2,879	(29,916)	6,144
Net investments in Freddie Mac SLST entities [2]	26,867	8,037	(115,295)	14,402
Net investments in Freddie Mac K-Series entities [2]	1,599	3,246	(84,910)	6,365
Net investments in CAFL entities [2]	17,125	—	(50,721)	—
Other investments	(2,121)	(200)	(11,562)	(277)
Risk management derivatives, net	—	(64,740)	(59,142)	(107,115)
Credit recoveries (losses) on AFS securities	54	—	(1,471)	—
Total investment fair value changes, net	$ 152,228	$ 3,138	$ (718,604)	$ 23,297
Other Income				
MSRs	$ (3,955)	$ (8,653)	$ (22,563)	$ (13,753)
Risk management derivatives, net	—	6,517	13,966	8,768
Gain on re-measurement of 5 Arches investment	—	—	—	2,440
Total other income [3]	$ (3,955)	$ (2,136)	$ (8,597)	$ (2,545)
Total Market Valuation Gains (Losses), Net	$ 146,830	$ 16,732	$ (765,647)	$ 48,172

(1) Mortgage banking activities, net presented above does not include fee income from loan originations or acquisitions, provisions for repurchases expense, and other expenses that are components of Mortgage banking activities, net presented on our consolidated statements of income (loss), as these amounts do not represent market valuation changes.

(2) Includes changes in fair value of the residential loans held-for-investment, REO and the ABS issued at the entities, which netted together represent the change in value of our investments at the consolidated VIEs.

(3) Other income presented above does not include net MSR fee income or provisions for repurchases for MSRs, as these amounts do not represent market valuation adjustments.

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

At June 30, 2020, our valuation policy and processes had not changed from those described in our Annual Report on Form 10-K for the year ended December 31, 2019. The following table provides quantitative information about the significant unobservable inputs used in the valuation of our Level 3 assets and liabilities measured at fair value.

Table 5.7 – Fair Value Methodology for Level 3 Financial Instruments

June 30, 2020 (Dollars in Thousands, except Input Values)	Fair Value	Unobservable Input	Input Values: Range	Input Values: Weighted Average[(5)]
Assets				
Residential loans, at fair value:				
Jumbo loans committed to sell	$ 20,199	Whole loan committed sales price	$ 101.00 - $ 101.00	$ 101.00
Loans held by Legacy Sequoia [(1)]	304,632	Liability price	N/A	N/A
Loans held by Sequoia Choice [(1)]	2,064,388	Liability price	N/A	N/A
Loans held by Freddie Mac SLST [(1)]	2,145,111	Liability price	N/A	N/A
Business purpose residential loans:				
Single-family rental loans	379,795	Senior credit spread	230 - 230 bps	230 bps
		Subordinate credit spread	300 - 2,450 bps	772 bps
		Senior credit support	31 - 36 %	34 %
		IO discount rate	10 - 10 %	10 %
		Prepayment rate (annual CPR)	3 - 3 %	3 %
Single-family rental loans held by CAFL	2,615,038	Liability price	N/A	N/A
Residential bridge loans	787,367	Discount rate	8 - 17 %	11 %
Multifamily loans held by Freddie Mac K-Series [(1)]	489,075	Liability price	N/A	N/A
Trading and AFS securities	316,436	Discount rate	4 - 21 %	10 %
		Prepayment rate (annual CPR)	6 - 65 %	17 %
		Default rate	— - 15 %	1 %
		Loss severity	— - 50 %	16 %
Servicer advance investments	266,948	Discount rate	5 - 5 %	5 %
		Prepayment rate (annual CPR)	8 - 14 %	14 %
		Expected remaining life [(2)]	2 - 2 years	2 years
		Mortgage servicing income	8 - 13 bps	10 bps
MSRs	19,661	Discount rate	12 - 12 %	12 %
		Prepayment rate (annual CPR)	8 - 62 %	21 %
		Per loan annual cost to service	$ 95 - $ 95	$ 95
Excess MSRs	36,197	Discount rate	15 - 20 %	18 %
		Prepayment rate (annual CPR)	10 - 14 %	12 %
		Excess mortgage servicing income	9 - 17 bps	12 bps

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

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

June 30, 2020			Input Values	
(Dollars in Thousands, except Input Values)	Fair Value	Unobservable Input	Range	Weighted Average (4)
Assets (continued)				
Shared home appreciation options	$ 40,851	Discount rate	17 - 17 %	17 %
		Prepayment rate (annual CPR)	8 - 28 %	21 %
		Home price appreciation	1 - 3 %	3 %
Guarantee asset	781	Discount rate	13 - 13 %	13 %
		Prepayment rate (annual CPR)	37 - 37 %	37 %
REO	1,712	Loss severity	3 - 86 %	19 %
Liabilities				
Residential loan purchase commitments, net	177	Committed sales price	$ 96.10 - $ 101.28	$ 100.11
		Pull-through rate	100 - 100 %	100 %
ABS issued (1):				
At consolidated Sequoia entities	2,162,134	Discount rate	2 - 25 %	4 %
		Prepayment rate (annual CPR)	10 - 50 %	24 %
		Default rate	— - 40 %	1 %
		Loss severity	— - 50 %	32 %
At consolidated Freddie Mac SLST entities	1,812,008	Discount rate	2 - 14 %	4 %
		Prepayment rate (annual CPR)	6 - 6 %	6 %
		Default rate	17 - 18 %	17 %
		Loss severity	30 - 30 %	30 %
At consolidated Freddie Mac K-Series entities (3)	464,691	Discount rate	1 - 19 %	2 %
		Non-IO prepayment rate (annual CPR)	— - — %	— %
		IO prepayment rate (annual CPY/CPP)	100 - 100 %	100 %
At consolidated CAFL entities (3)	2,417,253	Discount rate	1 - 74 %	4 %
		Prepayment rate (annual CPR)	— - 3 %	— %

(1) The fair value of the loans held by consolidated entities was based on the fair value of the ABS issued by these entities, including securities we own, which we determined were more readily observable, in accordance with accounting guidance for collateralized financing entities. At June 30, 2020, the fair value of securities we owned at the consolidated Sequoia, Freddie Mac SLST, Freddie Mac K-Series, and CAFL entities was $208 million, $334 million, $24 million, and $203 million, respectively.

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

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

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

Determination of Fair Value

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

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

Included in *Note 5* to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2019 is a more detailed description of our financial instruments measured at fair value and their significant inputs, as well as the general classification of such instruments pursuant to the Level 1, Level 2, and Level 3 valuation hierarchy.

Note 6. Residential Loans

We acquire residential loans from third-party originators and may sell or securitize these loans or hold them for investment.The following table summarizes the classifications and carrying values of the residential loans owned at Redwood and at consolidated Sequoia and Freddie Mac SLST entities at June 30, 2020 and December 31, 2019.

Table 6.1 – Classifications and Carrying Values of Residential Loans

June 30, 2020		**Legacy**	**Sequoia**	**Freddie Mac**	
(In Thousands)	**Redwood**	**Sequoia**	**Choice**	**SLST**	**Total**
Held-for-sale at fair value	$ 20,200	$ —	$ —	$ —	$ 20,200
Held-for-investment at fair value	—	304,632	2,064,388	2,145,111	4,514,131
Total Residential Loans	$ 20,200	$ 304,632	$ 2,064,388	$ 2,145,111	$ 4,534,331

December 31, 2019		**Legacy**	**Sequoia**	**Freddie Mac**	
(In Thousands)	**Redwood**	**Sequoia**	**Choice**	**SLST**	**Total**
Held-for-sale at fair value	$ 536,385	$ —	$ —	$ —	$ 536,385
Held-for-investment at fair value	2,111,897	407,890	2,291,463	2,367,215	7,178,465
Total Residential Loans	$ 2,648,282	$ 407,890	$ 2,291,463	$ 2,367,215	$ 7,714,850

At June 30, 2020, we owned mortgage servicing rights associated with $20 million (principal balance) of consolidated residential loans purchased from third-party originators. The value of these MSRs is included in the carrying value of the associated loans on our consolidated balance sheets. We contract with licensed sub-servicers that perform servicing functions for these loans.

Residential Loans Held-for-Sale

At Fair Value

At June 30, 2020, we owned 29 loans held-for-sale at fair value with an aggregate unpaid principal balance of $21 million and a fair value of $20 million, compared to 669 loans with an aggregate unpaid principal balance of $525 million and a fair value of $536 million at December 31, 2019. At June 30, 2020, three of these loans with an aggregate fair value of $2 million and unpaid principal balance of $3 million were greater than 90 days delinquent and one of these loans with a fair value of $0.4 million and an unpaid principal balance of $1 million was in foreclosure. At December 31, 2019, one of these loans with a fair value and unpaid principal balance of $1 million was greater than 90 days delinquent and none of these loans were in foreclosure.

During the three and six months ended June 30, 2020, we purchased $58 million and $2.69 billion (principal balance) of loans, respectively, for which we elected the fair value option, and we sold $2.28 billion and $4.94 billion (principal balance) of loans, respectively, for which we recorded net market valuation losses of $2 million and $15 million, respectively, through Mortgage banking activities, net on our consolidated statements of income (loss). At June 30, 2020, loans held-for-sale with a market value of $ 15 million were pledged as collateral under short-term borrowing agreements.

During the three and six months ended June 30, 2019, we purchased $1.53 billion and $2.49 billion (principal balance) of loans, respectively, for which we elected the fair value option, and we sold $1.23 billion and $2.39 billion (principal balance) of loans, respectively, for which we recorded net market valuation gains of $3 million and $7 million, respectively, through Mortgage banking activities, net on our consolidated statements of income (loss).

Note 6. Residential Loans - (continued)

Residential Loans Held-for-Investment at Fair Value

At Redwood

At June 30, 2020, we did not own any held-for-investment loans at Redwood. At December 31, 2019, we owned 2,940 held-for-investment loans at Redwood with an aggregate unpaid principal balance of $2.05 billion and a fair value of $2.11 billion. At December 31, 2019, two of these loans with an aggregate fair value of $1 million and an unpaid principal balance of $2 million were greater than 90 days delinquent and none of these loans were in foreclosure.

During the three and six months ended June 30, 2020, we transferred loans with a fair value of zero and $13 million, respectively, from held-for-sale to held-for-investment. During the three and six months ended June 30, 2020, we transferred loans with a fair value of zero and $1.87 billion, respectively, from held-for-investment to held-for-sale. During the three and six months ended June 30, 2020, we recorded net market valuation losses of zero and $94 million, respectively, on residential loans held-for-investment at fair value through Investment fair value changes, net on our consolidated statements of income (loss).

During the three and six months ended June 30, 2019, we purchased zero and $39 million (principal balance) of loans, respectively, for which we elected the fair value option, and did not sell any loans. During the three and six months ended June 30, 2019, we transferred loans with a fair value of $30 million and $69 million, respectively, from held-for-sale to held-for-investment. During the three and six months ended June 30, 2019, we transferred loans with a fair value of zero and $23 million, respectively, from held-for-investment to held-for-sale. During the three and six months ended June 30, 2019, we recorded net market valuation gains of $36 million and $64 million, respectively, on residential loans held-for-investment at fair value through Investment fair value changes, net on our consolidated statements of income (loss).

At Consolidated Legacy Sequoia Entities

At June 30, 2020, we consolidated 2,063 held-for-investment loans at consolidated Legacy Sequoia entities, with an aggregate unpaid principal balance of $382 million and a fair value of $305 million, as compared to 2,198 loans at December 31, 2019, with an aggregate unpaid principal balance of $425 million and a fair value of $408 million. At origination, the weighted average FICO score of borrowers backing these loans was 727, the weighted average LTV ratio of these loans was 65%, and the loans were nearly all first lien and prime-quality.

At June 30, 2020 and December 31, 2019, the aggregate unpaid principal balance of loans at consolidated Legacy Sequoia entities delinquent greater than 90 days was $12 million and $10 million, respectively, of which the aggregate unpaid principal balance of loans in foreclosure was $3 million and $4 million, respectively. During the three and six months ended June 30, 2020, we recorded a net market valuation gain of $8 million and a net market valuation loss of $61 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income (loss). During the three and six months ended June 30, 2019, we recorded net market valuation gains of $1 million and $5 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income (loss). Pursuant to the collateralized financing entity guidelines, the market valuation changes of these loans are based on the estimated fair value of the associated ABS issued. The net impact to our income statement associated with our retained economic investment in the Legacy Sequoia securitization entities is presented in *Note 5.*

At Consolidated Sequoia Choice Entities

At June 30, 2020, we consolidated 2,861 held-for-investment loans at the consolidated Sequoia Choice entities, with an aggregate unpaid principal balance of $2.03 billion and a fair value of $2.06 billion, as compared to 3,156 loans at December 31, 2019 with an aggregate unpaid principal balance of $2.24 billion and a fair value of $2.29 billion. At origination, the weighted average FICO score of borrowers backing these loans was 743, the weighted average LTV ratio of these loans was 74%, and the loans were all first lien and prime-quality. At June 30, 2020, 22 of these loans with an aggregate unpaid principal balance of $16 million were greater than 90 days delinquent and five of these loans with an aggregate unpaid principal balance of $3 million was in foreclosure. At December 31, 2019, nine of these loans with an aggregate unpaid principal balance of $7 million were greater than 90 days delinquent and three of these loans with an aggregate unpaid principal balance of $2 million were in foreclosure.

Note 6. Residential Loans - (continued)

During both the three and six months ended June 30, 2020, we transferred $271 million of loans from held-for-sale to held-for-investment associated with Choice securitizations. During the three and six months ended June 30, 2019, we transferred loans with a fair value of zero and $350 million, respectively, from held-for-sale to held-for-investment associated with Choice securitizations. During the three and six months ended June 30, 2020, we recorded a net market valuation gain of $94 million and a net market valuation loss of $17 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income (loss). Pursuant to the collateralized financing entity guidelines, the market valuation changes of these loans are based on the estimated fair value of the ABS issued associated with Choice securitizations. The net impact to our income statement associated with our retained economic investment in the Sequoia Choice securitization entities is presented in *Note 5.*

At Consolidated Freddie Mac SLST Entities

Beginning in 2018, we invested in subordinate securities issued by certain Freddie Mac SLST securitization trusts and were required to consolidate the underlying seasoned re-performing and non-performing residential loans owned at these entities for financial reporting purposes in accordance with GAAP. At securitization, each of these mortgage loans was a fully amortizing, fixed- or step-rate, first-lien loan that had been modified. At June 30, 2020, we consolidated 14,143 held-for-investment loans at the consolidated Freddie Mac SLST entities, with an aggregate unpaid principal balance of $2.35 billion and a fair value of $2.15 billion, as compared to 14,502 loans at December 31, 2019 with an aggregate unpaid principal balance of $2.43 billion and a fair value of $2.37 billion. At securitization, the weighted average FICO score of borrowers backing these loans was 600 and the weighted average LTV ratio of these loans was 73%. At June 30, 2020, 1,409 of these loans with an aggregate unpaid principal balance of $258 million were greater than 90 days delinquent, of which 236 of these loans with an aggregate unpaid principal balance of $38 million were in foreclosure. At December 31, 2019, 587 of these loans with an aggregate unpaid principal balance of $135 million were greater than 90 days delinquent and 208 of these loans with an aggregate unpaid principal balance of $33 million were in foreclosure.

During the three and six months ended June 30, 2020, we recorded a net market valuation gain of $49 million and a net market valuation loss of $144 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income (loss). During the three and six months ended June 30, 2019, we recorded net market valuation gains of $31 million and $55 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income (loss). Pursuant to the collateralized financing entity guidelines, the market valuation changes of these loans are based on the estimated fair value of the ABS issued associated with the Freddie Mac SLST securitizations. The net impact to our income statement associated with our economic investment in the Freddie Mac SLST securitization entities is presented in *Note 5.*

Note 7. Business Purpose Residential Loans

We originate business purpose residential loans, including single-family rental loans and residential bridge loans. This origination activity commenced in connection with our acquisitions of 5 Arches and CoreVest in 2019.

Business Purpose Residential Loan Originations

During the three months ended June 30, 2020, we funded $234 million of business purpose residential loans, of which $2 million of residential bridge loans and no single-family rental loans were sold to third parties. The remaining business purpose residential loans were transferred to our investment portfolio (residential bridge loans), or retained in our mortgage banking business (single-family rental loans) for future securitizations. Prior to the transfer of residential bridge loans to our investment portfolio, we recorded a net market valuation loss of $3 million on these loans through Mortgage banking activities, net on our consolidated statements of income (loss) for the three months ended June 30, 2020. Market valuation adjustments on our single-family rental loans are also recorded in Mortgage banking activities, net on our consolidated statements of income (loss) prior to their sale or transfer to our investment portfolio. Additionally, during the three and six months ended June 30, 2020, we recorded loan origination fee income associated with business purpose residential loans of $2 million and $11 million, respectively, through Mortgage banking activities, net on our consolidated statements of income (loss).

Note 7. Business Purpose Residential Loans - (continued)

The following table summarizes the classifications and carrying values of the business purpose residential loans owned at Redwood at June 30, 2020 and December 31, 2019.

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

June 30, 2020	**Single-Family Rental**		**Residential**	
(In Thousands)	**Redwood**	**CAFL**	**Bridge**	**Total**
Held-for-sale at fair value	$ 379,795	—	$ —	$ 379,795
Held-for-investment at fair value	—	2,615,038	787,367	3,402,405
Total Business Purpose Residential Loans	$ 379,795	$ 2,615,038	$ 787,367	$ 3,782,200

December 31, 2019	**Single-Family Rental**		**Residential**	
(In Thousands)	**Redwood**	**CAFL**	**Bridge**	**Total**
Held-for-sale at fair value	$ 331,565	$ —	$ —	$ 331,565
Held-for-investment at fair value	237,620	2,192,552	745,006	3,175,178
Total Business Purpose Residential Loans	$ 569,185	$ 2,192,552	$ 745,006	$ 3,506,743

Single-Family Rental Loans

At June 30, 2020, we owned 199 single-family rental loans with an aggregate unpaid principal balance and fair value of $380 million, as compared to 308 loans at December 31, 2019 with an aggregate unpaid principal balance of $553 million and a fair value of $569 million. At June 30, 2020, three of these loans with an aggregate unpaid principal balance and fair value of $3 million were in foreclosure, of which two of these loans with an aggregate unpaid principal balance and fair value of $2 million were greater than 90 days delinquent. At December 31, 2019, two of these loans with an aggregate unpaid principal balance and fair value of $2 million were greater than 90 days delinquent, of which one of these loans with an unpaid principal balance of $0.1 million was in foreclosure.

During the three and six months ended June 30, 2020, we originated $176 million and $436 million of single-family rental loans, respectively. During the six months ended June 30, 2020, we transferred $599 million of single-family rental loans from held-for-sale to held-for-investment associated with two CAFL securitizations and sold $26 million to third parties. Additionally, at March 31, 2020, we transferred all held-for-investment single-family rental loans to held-for-sale. During the three and six months ended June 30, 2020, we recorded a net market valuation gain of $3 million and a net market valuation loss of $9 million, respectively, on single-family rental loans. Of the $3 million of net market valuation gains recorded during the three months ended June 30, 2020, $1 million of net market valuation gains were recorded through Mortgage banking activities, net and $2 million of net market valuation gains were recorded through Investment fair value changes, net on our consolidated statements of income (loss). Of the $9 million of net market valuation losses recorded during the six months ended June 30, 2020, $12 million of net market valuation gains were recorded through Mortgage banking activities, net and $21 million of net market valuation losses were recorded through Investment fair value changes, net on our consolidated statements of income (loss). During the three and six months ended June 30, 2019, we recorded net market valuation gains of $1 million and $2 million, respectively, on single-family rental loans through Mortgage banking activities, net on our consolidated statements of income (loss).

The outstanding single-family rental loans held-for-sale at June 30, 2020 were first lien, fixed-rate loans with original maturities of five, seven, or ten years. At June 30, 2020, the weighted average coupon of our single-family rental loans was 4.82% and the weighted average remaining loan term was eight years. At origination, the weighted average LTV ratio of these loans was 67% and the weighted average debt service coverage ratio ("DSCR") was 1.35 times.

Note 7. Business Purpose Residential Loans - (continued)

Single-Family Rental Loans Held-for-Investment at CAFL

In conjunction with our acquisition of CoreVest in the fourth quarter of 2019, we consolidated the single-family rental loans owned at certain CAFL securitization entities. At June 30, 2020, we consolidated 967 held-for-investment single-family rental loans at the consolidated CAFL entities, with an aggregate unpaid principal balance of $2.58 billion and a fair value of $2.62 billion, as compared to 783 loans at December 31, 2019 with an aggregate unpaid principal balance of $2.08 billion and a fair value of $2.19 billion. The outstanding single-family rental loans held-for-investment at CAFL at June 30, 2020 were first-lien, fixed-rate loans with original maturities of five, seven, or ten years. At June 30, 2020, the weighted average coupon of our single-family rental loans was 5.52% and the weighted average remaining loan term was six years. At origination, the weighted average LTV ratio of these loans was 69% and the weighted average DSCR was 1.37 times. At June 30, 2020, 19 of these loans with an aggregate unpaid principal balance of $29 million were greater than 90 days delinquent and eight of these loans with an aggregate unpaid principal balance of $14 million were in foreclosure. At December 31, 2019, 18 of these loans with an aggregate unpaid principal balance of $29 million were greater than 90 days delinquent and five of these loans with an aggregate unpaid principal balance of $9 million were in foreclosure.

During the three and six months ended June 30, 2020, we recorded a net market valuation gain of $169 million and a net market valuation loss of $103 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income (loss). Pursuant to the collateralized financing entity guidelines, the market valuation changes of these loans are based on the estimated fair value of the ABS issued associated with CAFL securitizations. The net impact to our income statement associated with our retained economic investment in the CAFL securitization entities is presented in *Note 5.*

Residential Bridge Loans Held-for-Investment

At June 30, 2020, we owned 2,847 residential bridge loans held-for-investment with an aggregate unpaid principal balance of $803 million and a fair value of $787 million, as compared to 2,653 loans at December 31, 2019 with an aggregate unpaid principal balance of $743 million and a fair value of $745 million.

As part of our credit risk management practices, our residential bridge loans are subject to individual risk assessment using an internal borrower and collateral quality evaluation framework. At June 30, 2020, 13 loans with an aggregate fair value of $30 million and an unpaid principal balance of $35 million were greater than 90 days delinquent, of which nine of these loans with an aggregate fair value of $28 million and an unpaid principal balance of $32 million were in foreclosure. At December 31, 2019, 31 loans with an aggregate fair value of $12 million and an unpaid principal balance of $14 million were in foreclosure, of which 15 of these loans with an aggregate fair value of $7 million and an unpaid principal balance of $9 million were greater than 90 days delinquent. During the six months ended June 30, 2020, we transferred three loans with a fair value of $2 million to REO, which is included in Other assets on our consolidated balance sheets.

During the three and six months ended June 30, 2020, $54 million and $260 million of newly originated residential bridge loans, respectively, were transferred to our investment portfolio. During the three and six months ended June 30, 2020, we recorded a net market valuation gain of $22 million and a net market valuation loss of $17 million, respectively, on residential bridge loans held-for-investment at fair value through Investment fair value changes, net on our consolidated statements of income (loss). During the three and six months ended June 30, 2019, we recorded net market valuation losses of $0.3 million and $0.6 million, respectively, on residential bridge loans held-for-investment at fair value through Investment fair value changes, net on our consolidated statements of income (loss).

The outstanding residential bridge loans held-for-investment at June 30, 2020 were first lien, fixed-rate, interest-only loans with a weighted average coupon of 7.96% and original maturities of six to 24 months. At origination, the weighted average FICO score of borrowers backing these loans was 720 and the weighted average LTV ratio of these loans was 69%.

At June 30, 2020, we had a $167 million commitment to fund residential bridge loans. See *Note 16* for additional information on this commitment.

Note 8. Multifamily Loans

Since 2018, we invested in multifamily subordinate securities issued by Freddie Mac K-Series securitization trusts and were required to consolidate the underlying multifamily loans owned at these entities for financial reporting purposes in accordance with GAAP. During the first quarter of 2020, we sold subordinate securities issued by four such Freddie Mac K-Series securitization trusts and deconsolidated $3.85 billion of multifamily loans. See *Note 2* for further discussion.

At June 30, 2020, we consolidated 28 held-for-investment multifamily loans, with an aggregate unpaid principal balance of $465 million and a fair value of $489 million, as compared to 279 loans at December 31, 2019 with an aggregate unpaid principal balance of $4.20 billion and a fair value of $4.41 billion. The outstanding multifamily loans held-for-investment at the Freddie Mac K-Series entities at June 30, 2020 were first-lien, fixed-rate loans that were originated in 2015 and had original loan terms of ten years and an original weighted average LTV ratio of 67%. At June 30, 2020, the weighted average coupon of these multifamily loans was 4.25% and the weighted average remaining loan term was five years. At both June 30, 2020 and December 31, 2019, none of these loans were greater than 90 days delinquent or in foreclosure.

During the three and six months ended June 30, 2020, we recorded a net market valuation gain of $19 million and a net market valuation loss of $64 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income (loss). During the three and six months ended June 30, 2019, we recorded net market valuation gains of $97 million and $131 million, respectively, on these loans through Investment fair value changes, net on our consolidated statements of income (loss). Pursuant to the collateralized financing entity guidelines, the market valuation changes of these loans are based on the estimated fair value of the ABS issued associated with the securitizations. The net impact to our income statement associated with our economic investment in the securities of the Freddie Mac K-Series securitization entities is presented in *Note 5*.

Note 9. Real Estate Securities

We invest in real estate securities that we acquire from third parties or create and retain from our Sequoia securitizations. The following table presents the fair values of our real estate securities by type at June 30, 2020 and December 31, 2019.

Table 9.1 – Fair Values of Real Estate Securities by Type

(In Thousands)	June 30, 2020	December 31, 2019
Trading	$ 142,699	$ 860,540
Available-for-sale	173,737	239,334
Total Real Estate Securities	$ 316,436	$ 1,099,874

Our real estate securities include mortgage-backed securities, which are presented in accordance with their general position within a securitization structure based on their rights to cash flows. Senior securities are those interests in a securitization that generally have the first right to cash flows and are last in line to absorb losses. Mezzanine securities are interests that are generally subordinate to senior securities in their rights to receive cash flows, and have subordinate securities below them that are first to absorb losses. Many of our mezzanine classified securities were initially rated AA through BBB- and issued in 2012 or later. Subordinate securities are all interests below mezzanine. Excluding our re-performing loan securities, nearly all of our residential securities are supported by collateral that was designated as prime at the time of issuance.

ote 9. Real Estate Securities - (continued)

Trading Securities

The following table presents the fair value of trading securities by position and collateral type at June 30, 2020 and December 31, 2019.

Table 9.2 – Trading Securities by Position

(In Thousands)	June 30, 2020	December 31, 2019
Senior	$ 32,860	$ 150,067
Mezzanine	3,514	538,489
Subordinate	106,325	171,984
Total Trading Securities	$ 142,699	$ 860,540

We elected the fair value option for certain securities and classify them as trading securities. Our trading securities include both residential and multifamily mortgage-backed securities, and our residential securities also include securities backed by re-performing loans ("RPL"). At June 30, 2020 and December 31, 2019, our senior trading securities included $33 million and $64 million of interest-only securities, respectively, for which there is no principal balance, and the unpaid principal balance of our remaining senior trading securities was zero and $84 million, respectively. Our interest-only securities included $14 million and $36 million of certificated mortgage servicing rights at June 30, 2020 and December 31, 2019, respectively, which are securities we retained from certain of our Sequoia securitizations that represent certificated servicing strips. At June 30, 2020 and December 31, 2019, our senior trading securities included $11 million and $55 million of RPL securities, respectively.

At June 30, 2020 and December 31, 2019, our mezzanine trading securities had an unpaid principal balance of $4 million and $537 million, respectively. At June 30, 2020 and December 31, 2019, the fair value of our mezzanine securities was $4 million and $538 million, respectively, and included $4 million and $39 million of Sequoia securities, respectively, zero and $395 million of multifamily securities, respectively, and zero and $104 million of other third-party residential securities, respectively, including zero and $30 million of RPL securities, respectively.

At June 30, 2020 and December 31, 2019, our subordinate trading securities had an unpaid principal balance of $272 million and $302 million, respectively. At June 30, 2020 and December 31, 2019, the fair value of our subordinate securities was $106 million and $172 million, respectively, and included $50 million and $90 million, respectively, of Agency residential mortgage credit risk transfer (or "CRT") securities, $ 52 million and $82 million, respectively, of other third-party residential securities, including $49 million and $76 million of RPL securities, respectively.

During the three and six months ended June 30, 2020, we acquired $10 million and $67 million (principal balance), respectively, of securities for which we elected the fair value option and classified as trading, and sold $86 million and $705 million, respectively, of such securities. During the three and six months ended June 30, 2019, we acquired $115 million and $269 million (principal balance), respectively, of securities for which we elected the fair value option and classified as trading, and sold $132 million and $161 million, respectively, of such securities.

During the three and six months ended June 30, 2020, we recorded a net market valuation gain of $42 million and a net market valuation loss of $221 million, respectively, on trading securities, included in Investment fair value changes, net on our consolidated statements of income (loss). During the three and six months ended June 30, 2019, we recorded net market valuation gains of $18 million and $40 million, respectively, on trading securities, included in Investment fair value changes, net on our consolidated statements of income (loss).

ote 9. Real Estate Securities - (continued)

AFS Securities

The following table presents the fair value of our available-for-sale securities by position and collateral type at June 30, 2020 and December 31, 2019.

Table 9.3 – Available-for-Sale Securities by Position

(In Thousands)	June 30, 2020	December 31, 2019
Senior	$ —	$ 25,792
Mezzanine	—	13,687
Subordinate	173,737	199,855
Total AFS Securities	$ 173,737	$ 239,334

At June 30, 2020 and December 31, 2019, our available-for-sale securities were comprised of $150 million and $230 million of residential mortgage-backed securities, respectively, and $23 million and $9 million of multifamily mortgage-backed securities, respectively. At June 30, 2020 and December 31, 2019, our residential available-for-sale securities were comprised of $118 million and $141 million of residential mortgage-backed securities we retained from our Sequoia securitizations, respectively, and $33 million and $90 million of other third-party residential securities, respectively.

During the three and six months ended June 30, 2020, we purchasedzero and $31 million of AFS securities, respectively, and sold $9 million and $55 million of AFS securities, respectively, which resulted in net realized gains of $1 million and $5 million, respectively. During the three and six months ended June 30, 2019, we purchased $4 million and $9 million of AFS securities, respectively, and sold $25 million and $67 million of AFS securities, respectively, which resulted in net realized gains of $3 million and $9 million, respectively.

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

At June 30, 2020, we had $21 million of AFS securities with contractual maturities less than five years, $2 million with contractual maturities greater than five years but less than ten years, and the remainder of our AFS securities had contractual maturities greater than ten years.

The following table presents the components of carrying value (which equals fair value) of AFS securities at June 30, 2020 and December 31, 2019.

Table 9.4 – Carrying Value of AFS Securities

June 30, 2020

(In Thousands)	Senior	Mezzanine	Subordinate	Total
Principal balance	$ —	$ —	$ 264,100	$ 264,100
Credit reserve	—	—	(37,785)	(37,785)
Unamortized discount, net	—	—	(104,260)	(104,260)
Amortized cost	—	—	122,055	122,055
Gross unrealized gains	—	—	56,999	56,999
Gross unrealized losses	—	—	(3,846)	(3,846)
Allowance for credit losses	—	—	(1,471)	(1,471)
Carrying Value	$ —	$ —	$ 173,737	$ 173,737

ote 9. Real Estate Securities - (continued)

December 31, 2019 (In Thousands)	Senior	Mezzanine	Subordinate	Total
Principal balance	$ 26,331	$ 13,512	$ 264,234	$ 304,077
Credit reserve	(533)	—	(32,407)	(32,940)
Unamortized discount, net	(10,427)	(527)	(113,301)	(124,255)
Amortized cost	15,371	12,985	118,526	146,882
Gross unrealized gains	10,450	702	81,329	92,481
Gross unrealized losses	(29)	—	—	(29)
Carrying Value	$ 25,792	$ 13,687	$ 199,855	$ 239,334

The following table presents the changes for the three and six months ended June 30, 2020, in unamortized discount and designated credit reserves on AFS securities.

Table 9.5 – Changes in Unamortized Discount and Designated Credit Reserves on AFS Securities

	Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
(In Thousands)	Credit Reserve	Unamortized Discount, Net	Credit Reserve	Unamortized Discount, Net
Beginning balance	$ 37,717	$ 109,538	$ 32,940	$ 124,255
Amortization of net discount	—	(1,087)	—	(2,841)
Realized credit losses	(184)	—	(703)	—
Acquisitions	—	—	5,184	777
Sales, calls, other	(520)	(3,419)	(726)	(16,841)
(Release of) transfers to credit reserves, net	772	(772)	1,090	(1,090)
Ending Balance	$ 37,785	$ 104,260	$ 37,785	$ 104,260

AFS Securities with Unrealized Losses

The following table presents the components comprising the total carrying value of AFS securities that were in a gross unrealized loss position at June 30, 2020 and December 31, 2019.

Table 9.6 – Components of Fair Value of AFS Securities by Holding Periods

	Less Than 12 Consecutive Months			12 Consecutive Months or Longer		
(In Thousands)	Amortized Cost	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Losses	Fair Value
June 30, 2020	$ 37,751	$ (3,846)	$ 32,433	$ —	$ —	$ —
December 31, 2019	—	—	—	5,830	(29)	5,801

At June 30, 2020, after giving effect to purchases, sales, and extinguishment due to credit losses, our consolidated balance sheet included94 AFS securities, of which 13 were in an unrealized loss position and zero were in a continuous unrealized loss position for 12 consecutive months or longer. At December 31, 2019, our consolidated balance sheet included 107 AFS securities, of which one was in an unrealized loss position andone was in a continuous unrealized loss position for 12 consecutive months or longer.

ote 9. Real Estate Securities - (continued)

Evaluating AFS Securities for Credit Losses

Gross unrealized losses on our AFS securities were $4 million at June 30, 2020. Pursuant to our adoption of ASU 2016-13, "Financial Instruments - Credit Losses" in the first quarter of 2020, we evaluate all securities in an unrealized loss position to determine if the impairment is credit-related (resulting in an allowance for credit losses recorded in earnings) or non-credit-related (resulting in an unrealized loss through other comprehensive income). At June 30, 2020, we did not intend to sell any of our AFS securities that were in an unrealized loss position, and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost basis, which may be at their maturity. We review our AFS securities that are in an unrealized loss position to identify those securities with losses based on an assessment of changes in expected cash flows for such securities, which considers recent security performance and expected future performance of the underlying collateral.

At June 30, 2020, our allowance for credit losses related to our AFS securities was $1 million. AFS securities for which an allowance is recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. In determining our estimate of cash flows for AFS securities we may consider factors such as structural credit enhancement, past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, which are informed by prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, FICO scores at loan origination, year of origination, loan-to-value ratios, and geographic concentrations, as well as general market assessments. Changes in our evaluation of these factors impacted the cash flows expected to be collected at the assessment date and were used to determine if there were credit-related adverse cash flows and if so, the amount of credit related losses. Significant judgment is used in both our analysis of the expected cash flows for our AFS securities and any determination of security credit losses.

The table below summarizes the weighted average of the significant credit quality indicators we used for the credit loss allowance on our AFS securities at June 30, 2020.

Table 9.7 – Significant Credit Quality Indicators

June 30, 2020	Subordinate Securities
Default rate	0.5%
Loss severity	20%

The following table details the activity related to the allowance for credit losses for AFS securities held at June 30, 2020.

Table 9.8 – Rollforward of Allowance for Credit Losses

(In Thousands)	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Beginning balance allowance for credit losses	$ 1,525	$ —
Transition impact from adoption of new standard	—	—
Additions to allowance for credit losses on securities for which credit losses were not previously recorded	—	1,525
Allowance on purchased financial assets with credit deterioration	—	—
Reduction to allowance for securities sold during the period	—	—
Reduction to allowance for securities we intend to sell or more likely than not will be required to sell	—	—
Write-offs charged against allowance	—	—
Recoveries of amounts previously written off	(54)	(54)
Ending balance of allowance for credit losses	$ 1,471	$ 1,471

ote 9. Real Estate Securities - (continued)

Gains and losses from the sale of AFS securities are recorded as Realized gains, net, in our consolidated statements of income (loss).The following table presents the gross realized gains and losses on sales and calls of AFS securities for the three and six months ended June 30, 2020 and 2019.

Table 9.9 – Gross Realized Gains and Losses on AFS Securities

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2020**	**2019**	**2020**	**2019**
Gross realized gains - sales	$ 1,074	$ 2,827	$ 8,779	$ 9,487
Gross realized gains - calls	—	—	—	4,026
Gross realized losses - sales	(291)	—	(4,144)	—
Total Realized Gains on Sales and Calls of AFS Securities, net	$ 783	$ 2,827	$ 4,635	$ 13,513

Note 10. Other Investments

Other investments at June 30, 2020 and December 31, 2019 are summarized in the following table.

Table 10.1 – Components of Other Investments

(In Thousands)	**June 30, 2020**	**December 31, 2019**
Servicer advance investments	$ 266,948	$ 169,204
Shared home appreciation options	40,851	45,085
Excess MSRs	36,197	31,814
Mortgage servicing rights	19,661	42,224
Investment in multifamily loan fund	30,370	39,802
Other	35,813	30,001
Total Other Investments	$ 429,840	$ 358,130

Servicer advance investments

In 2018, we and a third-party co-investor, through two partnerships ("SA Buyers") consolidated by us, purchased the outstanding servicer advances and excess MSRs related to a portfolio of legacy residential mortgage-backed securitizations serviced by the co-investor (Refer to our Annual Report on Form 10-K for the year ended December 31, 2019 for additional information regarding the transaction). During the six months ended June 30, 2020, we funded additional purchases of outstanding servicer advances and excess MSRs under the same partnership structure. At June 30, 2020, we had funded $94 million of total capital to the SA Buyers (see *Note 16* for additional detail).

Note 10. Other Investments - (continued)

At June 30, 2020, our servicer advance investments had a carrying value of $267 million and were associated with a portfolio of residential mortgage loans with an unpaid principal balance of $10.26 billion. The outstanding servicer advance receivables associated with this investment were $250 million at June 30, 2020, which were financed with short-term non-recourse securitization debt (see *Note 13* for additional detail on this debt). The servicer advance receivables were comprised of the following types of advances at June 30, 2020 and December 31, 2019.

Table 10.2 – Components of Servicer Advance Receivables

(In Thousands)	June 30, 2020	December 31, 2019
Principal and interest advances	$ 82,719	$ 15,081
Escrow advances (taxes and insurance advances)	118,260	96,732
Corporate advances	48,726	39,769
Total Servicer Advance Receivables	$ 249,705	$ 151,582

We account for our servicer advance investments at fair value and during the three and six months ended June 30, 2020, we recorded $3 million and $6 million, respectively, of interest income associated with these investments, and recorded net market valuation losses of $0.1 million and $6 million, respectively, through Investment fair value changes, net in our consolidated statements of income (loss). During the three and six months ended June 30, 2019, we recorded $3 million and $5 million, respectively, of interest income associated with these investments for each of these periods, and recorded net market valuation gains of $0.4 million and $1 million, respectively, through Investment fair value changes, net in our consolidated statements of income (loss).

Mortgage Servicing Rights

We invest in mortgage servicing rights associated with residential mortgage loans and contract with licensed sub-servicers to perform all servicing functions for these loans. The majority of our investments in MSRs were made through the retention of servicing rights associated with the residential jumbo mortgage loans that we acquired and subsequently transferred to third parties. We hold our MSR investments at our taxable REIT subsidiaries.

At June 30, 2020 and December 31, 2019, our MSRs had a fair value of $20 million and $42 million, respectively, and were associated with loans with an aggregate principal balance of $3.63 billion and $4.35 billion, respectively. During the three and six months ended June 30, 2020, including net market valuation gains and losses on our MSRs and related risk management derivatives, we recorded net losses of $1 million and $3 million, respectively, through Other income on our consolidated statements of income (loss). During the three and six months ended June 30, 2019, we recognized $2 million of income, net for both periods through Other income on our consolidated statements of income (loss).

Excess MSRs

In association with our servicer advance investments described above, we (through our consolidated SA Buyers) invested in excess MSRs associated with the same portfolio of legacy residential mortgage-backed securitizations. Additionally, we own excess MSRs associated with specified pools of multifamily loans. We account for our excess MSRs at fair value and during the three and six months ended June 30, 2020, we recognized $3 million and $6 million of interest income, respectively, through Other interest income, and recorded a net market valuation gain of $3 million and a net market valuation loss of $7 million, respectively, through Investment fair value changes, net on our consolidated statements of income (loss). During the three and six months ended June 30, 2019, we recognized $2 million and $4 million of interest income, respectively, through Other interest income, and recorded net market valuation losses of $0.1 million and $0.5 million, respectively, through Investment fair value changes, net on our consolidated statements of income (loss).

Note 10. Other Investments - (continued)

Investment in Multifamily Loan Fund

In January 2019, we invested in a limited partnership created to acquire floating rate, light-renovation multifamily loans from Freddie Mac. We committed to fund an aggregate of $78 million to the partnership, and have funded approximately $70 million at June 30, 2020. During the three months ended March 31, 2020, we acquired $28 million of securities from the partnership's first securitization transaction. At June 30, 2020, the carrying amount of our investment in the partnership was $30 million. During the three and six months ended June 30, 2020, we recorded losses of $1 million and income of $0.3 million, respectively, associated with this investment in Other income on our consolidated statements of income (loss). During both the three and six months ended June 30, 2019, we recorded $0.1 million of losses associated with this investment in Other income on our consolidated statements of income (loss).

Shared Home Appreciation Options

In the third quarter of 2019, we entered into a flow purchase agreement to acquire shared home appreciation options. At June 30, 2020, we had acquired $47 million of shared home appreciation options under this flow purchase agreement and had an outstanding commitment to fund up to an additional $3 million under this agreement. We account for these investments under the fair value option and during the three and six months ended June 30, 2020, we recorded a net market valuation gain of $1 million and a net market valuation loss of $7 million, respectively, related to these assets through Investment fair value changes, net on our consolidated statements of income (loss).

Note 11. Derivative Financial Instruments

The following table presents the fair value and notional amount of our derivative financial instruments at June 30, 2020 and December 31, 2019.

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

	June 30, 2020		December 31, 2019	
(In Thousands)	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**
Assets - Risk Management Derivatives				
Interest rate swaps	$ —	$ —	$ 17,095	$ 1,399,000
TBAs	—	—	5,755	2,445,000
Interest rate futures	—	—	777	213,700
Swaptions	—	—	1,925	1,065,000
Assets - Other Derivatives				
Loan purchase and interest rate lock commitments	357	24,871	10,149	1,537,162
Total Assets	$ 357	$ 24,871	$ 35,701	$ 6,659,862
Liabilities - Cash Flow Hedges				
Interest rate swaps	$ —	$ —	$ (51,530)	$ 139,500
Liabilities - Risk Management Derivatives				
Interest rate swaps	—	—	(97,235)	2,314,300
TBAs	—	—	(13,359)	4,160,000
Interest rate futures	—	—	(10)	12,300
Liabilities - Other Derivatives				
Loan purchase commitments	(1,932)	199,932	(1,290)	303,394
Total Liabilities	$ (1,932)	$ 199,932	$ (163,424)	$ 6,929,494
Total Derivative Financial Instruments, Net	$ (1,575)	$ 224,803	$ (127,723)	$ 13,589,356

ote 11. Derivative Financial Instruments - (continued)

Risk Management Derivatives

To manage, to varying degrees, risks associated with certain assets and liabilities on our consolidated balance sheets, we may enter into derivative contracts. At June 30, 2020, we were not party to any derivative contracts. At December 31, 2019, we were party to swaps and swaptions with an aggregate notional amount of $4.78 billion, TBA agreements sold with an aggregate notional amount of $6.61 billion, and interest rate futures contracts with an aggregate notional amount of $226 million.

During the three and six months ended June 30, 2020, risk management derivatives had net market valuation losses of zero and $98 million, respectively. During the three and six months ended June 30, 2019, risk management derivatives had net market valuation losses of $66 million and $111 million, respectively. These market valuation gains and losses are recorded in Mortgage banking activities, net, Investment fair value changes, net, and Other income on our consolidated statements of income (loss). During the three months ended March 31, 2020, we settled substantially all of our outstanding derivative contracts as we determined that they were no longer effectively managing the risks associated with certain assets and liabilities.

Loan Purchase and Interest Rate Lock Commitments

LPCs and IRLCs that qualify as derivatives are recorded at their estimated fair values. For the three and six months ended June 30, 2020, LPCs and IRLCs had net market valuation gains of $3 million and $21 million, respectively, that were recorded in Mortgage banking activities, net on our consolidated statements of income (loss). For the three and six months ended June 30, 2019, LPCs and IRLCs had net market valuation gains of $17 million and $29 million, respectively, that were recorded in Mortgage banking activities, net on our consolidated statements of income (loss).

Derivatives Designated as Cash Flow Hedges

To manage the variability in interest expense related to portions of our long-term debt and certain adjustable-rate securitization entity liabilities that are included in our consolidated balance sheets for financial reporting purposes, we designated certain interest rate swaps as cash flow hedges.

During the first quarter of 2020, we terminated and settled all of our outstanding derivatives that had been designated as cash flow hedges for our long-term debt, with a payment of $84 million. For interest rate agreements previously designated as cash flow hedges, our total unrealized loss reported in Accumulated other comprehensive income was $83 million and $51 million at June 30, 2020 and December 31, 2019, respectively. We will amortize this loss into interest expense over the remaining term of the trust preferred securities and subordinated notes. As of June 30, 2020, we expect to amortize $4 million of realized losses related to terminated cash flow hedges into interest expense over the next twelve months.

For the three and six months ended June 30, 2020, changes in the values of designated cash flow hedges were zero and negative $33 million, respectively, and were recorded in Accumulated other comprehensive income, a component of equity. For the three and six months ended June 30, 2019, changes in the values of designated cash flow hedges were negative $10 million and negative $15 million, respectively, and were recorded in Accumulated other comprehensive income, a component of equity.

The following table illustrates the impact on interest expense of our interest rate agreements accounted for as cash flow hedges for the three and six months ended June 30, 2020 and 2019.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2020**	**2019**	**2020**	**2019**
Net interest expense on cash flows hedges	$ —	$ (640)	$ (860)	$ (1,277)
Realized net losses reclassified from other comprehensive income	(1,029)	—	(1,108)	—
Total Interest Expense	$ (1,029)	$ (640)	$ (1,968)	$ (1,277)

Derivative Counterparty Credit Risk

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2019, we consider counterparty risk as part of our fair value assessments of all derivative financial instruments at each quarter-end. At June 30, 2020, we assessed this risk as remote and did not record a specific valuation adjustment.

At June 30, 2020, we were in compliance with our derivative counterparty ISDA agreements.

Note 12. Other Assets and Liabilities

Other assets at June 30, 2020 and December 31, 2019 are summarized in the following table.

Table 12.1 – Components of Other Assets

(In Thousands)	June 30, 2020	December 31, 2019
Accrued interest receivable	$ 44,134	$ 71,058
Pledged collateral	33,105	32,945
Investment receivable	29,916	23,330
Income tax receivables	17,255	36
Right-of-use asset	15,561	11,866
REO	9,780	9,462
FHLBC stock	5,000	43,393
Fixed assets and leasehold improvements (1)	4,590	4,901
Margin receivable	2,746	209,776
Other	9,499	12,554
Total Other Assets	$ 171,586	$ 419,321

(1) Fixed assets and leasehold improvements had a basis of $12 million and accumulated depreciation of $7 million at June 30, 2020.

Accrued expenses and other liabilities at June 30, 2020 and December 31, 2019 are summarized in the following table.

Table 12.2 – Components of Accrued Expenses and Other Liabilities

(In Thousands)	June 30, 2020	December 31, 2019
Accrued interest payable	$ 37,024	$ 60,655
Lease liability	17,348	13,443
Payable to minority partner	17,021	13,189
Contingent consideration	14,953	28,484
Guarantee obligations	12,350	14,009
Accrued compensation	10,677	33,888
Residential loan and MSR repurchase reserve	8,295	4,268
Residential bridge loan holdbacks	7,348	10,682
Deferred tax liabilities	5,152	5,152
Other	35,845	23,123
Total Accrued Expenses and Other Liabilities	$ 166,013	$ 206,893

Refer to our Annual Report on Form 10-K for the year ended December 31, 2019 for additional descriptions of our other assets and liabilities.

ote 12. Other Assets and Liabilities - (continued)

Margin Receivable and Payable

Margin receivable and payable resulted from margin calls between us and our counterparties under derivatives, master repurchase agreements, and warehouse facilities, whereby we or the counterparty posted collateral. Through June 30, 2020, we had met all margin calls due.

REO

The carrying value of REO at June 30, 2020 was $10 million, which included $2 million from our residential bridge loan portfolio, $1 million of REO from our consolidated Legacy Sequoia entities, $1 million from our consolidated Freddie Mac SLST entities, and $5 million from consolidated CAFL entities. At June 30, 2020, there were three residential bridge loan REO assets, five REO assets at our Legacy Sequoia entities, 10 REO assets at our Freddie Mac SLST entities, and four REO assets at our CAFL entities recorded on our consolidated balance sheets. During the six months ended June 30, 2020, transfers into REO included a $2 million residential bridge loan, $1 million from Legacy Sequoia entities, $1 million from Freddie Mac SLST entities, and $6 million from CAFL entities. During the six months ended June 30, 2020, there were REO liquidations of $8 million, resulting in $1 million of unrealized losses which were recorded in Investment fair value changes, net, on our consolidated statements of income (loss). At December 31, 2019, there were four residential bridge loan REO assets, four REO assets at our Legacy Sequoia entities, three REO assets at our Freddie Mac SLST entities, and two REO assets at our CAFL entities recorded on our consolidated balance sheets.

Note 13. Short-Term Debt

We enter into repurchase agreements, bank warehouse agreements, and other forms of collateralized (and generally uncommitted) short-term borrowings with several banks and investment banking firms. At June 30, 2020, we had outstanding agreements with several counterparties and we were in compliance with all of the related covenants.

The table below summarizes our short-term debt, including the facilities that are available to us, the outstanding balances, the weighted average interest rate, and the maturity information at June 30, 2020 and December 31, 2019.

Table 13.1 – Short-Term Debt

	June 30, 2020					
(Dollars in Thousands)	**Number of Facilities**	**Outstanding Balance**	**Limit**	**Weighted Average Interest Rate**	**Maturity**	**Weighted Average Days Until Maturity**
Facilities						
Residential loan warehouse [1]	3	$ 13,581	$ 700,000	3.14 %	2/2021	241
Business purpose residential loan warehouse [2]	2	92,901	500,000	3.41 %	6/2021-5/2022	536
Real estate securities repo [1]	4	311,888	—	4.21 %	7/2020-11/2020	39
Total Short-Term Debt Facilities	9	418,370				
Servicer advance financing	1	244,437	400,000	1.99 %	11/2020	153
Total Short-Term Debt		$ 662,807				

ote 13. Short-Term Debt - (continued)

	December 31, 2019					
(Dollars in Thousands)	**Number of Facilities**	**Outstanding Balance**	**Limit**	**Weighted Average Interest Rate**	**Maturity**	**Weighted Average Days Until Maturity**
Facilities						
Residential loan warehouse [1]	4	$ 185,894	$ 1,425,000	3.23 %	1/2020-10/2020	69
Business purpose residential loan warehouse [2]	8	814,118	1,475,000	4.11 %	12/2020-5/2022	489
Real estate securities repo [1]	10	1,176,579	—	2.94 %	1/2020-3/2020	23
Total Short-Term Debt Facilities	22	2,176,591				
Servicer advance financing	1	152,554	400,000	3.56 %	11/2020	335
Total Short-Term Debt		$ 2,329,145				

(1) Borrowings under our facilities are generally charged interest based on a specified margin over the one-month LIBOR interest rate. At June 30, 2020 and December 31, 2019, all of these borrowings were under uncommitted facilities and were due within 364 days (or less) of the borrowing date.

(2) Due to the revolving nature of the borrowings under these facilities, we have classified these facilities as short-term debt at June 30, 2020. Borrowings under these facilities will be repaid as the underlying loans mature or are sold to third parties or transferred to securitizations.

The following table below presents the value of loans, securities, and other assets pledged as collateral under our short-term debt facilities at June 30, 2020 and December 31, 2019.

Table 13.2 – Collateral for Short-Term Debt Facilities

(In Thousands)	**June 30, 2020**	**December 31, 2019**
Collateral Type		
Held-for-sale residential loans	$ 15,241	$ 201,949
Business purpose residential loans	116,701	988,179
Real estate securities		
On balance sheet	24,442	618,881
Sequoia Choice securitizations [1]	59,543	111,341
Freddie Mac SLST securitizations [1]	334,043	381,640
Freddie Mac K-Series securitizations [1]	24,384	252,284
CAFL securitizations [1]	—	127,840
Total real estate securities owned	442,412	1,491,986
Other assets [2]	2,696	16,252
Total Collateral for Short-Term Debt Facilities	$ 577,050	$ 2,698,366

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

(2) In addition to securities that serve as collateral for our securities repo borrowings, we had posted $3 million of cash collateral as margin with our borrowing counterparties.

For the three and six months ended June 30, 2020, the average balances of our short-term debt facilities were $1.30 billion and $1.97 billion, respectively. At June 30, 2020 and December 31, 2019, accrued interest payable on our short-term debt facilities was $3 million and $6 million, respectively.

ote 13. Short-Term Debt - (continued)

Servicer advance financing consists of non-recourse short-term securitization debt used to finance servicer advance investments. We consolidate the securitization entity that issued the debt, but the entity is independent of Redwood and the assets and liabilities are not owned by and are not legal obligations of Redwood. At June 30, 2020, the fair value of servicer advances, cash and restricted cash collateralizing the securitization financing was $283 million. At June 30, 2020, the accrued interest payable balance on this financing was $0.1 million and the unamortized capitalized commitment costs were $1 million.

We also maintain a $10 million committed line of credit with a financial institution that is secured by certain mortgage-backed securities with a fair market value of $3 million at June 30, 2020. At both June 30, 2020 and December 31, 2019, we had no outstanding borrowings on this facility.

Remaining Maturities of Short-Term Debt

The following table presents the remaining maturities of our secured short-term debt by the type of collateral securing the debt as well as our convertible notes at June 30, 2020.

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

	June 30, 2020			
(In Thousands)	**Within 30 days**	**31 to 90 days**	**Over 90 days**	**Total**
Collateral Type				
Held-for-sale residential loans	$ —	$ —	$ 13,581	$ 13,581
Business purpose residential loans	—	—	92,901	92,901
Real estate securities	150,774	140,682	20,432	311,888
Total Secured Short-Term Debt	150,774	140,682	126,914	418,370
Servicer advance financing	—	—	244,437	244,437
Total Short-Term Debt	$ 150,774	$ 140,682	$ 371,351	$ 662,807

Note 14. Asset-Backed Securities Issued

The carrying values of ABS issued by our consolidated securitization entities at June 30, 2020 and December 31, 2019, along with other selected information, are summarized in the following table.

Table 14.1 – Asset-Backed Securities Issued

June 30, 2020 **(Dollars in Thousands)**	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Total**
Certificates with principal balance	$ 378,087	$ 1,793,901	$ 1,765,505	$ 418,212	$ 2,323,475	$ 6,679,180
Interest-only certificates	1,410	9,005	24,434	13,874	95,324	144,047
Market valuation adjustments	(79,140)	58,871	22,069	32,605	(1,546)	32,859
ABS Issued, Net	$ 300,357	$ 1,861,777	$ 1,812,008	$ 464,691	$ 2,417,253	$ 6,856,086
Range of weighted average interest rates, by series	0.39% to 2.60%	2.22% to 5.04%	3.50 %	3.39 %	3.19% to 5.18%	
Stated maturities	2024 - 2036	2047 - 2050	2028 - 2029	2025	2022 - 2048	
Number of series	20	10	2	1	12	

ote 14. Asset-Backed Securities Issued - (continued)

December 31, 2019 (Dollars in Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Total**
Certificates with principal balance	$ 420,056	$ 1,979,719	$ 1,842,682	$ 3,844,789	$ 1,875,007	$ 9,962,253
Interest-only certificates	1,282	16,514	30,291	217,891	90,134	356,112
Market valuation adjustments	(18,873)	40,965	45,349	93,559	36,110	197,110
ABS Issued, Net	$ 402,465	$ 2,037,198	$ 1,918,322	$ 4,156,239	$ 2,001,251	$ 10,515,475
Range of weighted average interest rates, by series	1.94% to 3.26%	4.40% to 5.05%	3.50 %	3.35% to 4.35%	3.25% to 5.36%	
Stated maturities	2024 - 2036	2047 - 2049	2028 - 2029	2025 - 2049	2022 - 2048	
Number of series	20	9	2	5	10	

The actual maturity of each class of ABS issued is primarily determined by the rate of principal prepayments on the assets of the issuing entity. Each series is also subject to redemption prior to the stated maturity according to the terms of the respective governing documents of each ABS issuing entity. As a result, the actual maturity of ABS issued may occur earlier than its stated maturity. At June 30, 2020, the majority of the ABS issued and outstanding had contractual maturities beyond five years. See *Note 4* for detail on the carrying value components of the collateral for ABS issued and outstanding. The following table summarizes the accrued interest payable on ABS issued at June 30, 2020 and December 31, 2019. Interest due on consolidated ABS issued is payable monthly.

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

(In Thousands)	**June 30, 2020**	**December 31, 2019**
Legacy Sequoia	$ 230	$ 395
Sequoia Choice	6,474	7,732
Freddie Mac SLST	5,149	5,374
Freddie Mac K-Series	1,182	12,887
CAFL	8,300	7,298
Total Accrued Interest Payable on ABS Issued	$ 21,335	$ 33,686

Note 15. Long-Term Debt

Refer to our Annual Report on Form 10-K for the year ended December 31, 2019 for a full description of our long-term debt.

FHLBC Borrowings

At June 30, 2020, $1 million of advances were outstanding under our FHLBC borrowing agreement, with a weighted average interest rate of 0.38%. These borrowings mature in 2026. At December 31, 2019, $2.00 billion of advances were outstanding under this agreement, which were classified as long-term debt, with a weighted average interest rate of 1.88% and a weighted average maturity of six years. During the three and six months ended June 30, 2020, we repaid $1.37 billion and $2.00 billion, respectively, of our FHLBC borrowings. At June 30, 2020, total advances under this agreement were secured by $1 million of restricted cash. We do not expect to increase borrowings under our FHLBC borrowing agreement above the existing $1 million of advances outstanding. This agreement also requires our subsidiary to purchase and hold stock in the FHLBC in an amount equal to a specified percentage of outstanding advances. At June 30, 2020, our subsidiary held $5 million of FHLBC stock that is included in Other assets in our consolidated balance sheets.

ote 15. Long-Term Debt - (continued)

Recourse Subordinate Securities Financing Facilities

In 2019, a subsidiary of Redwood entered into a repurchase agreement providing non-marginable (e.g., not subject to margin calls due to collateral value changes) recourse debt financing of certain Sequoia securities as well as securities retained from our consolidated Sequoia Choice securitizations. The financing is fully and unconditionally guaranteed by Redwood, with an interest rate of approximately 4.21% through September 2022. The financing facility may be terminated, at our option, in September 2022, and has a final maturity in September 2024, provided that the interest rate on amounts outstanding under the facility increases between October 2022 and September 2024. At June 30, 2020, we had borrowings under this facility totaling $182 million and $1 million of unamortized deferred issuance costs, for a net carrying value of $181 million. At June 30, 2020, the fair value of real estate securities pledged as collateral under this long-term debt facility was $223 million and included Sequoia securities and securities retained from our Sequoia Choice securitizations.

In the first quarter of 2020, a subsidiary of Redwood entered into a second repurchase agreement with similar terms to provide non-marginable recourse debt financing of certain securities retained from our consolidated CAFL securitizations. The financing is fully and unconditionally guaranteed by Redwood, with an interest rate of approximately 4.21% through February 2023. The financing facility may be terminated, at our option, in February 2023, and has a final maturity in February 2025, provided that the interest rate on amounts outstanding under the facility increases between March 2023 and February 2025. At June 30, 2020, we had borrowings under this facility totaling $103 million and $1 million of unamortized deferred issuance costs, for a net carrying value of $103 million. At June 30, 2020, the fair value of real estate securities pledged as collateral under this long-term debt facility was $110 million and included securities retained from our consolidated CAFL securitizations.

Non-Recourse Business Purpose Loan Financing Facility

In the second quarter of 2020, a subsidiary of Redwood entered into a repurchase agreement providing non-marginable, non-recourse financing primarily for business purpose bridge loans. Borrowings under this facility accrue interest at a per annum rate equal to one-month LIBOR plus 7.50% (with a 1.50% LIBOR floor), through June 2022 (facility is fully callable in June 2021). This facility has an aggregate maximum borrowing capacity of $530 million, which consists of a term facility of $355 million and a revolving facility of $175 million. The revolving period ends in June 2021, and amounts borrowed under the term and revolving facilities are due in full in June 2022. At June 30, 2020, we had borrowings under this facility totaling $355 million and $6 million of unamortized deferred issuance costs, for a net carrying value of $350 million. At June 30, 2020, $442 million of bridge loans and $8 million of other BPL investments were pledged as collateral under this facility.

Recourse Business Purpose Loan Financing Facility

In the second quarter of 2020, a subsidiary of Redwood entered into a repurchase agreement providing non-marginable financing for business purpose bridge loans and single-family rental loans. Borrowings under this facility accrue interest at a per annum rate equal to three-month LIBOR plus 3.50% to 4.50% (with a 1.00% LIBOR floor) through May 2022 and are recourse to Redwood. This facility has an aggregate maximum borrowing capacity of $500 million. At June 30, 2020, we had borrowings under this facility totaling $436 million and $1 million of unamortized deferred issuance costs, for a net carrying value of $435 million. At June 30, 2020, $280 million of bridge loans and $302 million of single-family rental loans were pledged as collateral under this facility.

Recourse Revolving Debt Facility

In the first quarter of 2020, a subsidiary of Redwood entered into a secured revolving debt facility agreement collateralized by MSRs and certificated mortgage servicing rights. Borrowings under this facility accrue interest at a per annum rate equal to one-month LIBOR plus 2.75% through January 2021, with an increase in rate between February 2021 and the maturity of the facility in January 2022. This facility has an aggregate maximum borrowing capacity of $50 million. Borrowings under this facility totaled $20 million at June 30, 2020. At June 30, 2020, $40 million of MSRs and certificated servicing rights were pledged as collateral under this facility.

ote 15. Long-Term Debt - (continued)

Convertible Notes

At June 30, 2020, we had $172 million principal amount outstanding of 5.75% exchangeable senior notes due 2025. During the second quarter of 2020, we repurchased $29 million par value of these notes at a discount and recorded a gain on extinguishment of $6 million in Realized gains, net on our consolidated statements of income (loss). At June 30, 2020, the accrued interest payable balance on this debt was $2 million and the unamortized deferred issuance costs were $5 million.

At June 30, 2020, we had $150 million principal amount outstanding of 5.625% convertible senior notes due 2024. During the second quarter of 2020, we repurchased $50 million par value of these notes at a discount and recorded a gain on extinguishment of $9 million in Realized gains, net on our consolidated statements of income (loss). At June 30, 2020, the accrued interest payable on this debt was $4 million, the unamortized deferred issuance costs were $3 million, and the debt discount was $1 million.

At June 30, 2020, we had $199 million principal amount outstanding of 4.75% convertible senior notes due 2023. During the second quarter of 2020, we repurchased $46 million par value of these notes at a discount and recorded a gain on extinguishment of $10 million in Realized gains, net on our consolidated statements of income (loss). At June 30, 2020, the accrued interest payable balance on this debt was $4 million and the unamortized deferred issuance costs were $3 million.

Trust Preferred Securities and Subordinated Notes

At June 30, 2020, we had trust preferred securities and subordinated notes outstanding of $100 million and $40 million, respectively. At both June 30, 2020 and December 31, 2019, the accrued interest payable balance on our trust preferred securities and subordinated notes was $1 million.

Note 16. Commitments and Contingencies

Lease Commitments

At June 30, 2020, we were obligated underseven non-cancelable operating leases with expiration dates through 2031 for $21 million of cumulative lease payments. Our operating lease expense was $2 million and $1 million for the six months ended June 30, 2020 and 2019, respectively.

The following table presents our future lease commitments at June 30, 2020.

Table 16.1 – Future Lease Commitments by Year

(In Thousands)	June 30, 2020
2020 (6 months)	$ 1,860
2021	3,104
2022	2,597
2023	2,087
2024	2,095
2025	9,214
Total Lease Commitments	20,957
Less: Imputed interest	(3,609)
Lease Liability	$ 17,348

During the six months ended June 30, 2020, we entered intothree new office leases and determined that each of these leases qualified as operating leases. At June 30, 2020, our lease liability was $17 million, which was a component of Accrued expenses and other liabilities, and our right-of-use asset was $16 million, which was a component of Other assets.

ote 16. Commitments and Contingencies - (continued)

We determined that none of our leases contained an implicit interest rate and used a discount rate equal to our incremental borrowing rate on a collateralized basis to determine the present value of our total lease payments. As such, we determined the applicable discount rate for each of our leases using a swap rate plus an applicable spread for borrowing arrangements secured by our real estate loans and securities for a length of time equal to the remaining lease term on the date of adoption. At June 30, 2020, the weighted-average remaining lease term and weighted-average discount rate for our leases was 8 years and 5.0%, respectively.

Commitment to Fund Residential Bridge Loans

As of June 30, 2020, we had commitments to fund up to $167 million of additional advances on existing residential bridge loans. These commitments are generally subject to loan agreements with covenants regarding the financial performance of the customer and other terms regarding advances that must be met before we fund the commitment. At June 30, 2020, we recorded a $2 million derivative liability related to these commitments to fund construction advances (see *Note 7* for additional detail). We may also advance funds related to loans sold under a separate loan sale agreement that are generally repaid immediately by the loan purchaser and do not generally expose us to loss. The outstanding commitments related to these loans that we may temporarily fund totaled approximately $20 million at June 30, 2020.

Commitment to Fund Partnerships

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

In the first quarter of 2019, we invested in a partnership created to acquire floating rate, light-renovation multifamily loans from Freddie Mac (see *Note 10* for additional detail). At June 30, 2020, we had an outstanding commitment to fund an additional $8 million to the partnership. Additionally, in connection with this transaction, we have made a guarantee to Freddie Mac in the event of losses incurred on the loans that exceed the equity available in the partnership to absorb such losses. At June 30, 2020, the carrying value of this guarantee was $0.1 million. We believe the likelihood of performance under the guarantee is remote. Our maximum loss exposure from this guarantee arrangement is $135 million less the value of securities collateralizing our partner's portion of the partnership's guarantee obligations.

5 Arches Contingent Consideration

As part of the consideration for our acquisition of 5 Arches, we were committed to make earn-out payments up to $29 million, payable in a mix of cash and Redwood common stock. These contingent earn-out payments were classified as a contingent consideration liability and carried at fair value prior to March 31, 2020. During the first quarter of 2020, we made a cash payment of $11 million and granted $3 million of Redwood common stock in connection with the first anniversary of the purchase date. Additionally, as a result of an amendment to the agreement, we reclassified the contingent liability to a deferred liability, as the remaining payments became payable on a set timetable without any remaining contingencies. At June 30, 2020, the balance of this liability was $15 million, which will be paid in a mix of cash and common stock in March 2021.

Commitment to Fund Shared Home Appreciation Options

In the third quarter of 2019, we entered into a flow purchase agreement to acquire shared home appreciation options. The counterparty purchases an option to buy a fractional interest in a homeowner's ownership interest in residential property, and subsequently the counterparty sells the option contract to us. Pursuant to the terms of the option contract, we share in both home price appreciation and depreciation. At June 30, 2020, we had acquired $47 million of shared home appreciation options under this agreement, which are included in Other investments on our consolidated balance sheets. At June 30, 2020, we had an outstanding commitment to fund up to an additional $3 million under this agreement.

Loss Contingencies — Risk-Sharing

During 2015 and 2016, we sold conforming loans to the Agencies with an original unpaid principal balance of $3.19 billion, subject to our risk-sharing arrangements with the Agencies. At June 30, 2020, the maximum potential amount of future payments we could be required to make under these arrangements was $44 million and this amount was fully collateralized by assets we transferred to pledged accounts and is presented as pledged collateral in Other assets on our consolidated balance sheets. We have no recourse to any third parties that would allow us to recover any amounts related to our obligations under the arrangements. At June 30, 2020, we had not incurred any losses under these arrangements. For the three and six months ended June 30, 2020, other income related to these arrangements was $1 million and $2 million, respectively, and net market valuation losses related to these investments were $0.2 million and $0.7 million, respectively. For the three and six months ended June 30, 2019, other income related to these arrangements was $1 million for both periods, and net market valuation losses related to these investments were $0.1 million for both periods.

All of the loans in the reference pools subject to these risk-sharing arrangements were originated in 2014 and 2015, and at June 30, 2020, the loans had an unpaid principal balance of $1.30 billion and a weighted average FICO score of 758 (at origination) and LTV ratio of 76% (at origination). At June 30, 2020, $17 million of the loans were 90 days or more delinquent, and none of these loans were in foreclosure. At June 30, 2020, the carrying value of our guarantee obligation was $12 million and included $5 million designated as a non-amortizing credit reserve, which we believe is sufficient to cover current expected losses under these obligations.

Our consolidated balance sheets include assets of special purpose entities ("SPEs") associated with these risk-sharing arrangements (i.e., the "pledged collateral" referred to above) that can only be used to settle obligations of these SPEs for which the creditors of these SPEs (the Agencies) do not have recourse to Redwood Trust, Inc. or its affiliates. At June 30, 2020 and December 31, 2019, assets of such SPEs totaled $47 million and $48 million, respectively, and liabilities of such SPEs totaled $12 million and $14 million, respectively.

Loss Contingencies — Residential Repurchase Reserve

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

At June 30, 2020 and December 31, 2019, our repurchase reserve associated with our residential loans and MSRs was $8 million and $4 million, respectively, and was recorded in Accrued expenses and other liabilities on our consolidated balance sheets. The increase in the repurchase reserve during the second quarter of 2020 was related to potential repurchase obligations related to EPDs arising from loans we sold during the last several months.

We received five and seven repurchase requests during the six months ended June 30, 2020 and 2019, respectively, and didnot repurchase any loans during either of these periods. During the six months ended June 30, 2020 and 2019, we recorded repurchase provisions of $4 million and reversals of repurchase provisions of $0.4 million, respectively, that were recorded in Mortgage banking activities, net and Other income on our consolidated statements of income (loss).

Loss Contingencies — Litigation, Claims and Demands

There is no significant update regarding the litigation matters described in Note 16 within the financial statements included in Redwood's Annual Report on Form 10-K for the year ended December 31, 2019 under the heading "Loss Contingencies - Litigation." At June 30, 2020, the aggregate amount of loss contingency reserves established in respect of the FHLB-Seattle and Schwab litigation matters described in our Annual Report on Form 10-K for the year ended December 31, 2019 was $2 million.

ote 16. Commitments and Contingencies - (continued)

In addition to those matters, as previously disclosed, in connection with the impact of the effects of the pandemic on the non-Agency mortgage finance market and on our business and operations, a small number of the counterparties that have regularly sold residential mortgage loans to us believe that we breached perceived obligations to them, and requested or demanded that we purchase loans from them and/or compensate them for perceived damages resulting from our decisions earlier in 2020 not to purchase certain loans from them ("Residential Loan Seller Demands"). As previously disclosed, one such counterparty filed a breach of contract lawsuit against us alleging that it has suffered in excess of $2 million of losses as a result of our alleged failure to purchase residential mortgage loans from it.

We believe that these Residential Loan Seller Demands are without merit or subject to defenses and we intend to defend vigorously any such allegations and any related demand or claim to which we are or become a party. Despite our beliefs about the legal merits of these allegations, because our ordinary course of business is to seek to continue to regularly engage in mutually beneficial transactions with these counterparties, in some cases we have been willing to engage in discussions with these counterparties with the intention of reaching resolution and structuring arrangements that incentivize both the counterparty and us to continue to engage in residential loan purchase and sale transactions in the future.

With respect to certain of the Residential Loan Seller Demands, these resolution discussions have been successful in resolving, or establishing a framework that we believe will be the basis for successfully resolving, the demands of these counterparties, including through forward-looking joint business undertakings and structured arrangements that incentivize both the counterparty and us to continue to engage in residential loan purchase and sale transactions in the future. With respect to these counterparties, we have incurred or expect to incur certain costs in connection with finalizing these arrangements (including costs that are contingent on the successful completion of future residential loan purchase and sale transactions with these counterparties that we expect to generate future revenue for the Company) and have recorded any such actual costs incurred through June 30, 2020, as well as an accrual for the estimated costs associated with counterparties where a go-forward framework has been discussed but not finalized, through Mortgage Banking Activities, net in our Residential Lending segment. In accordance with GAAP, the accrual for estimated costs is based on the opinion of management, that it is probable that these forward-looking joint business undertakings and structured arrangements will result in an expense and the amount of expense can be reasonably estimated. At June 30, 2020, the aggregate amount of these actual costs, together with the accrual for estimated costs, was $5 million, a significant portion of which would be contingent on the successful completion of future residential loan purchase and sale transactions with these counterparties, with the expectation of generating future revenue for the Company.

With respect to the remaining Residential Loan Seller Demands, our beliefs about the legal merits of these allegations and our discussions with these counterparties have resulted in us determining that a significant loss from these matters is not probable. With respect to these remaining Residential Loan Seller Demands, based on the foregoing, we have concluded that we can estimate an aggregate range of reasonably possible losses with respect to these Residential Loan Seller Demands of between zero and $1.5 million.

Future developments (including receipt of additional information and documents relating to these matters, new or additional resolution or settlement communications relating to these matters, resolutions of similar claims against other industry participants in similar circumstances, or receipt of additional Residential Loan Seller Demands) could result in our concluding in the future to establish additional accruals or reserves or modify our aggregate range of reasonably possible losses with respect to these Residential Loan Seller Demand matters. Our actual losses, and any accruals or reserves we may establish in the future relating to these matters, may be materially higher than the accruals, reserves and the aggregate range of reasonably possible losses we have estimated above, respectively, including in the event that any of these matters proceed to trial and result in a judgment against us. We cannot be certain that any of these matters that are not already formally resolved will be resolved through a resolution or settlement prior to trial and we cannot be certain that the resolution of these matters, whether through trial, settlement, or otherwise, will not have a material adverse effect on our financial condition or results of operations in any future period.

In accordance with GAAP, we review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in a liability and the amount of loss, if any, can be reasonably estimated. Additionally, we record receivables for insurance recoveries relating to litigation-related losses and expenses if and when such amounts are covered by insurance and recovery of such losses or expenses are due. We review our litigation matters each quarter to assess these loss contingency reserves and make adjustments in these reserves, upwards or downwards, as appropriate, in accordance with GAAP based on our review.

ote 16. Commitments and Contingencies - (continued)

In the ordinary course of any litigation matter, including certain of the above-referenced matters, we have engaged and may continue to engage in formal or informal settlement communications with the plaintiffs or co-defendants. Settlement communications we have engaged in relating to certain of the above-referenced litigation matters are one of the factors that have resulted in our determination to establish the loss contingency reserves described above. We cannot be certain that any of these matters will be resolved through a settlement prior to trial and we cannot be certain that the resolution of these matters, whether through trial or settlement, will not have a material adverse effect on our financial condition or results of operations in any future period.

Future developments (including resolution of substantive pre-trial motions relating to these matters, receipt of additional information and documents relating to these matters (such as through pre-trial discovery), new or additional settlement communications with plaintiffs relating to these matters, or resolutions of similar claims against other defendants in these matters) could result in our concluding in the future to establish additional loss contingency reserves or to disclose an estimate of reasonably possible losses in excess of our established reserves with respect to these matters. Our actual losses with respect to the above referenced litigation matters may be materially higher than the aggregate amount of loss contingency reserves we have established in respect of these litigation matters, including in the event that any of these matters proceeds to trial and the plaintiff prevails. Other factors that could result in our concluding to establish additional loss contingency reserves or estimate additional reasonably possible losses, or could result in our actual losses with respect to the above-referenced litigation matters being materially higher than the aggregate amount of loss contingency reserves we have established in respect of these litigation matters include that: there are significant factual and legal issues to be resolved; information obtained or rulings made during the lawsuits could affect the methodology for calculation of the available remedies; and we may have additional obligations pursuant to indemnity agreements, representations and warranties, and other contractual provisions with other parties relating to these litigation matters that could increase our potential losses.

Note 17. Equity

The following table provides a summary of changes to accumulated other comprehensive income by component for the three and six months ended June 30, 2020 and 2019. During the three and six months ended June 30, 2020, we recognized net unrealized gains (losses) on our Level 3 AFS securities which we owned as of June 30, 2020 of $52 million and negative $24 million, respectively.

Table 17.1 – Changes in Accumulated Other Comprehensive Income by Component

	Three Months Ended June 30, 2020		Three Months Ended June 30, 2019	
(In Thousands)	**Net Unrealized Gains (Losses) on Available-for-Sale Securities**	**Net Unrealized Losses on Interest Rate Agreements Accounted for as Cash Flow Hedges**	**Net Unrealized Gains on Available-for-Sale Securities**	**Net Unrealized Losses on Interest Rate Agreements Accounted for as Cash Flow Hedges**
Balance at beginning of period	$ (1,865)	$ (83,666)	$ 92,567	$ (39,883)
Other comprehensive income (loss) before reclassifications	52,393	—	8,562	(9,501)
Amounts reclassified from other accumulated comprehensive income	2,718	1,029	(2,822)	—
Net current-period other comprehensive income (loss)	55,111	1,029	5,740	(9,501)
Balance at End of Period	$ 53,246	$ (82,637)	$ 98,307	$ (49,384)

ote 17. Equity - (continued)

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019	
(In Thousands)	**Net Unrealized Gains on Available-for-Sale Securities**	**Net Unrealized Losses on Interest Rate Agreements Accounted for as Cash Flow Hedges**	**Net Unrealized Gains on Available-for-Sale Securities**	**Net Unrealized Losses on Interest Rate Agreements Accounted for as Cash Flow Hedges**
Balance at beginning of period	$ 92,452	$ (50,939)	$ 95,342	$ (34,045)
Other comprehensive income (loss) before reclassifications	(28,126)	(32,806)	15,280	(15,339)
Amounts reclassified from other accumulated comprehensive income	(11,080)	1,108	(12,315)	—
Net current-period other comprehensive income (loss)	(39,206)	(31,698)	2,965	(15,339)
Balance at End of Period	$ 53,246	$ (82,637)	$ 98,307	$ (49,384)

The following table provides a summary of reclassifications out of accumulated other comprehensive income for the three and six months ended June 30, 2020 and 2019.

Table 17.2 – Reclassifications Out of Accumulated Other Comprehensive Income

		Amount Reclassified From Accumulated Other Comprehensive Income	
	Affected Line Item in the	**Three Months Ended June 30,**	
(In Thousands)	**Income Statement**	**2020**	**2019**
Net Realized (Gain) Loss on AFS Securities			
Credit loss recovery on AFS securities	Investment fair value changes, net	$ (54)	$ —
Gain on sale of AFS securities	Realized gains, net	2,772	(2,822)
		$ 2,718	$ (2,822)
Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges			
Amortization of deferred loss	Interest expense	$ 1,029	$ —
		$ 1,029	$ —

		Amount Reclassified From Accumulated Other Comprehensive Income	
	Affected Line Item in the	**Six Months Ended June 30,**	
(In Thousands)	**Income Statement**	**2020**	**2019**
Net Realized (Gain) Loss on AFS Securities			
Credit loss expense on AFS securities	Investment fair value changes, net	$ 1,471	$ —
Gain on sale of AFS securities	Realized gains, net	(12,551)	(12,315)
		$ (11,080)	$ (12,315)
Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges			
Amortization of deferred loss	Interest expense	$ 1,108	$ —
		$ 1,108	$ —

ote 17. Equity - (continued)

Issuance of Common Stock

In 2018, we established a program to sell up to an aggregate of $150 million of common stock from time to time in at-the-market ("ATM") offerings. During the six months ended June 30, 2020, we issued 129,500 common shares for net proceeds of approximately $2 million through ATM offerings. At June 30, 2020, approximately $85 million remained outstanding for future offerings under this program.

Direct Stock Purchase and Dividend Reinvestment Plan

During the three months ended June 30, 2020, we didnot issue any shares of common stock through our Direct Stock Purchase and Dividend Reinvestment Plan. During the six months ended June 30, 2019, we issued 399,838 shares of common stock through our Direct Stock Purchase and Dividend Reinvestment Plan, resulting in net proceeds of approximately $6 million.

Earnings (Loss) per Common Share

The following table provides the basic and diluted earnings (loss) per common share computations for the three and six months ended June 30, 2020 and 2019.

Table 17.3 – Basic and Diluted Earnings (Loss) per Common Share

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, except Share Data)	**2020**	**2019**	**2020**	**2019**
Basic Earnings (Loss) per Common Share:				
Net income (loss) attributable to Redwood	$ 165,444	$ 31,266	$ (777,954)	$ 85,730
Less: Dividends and undistributed earnings allocated to participating securities	(4,528)	(877)	(1,011)	(2,417)
Net income (loss) allocated to common shareholders	$ 160,916	$ 30,389	$ (778,965)	$ 83,313
Basic weighted average common shares outstanding	114,383,289	96,983,764	114,229,928	94,846,431
Basic Earnings (Loss) per Common Share	$ 1.41	$ 0.31	$ (6.82)	$ 0.88
Diluted Earnings (Loss) per Common Share:				
Net income (loss) attributable to Redwood	$ 165,444	$ 31,266	$ (777,954)	$ 85,730
Less: Dividends and undistributed earnings allocated to participating securities	(3,116)	(1,053)	(1,011)	(2,595)
Adjust for interest expense and gain on extinguishment of convertible notes for the period, net of tax	(15,835)	8,698	—	17,385
Net income (loss) allocated to common shareholders	$ 146,493	$ 38,911	$ (778,965)	$ 100,520
Weighted average common shares outstanding	114,383,289	96,983,764	114,229,928	94,846,431
Net effect of dilutive equity awards	—	270,550	—	210,360
Net effect of assumed convertible notes conversion to common shares	32,715,790	33,442,640	—	33,442,640
Diluted weighted average common shares outstanding	147,099,079	130,696,954	114,229,928	128,499,431
Diluted Earnings (Loss) per Common Share	$ 1.00	$ 0.30	$ (6.82)	$ 0.78

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

ote 17. Equity - (continued)

During the three months ended June 30, 2020 and the three and six months ended June 30, 2019, certain of our convertible notes were determined to be dilutive and were included in the calculation of diluted EPS under the "if-converted" method. Under this method, the periodic interest expense and any realized gains or losses on extinguishment of debt (net of applicable taxes) for dilutive notes is added back to the numerator and the weighted average number of shares that the notes are entitled to (if converted, regardless of whether they are in or out of the money) are included in the denominator.

For the six months ended June 30, 2020,34,075,404 of common shares related to the assumed conversion of our convertible notes were antidilutive and were excluded in the calculation of diluted earnings per share. For the three and six months ended June 30, 2020, the number of outstanding equity awards that were antidilutive totaled 11,561 and 16,405, respectively. For the three and six months ended June 30, 2019, the number of outstanding equity awards that were antidilutive totaled8,996 and 8,186, respectively.

Stock Repurchases

In February 2018, our Board of Directors approved an authorization for the repurchase of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. At June 30, 2020, $ 100 million of the current authorization remained available for the repurchase of shares of our common stock and we also continued to be authorized to repurchase outstanding debt securities.

Note 18. Equity Compensation Plans

At June 30, 2020 and December 31, 2019, 8,615,077 and 3,637,480 shares of common stock, respectively, were available for grant under our Incentive Plan. During the three months ended June 30, 2020, Redwood shareholders approved for grant an additional 5 million shares of common stock under our Incentive Plan.The unamortized compensation cost of awards issued under the Incentive Plan and purchases under the Employee Stock Purchase Plan totaled $23 million at June 30, 2020, as shown in the following table.

Table 18.1 – Activities of Equity Compensation Costs by Award Type

	Six Months Ended June 30, 2020					
(In Thousands)	**Restricted Stock Awards**	**Restricted Stock Units**	**Deferred Stock Units**	**Performance Stock Units**	**Employee Stock Purchase Plan**	**Total**
Unrecognized compensation cost at beginning of period	$ 1,990	$ 3,534	$ 17,858	$ 8,946	$ —	$ 32,328
Equity grants	70	3,431	6,593	—	160	10,254
Performance-based valuation adjustment	—	—	—	(7,352)	—	(7,352)
Equity grant forfeitures	(349)	(1,266)	(4,733)	(648)	—	(6,996)
Equity compensation expense	(614)	(772)	(4,511)	720	(80)	(5,257)
Unrecognized Compensation Cost at End of Period	$ 1,097	$ 4,927	$ 15,207	$ 1,666	$ 80	$ 22,977

At June 30, 2020, the weighted average amortization period remaining for all of our equity awards wasone year.

Restricted Stock Awards ("RSAs")

At June 30, 2020 and December 31, 2019, there were92,440 and 216,470 shares, respectively, of RSAs outstanding. Restrictions on these shares lapse through 2022. During the six months ended June 30, 2020, there were no RSAs granted, restrictions on 101,063 RSAs lapsed and those shares were distributed, and22,967 RSAs were forfeited.

ote 18. Equity Compensation Plans - (continued)

Restricted Stock Units ("RSUs")

At June 30, 2020 and December 31, 2019, there were333,869 and 275,173 shares, respectively, of RSUs outstanding. Restrictions on these shares lapse through 2024. During the six months ended June 30, 2020, there were 190,624 RSUs granted, 55,514 RSUs distributed, and 76,414 RSUs forfeited.

Deferred Stock Units (“DSUs”)

At June 30, 2020 and December 31, 2019, there were2,395,786 and 2,630,805 DSUs, respectively, outstanding of which 1,318,200 and 1,286,063, respectively, had vested. During the six months ended June 30, 2020, there were 449,092 DSUs granted, 392,858 DSUs distributed, and 291,253 DSUs forfeited. Unvested DSUs at June 30, 2020 vest through 2024.

Performance Stock Units (“PSUs”)

At June 30, 2020 and December 31, 2019, the target number of PSUs that were unvested was739,895 and 839,070, respectively. During the six months ended June 30, 2020, 99,175 PSUs were forfeited. Vesting for all PSUs will generally occur at the end ofthree years from their grant date based on various TSR performance calculations, as discussed in our Annual Report on Form 10-K for the year ended December 31, 2019. During the first quarter of 2020, for PSUs granted in 2018 and 2019, we adjusted our vesting estimate to assume that none of these awards will meet the minimum performance thresholds for vesting. This adjustment resulted in a reversal of $1 million of stock-based compensation expense recorded in the first quarter of 2020.

Employee Stock Purchase Plan ("ESPP")

The ESPP allows a maximum of 600,000 shares of common stock to be purchased in aggregate for all employees. As of June 30, 2020 and December 31, 2019,463,582 and 430,772 shares had been purchased, respectively, and there remained a negligible amount of uninvested employee contributions in the ESPP at June 30, 2020

Note 19. Mortgage Banking Activities, Net

The following table presents the components of Mortgage banking activities, net, recorded in our consolidated statements of income (loss) for the three and six months ended June 30, 2020 and 2019.

Table 19.1 – Mortgage Banking Activities

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2020**	**2019**	**2020**	**2019**
Residential Mortgage Banking Activities, Net				
Changes in fair value of:				
Residential loans, at fair value [1]	$ (1,393)	$ 20,267	$ 6,562	$ 35,111
Risk management derivatives [2]	—	(5,760)	(31,294)	(9,898)
Other income (expense), net [3]	(6,612)	852	(6,354)	973
Total residential mortgage banking activities, net	(8,005)	15,359	(31,086)	26,186
Business Purpose Mortgage Banking Activities, Net:				
Changes in fair value of:				
Single-family rental loans, at fair value [1]	1,210	1,882	13,018	3,626
Risk management derivatives [2]	—	(1,671)	(21,538)	(2,517)
Residential bridge loans, at fair value	(1,260)	1,012	(5,194)	1,098
Other income, net [4]	2,283	2,578	10,617	3,076
Total business purpose mortgage banking activities, net	2,233	3,801	(3,097)	5,283
Mortgage Banking Activities, Net	$ (5,772)	$ 19,160	$ (34,183)	$ 31,469

(1) For residential loans, includes changes in fair value for associated loan purchase and forward sale commitments. For single-family rental loans, includes changes in fair value for associated interest rate lock commitments.

(2) Represents market valuation changes of derivatives that were used to manage risks associated with our accumulation of loans.

(3) Amounts in this line item include other fee income from loan acquisitions, provisions for repurchases expense, and expense related to resolving residential loan seller demands, presented net.

(4) Amounts in this line item include other fee income from loan originations.

Note 20. Other Income

The following table presents the components of Other income recorded in our consolidated statements of income (loss) for the three and six months ended June 30, 2020 and 2019.

Table 20.1 – Other Income

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2020**	**2019**	**2020**	**2019**
MSR (loss) income, net	$ (1,424)	$ 1,654	$ (3,233)	$ 1,911
Risk share income	1,181	800	1,946	1,446
FHLBC capital stock dividend	538	535	1,085	1,082
Equity investment (loss) income	(574)	(96)	274	172
5 Arches loan administration fee income	648	1,488	1,518	1,954
Gain on re-measurement of investment in 5 Arches	—	—	—	2,441
Other	586	478	1,802	478
Other Income	$ 955	$ 4,859	$ 3,392	$ 9,484

Note 21. General and Administrative Expenses and Other Expenses

Components of our general and administrative, and other expenses for the three and six months ended June 30, 2020 and 2019 are presented in the following table.

Table 21.1 – Components of General and Administrative Expenses and Other Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2020**	**2019**	**2020**	**2019**
General and Administrative Expenses				
Fixed compensation expense	$ 11,818	$ 9,252	$ 26,502	$ 17,349
Variable compensation expense	3,278	4,021	3,289	8,423
Equity compensation expense	3,262	4,024	5,257	6,977
Acquisition-related equity compensation expense (1)	1,212	—	2,424	—
Systems and consulting	2,395	2,536	5,607	4,364
Loan acquisition costs (2)	2,152	1,516	6,878	3,101
Office costs	1,887	1,585	3,995	2,889
Accounting and legal	2,788	960	5,004	2,085
Corporate costs	626	545	1,297	1,219
Other operating expenses	674	1,816	2,507	3,007
Total General and Administrative Expenses	30,092	26,255	62,760	49,414
Other Expenses				
Goodwill impairment expense	—	—	88,675	—
Amortization of purchase-related intangible assets	3,873	1,900	8,179	2,711
Contingent consideration expense (3)	134	311	446	311
Other	1,076	241	(802)	468
Total Other Expenses	5,083	2,452	96,498	3,490
Total General and Administrative Expenses and Other Expenses	$ 35,175	$ 28,707	$ 159,258	$ 52,904

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

(2) Loan acquisition costs primarily includes underwriting and due diligence costs related to the acquisition of residential loans held-for-sale at fair value as well as employee commissions related to our business purpose loan originations.

(3) Contingent consideration expense relates to the acquisition of 5 Arches during 2019. Refer to *Note 2* for additional detail.

Note 22. Taxes

For the six months ended June 30, 2020 and 2019, we recognized a benefit for income taxes of $22 million and a provision from income taxes of $3 million, respectively. The following is a reconciliation of the statutory federal and state tax rates to our effective tax rate at June 30, 2020 and 2019.

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

	June 30, 2020	June 30, 2019
Federal statutory rate	21.0 %	21.0 %
State statutory rate, net of Federal tax effect	8.6 %	8.6 %
Differences in taxable (loss) income from GAAP income	(23.6)%	(4.7)%
Change in valuation allowance	(3.2)%	(3.6)%
Dividends paid deduction (1)	— %	(17.7)%
Effective Tax Rate	2.8 %	3.6 %

(1) The dividends paid deduction in the effective tax rate reconciliation is generally representative of the amount of distributions to shareholders that reduce REIT taxable income. For the six months ended June 30, 2020, the dividends paid deduction is 0% due to our REIT incurring a taxable loss during the period; therefore, there was no REIT taxable income available to apply against the dividends paid.

We assessed our tax positions for all open tax years (i.e., Federal, 2016 to 2020, and State, 2015 to 2020) at June 30, 2020 and December 31, 2019, and concluded that we had no uncertain tax positions that resulted in material unrecognized tax benefits.

Note 23. Segment Information

Redwood operates in three segments: Residential Lending, Business Purpose Lending, and Third-Party Investments. Beginning in the second quarter of 2020, we combined what was previously our Multifamily Investments segment and Third-Party Residential Investments segment into a new segment called Third-Party Investments. Prior periods have been conformed to the current presentation. Following is a full description of our current segments.

Residential Lending – consists of a mortgage loan conduit that acquires residential loans from third-party originators for subsequent sale, securitization, or transfer into our investment portfolio, as well as the investments we retain from these activities. We typically acquire prime, jumbo mortgages and the related mortgage servicing rights on a flow basis from our network of loan sellers and distribute those loans through our Sequoia private-label securitization program or to institutions that acquire pools of whole loans. Our investments in this segment primarily consist of residential mortgage-backed securities ("RMBS") retained from our Sequoia securitizations (some of which we consolidate for GAAP purposes) and MSRs retained from jumbo whole loans we sold or securitized. This segment also includes various derivative financial instruments that we utilize to manage certain risks associated with our inventory of residential loans held-for-sale and long-term investments we hold within this segment. This segment's main source of revenue is net interest income from its long-term investments and its inventory of loans held-for-sale, as well as income from mortgage banking activities, which includes valuation increases (or gains) on loans we acquire and subsequently sell, securitize, or transfer into our investment portfolio, and the hedges used to manage risks associated with these activities. Additionally, this segment may realize gains and losses upon the sale of securities. Funding expenses, direct operating expenses, and tax expenses associated with these activities are also included in this segment.

Note 23. Segment Information - (continued)

Business Purpose Lending – consists of a platform that originates and acquires business purpose residential loans for subsequent securitization or transfer into our investment portfolio, as well as the investments we retain from these activities. We typically originate single-family rental and residential bridge loans and distribute certain single-family rental loans through our CoreVest American Finance Lender ("CAFL") private-label securitization program and retain others for investment along with our residential bridge loans. Single-family rental loans are business purpose residential mortgage loans to investors in single-family (1-4 unit) rental properties. Residential bridge loans are business purpose residential mortgage loans to investors rehabilitating and subsequently reselling or renting residential properties. Our investments in this segment primarily consist of securities retained from our CAFL securitizations (which we consolidate for GAAP purposes), and residential bridge loans. This segment also includes various derivative financial instruments that we utilize to manage certain risks associated with our inventory of single-family rental loans held-for-sale and our investments. This segment's main source of revenue is net interest income from its investments and loans held-for-sale, as well as income from mortgage banking activities, which includes valuation increases (or gains) on loans we originate or acquire and subsequently sell, securitize or transfer into our investment portfolio, and the hedges used to manage risks associated with these activities. Additionally, this segment may realize gains and losses upon the sale of securities. Funding expenses, direct operating expenses, and tax expenses associated with these activities are also included in this segment.

Third-Party Investments – consists of investments in RMBS issued by third parties, investments in Freddie Mac K-Series multifamily loan securitizations and SLST reperforming loan securitizations (which we consolidate for GAAP purposes), our servicer advance investments, and other residential and multifamily credit investments not generated through our Residential or Business Purpose Lending segments. This segment's main sources of revenue are interest income from securities and loans held-for-investment. Additionally, this segment may realize gains and losses upon the sale of securities. Funding expenses, hedging expenses, direct operating expenses, and tax provisions associated with these activities are also included in this segment.

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

The following tables present financial information by segment for the three and six months ended June 30, 2020 and 2019.

Table 23.1 – Business Segment Financial Information

	Three Months Ended June 30, 2020				
(In Thousands)	**Residential Lending**	**Business Purpose Lending**	**Third-Party Investments**	**Corporate/ Other**	**Total**
Interest income	$ 36,653	$ 53,742	$ 36,811	$ 2,740	$ 129,946
Interest expense	(30,169)	(38,837)	(27,869)	(5,791)	(102,666)
Net interest income	6,484	14,905	8,942	(3,051)	27,280
Non-interest income					
Mortgage banking activities, net	(8,005)	2,233	—	—	(5,772)
Investment fair value changes, net	35,085	40,401	76,972	(230)	152,228
Other income, net	230	476	(509)	758	955
Realized gains, net	205	—	578	25,182	25,965
Total non-interest income, net	27,515	43,110	77,041	25,710	173,376
General and administrative expenses	(3,875)	(10,293)	(2,106)	(13,818)	(30,092)
Other expenses	—	(3,884)	(1,065)	(134)	(5,083)
Benefit from (provision for) income taxes	3,323	2,439	(5,799)	—	(37)
Segment Contribution	$ 33,447	$ 46,277	$ 77,013	$ 8,707	
Net Income					$ 165,444
Non-cash amortization (expense) income, net	$ (1,265)	$ (6,391)	$ 312	$ (1,619)	$ (8,963)

Note 23. Segment Information - (continued)

	Six Months Ended June 30, 2020				
(In Thousands)	**Residential Lending**	**Business Purpose Lending**	**Third-Party Investments**	**Corporate/ Other**	**Total**
Interest income	$ 97,284	$ 106,802	$ 118,007	$ 5,934	$ 328,027
Interest expense	(71,571)	(73,827)	(95,626)	(8,313)	(249,337)
Net interest income	25,713	32,975	22,381	(2,379)	78,690
Non-interest income					
Mortgage banking activities, net	(31,086)	(3,097)	—	—	(34,183)
Investment fair value changes, net	(161,550)	(101,729)	(454,586)	(739)	(718,604)
Other income, net	(267)	2,169	732	758	3,392
Realized gains, net	2,001	—	2,634	25,182	29,817
Total non-interest income, net	(190,902)	(102,657)	(451,220)	25,201	(719,578)
General and administrative expenses	(9,507)	(24,626)	(3,894)	(24,733)	(62,760)
Other expenses	—	(96,869)	817	(446)	(96,498)
Benefit from income taxes	8,653	9,021	4,518	—	22,192
Segment Contribution	$ (166,043)	$ (182,156)	$ (427,398)	$ (2,357)	
Net Loss					$ (777,954)
Non-cash amortization (expense) income, net	$ (1,053)	$ (11,316)	$ 1,053	$ (1,728)	$ (13,044)
Other significant non-cash expense: goodwill impairment	$ —	$ (88,675)	$ —	$ —	$ (88,675)

	Three Months Ended June 30, 2019				
(In Thousands)	**Residential Lending**	**Business Purpose Lending**	**Third-Party Investments**	**Corporate/ Other**	**Total**
Interest income	$ 67,611	$ 4,131	$ 72,024	$ 4,776	$ 148,542
Interest expense	(49,321)	(2,238)	(60,680)	(3,981)	(116,220)
Net interest income	18,290	1,893	11,344	795	32,322
Non-interest income					
Mortgage banking activities, net	15,359	3,801	—	—	19,160
Investment fair value changes, net	(8,102)	(457)	11,856	(159)	3,138
Other income, net	2,990	1,829	40	—	4,859
Realized gains, net	2,791	—	36	—	2,827
Total non-interest income, net	13,038	5,173	11,932	(159)	29,984
General and administrative expenses	(6,799)	(6,120)	(900)	(12,436)	(26,255)
Other expenses	—	(1,899)	(242)	(311)	(2,452)
(Provision for) benefit from income taxes	(1,484)	38	(887)	—	(2,333)
Segment Contribution	$ 23,045	$ (915)	$ 21,247	$ (12,111)	
Net Income					$ 31,266
Non-cash amortization income (expense), net	$ 2,268	$ (2,068)	$ (417)	$ (300)	$ (517)

Note 23. Segment Information - (continued)

(In Thousands)	Six Months Ended June 30, 2019				
	Residential Lending	Business Purpose Lending	Third-Party Investments	Corporate/ Other	Total
Interest income	$ 134,450	$ 7,068	$ 128,436	$ 9,629	$ 279,583
Interest expense	(96,997)	(3,777)	(106,626)	(8,096)	(215,496)
Net interest income	37,453	3,291	21,810	1,533	64,087
Non-interest income					
Mortgage banking activities, net	26,186	5,283	—	—	31,469
Investment fair value changes, net	(9,822)	(760)	34,435	(556)	23,297
Other income, net	4,439	2,295	40	2,710	9,484
Realized gains, net	7,728	—	5,785	—	13,513
Total non-interest income, net	28,531	6,818	40,260	2,154	77,763
General and administrative expenses	(14,002)	(8,685)	(1,886)	(24,841)	(49,414)
Other expenses	—	(2,532)	(469)	(489)	(3,490)
(Provision for) benefit from income taxes	(1,985)	33	(1,264)	—	(3,216)
Segment Contribution	$ 49,997	$ (1,075)	$ 58,451	$ (21,643)	
Net Income					$ 85,730
Non-cash amortization income (expense), net	$ 4,243	$ (2,800)	$ (688)	$ (791)	$ (36)

The following table presents the components of Corporate/Other for the three and six months ended June 30, 2020 and 2019.

Table 23.2 – Components of Corporate/Other

(In Thousands)	Three Months Ended June 30,					
	2020			2019		
	Legacy Consolidated VIEs (1)	Other	Total	Legacy Consolidated VIEs (1)	Other	Total
Interest income	$ 2,686	$ 54	$ 2,740	$ 4,776	$ —	$ 4,776
Interest expense	(1,518)	(4,273)	(5,791)	(3,981)	—	(3,981)
Net interest income	1,168	(4,219)	(3,051)	795	—	795
Non-interest income						
Investment fair value changes, net	(230)	—	(230)	(123)	(36)	(159)
Other income	—	758	758	—	—	—
Realized gains, net	—	25,182	25,182	—	—	—
Total non-interest income, net	(230)	25,940	25,710	(123)	(36)	(159)
General and administrative expenses	—	(13,818)	(13,818)	—	(12,436)	(12,436)
Other expenses	—	(134)	(134)	—	(311)	(311)
Total	$ 938	$ 7,769	$ 8,707	$ 672	$ (12,783)	$ (12,111)

Note 23. Segment Information - (continued)

	Six Months Ended June 30,					
	2020			2019		
(In Thousands)	Legacy Consolidated VIEs (1)	Other	Total	Legacy Consolidated VIEs (1)	Other	Total
Interest income	$ 5,880	$ 54	$ 5,934	$ 9,629	$ —	$ 9,629
Interest expense	(4,040)	(4,273)	(8,313)	(8,096)	—	(8,096)
Net interest income	1,840	(4,219)	(2,379)	1,533	—	1,533
Non-interest income						
Investment fair value changes, net	(621)	(118)	(739)	(497)	(59)	(556)
Other income	—	758	758	—	2,710	2,710
Realized gains, net	—	25,182	25,182	—	—	—
Total non-interest income, net	(621)	25,822	25,201	(497)	2,651	2,154
General and administrative expenses	—	(24,733)	(24,733)	—	(24,841)	(24,841)
Other expenses	—	(446)	(446)	—	(489)	(489)
Total	$ 1,219	$ (3,576)	$ (2,357)	$ 1,036	$ (22,679)	$ (21,643)

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

The following table presents supplemental information by segment at June 30, 2020 and December 31, 2019.

Table 23.3 – Supplemental Segment Information

(In Thousands)	Residential Lending	Business Purpose Lending	Third-Party Investments	Corporate/ Other	Total
June 30, 2020					
Residential loans	$ 2,084,587	$ —	$ 2,145,111	$ 304,632	$ 4,534,330
Business purpose residential loans	—	3,782,200	—	—	3,782,200
Multifamily loans	—	—	489,075	—	489,075
Real estate securities	142,713	—	173,723	—	316,436
Other investments	19,661	26,933	383,246	—	429,840
Goodwill and intangible assets	—	64,610	—	—	64,610
Total assets	2,303,320	4,009,371	3,211,030	837,821	10,361,542
December 31, 2019					
Residential loans	$ 4,939,745	$ —	$ 2,367,215	$ 407,890	$ 7,714,850
Business purpose residential loans	—	3,506,743	—	—	3,506,743
Multifamily loans	—	—	4,408,524	—	4,408,524
Real estate securities	229,074	—	870,800	—	1,099,874
Other investments	42,224	21,002	294,904	—	358,130
Goodwill and intangible assets	—	161,464	—	—	161,464
Total assets	5,410,540	3,786,641	8,028,946	769,313	17,995,440

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

INTRODUCTION

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

• Overview

• Results of Operations

• Liquidity and Capital Resources

• Off-Balance Sheet Arrangements and Contractual Obligations

• Critical Accounting Policies and Estimates

• New Accounting Standards

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

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

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

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

Our Business

Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on making credit-sensitive investments in single-family residential and multifamily mortgages and related assets and engaging in mortgage banking activities. Our goal is to provide attractive returns to shareholders through a stable and growing stream of earnings and dividends, as well as through capital appreciation. We operate our business in three segments: Residential Lending, Business Purpose Lending, and Third-Party Investments. For a full description of our segments, see *Note 23* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Cautionary Statement

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as “anticipate,” “estimate,” “will,” “should,” “expect,” “believe,” “intend,” “seek,” “plan” and similar expressions or their negative forms, or by references to strategy, plans, or intentions. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, in each case under the caption “Risk Factors.” Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the SEC, including reports on Forms 10-Q and 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Statements regarding the following subjects, among others, are forward-looking by their nature: (i) statements we make regarding Redwood's business strategy and strategic focus, including statements relating to our overall market position, strategy and long-term prospects (including trends in the housing finance markets, our strategic initiatives designed to capitalize on those trends, our ability to attract capital to finance those initiatives, our approach to raising capital, our ability to pay dividends in the future, and the prospects for federal housing finance reform); (ii) statements related to our financial outlook and expectations for 2020 and future years, including our positioning to take advantage of a significant recovery in our business lines, expectations with respect to activity in our Residential Lending segment and strategic priorities for this segment, expectations with respect to activity in our Business Purpose Lending segment, including with respect to investment demand for our SFR and bridge loans, and our belief that asset valuations in our investment portfolio possess significant upside to recover value from unrealized losses incurred during the first quarter 2020; (iii) statements related to repurchases of long-term debt or common equity; (iv) statements regarding our expectations with respect to forbearance rates, loan performance for borrowers exiting forbearance periods, and Redwood's servicing advance obligations, including our estimate that for every 5 percentage point increase in the principal balance of Sequoia securitized mortgage loans in a delinquent status (whether or not subject to forbearance), our average monthly principal and interest servicing advance funding obligation would increase by approximately $3 million; (v) statements we make regarding estimated costs and the range of reasonably possible losses with respect to residential loan seller demands; (vi) statements we make regarding future dividends, including with respect to our regular quarterly dividends in 2020; and (vii) statements regarding our expectations and estimates relating to the characterization for income tax purposes of our dividend distributions, our expectations and estimates relating to tax accounting, tax liabilities and tax savings, and GAAP tax provisions, and our estimates of REIT taxable income and TRS taxable income.

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

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

- the impact of the current outbreak of COVID-19 or the future outbreak of any other highly infectious or contagious diseases on the U.S. and global economy, financial markets, and our business and operations;
- the ability and willingness of residential mortgage loan borrowers that have been negatively impacted by the pandemic to make payments of principal and interest relating to their mortgage loans;
- liquidity risks from margin calls and potential breaches of the financial covenants under our borrowing facilities;

- changes to our interest rate hedging strategy and our revised approach to addressing interest rate risk;
- the pace at which we redeploy our available capital into new investments and initiatives;
- our ability to scale our platform and systems, particularly with respect to our new initiatives;
- interest rate volatility, changes in credit spreads, and changes in liquidity in the market for real estate securities and loans;
- changes in the demand from investors for residential mortgages and investments, and our ability to distribute residential mortgages through our whole-loan distribution channel;
- our ability to finance our investments in securities and our acquisition of residential mortgages with short-term debt;
- changes in the values of assets we own;
- general economic trends, the performance of the housing, real estate, mortgage, credit, and broader financial markets, and their effects on the prices of earning assets and the credit status of borrowers;
- federal and state legislative and regulatory developments, and the actions of governmental authorities, including the new U.S. presidential administration, and in particular those affecting the mortgage industry or our business;
- state and/or local regulations related to rent control or rent stabilization impacting single-family rental and multifamily properties;
- strategic business and capital deployment decisions we make;
- our recent acquisitions of business purpose lending origination platforms;
- developments related to the fixed income and mortgage finance markets and the Federal Reserve's statements regarding its future open market activity and monetary policy;
- our exposure to credit risk and the timing of credit losses within our portfolio;
- the concentration of the credit risks we are exposed to, including due to the structure of assets we hold and the geographical concentration of real estate underlying assets we own;
- our exposure to adjustable-rate mortgage loans;
- the efficacy and expense of our efforts to manage or hedge credit risk, interest rate risk, and other financial and operational risks;
- changes in credit ratings on assets we own and changes in the rating agencies' credit rating methodologies;
- changes in interest rates; changes in mortgage prepayment rates;
- changes in liquidity in the market for real estate securities and loans;
- our ability to finance the acquisition of real estate-related assets with short-term debt;
- the ability of counterparties to satisfy their obligations to us;
- our involvement in securitization transactions, the profitability of those transactions, and the risks we are exposed to in engaging in securitization transactions;
- exposure to claims and litigation, including litigation arising from our involvement in securitization transactions;
- ongoing litigation against various trustees of RMBS transactions;
- whether we have sufficient liquid assets to meet short-term needs;
- our ability to successfully compete and retain or attract key personnel;
- our ability to adapt our business model and strategies to changing circumstances;
- changes in our investment, financing, and hedging strategies and new risks we may be exposed to if we expand our business activities;
- our exposure to a disruption or breach of the security of our technology infrastructure and systems;
- exposure to environmental liabilities;
- our failure to comply with applicable laws and regulations;
- our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures;
- the impact on our reputation that could result from our actions or omissions or from those of others;
- changes in accounting principles and tax rules;
- our ability to maintain our status as a REIT for tax purposes;
- limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940;
- decisions about raising, managing, and distributing capital; and
- other factors not presently identified.

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

OVERVIEW

Business Update

The COVID-19 pandemic continued to impact financial markets and the economy in the second quarter, and our country experienced a significant increase in coronavirus cases during July. While the long-term impact of this crisis on Redwood's business remains unclear, we made significant progress in response to the collapse of liquidity that the non-government mortgage sector experienced in March. We believe we are now positioned to take advantage of a significant recovery in our business lines – which is currently underway. There is still much to do, but we expect to look back on the second quarter of 2020 as one of meaningful strengthening for the Company.

During the second quarter, we recast most of our secured recourse debt. In aggregate, recourse debt declined from $4.6 billion at March 31, 2020 to $1.8 billion at June 30, 2020, reducing our recourse leverage ratio from 6.9x to 2.1x. Marginable debt, or that portion of recourse debt subject to daily, market-value-based margin calls, represents only about 21% of our recourse debt, or $375 million at June 30th. When comparing our $529 million of unrestricted cash to our marginable debt at the end of the second quarter, our coverage ratio was approximately 1.4:1, leaving us with ample room above a prudent risk capital level to allocate significant capital to our operating businesses, new investments and capital deployment opportunities.

Importantly, the evolution of our capital structure has been managed organically, without raising dilutive equity capital. Not only did we not require outside capital in the second quarter, we repurchased $125 million of our convertible debt at discounted levels, generating $25 million of realized gains. These repurchases also provide the benefit of reduced debt service costs and leverage as we manage through the pandemic. We may continue to opportunistically repurchase our long-term debt or common stock to the extent we believe valuations remain significantly detached from fundamentals.

With our capital structure enhancements largely complete, we paid a second quarter dividend of $0.125 per share on June 29, 2020. The second quarter dividend aligned with the current size of our balance sheet and reflected a sustainable level that we would hope to build upon as the economy and our business cash flows stabilize. We remain committed to delivering an attractive dividend to shareholders while remaining well positioned to opportunistically deploy capital going forward.

When taking stock of the extreme market shocks brought about by COVID-19 and our future forward earnings potential, we believe it is still premature to look too far ahead, as the true impact to the U.S. economy and the mortgage industry is yet to be seen. From a macroeconomic perspective, the recovery in financial markets remains meaningfully detached from the continued, and in many areas accelerating, health pandemic. Record job losses and the associated economic contraction have significantly outpaced the Great Financial Crisis in both speed and severity. The spectacular resiliency of the financial markets appears to be buoyed by extreme monetary and fiscal stimulus, with the prospect that financial asset values can be supported, either directly or implicitly, by the Federal Reserve until a COVID-19 vaccine or effective treatments can be found.

Discomforted by the prospect of trying to predict and time the outcome of the pandemic, and with an election looming in November, we have put ourselves in a position to be patient and focused on the long-term through what may be a volatile next several months. The virtue of patience has had meaningful ancillary benefits, as we have been able to focus on the strategic evolution of our business model, and how our platforms will function in a post-pandemic world.

For now, our residential and business purpose lending segments continue to operate in a significantly altered landscape. Myriad aspects of the mortgage process that historically took place in person, such as appraisals and closings, are now often done remotely. Residential credit performance has fundamentally deteriorated from the record low delinquencies the industry enjoyed before the crisis, though continues to run better than many observers expected. As of June 30, 2020, we received approximately 96% of payments due in June for residential loans underlying our Sequoia securitizations and we received approximately 96% of payments due for the single-family rental loans underlying our CoreVest securitizations. Forbearance rates for our Sequoia portfolio had stabilized in the 6.5% - 7.0% range of outstanding balances as of July 24, 2020. Importantly, we are now observing how the first group of borrowers exiting forbearance periods will perform, and the early signs are encouraging. Along these lines, it is important to emphasize that Redwood's servicer advancing obligations to date have been immaterial to our operations, largely thanks to the fact that a significant percentage of underlying borrowers who have been granted forbearance periods have nonetheless continued to make their monthly mortgage payments. Over the longer-term, for borrowers who reach deeper stages of delinquency, "stop-advance" features incorporated into many of our Sequoia securitization transactions will also mitigate our advancing obligations.

The rise in past-due mortgages, thus far, does not appear to be weakening the single-family housing sector. Thanks to record low mortgage rates, in some cases below 3% for agency mortgages and trending lower, refinance activity has remained elevated and home purchases have seen a resurgence in demand. By way of shelter-in-place orders and broader (perhaps secular) trends in working remotely, the concept of "home" has taken on greater significance for most Americans. Many children are now learning "virtually" right down the hall from their working parents. Particularly strong demand for suburban housing has been observed in many states where families look to exit dense metropolitan areas, seeking some outdoor space to call their own and that critical extra room. This is a remarkable shift in consumer preference from even a few short months ago, and one that, on balance, is positive for both our residential consumer and rental products, which are predominantly focused on single-family dwellings.

Our Residential Lending team entered the second half of the year primed for a relaunch with an idle period in the jumbo mortgage space slowly coming to an end. Since March, most lenders had significantly tightened their underwriting guidelines for newly originated loans due to the prospect of a severe recession and lack of Fed support to the non-agency sector. Additionally, constraints on the bandwidth of loan officers, who have remained largely focused on high margin refinance loans to agency-eligible borrowers, has weighed on jumbo origination activity. Based on our recent engagement with loan sellers and the gradual narrowing of the spread between agency and jumbo mortgage rates, we've begun to see a pickup in lock activity and expect this to grow meaningfully as we head into the fall. Even with this narrowing, we continue to see substantial relative value in non-agency whole loans, a sentiment shared by our loan-buying counterparties, both current and prospective. Our near-term focus continues to be on recasting our programs and guidelines with loan sellers to reflect the economic environment in preparation for increased activity. Though our team's efforts may not yet be reflected in our results, tremendous progress has been made and we're excited about the resurgence underway.

To reach this point, we completed the difficult work of managing through our "pre-COVID" loan inventory, culminating with the sale of substantially all of those loans and the repayment of our associated secured debt facilities. As part of this process, our residential team completed our Sequoia "MC1" securitization in late June, a transaction that brought the sale of these loans to a close. The deal priced better than we expected and allowed us to safely begin locking new loans in July.

As we move forward, our Residential team is focused on a few key strategic priorities. First, is to reaffirm our commitment to technology by upgrading our loan systems and transition toward the more automated underwriting and approval processes our sellers experience for conventional loans. Second, is to broaden our methods of loan distribution to complement traditional whole-loan sales and securitization – a key initiative as we closely manage our loan inventory levels going forward. Third, is to enhance our value-add to our loan sellers by continuing to refine how - and how quickly - we can purchase loans in a safe and sound manner. Thanks to our deep and valuable banking relationships, we have substantial warehouse capacity to fund new loans and now have access to non-marginable facilities that will help us manage our inventory going forward.

Transitioning to our Business Purpose Lending segment, the recovery was very much underway at the end of the second quarter, and we have much to be excited about going forward. Our BPL team originated $234 million of loans in the second quarter, the majority in late May and June when we re-entered the market in earnest after securitizing a significant portion of the pre-COVID single-family rental loans on our balance sheet. Our origination footprint has remained largely consistent for SFR loans, and our bridge origination strategy has sharpened its focus on sponsors whose strategy is to ultimately hold and stabilize all or most of their portfolios. In addition to their institutional caliber, these sponsors often become accretive repeat customers for both SFR loans and fresh bridge financing to support new investments. Across our BPL products, we are commanding improved lending terms in both structure and coupon. As funding markets improve, we expect more competition to re-enter the space; however, we believe our operational advantage remains durable.

Our BPL business continued to make great progress in diversifying its outlets to distribute risk in the second quarter and through July. We completed two non-recourse financing arrangements for over 85% of our pre-COVID bridge portfolio, essentially match-funding a portfolio that has thus far displayed solid performance through the pandemic (as noted above, these arrangements did not come with equity-linked options for the lenders). Investment demand remains very robust for our SFR and bridge loans, including significant inquiry for both loan purchases and opportunities to co-invest or provide private financing. We expect these options to become a reliable complement to traditional securitization. The attractive risk-adjusted returns in the space have kept BPL assets in strong demand and we continue to receive strong indications from investors in our SFR securitizations.

As we take stock of the year so far and look towards the fall, we are reminded that we are living in truly historic times. We face a pandemic that has created global economic disruption, trade and technology wars are looming, the fight against racism and social injustice is hitting an inflection point at a global scale, and the U.S. presidential election is a mere three months away. This presents an opportunity for all of us to examine our values, reset priorities and pause while we rethink how we want our world to function. As the times evolve, our corporate mission remains the same - to help make quality housing accessible to all Americans, whether rented or owned.

Second Quarter Overview

The following table presents key financial metrics for the three and six months ended June 30, 2020.

Table 1 – Key Financial Metrics

(In Thousands, except per Share Data)	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Net income (loss) per diluted common share	$ 1.00	$ (6.82)
Book value per share	$ 8.15	$ 8.15
REIT taxable loss per share	$ (0.50)	$ (0.17)
Dividends per share	$ 0.125	$ 0.445

- Our second quarter 2020 results benefited from a rebound in asset prices, as the COVID-19 induced spread widening we experienced in the first quarter partially reversed, benefiting our investment portfolio. As a result of the substantial work we completed repositioning our secured debt, we were able to maintain strategic assets in our portfolio and recover a meaningful portion of the unrealized losses recorded in the first quarter of 2020.
- Our book value per share increased $1.83 per share to $8.15 per share during the second quarter of 2020, resulting primarily from positive investment fair value changes as well as from gains on extinguishment of our convertible debt. During the second quarter, we recognized positive fair value changes of $1.78 per share on our investment assets, primarily driven by spread-tightening across our portfolios. While not uniform in magnitude, asset valuations were materially higher and still possess significant upside to the extent the economy continues to recover. Additionally, during the second quarter of 2020, we repurchased $125 million of convertible debt, resulting in net gains of $25 million and a $0.22 per share benefit to book value.
- During the second quarter of 2020, we made significant progress repositioning our secured recourse debt structure including reducing our recourse debt from $4.6 billion at March 31, 2020 to $1.8 billion at June 30, 2020, and reducing our marginable debt from $3.5 billion at March 31, 2020 to $375 million at June 30, 2020. While our new non-marginable and non-recourse financing facilities have reduced our contingent liquidity risks, they generally have higher interest costs, which will marginally impact our net interest income in coming quarters. Additional details on these new financing agreements are provided in the "Liquidity and Capital Resources" section that follows in this MD&A.
- During the second quarter of 2020, we completed the sale of nearly all of our residential loans previously held for investment and financed at our Federal Home Loan Bank of Chicago facility (our "FHLBC Facility") and repaid all but $1 million of borrowings under this facility. Additionally, during the second quarter, we completed the sale of nearly all of our loan inventory held at the end of the first quarter of 2020. These sales benefited our cash position, recourse leverage and marginable debt ratios, but reduced net interest income in the second quarter.
- We reset operations in our mortgage banking businesses during the second quarter of 2020, increasing the pace of residential loan locks and business purpose loan originations in the second half of the second quarter. Our business purpose lending platform originated $234 million of business purpose mortgage loans in the second quarter, including $176 million of single-family rental loans and $58 million of residential bridge loans.
- During the second quarter of 2020, we sold $29 million of securities from our residential lending investment portfolio, $53 million of third-party residential investments (including $35 million of recently issued subordinate securities), and $19 million of Agency CRT securities.
- Our unrestricted cash position increased to $529 million at the end of the second quarter of 2020, after repurchasing $125 million of our convertible debt at a discount, and without issuing any equity or equity-linked securities.

RESULTS OF OPERATIONS

Within this *Results of Operations* section, we provide commentary that compares results year-over-year for 2020 and 2019. Most tables include a "change" column that shows the amount by which the results from 2020 are greater or less than the results from the respective period in 2019. Unless otherwise specified, references in this section to increases or decreases during the "three-month periods" refer to the change in results for the second quarter of 2020, compared to the second quarter of 2019, and increases or decreases in the "six-month periods" refer to the change in results for the first six months of 2020, compared to the first six months of 2019.

Consolidated Results of Operations

The following table presents the components of our net income for the three and six months ended June 30, 2020 and 2019.

Table 2 – Net Income (Loss)

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands, except per Share Data)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Net Interest Income	$ 27,280	$ 32,322	$ (5,042)	$ 78,690	$ 64,087	$ 14,603
Non-interest Income						
Mortgage banking activities, net	(5,772)	19,160	(24,932)	(34,183)	31,469	(65,652)
Investment fair value changes, net	152,228	3,138	149,090	(718,604)	23,297	(741,901)
Other income	955	4,859	(3,904)	3,392	9,484	(6,092)
Realized gains, net	25,965	2,827	23,138	29,817	13,513	16,304
Total non-interest income (loss), net	173,376	29,984	143,392	(719,578)	77,763	(797,341)
General and administrative expenses	(30,092)	(26,255)	(3,837)	(62,760)	(49,414)	(13,346)
Other expenses	(5,083)	(2,452)	(2,631)	(96,498)	(3,490)	(93,008)
Net income (loss) before income taxes	165,481	33,599	131,882	(800,146)	88,946	(889,092)
(Provision for) benefit from income taxes	(37)	(2,333)	2,296	22,192	(3,216)	25,408
Net Income (Loss)	$ 165,444	$ 31,266	$ 134,178	$ (777,954)	$ 85,730	$ (863,684)
Diluted earnings (loss) per common share	$ 1.00	$ 0.30	$ 0.70	$ (6.82)	$ 0.78	$ (7.60)

Net Interest Income

The decrease in net interest income during the three-month periods was primarily due to lower net interest income from residential loans, as we completed the sale of nearly all of our loans previously held-for-investment at the FHLBC, and our loan inventory held at the end of the first quarter of 2020.As a result of these sales, we expect our net interest income to decrease further in the third quarter of 2020 and remain lower until we begin to re-deploy our available capital into interest earning investments and increase our inventory of loans held for sale in our mortgage banking businesses. Additionally, during the second quarter of 2020 we entered into several new financing agreements, which in general carry higher interest costs associated with non-marginable and non-recourse features.

The increase in net interest income during the six-month periods was primarily due to a higher average balance of invested capital during the first six months of 2020, as compared to the first six months of 2019.

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

Mortgage Banking Activities, Net

The decrease in income from mortgage banking activities during the three- and six-month periods was predominantly due to a decrease in loan acquisition and origination volumes at our mortgage banking businesses during the second quarter of 2020, as well as lower margins, in both cases due to pandemic-related market disruptions. While we began to see volumes grow later in the second quarter, in the near-term we expect volumes and margins to continue to be below levels we experienced pre-pandemic.

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

Investment Fair Value Changes, Net

Investment fair value changes, net, is primarily comprised of the change in fair values of our portfolio investments accounted for under the fair value option and, prior to the second quarter of 2020, interest rate hedges associated with these investments. During the three months ended June 30, 2020, investment fair value changes increased significantly, as the fair value of our investment assets recovered nearly one-third of the unrealized losses recognized in the first quarter of 2020. During the six months ended June 30, 2020, the negative investment fair value changes reflected significant declines in the value of our investments in the first quarter of 2020 resulting from market dislocations caused by the pandemic. Additional detail on our investment fair value changes is included in the "*Results of Operations by Segment*" section that follows.

Other Income

The decrease in other income for the three- and six-month periods was primarily the result of losses on our MSR investments, which were driven primarily by increased prepayment speeds, resulting from recent declines in interest rates. Additionally, we recorded a $2 million gain associated with the re-measurement of our initial minority investment and purchase option in 5 Arches during the six months ended June 30, 2019.

Realized Gains, Net

During the three and six months ended June 30, 2020, we realized gains of $26 million and $30 million, respectively, primarily resulting from a $25 million gain from the repurchase of $125 million of convertible debt during the second quarter of 2020. During the three and six months ended June 30, 2019, we realized gains of $3 million and $14 million, respectively, primarily from the sale of $25 million and $67 million of AFS securities, respectively, and the call of a seasoned Sequoia securitization. Of note, all of the gains from extinguishment of debt were excluded from our diluted earnings per share for the three months ended June 30, 2020, in accordance with GAAP. See *Note 17* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information on this calculation.

General and Administrative Expenses

The increase in general and administrative expenses for the three- and six-month periods primarily resulted from $4 million and $16 million of additional expenses, respectively, from the consolidation of 5 Arches and CoreVest operations during 2019 after their respective acquisitions. The increase for the six-month periods was partially offset by a $5 million decrease in our variable compensation expense, which was impacted by our year-to-date performance in 2020. Additionally, in April 2020, we implemented a workforce reduction that reduced headcount by approximately 35% and fixed compensation costs by approximately 25%.

Other Expenses

The increase in other expenses for the three-month periods was primarily due to higher amortization expense from intangible assets and contingent consideration we recorded in association with the acquisitions of 5 Arches and CoreVest in 2019. The increase in other expenses for the six-month periods was primarily due to $89 million of goodwill impairment expense at our Business Purpose Lending segment recorded in the first quarter of 2020.

Provision for Income Taxes

Our provision for income taxes is almost entirely related to activity at our taxable REIT subsidiaries, which primarily includes our mortgage banking activities and MSR investments, as well as certain other investment and hedging activities. For the three- and six-month periods, the decrease in provision for income taxes and the change to a benefit from income taxes from a provision for income taxes in the prior year, respectively, were primarily the result of GAAP losses at our TRS in 2020. The benefit from income taxes in 2020 was partially offset by a valuation allowance being recorded against our federal net ordinary deferred tax assets. For additional detail on income taxes, see the "*Taxable Income and Tax Provision*" section that follows.

Net Interest Income

The following table presents the components of net interest income for the three and six months ended June 30, 2020 and 2019.

Table 3 – Net Interest Income

	Three Months Ended June 30,					
	2020			2019		
(Dollars in Thousands)	Interest Income/ (Expense)	Average Balance [(1)]	Yield	Interest Income/ (Expense)	Average Balance [(1)]	Yield
Interest Income						
Residential loans, held-for-sale	$ 8,537	$ 771,003	4.4 %	$ 10,015	$ 898,054	4.5 %
Residential loans - HFI at Redwood[(2)]	—	—	— %	24,090	2,399,670	4.0 %
Residential loans - HFI at Legacy Sequoia[(2)]	2,685	305,160	3.5 %	4,773	468,062	4.1 %
Residential loans - HFI at Sequoia Choice[(2)]	22,565	1,826,727	4.9 %	26,814	2,218,425	4.8 %
Residential loans - HFI at Freddie Mac SLST[(2)]	21,187	2,115,716	4.0 %	11,596	1,221,346	3.8 %
Business purpose residential loans	20,441	1,181,644	6.9 %	3,996	207,280	7.7 %
Single-family rental loans - HFI at CAFL	32,978	2,379,689	5.5 %	—	—	— %
Multifamily loans - HFI at Freddie Mac K-Series	4,870	470,896	4.1 %	35,917	3,644,683	3.9 %
Trading securities	6,587	127,506	20.7 %	19,548	1,235,965	6.3 %
Available-for-sale securities	3,440	128,486	10.7 %	5,469	181,253	12.1 %
Other interest income	6,656	848,105	3.1 %	6,324	555,514	4.6 %
Total interest income	129,946	10,154,932	5.1 %	148,542	13,030,252	4.6 %
Interest Expense						
Short-term debt facilities	(15,110)	1,295,973	(4.7)%	(17,740)	1,856,466	(3.8)%
Short-term debt - servicer advance financing	(1,797)	231,312	(3.1)%	(3,401)	238,669	(5.7)%
Short-term debt - convertible notes, net	—	—	— %	(3,134)	200,132	(6.3)%
ABS issued - Legacy Sequoia[(2)]	(1,518)	300,773	(2.0)%	(3,981)	459,305	(3.5)%
ABS issued - Sequoia Choice[(2)]	(19,117)	1,673,361	(4.6)%	(23,134)	2,002,552	(4.6)%
ABS issued - Freddie Mac SLST[(2)]	(15,845)	1,801,798	(3.5)%	(8,557)	984,150	(3.5)%
ABS issued - Freddie Mac K-Series	(4,378)	447,886	(3.9)%	(34,441)	3,442,411	(4.0)%
ABS issued - CAFL	(24,446)	2,213,900	(4.4)%	—	—	— %
Long-term debt - FHLBC	(1,635)	381,465	(1.7)%	(13,235)	1,999,999	(2.6)%
Long-term debt - other	(18,820)	1,297,504	(5.8)%	(8,597)	573,003	(6.0)%
Total interest expense	(102,666)	9,643,972	(4.3)%	(116,220)	11,756,687	(4.0)%
Net Interest Income	$ 27,280			$ 32,322		

(Dollars in Thousands)	Six Months Ended June 30, 2020 Interest Income/ (Expense)	2020 Average Balance [1]	2020 Yield	2019 Interest Income/ (Expense)	2019 Average Balance [1]	2019 Yield
Interest Income						
Residential loans, held-for-sale	$ 16,787	$ 875,767	3.8 %	$ 19,473	$ 842,673	4.6 %
Residential loans - HFI at Redwood[2]	20,925	993,623	4.2 %	48,281	2,390,215	4.0 %
Residential loans - HFI at Legacy Sequoia[2]	5,878	348,885	3.4 %	9,623	481,633	4.0 %
Residential loans - HFI at Sequoia Choice[2]	47,647	1,981,097	4.8 %	52,470	2,180,091	4.8 %
Residential loans - HFI at Freddie Mac SLST[2]	43,173	2,229,068	3.9 %	23,391	1,218,153	3.8 %
Business purpose residential loans	43,085	1,325,798	6.5 %	6,785	180,042	7.5 %
Single-family rental loans - HFI at CAFL	62,988	2,283,812	5.5 %	—	—	— %
Multifamily loans - HFI at Freddie Mac K-Series	45,042	2,328,527	3.9 %	57,305	2,897,936	4.0 %
Trading securities	20,249	434,852	9.3 %	38,261	1,198,531	6.4 %
Available-for-sale securities	8,087	141,279	11.4 %	11,206	197,684	11.3 %
Other interest income	14,166	715,416	4.0 %	12,788	567,669	4.5 %
Total interest income	328,027	13,658,124	4.8 %	279,583	12,154,627	4.6 %
Interest Expense						
Short-term debt facilities	(36,600)	1,973,427	(3.7)%	(33,214)	1,732,720	(3.8)%
Short-term debt - servicer advance financing	(3,374)	189,726	(3.6)%	(7,014)	252,550	(5.6)%
Short-term debt - convertible notes, net	—	—	— %	(6,265)	199,978	(6.3)%
ABS issued - Legacy Sequoia[2]	(4,040)	343,997	(2.3)%	(8,097)	473,458	(3.4)%
ABS issued - Sequoia Choice[2]	(40,627)	1,782,702	(4.6)%	(45,247)	1,984,241	(4.6)%
ABS issued - Freddie Mac SLST[2]	(32,022)	1,845,307	(3.5)%	(17,304)	984,455	(3.5)%
ABS issued - Freddie Mac K-Series	(42,728)	2,195,469	(3.9)%	(54,760)	2,733,499	(4.0)%
ABS issued - CAFL	(46,385)	2,115,019	(4.4)%	—	—	— %
Long-term debt - FHLBC	(10,410)	1,184,002	(1.8)%	(26,418)	1,999,999	(2.6)%
Long-term debt - other	(33,151)	1,150,774	(5.8)%	(17,177)	572,750	(6.0)%
Total interest expense	(249,337)	12,780,423	(3.9)%	(215,496)	10,933,650	(3.9)%
Net Interest Income	$ 78,690			$ 64,087		

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

(2) Interest income from residential loans held-for-investment ("HFI") at Redwood exclude loans HFI at consolidated Sequoia or Freddie Mac SLST entities. Interest income from residential loans - HFI at Legacy Sequoia and the interest expense from ABS issued - Legacy Sequoia represent activity from our consolidated Legacy Sequoia entities. Interest income from residential loans - HFI at Sequoia Choice and the interest expense from ABS issued - Sequoia Choice represent activity from our consolidated Sequoia Choice entities. Interest income from residential loans - HFI at Freddie Mac SLST and the interest expense from ABS issued - Freddie Mac SLST represent activity from our consolidated Freddie Mac SLST entities.

The following table presents net interest income by segment for the three and six months ended June 30, 2020 and 2019.

Table 4 – Net Interest Income by Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Net Interest Income by Segment						
Residential Lending	$ 6,484	$ 18,290	$ (11,806)	$ 25,713	$ 37,453	$ (11,740)
Business Purpose Lending	14,905	1,893	13,012	32,975	3,291	29,684
Third-Party Investments	8,942	11,344	(2,402)	22,381	21,810	571
Corporate/Other	(3,051)	795	(3,846)	(2,379)	1,533	(3,912)
Net Interest Income	$ 27,280	$ 32,322	$ (5,042)	$ 78,690	$ 64,087	$ 14,603

The Corporate/Other line item in the table above includes net interest income from consolidated Legacy Sequoia entities, and for the three months ended June 30, 2020, also includes $4 million of interest expense on our convertible debt. While our convertible debt expense is generally allocated to our segments, given the large balance of undeployed capital (cash) held at a corporate level during the second quarter of 2020, a portion of the convertible debt expense was allocated against this capital.

Results of Operations by Segment

We report on our business using three distinct segments: Residential Lending, Business Purpose Lending, and Third-Party Investments. Beginning in the second quarter of 2020, we combined what was previously our Multifamily Investments segment and Third-Party Residential Investments segment into a new segment called Third-Party Investments. Prior periods have been conformed to the current presentation. For additional information on our segments, refer to *Note 23* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q. The following table presents the segment contribution from our segments for the three and six months ended June 30, 2020 and 2019.

Table 5 – Segment Results Summary

	Three Months Ended June 30,			Six Months Ended June 30,		
(In Thousands)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Segment Contribution from:						
Residential Lending	$ 33,447	$ 23,045	$ 10,402	$ (166,043)	$ 49,997	$ (216,040)
Business Purpose Lending	46,277	(915)	47,192	(182,156)	(1,075)	(181,081)
Third-Party Investments	77,013	21,247	55,766	(427,398)	58,451	(485,849)
Corporate/Other	8,707	(12,111)	20,818	(2,357)	(21,643)	19,286
Net Income (Loss)	$ 165,444	$ 31,266	$ 134,178	$ (777,954)	$ 85,730	$ (863,684)

The following sections provide a discussion of the results of operations at each of our three business segments for the three and six months ended June 30, 2020.

The increase in net income from Corporate/Other for the three- and six-month periods was primarily due to a $25 million gain associated with the repurchase of $125 million of convertible debt in the second quarter of 2020.

Residential Lending Segment

Overview

Our Residential Lending segment generated $33 million of net income during the second quarter of 2020, driven primarily by $35 million of positive investment fair value changes. Mortgage banking income was negative for the second quarter of 2020 as we incurred incremental costs associated with the sale of our remaining loan inventory from the end of the first quarter and loan lock volumes were substantially reduced. During the second quarter, we resumed locking loans through our conduit operations, and purchased $56 million of loans during the quarter.

Our Residential Lending segment incurred a $199 million net loss during the first quarter of 2020, driven primarily by $197 million of negative investment fair value changes triggered by the pandemic and a $19 million net loss from mortgage banking operations, which was driven by decreased profitability on securitizations that settled later in the first quarter and from lower marks on loan inventory held at quarter-end, resulting from pandemic-related market dislocations.

While our loan acquisition volumes began to ramp back up later in the second quarter, in the near-term we expect volumes and profitability at our residential mortgage banking businesses to continue to be impacted by the pandemic and remain below pre-pandemic levels. We are also exposed to the potential impact of pandemic-related payment delinquencies and forbearances with respect to loans securitized in Sequoia transactions, and loans we have sold where we maintain certain repurchase obligations tied to near-term delinquencies.

Investment Portfolio

The following table presents details of our Residential Lending investment portfolio at June 30, 2020 and December 31, 2019.

Table 6 – Residential Lending Investments

(In Thousands)	June 30, 2020	December 31, 2019
Residential loans at Redwood (1)	$ —	$ 2,111,897
Residential securities at Redwood	142,713	229,074
Residential securities at consolidated Sequoia Choice entities (2)	202,611	254,265
Other investments	19,661	42,224
Total Segment Investments	$ 364,985	$ 2,637,460

(1) Excludes Sequoia Choice loans held at VIEs that we consolidate for GAAP purposes.

(2) Represents our retained economic investment in the consolidated Sequoia Choice securitization VIEs. For GAAP purposes, we consolidated $2.06 billion of loans and $1.86 billion of ABS issued associated with these investments at June 30, 2020.

As a result of the economic and financial market impacts of the pandemic, the terms of our FHLBC facility evolved and in March we began entering into transactions to sell several pools of residential whole loans financed through this facility with the objective to pay down our FHLBC borrowings. During the second quarter of 2020, we completed the sale of nearly all of our residential loans previously financed at the FHLBC, and repaid all but $1 million of borrowings under this facility. We do not expect to increase borrowings under our FHLBC facility above the existing $1 million of borrowings outstanding.

During the second quarter of 2020, we sold $29 million of securities from our residential lending investment portfolio and retained $20 million of investment securities from a $271 million Sequoia securitization we completed during the quarter. During the first quarter of 2020, we sold $83 million of securities from our residential lending investment portfolio.

See the "Investments" section that follows for additional details on investments at this segment and their associated borrowings.

The following table presents the components of investment fair value changes for our Residential Lending segment by investment type for the three and six months ended June 30, 2020.

Table 7 – Investment Fair Value Changes, Net from Residential Lending

(In Thousands)	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Investment Fair Value Changes, Net		
Changes in fair value of:		
Residential loans held-for-investment, at Redwood	$ 104	$ (93,532)
Trading securities	(2,229)	(45,488)
Net investments in Sequoia Choice entities [1]	39,753	(29,916)
Risk-sharing and other investments	(2,543)	(3,078)
Risk management derivatives, net	—	10,735
Impairments on AFS securities	—	(271)
Investment Fair Value Changes, Net	$ 35,085	$ (161,550)

(1) Includes changes in fair value for loan purchase and forward sale commitments.

Liquidity began to return to the residential securities markets during the second quarter of 2020, helping spreads to tighten on many of our investments, which resulted in positive fair value changes for the quarter, recovering a portion of the negative fair value changes incurred during the first quarter of 2020 due to the pandemic.

Mortgage Banking

The following table provides the activity of residential loans held in inventory for sale at our mortgage banking business during the three and six months ended June 30, 2020.

Table 8 – Loan Inventory for Residential Mortgage Banking Operations — Activity

(In Thousands)	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Balance at beginning of period	$ 894,154	$ 536,385
Acquisitions	55,744	2,751,594
Sales	(710,920)	(3,440,081)
Transfers between portfolios [1]	(158,918)	263,172
Principal repayments	(59,553)	(77,990)
Changes in fair value, net	(274)	(12,847)
Balance at End of Period	$ 20,233	$ 20,233

(1) Represents the net transfers of loans from held-for-investment to held-for-sale within our Residential Lending investment portfolio.

During the three months ended June 30, 2020, our residential mortgage loan conduit purchased $56 million of predominately prime residential jumbo loans, and sold $711 million of jumbo loans to third parties. During the second quarter of 2020, we transferred $271 million of jumbo loans to a Sequoia Choice securitization, of which $163 million were transferred from our inventory of residential loans held-for-sale. Additionally, at June 30, 2020, we had identified $57 million of loans for purchase, nearly all of which are scheduled to be delivered into forward sale agreements. This activity, along with $2 million of repurchase reserve accrual expense and $5 million of expenses associated with resolving residential loan seller demands, resulted in a loss from mortgage banking activities of $8 million for the second quarter of 2020.

During the first quarter of 2020, our residential mortgage loan conduit purchased $2.70 billion of predominately prime residential jumbo loans, securitized $1.62 billion of jumbo Select loans that were accounted for as sales, and sold $1.11 billion of jumbo loans to third parties. This activity resulted in a loss from mortgage banking activities of $23 million for the first quarter of 2020.

We utilize a combination of capital and our residential loan warehouse facilities to manage our inventory of residential loans held-for-sale. During the second quarter of 2020, we completed a non-marginable warehouse facility that we are utilizing to finance existing loan inventory, under which we had $14 million of borrowings outstanding at June 30, 2020. Going forward, we expect to finance our residential mortgage banking loan inventory substantially with non-marginable debt.

Business Purpose Lending Segment

Overview

Our Business Purpose Lending segment generated $46 million of net income during the second quarter of 2020, driven primarily by $40 million of positive investment fair value changes and $14 million of net interest income from investments. Business purpose mortgage banking activities improved from the first quarter of 2020, as origination volumes began to pick up in late May and securitization pricing in the market improved into quarter end.

During the first quarter of 2020, our Business Purpose Lending segment incurred a $228 million net loss, driven primarily by $142 million of negative investment fair value changes and a $12 million net loss from mortgage banking operations, exclusive of an $89 million charge related to the full impairment of this segment's goodwill. The declines in investment fair values were triggered by the pandemic. Mortgage banking income decreased due to decreased profitability on a securitization that settled later in the first quarter and from lower marks on loan inventory held at quarter-end, resulting from the pandemic-related market dislocation.

While our loan origination volumes began to ramp back up later in the second quarter, in the near-term we expect loan origination volumes and profitability at our business purpose mortgage banking businesses to continue to be impacted by the pandemic and remain below pre-pandemic levels.

Investment Portfolio

The following table presents details of our Business Purpose Lending investment portfolio at June 30, 2020 and December 31, 2019.

Table 9 – Business Purpose Lending Investments

(In Thousands)	June 30, 2020	December 31, 2019
Single-family rental loans at Redwood [1]	$ —	$ 237,620
Residential bridge loans at Redwood	787,367	745,006
Single-family rental securities at consolidated CAFL entities [2]	203,230	191,301
Other investments	26,202	21,002
Total Segment Investments	$ 1,016,799	$ 1,194,929

(1) Excludes loans held at VIEs that we consolidate for GAAP purposes.

(2) Represents our economic investment in securities issued by consolidated CAFL securitization VIEs. For GAAP purposes, we consolidated $2.62 billion of loans and $2.42 billion of ABS issued associated with these investments at June 30, 2020.

During the second quarter of 2020, we funded $54 million of business purpose bridge loans and received principal payments of $86 million of such loans. In addition, we retained $20 million of securities from a $221 million single-family rental loan securitization we completed during the second quarter.

During the first quarter of 2020, we funded $206 million of business purpose bridge loans and received principal payments of $114 million of such loans. In addition, we retained $42 million of securities from a single-family rental loan securitization we completed during the first quarter. During the first quarter of 2020, we reclassified our single-family rental loans financed at the FHLBC to held-for-sale and consider them as part of our mortgage banking loan inventory as we plan to securitize these loans.

See the "*Investments"* sections that follow for additional details on investments at this segment and their associated borrowings.

The following table presents the components of investment fair value changes for our Business Purpose Lending segment by investment type for the three and six months ended June 30, 2020.

Table 10 – Investment Fair Value Changes, Net from Business Purpose Lending

(In Thousands)	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Investment Fair Value Changes, Net		
Changes in fair value of:		
Single-family rental loans held-for-investment	$ 2,222	$ (20,806)
Residential bridge loans held-for-investment	21,774	(16,828)
REO	(265)	(763)
Net investments in CAFL entities [1]	17,125	(50,721)
Other	(455)	(1,011)
Risk management derivatives, net	—	(11,600)
Investment Fair Value Changes, Net	$ 40,401	$ (101,729)

(1) Includes changes in fair value of the loans held-for-investment and the ABS issued at the entities, which netted together represent the change in value of our investments (subordinate securities) at the consolidated VIEs.

During the second quarter of 2020, we saw liquidity begin to return to the markets for business purpose loans and securities, which caused spreads to tighten on most of our investments, and resulted in positive fair value changes for the quarter, recovering a portion of the negative fair value changes incurred during the first quarter of 2020 due to the pandemic.

Mortgage Banking

The following table provides the business purpose residential loans origination activity at Redwood during the three and six months ended June 30, 2020.

Table 11 – Business Purpose Residential Loans — Origination Activity

	Three Months Ended June 30, 2020			Six Months Ended June 30, 2020		
(In Thousands)	Single-Family Rental	Residential Bridge[1]	Total	Single-Family Rental	Residential Bridge[1]	Total
Fair value at beginning of period	$ 163,290	$ —	$ 163,290	$ 331,565	$ —	$ 331,565
Originations	176,063	58,468	234,531	436,192	285,836	722,028
Sales	—	(1,558)	(1,558)	(26,148)	(22,293)	(48,441)
Transfers between portfolios [2]	32,835	(53,633)	(20,798)	(383,614)	(260,102)	(643,716)
Principal repayments	(915)	—	(915)	(2,270)	—	(2,270)
Changes in fair value, net	8,522	(3,277)	5,245	24,070	(3,441)	20,629
Fair Value at End of Period	$ 379,795	$ —	$ 379,795	$ 379,795	$ —	$ 379,795

(1) Our residential bridge loans are generally originated at our TRS and the majority are transferred to our REIT and a smaller portion sold. Origination fees and any mark-to-market changes on these loans prior to transfer are recognized as mortgage banking income. The loans held at our REIT are classified as held-for-investment, with subsequent fair value changes recorded through Investment fair value changes, net on our consolidated statements of income (loss). For the carrying value and activity of our residential bridge loans held-for-investment, see the *Investments* section that follows.

(2) For single-family rental loans, amounts represent transfers of loans from held-for-sale to held-for-investment, including when loans are securitized (and consolidated for GAAP purposes) or transferred from our TRS to our REIT with the intent to hold for long-term investment. For residential bridge loans, represents the transfer of loans from our TRS to REIT as described in preceding footnote.

During the three months ended June 30, 2020, we funded $176 million of single-family rental loans, all of which were retained in our mortgage banking portfolio and classified as held-for-sale. During the three months ended June 30, 2020, we funded $58 million of residential bridge loans, of which $2 million were sold to a third party and the remaining loans were transferred to our BPL investment portfolio. Additionally, we completed a $221 million single-family rental loan securitization, consisting of loans we held at the end of the first quarter of 2020.

During the three months ended March 31, 2020, we funded $260 million of single-family rental loans and $227 million of residential bridge loans, of which $21 million of bridge loans were sold to a third party and the remaining bridge loans were transferred to our BPL investment portfolio. Additionally, during the first quarter, we completed a $378 million single-family rental loan securitization in early March.

We utilize a combination of capital and loan warehouse facilities to manage our inventory of single-family rental loans that we hold for sale. During the second quarter, we completed a non-marginable, recourse facility that will provide financing on new bridge loans and our single-family rental loan production. Going forward, we expect to finance our business purpose mortgage banking loan inventory substantially with non-marginable debt.

Third-Party Investments Segment

Overview

As a result of asset sales driven by the impact of the pandemic, the composition of our portfolio evolved during the last several months and we combined our previously reported Multifamily Investments segment with our Third-Party Residential Investments segment into a new segment called Third-Party Investments.

Our Third-Party Investments segment generated $77 million of net income during the second quarter of 2020, driven primarily by $77 million of positive investment fair value changes and $9 million of net interest income. During the first quarter of 2020, our Third-Party Investments segment incurred a net loss of $504 million, driven primarily by $532 million of negative investment fair value changes. The declines in investment fair values were triggered by the pandemic.

Investment Portfolio

The following table presents details of the investments in our Third-Party Investments segment at June 30, 2020 and December 31, 2019.

Table 12 – Third-Party Investments

(In Thousands)	June 30, 2020	December 31, 2019
Residential securities at Redwood	$ 146,562	$ 466,672
Residential securities at consolidated Freddie Mac SLST entities (1)	334,043	448,893
Multifamily securities at Redwood	27,161	404,128
Multifamily securities at consolidated Freddie Mac K-Series entities (2)	24,384	252,285
Other investments	383,246	294,904
Total Segment Investments	$ 915,396	$ 1,866,882

(1) Represents our economic investment in securities issued by consolidated Freddie Mac SLST securitization entities. For GAAP purposes, we consolidated $2.15 billion of loans and $1.81 billion of ABS issued associated with these investments at June 30, 2020.

(2) Represents our economic investment in securities issued by consolidated Freddie Mac K-Series securitization entities. For GAAP purposes, we consolidated $489 million of loans and $465 million of ABS issued associated with these investments at June 30, 2020.

During the second quarter, we sold $53 million of third-party investments, including $35 million of recently issued subordinate securities and $19 million of CRT securities, and deployed $10 million into CRT securities.

See the "*Investments*" section that follows for additional details on these investments.

The following table presents the components of investment fair value changes for our Third-Party Investments segment by investment type for the three and six months ended June 30, 2020.

Table 13 – Investment Fair Value Changes, Net from Third-Party Investments

(In Thousands)	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Investment Fair Value Changes, Net		
Changes in fair value of:		
Trading securities	$ 44,475	$ (175,591)
Servicer advance investments	(136)	(6,198)
Excess MSRs	2,971	(6,523)
Shared home appreciation options	884	(6,670)
Net investments in Freddie Mac SLST entities (1)	26,867	(115,295)
Net investments in Freddie Mac K-Series entities (1)	1,599	(84,910)
Risk management derivatives, net	—	(58,158)
Other	258	(41)
Impairments on AFS securities	54	(1,200)
Investment Fair Value Changes, Net	$ 76,972	$ (454,586)

(1) Includes changes in fair value of the loans held-for-investment and the ABS issued at the entities, which netted together represent the change in value of our investments (subordinate securities) at the consolidated VIEs.

During the second quarter of 2020, we saw liquidity begin to return to the markets for residential and multifamily securities, which caused spreads to tighten on most of our investments, and resulted in positive fair value changes for the quarter, recovering a portion of the negative fair value changes incurred during the first quarter of 2020 due to the pandemic.

Investments

This section presents additional details on our investment assets and their activity during the three and six months ended June 30, 2020.

Residential Loans at Residential Lending Investment Portfolio

The following table provides the activity of residential loans at our Residential Lending investment portfolio during the three and six months ended June 30, 2020.

Table 14 – Residential Loans at Residential Lending Investment Portfolio - Activity

(In Thousands)	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Fair value at beginning of period	$ 1,436,515	$ 2,111,897
Sales	(1,254,935)	(1,254,935)
Transfers between portfolios (1)	(111,522)	(533,612)
Principal repayments	(70,162)	(229,818)
Changes in fair value, net	104	(93,532)
Fair Value at End of Period	$ —	$ —

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

During the second quarter of 2020, we completed the sale of nearly all of our residential loans previously held for investment and financed at our FHLBC facility, and repaid all but $1 million of borrowings under this facility. The remaining loans were reclassified as held-for-sale and included as part of our residential mortgage banking loan inventory. We do not expect to increase borrowings under our FHLBC facility above the existing $1 million of borrowings outstanding.

Single-Family Rental Loans at Business Purpose Lending Investment Portfolio

The following table provides the activity of single-family rental loans at our Business Purpose Lending investment portfolio during the three and six months ended June 30, 2020.

Table 15 –Single-Family Rental Loans at Business Purpose Lending Investment Portfolio - Activity

(In Thousands)	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Fair value at beginning of period	$ 252,043	$ 237,620
Transfers between portfolios	(253,757)	(215,417)
Principal repayments	(508)	(1,397)
Changes in fair value, net	2,222	(20,806)
Fair Value at End of Period	$ —	$ —

During the second quarter, we transferred all of our single-family rental loans previously financed at the FHLBC and held for investment to newly established non-marginable warehouse facilities, repaid our associated FHLBC debt, and now classify these loans as held-for-sale as part of our business purpose mortgage banking loan inventory.

Residential Bridge Loans Held-for-Investment at Redwood Portfolio

The following table provides the activity of residential bridge loans held-for-investment at Redwood during the three and six months ended June 30, 2020.

Table 16 – Residential Bridge Loans Held-for-Investment at Redwood - Activity

(In Thousands)	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Fair value at beginning of period	$ 799,744	$ 745,006
Transfers between portfolios (1)	53,633	259,966
Transfers to REO	(1,095)	(1,907)
Principal repayments	(85,699)	(199,595)
Changes in fair value, net	20,784	(16,103)
Fair Value at End of Period	$ 787,367	$ 787,367

(1) All of our residential bridge loans are originated at our TRS then transferred to our REIT. Origination fees and any mark-to-market changes on these loans prior to transfer are recognized as mortgage banking income. Once the loans are transferred to our REIT, they are classified as held-for-investment, with subsequent fair value changes recorded through Investment fair value changes, net on our consolidated statements of income (loss).

Our $787 million of residential bridge loans held-for-investment at June 30, 2020 were comprised of first-lien, fixed-rate, interest-only loans with a weighted average coupon of 7.96% and original maturities of six to 24 months. At origination, the weighted average FICO score of borrowers backing these loans was 720 and the weighted average LTV ratio of these loans was 69%. At June 30, 2020, of the 2,847 loans in this portfolio, 13 of these loans with an aggregate fair value of $30 million and an unpaid principal balance of $35 million were greater than 90 days delinquent, of which nine loans with an aggregate fair value of $28 million and an unpaid principal balance of $32 million were in foreclosure.

During the second quarter, we entered into a non-recourse facility to finance $442 million of our bridge loan investments, with $355 million of borrowings. Subsequent to the end of the second quarter, in July of 2020, we entered into an additional non-recourse facility for our bridge loan investments, financing $253 million of bridge loans with $189 million of non-recourse debt. Upon the completion of this transaction in July, over 85% of our bridge loan investments were financed with non-recourse debt. Additionally, during the second quarter of 2020, we entered into a new non-marginable warehouse facility we used to finance a portion of our bridge loans, and expect to amend our remaining facility to be non-marginable, such that all new bridge loans will be financed under non-marginable facilities in the future. While our new non-marginable and non-recourse financing facilities have reduced our contingent liquidity risks, they generally have higher interest costs, which will marginally impact our net interest income in coming quarters.

Real Estate Securities Portfolio

The following table sets forth our real estate securities activity by collateral type for the three and six months ended June 30, 2020.

Table 17 – Real Estate Securities Activity by Collateral Type

Three Months Ended June 30, 2020	**Residential**			**Multifamily**	
(In Thousands)	**Senior**	**Mezzanine**	**Subordinate**	**Mezzanine**	**Total**
Beginning fair value	$ 39,559	$ 53,781	$ 173,635	$ 26,487	$ 293,462
Acquisitions					
Third-party securities	—	—	10,250	—	10,250
Sales					
Sequoia securities	—	(27,429)	(1,412)	—	(28,841)
Third-party securities	—	(27,122)	(26,184)	—	(53,306)
Gains on sales and calls, net	—	3	780	—	783
Effect of principal payments [1]	—	(200)	(1,829)	—	(2,029)
Change in fair value, net	(6,699)	4,481	97,661	674	96,117
Ending Fair Value [2]	$ 32,860	$ 3,514	$ 252,901	$ 27,161	$ 316,436

Six Months Ended June 30, 2020	**Residential**			**Multifamily**	
(In Thousands)	**Senior**	**Mezzanine**	**Subordinate**	**Mezzanine**	**Total**
Beginning fair value	$ 175,859	$ 151,797	$ 368,090	$ 404,128	$ 1,099,874
Acquisitions					
Sequoia securities	43,363	—	3,198	—	46,561
Third-party securities	16,627	—	14,750	31,132	62,509
Sales					
Sequoia securities	(33,375)	(31,334)	(6,394)	—	(71,103)
Third-party securities	(115,354)	(93,728)	(54,062)	(287,483)	(550,627)
Gains on sales and calls, net	3,357	400	2,482	(1,604)	4,635
Effect of principal payments [1]	(4,464)	(974)	(4,100)	(4,015)	(13,553)
Change in fair value, net	(53,153)	(22,647)	(71,063)	(114,997)	(261,860)
Ending Fair Value [2]	$ 32,860	$ 3,514	$ 252,901	$ 27,161	$ 316,436

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

(2) At June 30, 2020, excludes $203 million and $203 million of securities retained from our consolidated Sequoia Choice and CAFL securitizations, respectively, as well as $334 million and $24 million of securities we owned that were issued by consolidated Freddie Mac SLST and Freddie Mac K-Series securitizations, respectively.

During the three months ended June 30, 2020, we sold $82 million of securities, and during the three months ended March 31, 2020, we sold $540 million of securities to reposition our portfolio and generate liquidity in response to the pandemic. At June 30, 2020, our securities consisted of fixed-rate assets (89%), adjustable-rate assets (8%), and hybrid assets that reset within the next year (3%).

We directly finance our holdings of real estate securities with a combination of capital and collateralized debt in the form of repurchase (or "repo") financing. The following table presents the fair value of our residential securities that were financed with repurchase debt at June 30, 2020.

Table 18 – Real Estate Securities Financed with Repurchase Debt

June 30, 2020 (Dollars in Thousands, except Weighted Average Price)	Real Estate Securities (1)	Margin Posted	Repurchase Debt	Allocated Capital	Weighted Average Price(2)	Financing Haircut(3)
Residential Securities						
Mezzanine (4)	$ 59,543	$ —	$ (42,265)	$ 17,278	$ 95	29 %
Re-performing (5)	334,043	2,696	(241,749)	94,990	54	28 %
Total Residential Securities	393,586	2,696	(284,014)	112,268	58	29 %
Multifamily Securities (6)	48,826	—	(27,874)	20,952	64	43 %
Total	$ 442,412	$ 2,696	$ (311,888)	$ 133,220		

(1) Amounts represent carrying value of securities, which are held at GAAP fair value.

(2) GAAP fair value per $100 of principal.

(3) Allocated capital divided by GAAP fair value.

(4) Includes $60 million of securities we owned that were issued by consolidated Sequoia Choice securitizations, which we consolidate in accordance with GAAP.

(5) Includes $334 million of securities we owned that were issued by consolidated Freddie Mac SLST securitizations, which we consolidate in accordance with GAAP.

(6) Includes $24 million of securities we owned that were issued by consolidated Freddie Mac K-Series securitizations, which we consolidate in accordance with GAAP.

At June 30, 2020, we had short-term debt incurred through repurchase facilities of $312 million, which was secured by $442 million of real estate securities (including securities owned in consolidated securitization entities). Our repo borrowings were made under facilities with four different counterparties, and the weighted average cost of funds for these facilities during the second quarter of 2020 was approximately 3.80% per annum.

Additionally, at June 30, 2020, real estate securities with a fair value of $333 million (including securities owned in consolidated Sequoia Choice and CAFL securitization entities), were financed with long-term, non-mark-to-market recourse debt through our subordinate securities financing facilities. The remaining $305 million of our securities, including certain securities we own that were issued by consolidated securitization entities, were financed with capital.

The following table presents our real estate securities at June 30, 2020, categorized by portfolio vintage (the years the securities were issued), and by priority of cash flows (senior, mezzanine, and subordinate). We have additionally separated securities issued through our Sequoia platform or by third parties, including the Agencies.

Table 19 – Real Estate Securities by Vintage and Type

June 30, 2020 (In Thousands)	Sequoia 2012-2020	Third Party 2013-2019	Agency CRT 2018-2020	Third Party <=2008	Total Residential Securities	Multifamily 2019-2020	Total Real Estate Securities
Senior (1)	$ 21,524	$ 11,333	$ —	$ 3	$ 32,860	$ —	$ 32,860
Mezzanine (2)	3,514	—	—	—	3,514	—	3,514
Subordinate (1)	117,676	90,558	38,528	6,139	252,901	27,161	280,062
Total Securities (3)	$ 142,714	$ 101,891	$ 38,528	$ 6,142	$ 289,275	$ 27,161	$ 316,436

(1) At June 30, 2020, senior Sequoia and third-party securities included $33 million of IO securities. At June 30, 2020, subordinate third-party securities included $10 million of IO securities. Our interest-only securities included $14 million of certificated mortgage servicing investments securities at June 30, 2020 that we retained from certain of our Sequoia securitizations. These securities represent certificated servicing strips and therefore may be negatively impacted by the operating and funding costs related to servicing the associated securitized mortgage loans.

(2) Mezzanine includes securities initially rated AA through BBB- and issued in 2012 or later.

(3) At June 30, 2020, excluded $203 million, $334 million, $24 million, and $203 million of securities we owned that were issued by consolidated Sequoia Choice, Freddie Mac SLST, Freddie Mac K-Series, and CAFL securitizations, respectively. For GAAP purposes we consolidated $7.31 billion of residential loans and $6.56 billion of non-recourse ABS debt associated with these retained securities.

The following tables present the components of the interest income we earned on AFS securities for the three and six months ended June 30, 2020.

Table 20 – Interest Income — AFS Securities

Three Months Ended June 30, 2020					Yield as a Result of		
(Dollars in Thousands)	Interest Income	Discount (Premium) Amortization	Total Interest Income	Average Amortized Cost	Interest Income	Discount (Premium) Amortization	Total Interest Income
Residential							
Subordinate	$ 2,353	$ 1,087	$ 3,440	$ 128,486	7.33 %	3.38 %	10.71 %
Total AFS Securities	$ 2,353	$ 1,087	$ 3,440	$ 128,486	7.33 %	3.38 %	10.71 %

Six Months Ended June 30, 2020					Yield as a Result of		
(Dollars in Thousands)	Interest Income	Discount (Premium) Amortization	Total Interest Income	Average Amortized Cost	Interest Income	Discount (Premium) Amortization	Total Interest Income
Residential							
Senior	$ 221	$ 529	$ 750	$ 6,746	6.55 %	15.68 %	22.23 %
Mezzanine	97	14	111	4,498	4.31 %	0.62 %	4.93 %
Subordinate	4,928	2,298	7,226	130,035	7.58 %	3.53 %	11.11 %
Total AFS Securities	$ 5,246	$ 2,841	$ 8,087	$ 141,279	7.43 %	4.02 %	11.45 %

Taxable Income and Tax Provision

Taxable Income

The following table summarizes our taxable income and distributions to shareholders for the three and six months ended June 30, 2020 and 2019.

Table 21 – Taxable Income

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, except per Share Data)	2020 est. (1)	2019 est. (1)	2020 est. (1)	2019 est. (1)
REIT taxable (loss) income	$ (57,905)	$ 24,561	$ (20,378)	$ 53,322
Taxable REIT subsidiary (loss) income	(19,496)	16,347	(66,985)	23,044
Total Taxable (Loss) Income	$ (77,401)	$ 40,908	$ (87,363)	$ 76,366
REIT taxable (loss) income per share	$ (0.50)	$ 0.25	$ (0.17)	$ 0.55
Total taxable (loss) income per share	$ (0.67)	$ 0.42	$ (0.75)	$ 0.79
Distributions to shareholders	$ 14,366	$ 29,306	$ 51,107	$ 58,304
Distributions to shareholders per share	$ 0.125	$ 0.30	$ 0.445	$ 0.60

(1) Our tax results for the three and six months ended June 30, 2020 and 2019 are estimates until we file tax returns for these years.

The REIT taxable loss generated for the three months ended June 30, 2020 was due to a deduction for closed hedges related to our FHLB debt.

Under normal circumstances, our minimum REIT dividend requirement would be 90% of our annual REIT taxable income. However, we currently maintain a $28 million federal net operating loss carry forward (NOL) at the REIT that affords us the option of retaining REIT taxable income up to the NOL amount, tax free, rather than distributing it as dividends. Federal income tax rules require the dividends paid deduction to be applied to reduce REIT taxable income before the applicability of NOLs is considered; therefore, REIT taxable income must exceed our dividend distribution for us to utilize a portion of our NOL and any remaining amount will carry forward into future years. If annual REIT taxable income, exclusive of the dividends paid deduction, is a taxable loss, the NOL carryforward will be increased by the taxable loss.

Our dividend characterization for 2020 will be determined based on our full-year taxable income and dividend distributions. We currently expect only a small portion of the distributions to shareholders in 2020 will be taxable as dividend income and the remainder will be a return of capital, which is generally nontaxable. Under the federal income tax rules applicable to REITs, none of our 2020 dividend distributions are currently expected to be characterized as long-term capital gains.

Tax Provision under GAAP

For the three and six months ended June 30, 2020, we recorded a tax provision of $37 thousand and a tax benefit of $22 million, respectively. For the three and six months ended June 30, 2019, we recorded tax provisions of $2 million and $3 million, respectively. Our tax provision is primarily derived from the activities at our TRS as we do not book a material tax provision associated with income generated at our REIT. The switch to a benefit from income taxes from provision for income taxes year-over-year was primarily the result of GAAP losses being recorded at our TRS in 2020 versus TRS GAAP income in 2019. The benefit from income taxes this period was partially offset by a valuation allowance being recorded against our federal net ordinary deferred tax assets. Our TRS effective tax rate in 2020 is expected to be significantly less than the federal statutory corporate tax rate, due to the valuation allowance and other permanent GAAP to tax differences. The income or loss generated at our TRS will not directly affect the tax characterization of our 2020 dividends.

Realization of our deferred tax assets ("DTAs") is dependent on many factors, including generating sufficient taxable income prior to the expiration of NOL carryforwards and generating sufficient capital gains in future periods prior to the expiration of capital loss carryforwards. We determine the extent to which realization of our DTAs is not assured and establish a valuation allowance accordingly. At December 31, 2019, we reported net federal ordinary and capital deferred tax liabilities ("DTLs"), and, as such, had no associated valuation allowance.

As a result of GAAP losses at our TRS in 2020, we forecast that we will report net federal ordinary and capital DTAs at December 31, 2020 and consequently a valuation allowance was recorded against our net federal ordinary DTAs. However, no valuation allowance was recorded against our net federal capital DTAs as we currently expect to utilize these DTAs due to our ability to recognize capital losses and carry them back to prior years. Consistent with prior periods, we continued to maintain a valuation allowance against our net state DTAs. Our estimate of net deferred tax assets could change in future periods to the extent that actual or revised estimates of future taxable income during the carryforward periods change from current expectations.

Potential Taxable Income Volatility

We expect period-to-period volatility in our estimated taxable income. A description of the factors that can cause this volatility is described in the Taxable Income portion of the *Results of Operations* section in the MD&A included in Part II, Item 7, of our Annual Report on Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

Summary

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

At June 30, 2020, our total capital was $1.59 billion and included $0.94 billion of equity capital and $0.65 billion of convertible notes and long-term debt on our consolidated balance sheet, including $199 million of convertible debt due in 2023, $150 million of convertible debt due in 2024, $172 million of exchangeable debt due in 2025, and $140 million of trust-preferred securities due in 2037.

As of June 30, 2020, our unrestricted cash was $529 million. While we believe our available cash is sufficient to fund our operations, we may raise equity or debt capital from time to time to increase our unrestricted cash and liquidity, to repay existing debt, to make long-term investments or for other purposes. To the extent we seek to raise additional capital, our approach will continue to be based on what we believe to be in the best interests of the company.

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

Cash Flows and Liquidity for the Six Months Ended June 30, 2020

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

During the first six months of 2020, in response to the pandemic, we sold a significant amount of investments and repaid a significant amount of debt, which allowed us to reposition and de-lever our balance sheet and generate additional liquidity. Additionally, we entered into several new financing agreements that are non-marginable and in one case non-recourse, and have longer dated maturities than agreements they replaced that were marginable and recourse to us. While the asset sales and pay-down of debt, along with these new financing agreements, strengthened our liquidity and capital position by removing sources of contingent liquidity risk (from potential margin calls), they have also reduced our overall amount of earning assets and increased our borrowing costs. In the near-term, while we maintain a higher balance of cash, this will reduce our cash flows from operations. However, given our significant cash position, we believe we are positioned well to meet our near-term liquidity needs.

Cash Flows from Operating Activities

Cash flows from operating activities were positive $56 million during the six months ended June 30, 2020. This amount includes the net cash utilized during the period from the purchase and sale of residential mortgage loans associated with our mortgage banking activities. Purchases of loans are financed to a large extent with short-term debt, for which changes in cash are included as a component of financing activities. Excluding cash flows from the purchase, origination, sale, and principal payments of loans classified as held-for-sale, cash flows from operating activities were positive $58 million and negative $112 million during the first six months of 2020 and 2019, respectively.

As a result of the pandemic, in late March we determined that our hedges were no longer effectively managing the risks associated with certain of our assets and liabilities and we settled nearly all of our outstanding derivative positions. As a result of these settlements and other hedging activity during the quarter, we made $183 million of cash payments, representing a significant outflow of cash for the period that we would not expect to recur in subsequent periods, particularly while we are not employing the use of derivatives.

Additionally, as discussed previously in this MD&A, in late March and continuing into May, we sold a significant amount of loans and securities, and repaid associated debt. As a result, we expect the cash provided from net interest income to decline in future periods.

Cash Flows from Investing Activities

During the six months ended June 30, 2020, our net cash provided by investing activities was $3.06 billion and primarily resulted from proceeds from sales of loans and real estate securities, as well as principal payments on loans. Although we generally intend to hold our loans and investment securities as long-term investments, we may sell certain of these assets in order to manage our liquidity needs and interest rate risk, to meet other operating objectives, and to adapt to market conditions. While it is difficult to predict the timing and impact of future sales of investment securities, if any, given our current liquidity position, we expect the pace of our asset sales to decline from the first six months of 2020.

Because many of our investment securities and loans are financed through various borrowing agreements, a significant portion of the proceeds from any sales or principal payments of these assets are generally used to repay balances under these financing sources. Similarly, all or a significant portion of cash flows from principal payments of loans at consolidated securitization entities would generally be used to repay ABS issued by those entities.

As presented in the "*Supplemental Noncash Information*" subsection of our consolidated statements of cash flows, during the six months ended June 30, 2020, we transferred residential loans between held-for-sale and held-for-investment classification, retained securities from Sequoia and CAFL securitizations we sponsored, and deconsolidated certain multifamily residential securitization trusts, which represent significant non-cash transactions that were not included in cash flows from investing activities.

Cash Flows from Financing Activities

During the six months ended June 30, 2020, our net cash used in financing activities was $2.83 billion. This primarily resulted from $1.67 billion of net repayments of short-term debt and $2.13 billion of repayments of long-term debt, including repayments of $2.00 billion of FHLBC borrowings, which were associated with the sales of a significant amount of assets noted in the investing activities section above. Additionally, we paid $97 million to purchase and retire $125 million of our convertible debt in the second quarter of 2020. These outflows of cash were partially offset by $154 million of net proceeds from the issuance and settlements of ABS issued. Additionally, during the six months ended June 30, 2020, we had cash inflows of $944 million related to borrowings under two new non-marginable facilities that were generally used to repay existing borrowings from marginable facilities.

During the six months ended June 30, 2020, we declared dividends of $0.445 per common share. On June 11, 2020, the Board of Directors declared a regular dividend of $0.125 per share for the second quarter of 2020, which was paid on June 29, 2020 to shareholders of record on June 22, 2020.

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

Repurchase Authorization

In February 2018, our Board of Directors approved an authorization for the repurchase of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. At June 30, 2020, $100 million of the current authorization remained available for the repurchase of shares of our common stock and we also continued to be authorized to repurchase outstanding debt securities. Like other investments we may make, any repurchases of our common stock or debt securities under this authorization would reduce our available capital and unrestricted cash described above.

Short-Term Debt

In the ordinary course of our business, we use recourse debt through several different types of borrowing facilities and use cash borrowings under these facilities to, among other things, fund the acquisition of residential loans (including those we acquire and originate in anticipation of securitization), finance investments in securities and other investments, and otherwise fund our business and operations. At June 30, 2020, we had $663 million of short-term debt outstanding. During the first six months of 2020, the highest balance of our short-term debt outstanding was $3.23 billion.

During the second quarter of 2020, we reduced the number of credit facilities related to our business purpose loans to two facilities with borrowing capacity of $500 million at June 30, 2020, from six facilities with borrowing capacity of $1.41 billion at March 31, 2020. These short-term facilities were replaced with a long-term, non-recourse facility with a borrowing capacity of $530 million primarily for the financing of bridge loans, and a second long-term recourse facility with a borrowing capacity of $500 million primarily for the financing of single-family rental and bridge loans. These new long-term facilities are not subject to the collateral margin requirements of our prior short-term facilities.

During the second quarter of 2020, we additionally reduced our residential loan warehouse facilities to three facilities with an aggregate borrowing capacity of $700 million at June 30, 2020, from four facilities with total borrowing capacity of $1.53 billion at March 31, 2020. The reduction in these facilities was related to the decreased residential loan purchase volumes during the second quarter of 2020.

For further detail on our short-term debt, see *Note 13* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Long-Term Debt

The following discusses significant activity during the first half of 2020 and other information about our long-term debt. For further detail on our long-term debt, see *Note 15* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Convertible Notes

During the second quarter of 2020, we repurchased $29 million par value of our 5.75% exchangeable senior notes due 2025 at a discount and recorded a gain on extinguishment of $6 million in Realized gains, net on our consolidated statements of income (loss).

During the second quarter of 2020, we repurchased $50 million par value of our 5.625% convertible senior notes due 2024 at a discount and recorded a gain on extinguishment of $9 million in Realized gains, net on our consolidated statements of income (loss).

During the second quarter of 2020, we repurchased $46 million par value of our 4.75% convertible senior notes at a discount and recorded a gain on extinguishment of $10 million in Realized gains, net on our consolidated statements of income (loss).

FHLBC Borrowings

As a result of the economic and financial market impacts of the pandemic, the terms of our borrowing facility with the Federal Home Loan Bank of Chicago (our "FHLBC Facility") evolved and we decided to significantly reduce the financing we obtain from the FHLBC. During the second quarter of 2020, we completed the sale of nearly all residential loans financed through this facility and repaid all but $1 million of borrowings under this facility. We do not expect to increase borrowings under our FHLBC Facility above the existing $1 million of borrowings outstanding.

Non-Recourse Business Purpose Loan Financing Facility

In the second quarter of 2020, a subsidiary of Redwood entered into a repurchase agreement providing non-marginable, non-recourse financing primarily for business purpose bridge loans. Borrowings under this facility accrue interest at a per annum rate equal to one-month LIBOR plus 7.50% (with a 1.50% LIBOR floor), through June 2022 (facility is fully callable in June 2021). This facility has an aggregate maximum borrowing capacity of $530 million, which consists of a term facility of $355 million and a revolving facility of $175 million. The revolving period ends in June 2021, and amounts borrowed under the term and revolving facilities are due in full in June 2022. At June 30, 2020, we had borrowings under this facility totaling $355 million and $6 million of unamortized deferred issuance costs, for a net carrying value of $350 million. At June 30, 2020, $442 million of bridge loans and $8 million of other BPL investments were pledged as collateral under this facility.

Recourse Business Purpose Loan Financing Facility

In the second quarter of 2020, a subsidiary of Redwood entered into a repurchase agreement providing non-marginable financing for business purpose bridge loans and single-family rental loans. Borrowings under this facility accrue interest at a per annum rate equal to three-month LIBOR plus 3.50% to 4.50% (with a 1.00% LIBOR floor) through May 2022 and are recourse to Redwood. This facility has an aggregate maximum borrowing capacity of $500 million. At June 30, 2020, we had borrowings under this facility totaling $436 million and $1 million of unamortized deferred issuance costs, for a net carrying value of $435 million. At June 30, 2020, $280 million of bridge loans and $302 million of single-family rental loans were pledged as collateral under this facility.

Recourse Subordinate Securities Financing Facility

In the first quarter of 2020, we entered into a repurchase agreement providing non-marginable recourse debt financing for $110 million of securities retained from our consolidated CAFL securitizations. The financing is fully and unconditionally guaranteed by Redwood, with an interest rate of approximately 4.21% through February 2023. The financing facility may be terminated, at our option, in February 2023, and has a final maturity in February 2025, provided that the interest rate on amounts outstanding under the facility increases between March 2023 and February 2025.

Recourse Revolving Debt Facility

In the first quarter of 2020, a subsidiary of Redwood entered into a secured revolving debt facility agreement collateralized by MSRs and certificated mortgage servicing rights. Borrowings under this facility accrue interest at a per annum rate equal to one-month LIBOR plus 2.75% through January 2021, with an increase in rate between February 2021 and the maturity of the facility in January 2022. This facility has an aggregate maximum borrowing capacity of $50 million. Borrowings under this facility totaled $20 million at June 30, 2020. At June 30, 2020, $40 million of MSRs and interest-only securities were pledged as collateral under this facility.

Asset-Backed Securities Issued

During the first quarter of 2020, we sold subordinate securities issued by four Freddie Mac K-Series securitization trusts we previously consolidated and determined that we should derecognize the associated assets and liabilities of each of these entities for financial reporting purposes. As a result, during the first quarter of 2020, we deconsolidated $3.86 billion of multifamily loans and other assets and $3.72 billion of multifamily ABS issued. During the three and six months ended June 30, 2020, we issued $450 million and $787 million of ABS through our consolidated securitization entities, respectively. This included $201 million and $537 million of CAFL ABS issued during the three and six months ended June 30, 2020, respectively, and $249 million of Sequoia Choice ABS issued during the three months ended June 30, 2020. For further detail on our Asset-backed Securities Issued, see *Note 14* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other Commitments and Contingencies

For additional information on commitments and contingencies that could impact our liquidity and capital resources, see *Note 16* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

COVID-19 Pandemic-Related Mortgage Payment Forbearances

In response to the personal financial impacts of the pandemic, many residential mortgage borrowers are seeking forbearance with respect to monthly mortgage payment obligations. We are exposed to the negative financial impact of COVID-19 related payment forbearances with respect to loans securitized in Sequoia transactions, loans held for investment or sale, and a variety of other investments, including third-party issued mortgage-backed securities, mortgage servicing rights and related cash flows, and re-performing residential mortgage loans. Business purpose mortgage loan borrowers may also seek payment forbearances. In addition, transactions we have entered into, including to finance loans with warehouse financing providers and to sell whole loans to third parties, may be negatively impacted by COVID-19 related payment forbearances, including by reducing our proceeds from these transactions or if we are required to repurchase impacted loans.

Mortgage Servicing Advance Obligations

Redwood's liquidity exposure to advancing obligations associated with residential mortgage servicing rights (MSRs) is primarily related to our Sequoia private-label residential mortgage backed securities (RMBS). The residential mortgage loans backing our Sequoia securities were generally originated as prime quality residential mortgage loans with strong credit characteristics. These loans were sourced from our residential mortgage platform through our network of loan sellers, including banks and independent mortgage companies, and were acquired after undergoing our review and underwriting process.

We outsource our residential mortgage servicing activity to third-party sub-servicers and do not directly service residential mortgage loans. We carry out a servicing oversight function and, in some cases, are obligated to reimburse our sub-servicers when they fund advances of principal and interest (P&I), taxes and insurance (T&I), and certain other amounts related to securitized mortgage loans.

At June 30, 2020, mortgage loans in a delinquent status (whether or not subject to forbearance) accounted for approximately 4.0% of the aggregate principal (or notional) balance of Sequoia securitized loans for which we had servicing advance funding obligations, with respect to the monthly mortgage payment due at June 30, 2020 (compared to approximately 3.2% of principal balance that were in a delinquent status as of April 30, 2020). As of June 30, 2020, we had no servicing advances outstanding related to principal and interest on Sequoia securitized loans for which we had servicing advance funding obligations. We estimate that for every 5 percentage point increase in the principal balance of Sequoia securitized mortgage loans in a delinquent status (whether or not subject to forbearance), our average monthly principal and interest servicing advance funding obligation would increase by approximately $3 million. Other advance funding obligations, including with respect to T&I, are subject to variability and seasonality and are not included within this estimate.

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

As described above under the heading "*Results of Operations*," in the ordinary course of our business, we use debt financing obtained through several different types of borrowing facilities to, among other things, finance the acquisition of mortgage loans (including those we acquire in anticipation of sale or securitization), and finance investments in securities and other investments. We may also use short- and long-term borrowings to fund other aspects of our business and operations, including the repurchase of shares of our common stock or outstanding debt securities. Debt incurred under these facilities is generally either the direct obligation of Redwood Trust, Inc., or the direct obligation of subsidiaries of Redwood Trust, Inc. and guaranteed by Redwood Trust, Inc. Risks relating to debt incurred under these facilities are described in Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2019, under the caption "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities,*" and under the caption "*Our use of financial leverage exposes us to increased risks, including liquidity risks from margin calls and potential breaches of the financial covenants under our borrowing facilities, which could result in our being required to immediately repay all outstanding amounts borrowed under these facilities and these facilities being unavailable to use for future financing needs, as well as triggering cross-defaults under other debt agreements*" in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (the "Q1 2020 10-Q"). Many of the risks described above materialized during the first quarter of 2020 as a result of the pandemic and its impact on the economy and financial markets, as described under the heading "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" within the Q1 2020 10-Q.

Our sources of debt financing include secured borrowings under residential and business purpose mortgage loan warehouse facilities (including recourse and non-recourse warehouse facilities), short-term securities repurchase facilities, a $10 million committed line of short-term secured credit from a bank, short-term servicer advance financing, a secured, revolving debt facility collateralized by mortgage servicing rights, and subordinate securities financing facilities. During the second quarter of 2020, we repaid secured borrowings by our wholly-owned subsidiary, RWT Financial, LLC, under its borrowing facility with the FHLBC and at June 30, 2020, $1 million of advances remained outstanding. We do not expect to be able to increase borrowings under this borrowing facility above the existing $1 million of advances outstanding.

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

Under many of our mortgage loan warehouse facilities, our short-term securities repurchase facilities, and our secured, revolving debt facility collateralized by mortgage service rights, while transferred or pledged assets are financed under the facility, to the extent the value of the assets, or the collateral underlying those assets, declines, we are generally required to either immediately reacquire the assets or meet a margin requirement to transfer or pledge additional assets or cash in an amount at least equal to the decline in value. During the second quarter of 2020, we amended several of our mortgage loan warehouse facilities to revise these margin call provisions to remove obligations to make margin calls for changes in the market value of transferred or pledged assets. Under these revised agreements, if the estimated value of a property securing a financed mortgage loan declines, based on, for example, an appraisal or broker-price opinion, then the creditor may demand that we transfer additional collateral to the creditor (in the form of cash, U.S. Treasury obligations (in certain cases), or additional residential mortgage loans) with a value equal to the amount of the decline. At June 30, 2020, all of our residential mortgage loan warehouse facilities that retained market-value based margin call provisions had been repaid or suspended. Of our active financing arrangements with outstanding balances at June 30, 2020, only our short-term securities repurchase facilities (with $312 million of borrowings outstanding at June 30, 2020), our secured, revolving debt facility collateralized by mortgage service rights (with $20 million of borrowings outstanding at June 30, 2020), and one of our business purpose residential loan warehouse facilities (with $43 million of borrowings outstanding at June 30, 2020) retain market-value based margin call provisions.

Margin call provisions under these facilities are further described in Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2019 under the caption "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities - Margin Call Provisions Associated with Short-Term Debt and Other Debt Financing*." Financial covenants included in these facilities are further described Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2019 under the caption "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities - Financial Covenants Associated with Short-Term Debt and Other Debt Financing*."

Because many of these borrowing facilities are uncommitted, at any given time we may not be able to obtain additional financing under them when we need it, exposing us to, among other things, liquidity risks of the types described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 under the heading "*Risk Factors*," and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2019 under the heading "*Market Risks*." In addition, with respect to mortgage loans that at any given time are already being financed through these warehouse facilities, we are exposed to market, credit, liquidity, and other risks of the types described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 under the heading "*Risk Factors*," and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2019 under the heading "*Market Risks*," if and when those loans or securities become ineligible to be financed, decline in value, or have been financed for the maximum term permitted under the applicable facility. Additionally, our access to financing under the borrowing facility with the FHLBC is subject to the risks described under the heading *"Risk Factors - Federal regulations may limit, eliminate, or reduce the attractiveness of our subsidiary's ability to use borrowings from the Federal Home Loan Bank of Chicago to finance the mortgage loans and securities it holds and acquires, which could negatively impact our business and operating results"* in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019.

At June 30, 2020, and through the date of this Quarterly Report on Form 10-Q, we were in compliance with the financial covenants associated with our short-term debt and other debt financing facilities. However, significant and widespread decreases in the fair values of our assets, including decreases of the magnitude that resulted from the impact of the pandemic during the first quarter of 2020, could cause us to breach the financial covenants under our borrowing facilities related to net worth and leverage. In particular, during the first and second quarters of 2020, we amended financial covenants that require us to maintain a minimum dollar amount of stockholders' equity or tangible net worth, financial covenants that require us to maintain recourse indebtedness below a specified ratio, and financial covenants that require us to maintain a minimum dollar amount of liquidity in certain borrowing agreements on a permanent basis, and we repaid and suspended certain other borrowing facilities; however, we cannot be certain that we will be able to maintain compliance with such amended covenants. Such covenants, if breached, can result in our being required to immediately repay all outstanding amounts borrowed under these facilities and these facilities being unavailable to use for future financing needs, as well as triggering cross-defaults under other debt agreements, and other risks described under the caption "*Our use of financial leverage exposes us to increased risks, including liquidity risks from margin calls and potential breaches of the financial covenants under our borrowing facilities, which could result in our being required to immediately repay all outstanding amounts borrowed under these facilities and these facilities being unavailable to use for future financing needs, as well as triggering cross-defaults under other debt agreements*" in Part II, Item 1A of our Q1 2020 10-Q.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

For additional information on our contractual obligations, see the *Off-Balance Sheet Arrangements and Contractual Obligations* section in the MD&A included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019.

For additional information on our commitments and contingencies as of June 30, 2020, see *Note 16* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. A discussion of critical accounting policies is included in *Note 3 — Summary of Significant Accounting Policies* included in Part I, Item 1 of this Quarterly Report on Form 10-Q and in Part I, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019. Management discusses the ongoing development and selection of these critical accounting policies with the audit committee of the board of directors.

We expect quarter-to-quarter GAAP earnings volatility from our business activities. This volatility can occur for a variety of reasons, including the timing and amount of purchases, sales, calls, and repayment of consolidated assets, changes in the fair values of consolidated assets and liabilities, increases or decreases in earnings from mortgage banking activities, and certain non-recurring events. In addition, the amount or timing of our reported earnings may be impacted by technical accounting issues and estimates. Our critical accounting policies and the possible effects of changes in estimates on our consolidated financial statements are included in the "*Critical Accounting Policies and Estimates*" section of Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019.

In addition to the regular volatility we may experience on a quarterly basis, the ongoing impact of the pandemic on the United States economy, homeowners, renters of housing, the housing market, the mortgage finance markets and the broader financial markets, has caused additional volatility impacting many of our estimates. It is difficult to fully assess the impact of the pandemic at this time, including because of the uncertainty around the severity and duration of the pandemic domestically and internationally, as well as the uncertainty around the efficacy of Federal, State and local governments' efforts to contain the spread of the pandemic and respond to its direct and indirect impacts on many aspects of Americans' lives and economic activity. Continued volatility resulting from the pandemic could impact our critical estimates and lead to significant period-to-period earnings volatility.

Market Risks

We seek to manage risks inherent in our business — including but not limited to credit risk, interest rate risk, prepayment risk, liquidity risk, and fair value risk — in a prudent manner designed to enhance our earnings and dividends and preserve our capital. In general, we seek to assume risks that can be quantified from historical experience, to actively manage such risks, and to maintain capital levels consistent with these risks. Information concerning the risks we are managing, how these risks are changing over time, and potential GAAP earnings and taxable income volatility we may experience as a result of these risks is discussed in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Other Risks

In addition to the market and other risks described above, our business and results of operations are subject to a variety of types of risks and uncertainties, including, among other things, those described under the caption "*Risk Factors*" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

NEW ACCOUNTING STANDARDS

A discussion of new accounting standards and the possible effects of these standards on our consolidated financial statements is included in *Note 3 — Summary of Significant Accounting Policies* included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information concerning market risk is incorporated herein by reference to Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as supplemented by the information under "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Market Risks*" within Item 2 above. Other than the developments described thereunder, including changes in the fair values of our assets, there have been no other material changes in our quantitative or qualitative exposure to market risk since December 31, 2019.

Item 4. Controls and Procedures

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

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

There have been no changes in our internal control over financial reporting during the second quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There is no significant update regarding the litigation matters described in Part I, Item 3 in Redwood's Annual Report on Form 10-K for the year ended December 31, 2019 under the heading "Legal Proceedings." At June 30, 2020, the aggregate amount of loss contingency reserves established in respect of the FHLB-Seattle and Schwab litigation matters described in our Annual Report on Form 10-K for the year ended December 31, 2019 was $2 million.

In addition to those matters, as previously disclosed, in connection with the impact of the effects of the pandemic on the non-Agency mortgage finance market and on our business and operations, a small number of the counterparties that have regularly sold residential mortgage loans to us believe that we breached perceived obligations to them, and requested or demanded that we purchase loans from them and/or compensate them for perceived damages resulting from our decisions earlier in 2020 not to purchase certain loans from them ("Residential Loan Seller Demands"). As previously disclosed, one such counterparty filed a breach of contract lawsuit against us alleging that it has suffered in excess of $2 million of losses as a result of our alleged failure to purchase residential mortgage loans from it.

We believe that these Residential Loan Seller Demands are without merit or subject to defenses and we intend to defend vigorously any such allegations and any related demand or claim to which we are or become a party. Despite our beliefs about the legal merits of these allegations, because our ordinary course of business is to seek to continue to regularly engage in mutually beneficial transactions with these counterparties, in some cases we have been willing to engage in discussions with these counterparties with the intention of reaching resolution and structuring arrangements that incentivize both the counterparty and us to continue to engage in residential loan purchase and sale transactions in the future.

With respect to certain of the Residential Loan Seller Demands, these resolution discussions have been successful in resolving, or establishing a framework that we believe will be the basis for successfully resolving, the demands of these counterparties, including through forward-looking joint business undertakings and structured arrangements that incentivize both the counterparty and us to continue to engage in residential loan purchase and sale transactions in the future. With respect to these counterparties, we have incurred or expect to incur certain costs in connection with finalizing these arrangements (including costs that are contingent on the successful completion of future residential loan purchase and sale transactions with these counterparties that we expect to generate future revenue for the Company) and have recorded any such actual costs incurred through June 30, 2020, as well as an accrual for the estimated costs associated with counterparties where a go-forward framework has been discussed but not finalized, through Mortgage Banking Activities, net in our Residential Lending segment. In accordance with GAAP, the accrual for estimated costs is based on the opinion of management, that it is probable that these forward-looking joint business undertakings and structured arrangements will result in an expense and the amount of expense can be reasonably estimated. At June 30, 2020, the aggregate amount of these actual costs, together with the accrual for estimated costs, was $5 million, a significant portion of which would be contingent on the successful completion of future residential loan purchase and sale transactions with these counterparties, with the expectation of generating future revenue for the Company

With respect to the remaining Residential Loan Seller Demands, our beliefs about the legal merits of these allegations and our discussions with these counterparties have resulted in us determining that a significant loss from these matters is not probable. With respect to these remaining Residential Loan Seller Demands, based on the foregoing, we have concluded that we can estimate an aggregate range of reasonably possible losses with respect to these Residential Loan Seller Demands of between zero and $1.5 million.

Future developments (including receipt of additional information and documents relating to these matters, new or additional resolution or settlement communications relating to these matters, resolutions of similar claims against other industry participants in similar circumstances, or receipt of additional Residential Loan Seller Demands) could result in our concluding in the future to establish additional accruals or reserves or modify our aggregate range of reasonably possible losses with respect to these Residential Loan Seller Demand matters. Our actual losses, and any accruals or reserves we may establish in the future relating to these matters may be materially higher than the accruals, reserves and the aggregate range of reasonably possible losses we have estimated above, respectively, including in the event that any of these matters proceed to trial and result in a judgment against us. We cannot be certain that any of these matters that are not already formally resolved will be resolved through a resolution or settlement prior to trial and we cannot be certain that the resolution of these matters, whether through trial, settlement, or otherwise, will not have a material adverse effect on our financial condition or results of operations in any future period.

In accordance with GAAP, we review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in a liability and the amount of loss, if any, can be reasonably estimated. Additionally, we record receivables for insurance recoveries relating to litigation-related losses and expenses if and when such amounts are covered by insurance and recovery of such losses or expenses are due. We review our litigation matters each quarter to assess these loss contingency reserves and make adjustments in these reserves, upwards or downwards, as appropriate, in accordance with GAAP based on our review.

In the ordinary course of any litigation matter, including certain of the above-referenced matters, we have engaged and may continue to engage in formal or informal settlement communications with the plaintiffs or co-defendants. Settlement communications we have engaged in relating to certain of the above-referenced litigation matters are one of the factors that have resulted in our determination to establish the loss contingency reserves described above. We cannot be certain that any of these matters will be resolved through a settlement prior to trial and we cannot be certain that the resolution of these matters, whether through trial or settlement, will not have a material adverse effect on our financial condition or results of operations in any future period.

Future developments (including resolution of substantive pre-trial motions relating to these matters, receipt of additional information and documents relating to these matters (such as through pre-trial discovery), new or additional settlement communications with plaintiffs relating to these matters, or resolutions of similar claims against other defendants in these matters) could result in our concluding in the future to establish additional loss contingency reserves or to disclose an estimate of reasonably possible losses in excess of our established reserves with respect to these matters. Our actual losses with respect to the above referenced litigation matters may be materially higher than the aggregate amount of loss contingency reserves we have established in respect of these litigation matters, including in the event that any of these matters proceeds to trial and the plaintiff prevails. Other factors that could result in our concluding to establish additional loss contingency reserves or estimate additional reasonably possible losses, or could result in our actual losses with respect to the above-referenced litigation matters being materially higher than the aggregate amount of loss contingency reserves we have established in respect of these litigation matters include that: there are significant factual and legal issues to be resolved; information obtained or rulings made during the lawsuits could affect the methodology for calculation of the available remedies; and we may have additional obligations pursuant to indemnity agreements, representations and warranties, and other contractual provisions with other parties relating to these litigation matters that could increase our potential losses.

Item 1A. Risk Factors

Our risk factors are discussed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

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

During the three months ended June 30, 2020, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

In February 2018, our Board of Directors approved an authorization for the repurchase of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. At June 30, 2020, $100 million of this current authorization remained available for the repurchase of shares of our common stock and we also continued to be authorized to repurchase outstanding debt securities.

The following table contains information on the shares of our common stock that we purchased or otherwise acquired during the three months ended June 30, 2020.

(In Thousands, except per Share Data)	Total Number of Shares Purchased or Acquired	Average Price per Share Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased under the Plans or Programs
April 1, 2020 - April 30, 2020	—	$ —	—	$ —
May 1, 2020 - May 31, 2020	—	$ —	—	$ —
June 1, 2020 - June 30, 2020	—	$ —	—	$ 100,000
Total	—	$ —	—	$ 100,000

Item 3. Defaults Upon Senior Securities

None.

Item 4. Not Applicable

Item 5. Other Information

Redwood's 2020 annual proxy statement (filed with the SEC on April 27, 2020) included a discussion of the process that the Compensation Committee of Redwood's Board of Directors is undertaking to assess its executive compensation program and consider changes to the program that may be appropriate in light of the impacts of the COVID-19 pandemic on Redwood and the markets and business environment it operates within. On August 5, 2020, the Compensation Committee completed an initial phase of this assessment and approved certain matters relating to 2020 executive compensation, as described below.

Although it has completed this initial phase, the Compensation Committee intends to continue its assessment of Redwood's executive compensation program and to disclose, over the remainder of 2020, any further updates to the program. In addition, the Compensation Committee Chair is currently planning to engage with shareholders in late 2020 and/or early 2021 to discuss updates to the program designed to support Redwood's ongoing financial, operational, and strategic objectives.

The Compensation Committee's August 5, 2020 determinations were made after review and discussion of various considerations with management and with the Committee's independent compensation consultant, F.W. Cook & Co. Key considerations included that:

- There has been a pronounced impact from the COVID-19 pandemic on Redwood's financial condition, with significant realized and unrealized losses since December 31, 2020 and a marked decline in the market value of Redwood's common stock since mid-March 2020;

- Redwood has historically delivered a significant portion of executive compensation in the form of long-term equity-based awards with three- or four-year performance measurement and/or vesting and holding periods; and, as a result of the impact of the pandemic, the value of multiple years of annual equity-based compensation has significantly declined (or, as a practical matter, become unlikely to be realized) based on the negative total return experience of Redwood's stockholders since mid-March 2020;
    - While the Committee believes this is appropriate pay-for-performance alignment, the Committee also recognizes that, for the reasons noted above, the performance-based equity awards (PSUs) granted over the past three years no longer provide as meaningful an incentive as was intended when awarded due to the impact of the pandemic;
- Annual bonuses under Redwood's executive compensation program have historically been driven largely by an annual return-on-equity (ROE) based performance target; and, due to pandemic-related losses recorded under GAAP in the first quarter of 2020, Redwood's 2020 ROE is expected to be negative, even though a significant portion of these losses were unrealized through the end of the second quarter of 2020;
- Disciplined and extensive actions taken by Redwood's executive management, together with the full Redwood workforce, to respond to the impacts of the pandemic have enabled the Company to operate through the end of the second quarter of 2020 while avoiding the need for dilutive capital raising and positioning the Company for future growth and opportunities; and
- The impact of the pandemic on Redwood's labor market has been significant; and competitors that focus on mortgage origination and government-supported sectors of the mortgage market have seen an increase in business activity (e.g., mortgage refinance activity), supported by Federal Reserve and other governmental actions, as well as other macroeconomic factors; and, as a result, competition for talent has increased, which prompted Redwood to take steps to at the end of the second quarter of 2020 to retain key non-executive employees.

After considering these factors, on August 5, 2020, the Compensation Committee made the following determinations and approvals:

- Ensure that pay-for-performance principles continue to govern 2020 annual bonuses for current executive officers by:
    - Eliminating the ability of these executive officers to earn a Company financial performance component of their 2020 target annual bonuses; and
    - Continuing to provide each of these executive officers with an opportunity to earn a portion of 2020 target annual bonuses based on a year-end review of their individual contribution to recovering from the impacts of the pandemic and positioning Redwood for future growth and opportunities.

  The following table details the components of the 2020 target annual bonus opportunity for these executive officers as approved in December 2019, and as adjusted by the Compensation Committee on August 5, 2020 as part of its initial response to the impact of the pandemic – i.e., illustrating the Committee's reduction of 2020 target annual bonus opportunity for these executive officers to 33% of the level previously approved in December 2019.

Component of 2020 target annual bonus opportunity:	**Previously approved in Dec. 2019**	**As adjusted on Aug. 5, 2020**
Company financial performance component (ROE-based):	75% of target	0% of target
Individual performance component:	25% of target	33% of target
Total 2020 target bonus opportunity:	100% of target	33% of target

- Incentivize outperformance on a relative total stockholder return basis over a three-year service period while also providing a basic level of compensation certainty for continued service during that period through the grant of long-term awards with a cash settlement structure intended to limit potential dilution to shareholders.

A description of the terms of each of these long-term awards is set forth below.

- Long-Term Relative TSR Performance Vesting Cash Award. On August 5, 2020, the Compensation Committee approved the grant of a Long-Term Relative TSR Performance Vesting Cash Award to each of the Named Executive Officers of the Company listed in the table below, pursuant to the Company's Amended and Restated 2014 Incentive Award Plan (as amended, the "2014 Incentive Plan"). The terms of these Long-Term Relative TSR Performance Vesting Cash Awards are summarized below and are set forth in the form of award agreement included as Exhibit 10.4 hereto and incorporated by reference herein.

  The Long-Term Relative TSR Performance Vesting Cash Awards granted on August 5, 2020 are performance-based awards under which the amount of value that vests and that the recipient becomes entitled to receive in cash following vesting will range from 0% to 400% of the granted award value, with vesting of these awards on the third anniversary of the grant date based on relative total stockholder return ("relative TSR") and continued service through such third anniversary, as further described below.

  Vesting of value under these Long-Term Relative TSR Performance Vesting Cash Awards will be determined based on Redwood's relative TSR against a comparator group of companies measured over the three-year vesting period, as set forth in the table below, with under 60th percentile relative TSR performance correlating with no value vesting.

Relative TSR (X)	Percentage of Granted Award Value that Vests
X < 60th percentile	0%
60th percentile ≤ X < 65th percentile	80%
65th percentile ≤ X < 70th percentile	120%
70th percentile ≤ X < 75th percentile	160%
75th percentile ≤ X < 80th percentile	200%
80th percentile ≤ X < 85th percentile	240%
85th percentile ≤ X < 90th percentile	280%
90th percentile ≤ X < 95th percentile	320%
95th percentile ≤ X < 100th percentile	360%
X = 100th percentile	400%

  In the event of a termination of the recipient's service (i) either without "cause" or for "good reason" or (ii) due to the recipient's death or disability (with terminations of the type described in the foregoing clauses (i) and (ii) being referred to as "Qualifying Terminations"), in each case, during the three year performance vesting period, the Long-Term Relative TSR Performance Vesting Cash Award will remain outstanding and eligible to vest based on relative TSR during the three-year performance vesting period, with the value that ultimately vests (if any) pro-rated in connection with a termination by the Company without "cause" (based on the number of days the recipient was employed during the three-year performance vesting period).

  In addition, in the event of a change in control, the vesting of value of these Long-Term Relative TSR Performance Vesting Cash Awards will be determined based on relative TSR through a shortened relative TSR performance measurement period ending with the change in control, but remain subject to forfeiture in the event of a termination of service (other than a Qualifying Termination) prior to the third anniversary of grant.

- Three-Year Vesting Cash Award. On August 5, 2020, the Compensation Committee approved the grant of a Three-Year Vesting Cash Award to each of the Named Executive Officers of the Company listed in the table below, pursuant to the Company's 2014 Incentive Plan. The terms of these Three-Year Vesting Cash Awards are summarized below and are set forth in the form of award agreement included as Exhibit 10.5 hereto and incorporated by reference herein.

  The Three-Year Vesting Cash Awards granted on August 5, 2020 will vest over three years, with 25% of each award's granted award value vesting based on service through the first anniversary of the grant date and 75% of each award's granted award value vesting based on service through the third anniversary of the grant date. These Three-Year Vesting Cash Awards will also vest in full upon a termination of the recipient's service (i) either without "cause" or for "good reason" or (ii) due to the recipient's death or disability.

Long-term award values granted on August 5, 2020 to Named Executive Officers are detailed in the table below.

	Granted Award Values	
Named Executive Officer	**Three-Year Vesting Cash Award (1)**	**Long-Term Relative TSR Performance Vesting Cash Award (2)**
Christopher J. Abate – CEO	$1,000,000	$750,000
Dashiell I. Robinson – President	$825,000	$618,800
Andrew P. Stone – Exec. Vice President, General Counsel and Secretary	$355,000	$266,300

(1) As described above, one quarter of granted award value vests at first anniversary of grant; and three-quarters of granted award value vests at third anniversary of grant.
(2) As described above, between 0% and 400% of granted award value vests at third anniversary of grant based on relative TSR over that three-year period.

Separately, Fred J. Matera, a member of Redwood's Board of Directors, also began serving on June 29, 2020 as Redwood's Managing Director–Head of Residential (currently, on an interim basis) following the departure on June 26, 2020 of the employee who previously served in that role. While so serving in this additional role, Mr. Matera will remain as a member of the Board of Directors, but not receive cash compensation for his service as a member of the Board of Directors under Redwood's cash compensation policy for non-employee directors. For his service as a Managing Director, Mr. Matera will be compensated as an employee and receive for each calendar month of such service (i) a grant of vested deferred stock units with a grant date value of $75,000 (in advance) and (ii) a cash payment of $75,000 (in arrears), and be eligible for standard benefits of the type generally provided to full-time Managing Director employees.

Item 6. Exhibits

Exhibit Number	Exhibit
3.1	Articles of Amendment and Restatement of the Registrant, effective July 6, 1994 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q, Exhibit 3.1, filed on August 6, 2008)
3.1.1	Articles Supplementary of the Registrant, effective August 10, 1994 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q, Exhibit 3.1.1, filed on August 6, 2008)
3.1.2	Articles Supplementary of the Registrant, effective August 11, 1995 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q, Exhibit 3.1.2, filed on August 6, 2008)
3.1.3	Articles Supplementary of the Registrant, effective August 9, 1996 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q, Exhibit 3.1.3, filed on August 6, 2008)
3.1.4	Certificate of Amendment of the Registrant, effective June 30, 1998 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q, Exhibit 3.1.4, filed on August 6, 2008)
3.1.5	Articles Supplementary of the Registrant, effective April 7, 2003 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q, Exhibit 3.1.5, filed on August 6, 2008)
3.1.6	Articles of Amendment of the Registrant, effective June 12, 2008 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q, Exhibit 3.1.6, filed on August 6, 2008)
3.1.7	Articles of Amendment of the Registrant, effective May 19, 2009 (incorporated by reference to the Registrant’s Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2009)
3.1.8	Articles of Amendment of the Registrant, effective May 24, 2011 (incorporated by reference to the Registrant’s Current Report on Form 8-K, Exhibit 3.1, filed on May 20, 2011)
3.1.9	Articles of Amendment of the Registrant, effective May 18, 2012 (incorporated by reference to the Registrant’s Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2012)
3.1.10	Articles of Amendment of the Registrant, effective May 16, 2013 (incorporated by reference to the Registrant’s Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2013)
3.1.11	Articles of Amendment of the Registrant, effective May 16, 2019 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 17, 2019)
3.1.12	Articles of Amendment of the Registrant, effective June 15, 2020 (incorporated by reference to the Registrant’s Current Report on Form 8-K, Exhibit 3.1, filed on June 15, 2020)
3.2.1	Amended and Restated Bylaws of the Registrant, as adopted on March 5, 2008 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.2.1, filed on August 8, 2018)
3.2.2	First Amendment to Amended and Restated Bylaws of the Registrant, as adopted on May 17, 2012 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.2.2, filed on August 8, 2018)
3.2.3	Second Amendment to Amended and Restated Bylaws of the Registrant, as adopted on May 22, 2018 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.2.3, filed on August 8, 2018)
10.1	Amendment to Redwood Trust, Inc. Amended and Restated 2014 Incentive Award Plan (incorporated by reference to the Registrant’s Current Report on Form 8-K, Exhibit 10.1, filed on June 15, 2020)
10.2	Fourth Amendment to Lease Agreement, dated as of April 20, 2020, between ARTIS HRA Inverness Point, LP, as Landlord, and the Registrant, as Tenant (filed herewith)
10.3	Fifth Amendment to Lease Agreement, dated as of July 23, 2020, between ARTIS HRA Inverness Point, LP, as Landlord, and the Registrant, as Tenant (filed herewith)
10.4	Form of Performance Award Agreement (Cash – Performance Vesting) under 2014 Incentive Plan (2020 Form)(filed herewith)
10.5	Form of Performance Award Agreement (Cash – Time Vesting) under 2014 Incentive Plan (2020 Form)(filed herewith)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit Number	Exhibit
101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2020, is filed in inline XBRL-formatted interactive data files: (i) Consolidated Balance Sheets at June 30, 2020 and December 31, 2019; (ii) Consolidated Statements of Income (Loss) for the three and six months ended June 30, 2020 and 2019; (iii) Statements of Consolidated Comprehensive Income (Loss) for the three and six months ended June 30, 2020 and 2019; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2020 and 2019; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019; and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURES

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

REDWOOD TRUST, INC.

Date:	August 7, 2020	By:	/s/ Christopher J. Abate
			Christopher J. Abate Chief Executive Officer (Principal Executive Officer)
Date:	August 7, 2020	By:	/s/ Collin L. Cochrane
			Collin L. Cochrane Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.2

FOURTH AMENDMENT TO LEASE AGREEMENT

This Fourth Amendment to Lease Agreement (this "**Amendment**") is by and between **ARTIS HRA Inverness Point, LP**, a Delaware limited partnership ("**Landlord**"), and **Redwood Trust, Inc.**, a Maryland corporation ("**Tenant**"), and is dated as of April 20, 2020 (the "**Effective Date**").

Recitals

A. MG-Point, LLC, a Colorado limited liability company, predecessor-in-interest to Landlord, and Tenant are the parties to that certain Lease Agreement dated as of January 11, 2013, as amended by that certain First Amendment to Lease dated as of June 27, 2013, as further amended by that certain Second Amendment to Lease dated as of June 23, 2014, and as further amended by that certain Third Amendment to Lease Agreement dated as of January 22, 2020 (the "**Original Lease**," as amended hereby the "**Lease**").

B. Pursuant to the Lease, Tenant leases from Landlord the space known as Suite 425 in the building commonly known as "The Point at Inverness," located at 8310 South Valley Highway, Englewood, CO 80112 (that space, as more particularly defined in the Lease, the "**Original Premises**").

C. Landlord and Tenant wish to amend the Lease to extend the time for Tenant's contractor to file applications and other documents for the issuance of governmental permits for construction of the Initial Improvements, and to provide for certain related matters, as set forth in this Amendment.

Agreement

Therefore, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

a. **Incorporation of Recitals; Defined Terms**. The foregoing Recitals are incorporated herein as though fully set forth herein. Terms that are not defined in this Amendment but are defined in the Original Lease have the meanings given in the Original Lease.

b. **Tenant Improvements** – **Permits**. Landlord and Tenant agree that Tenant's contractor will file applications and other necessary documentation for the issuance of all required governmental permits for the construction of the Initial Improvements (collectively, the "**Permits**") not later than June 1, 2020, and will also obtain final inspection approval, if applicable, or any other final governmental approval of the Initial Improvements that may be required by applicable codes and regulations for the New Premises, upon Substantial Completion

of the Initial Improvements. Tenant will use commercially reasonable effort to obtain the Permits not later than the Delivery Date.

a. **Brokers**. Tenant and Landlord each represents that it did not deal with any broker or finder in connection with this Amendment other than John Marold of CBRE, Inc. (“**Landlord’s Broker**”), and Frederic de Loizaga of CBRE, Inc. (“**Tenant’s Broker**”). Landlord shall indemnify Tenant against any liability or expense (including reasonable attorneys’ fees and costs of defense) for any brokerage commission or finder’s fee claimed by anyone based on any express or implied commitment made by Landlord or its agents or representatives in connection with this Amendment, including any commission owed to Landlord’s Broker and Tenant’s Broker pursuant to a separate agreement, but excluding any claim for compensation by Tenant’s Broker in excess of the commission, if any, that Landlord has agreed to pay Tenant’s Broker. Tenant shall indemnify Landlord against any liability or expense (including reasonable attorneys’ fees and costs) for any brokerage commission or finder’s fee claimed by anyone other than Landlord’s Broker based on any express or implied commitment made by Tenant or its agents or representatives, including any commission or fee claimed by Tenant’s Broker in excess of the commission, if any, that Landlord has agreed to pay Tenant’s Broker. The parties’ liability under this Section 3 shall survive any expiration or termination of the Lease.

b. **Effect**. Except as amended by this Amendment, all of the terms, covenants, conditions, provisions, and agreements of the Lease remain in full force and effect. The provisions of this Amendment supersede and control over any conflicting provisions in the Lease.

c. **Estoppel**. Tenant hereby acknowledges and confirms that, as of the date hereof and to Tenant’s knowledge, Landlord has performed all obligations on the part of the Landlord under the Lease and that Tenant has no claims against Landlord or claims of offset against any rent or other sums payable by Tenant under the Lease.

d. **Interpretation**. As used in this Amendment, the word “including” is not exclusive and means “including, without limitation” unless used with specific terms of exclusion. The word “party” means one of Landlord or Tenant, and “parties” means both, unless the context specifically indicates that reference to a third party is intended. References to sections or exhibits mean the sections of this Amendment and exhibits attached to this Amendment, unless the reference specifies another document.

e. **Miscellaneous**. The parties have read this Amendment and have received the advice of legal counsel with respect to this Amendment or have had the opportunity to receive legal

advice, and they have freely and voluntarily entered into this Amendment. This Amendment embodies the entire agreement between the parties as to its subject matter and supersedes any

prior agreements with respect thereto. There are no agreements or understandings between the parties with respect to the subject matter of this Amendment not set forth in this Amendment or the Lease. This Amendment cannot be modified except by a writing signed by both parties.

a. **Signing and Delivery**. This Amendment will be effective only when both Landlord and Tenant have signed and delivered it. This Amendment may be signed in counterparts and, when counterparts of this Amendment have been signed and delivered by both of the parties as provided in this Section 8, this Amendment will be fully binding and effective, just as if both of the parties had signed and delivered a single counterpart of this Amendment. This Amendment is not an offer to lease and cannot be accepted by performance or otherwise rendered effective in any manner other than in accordance with this Section 8. Landlord's submission of an unsigned copy this Amendment to Tenant for evaluation, negotiation, or signature by Tenant will not constitute signature of this Amendment by Landlord or otherwise bind Landlord, regardless of whether the cover letter or email transmitting that copy of this Amendment is signed or contains words of approval.

[The remainder of this page is intentionally blank; signatures follow.]

Signed by the parties on the dates stated below:

Landlord:

ARTIS HRA Inverness Point, LP
a Delaware limited partnership

By: ARTIS HRA Inverness Point GP, LLC,
a Delaware limited liability company,
General Partner

By: /s/ BRUCE BACKSTROM
Bruce Backstrom, Authorized Signatory

Date: April 20, 2020

Tenant:

Redwood Trust, Inc., a Maryland corporation

By: /s/ GARNET KANOUSE
Print Name: Garnet Kanouse
Its: Managing Director

Date: April 20, 2020

FIFTH Amendment to LEASE AGREEMENT

This Fifth Amendment to Lease Agreement (this "**Amendment**") is by and between **ARTIS HRA Inverness Point, LP**, a Delaware limited partnership ("**Landlord**"), and **Redwood Trust, Inc.**, a Maryland corporation ("**Tenant**"), and is dated as of July 23, 2020 (the "**Effective Date**").

Recitals

A. MG-Point, LLC, a Colorado limited liability company, predecessor-in-interest to Landlord, and Tenant are the parties to that certain Lease Agreement dated as of January 11, 2013, as amended by that certain First Amendment to Lease dated as of June 27, 2013, as further amended by that certain Second Amendment to Lease dated as of June 23, 2014, as further amended by that certain Third Amendment to Lease Agreement dated as of January 22, 2020 (the "**Third Amendment**"), and as further amended by that certain Fourth Amendment to Lease Agreement dated as of April 20, 2020 (collectively, the "**Original Lease**," as amended hereby the "**Lease**").

B. Pursuant to the Lease, Tenant leases from Landlord the space known as Suite 425, containing approximately 21,517 rentable square feet of space, in the building commonly known as "The Point at Inverness," located at 8310 South Valley Highway, Englewood, CO 80112 (that space, as more particularly defined in the Lease, the "**Current Premises**").

C. Landlord and Tenant wish to amend the Lease to reduce the size of the Current Premises and to provide for certain related matters as set forth in this Amendment.

Agreement

Therefore, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Incorporation of Recitals; Defined Terms. The foregoing Recitals are incorporated herein as though fully set forth herein. Terms that are not defined in this Amendment but are defined in the Original Lease have the meanings given in the Original Lease. As used in this Amendment, the following terms have the meanings given below:

(a) "**Extension Commencement Date**" means February 1, 2021.

(b) "**New Premises**" means the approximately 16,714 rentable square feet located in Suite 425 of the Building, as depicted on Exhibit A, being the Current Premises less the Surrender Premises (as defined below).

(c) "**Substantial completion**" as used herein means that the Work shall be completed substantially except for minor so-called punch list items or details of construction,

decoration and mechanical adjustments that do not, individually or in the aggregate, interfere (beyond a *de minimis* extent) with Tenant's use or occupancy of the New Premises.

(d) "**Surrender Premises**" means the approximately 4,803 rentable square feet of space that is part of the Current Premises, as depicted on Exhibit A.

(e) "**Surrender Premises Effective Date**" means January 31, 2021.

(f) "**Surrender Premises Giveback Date**" means the date on which Tenant shall vacate and deliver to Landlord exclusive possession of the Surrender Premises.

(g) "**Surrender Premises Giveback Date Deadline**" means December 1, 2020.

1. New Premises; Surrender Premises.

(a) New Premises. As of the Extension Commencement Date, the Premises (as defined in the Original Lease) shall relocate to the New Premises. From and after the Extension Commencement Date, the Lease is amended such that all references in the Lease to the "Premises" shall be deemed to refer to the New Premises only. No retroactive adjustment under the Lease of any sums due thereunder prior to the Extension Commencement Date, including Base Rent, Tenant's Pro Rata Share of Operating Expenses, and all other rent and charges, shall be made on such decrease in the rentable square footage of the Current Premises prior to the Extension Commencement Date, even though Tenant is required to deliver exclusive possession of the Surrender Premises to Landlord by the Surrender Premises Giveback Date Deadline. Starting on the Extension Commencement Date, Tenant's Base Rent shall be as set forth in Section 4, below, and Tenant's Pro Rata Share of Operating Expenses shall be 8.78% (being 16,714 rentable square feet of the New Premises divided by 190,334 rentable square feet of the Building). Landlord represents and warrants Tenant agree that the rentable square footage of the Building and the rentable square footage of the New Premises are measured in accordance with the Building Owners and Managers Association International Method of Measurement - ANSI/BOMA Z65.1 [2010].

(b) Surrender Premises. Not later than the Surrender Premises Giveback Date Deadline, Tenant shall vacate and deliver to Landlord exclusive possession of the Surrender Premises in the order and condition required under the Lease; provided, however, that, notwithstanding anything to the contrary contained in the Original Lease, Tenant shall not be required to remove any Alterations (including any cabling) and related equipment within the Surrender Premises or to otherwise restore the Surrender Premises to its prior condition. From and after the Surrender Premises Giveback Date, Tenant shall surrender all of its right, title and interest in and to the Surrender Premises and agrees that Landlord shall have the right to possession of the Surrender Premises. Except for those matters specifically provided for in this Agreement and which pursuant to the Lease expressly survive its expiration or sooner

termination, Landlord hereby releases and discharges Tenant from all of its covenants, duties, debts or obligations whatsoever with respect to the Surrender Premises from and after the Surrender Premises Giveback Date, provided, however, that Tenant shall continue to pay all Base Rent and Tenant's Pro Rata Share of Operating Expenses as they become due and payable under the Original Lease applicable to the Surrender Premises up until 11:59 p.m. MST on the Surrender Premises Effective Date.

As of 11:59 p.m. MST on the Surrender Premises Effective Date, the surrender of the Surrender Premises shall be deemed effective and the monetary obligations with respect to the Surrender Premises shall be prorated, billed, and payable in the manner provided in the Original Lease, in the same manner as would apply if the Term of the Lease expired on the Surrender Premises Effective Date with respect to the Surrender Premises only, unless expressly provided to the contrary in this Amendment. From and after the Extension Commencement Date, the Lease shall continue in full force and effect for the remainder of the Term, as extended by this Amendment, upon and subject to the terms and provisions of the Lease, and the Surrender Premises shall cease to be a part of the Lease. From and after the Surrender Premises Giveback Date, Tenant shall have no right to possession or use of the Surrender Premises or any options or other rights with respect to the Surrender Premises without written consent from Landlord. If Tenant delivers exclusive possession of the Surrender Premises to Landlord in the condition required under the Lease prior to the Surrender Premises Giveback Date Deadline, Tenant agrees that there will be no retroactive adjustment under the Lease of any sums due hereunder prior to the Surrender Premises Giveback Date.

In the event that Tenant fails to timely vacate and deliver exclusive possession of the Surrender Premises to Landlord as and in the condition required pursuant to this Amendment, then Tenant shall be deemed to be holding over with respect to the Surrender Premises without the consent of Landlord and shall be liable to Landlord for rent at the holdover rate provided in the Original Lease and shall indemnify Landlord against loss or liability resulting from any delay of Tenant in not surrendering the Surrender Premises by the Surrender Premises Giveback Date Deadline, including, but not limited to, any amounts required to be paid to third parties who were to have occupied the Surrender Premises and any attorneys' fees related thereto, and any consequential damages.

Notwithstanding any provision of this Amendment or the Original Lease to the contrary, neither this Amendment nor the acceptance by Landlord of the Surrender Premises shall in any way (a) be deemed to excuse or release Tenant from any obligation or liability with respect to the Surrender Premises (including, without limitation, any obligation or liability under the Original Lease to indemnify, defend, and hold harmless Landlord or other parties, or with respect to any breach or breaches of the Original Lease) which obligation or liability (i) first arises or relates to a date on or prior to the date on which Tenant delivers possession of the Surrender Premises to Landlord in the condition required herein (provided, however, no Rent allocated or allocable to the Surrender Premises shall be due or payable for any period on or after the Extension

Commencement Date, except for any adjustments to Operating Expenses to reflect the actual amount of Operating Expenses for calendar year 2020), or (ii) arises out of or is incurred in connection with events or other matters which took place on or prior to the Surrender Premises Giveback Date; or (b) affect any obligation under the Original Lease which, by its terms, is to survive the expiration or sooner termination of the Lease.

2. Intentionally omitted.

3. Base Rent. Effective beginning on the Extension Commencement Date, the following schedule of Base Rent replaces the schedule provided in Section 1.4 of the Original Lease (including amendments thereto as set forth in the Third Amendment):

Period	Annual Base Rent Rate (per rsf)	Monthly Installment of Base Rent
02/01/2021 – 01/31/2022	$20.00	$27,856.67
02/01/2022 – 01/31/2023	$20.50	$28,553.08
02/01/2023 – 01/31/2024	$21.00	$29,249.50
02/01/2024 – 01/31/2025	$21.50	$29,945.92
02/01/2025 – 01/31/2026	$22.00	$30,642.33
02/01/2026 – 01/31/2027	$22.50	$31,338.75
02/01/2027 – 01/31/2028	$23.00	$32,035.17
02/01/2028 – 01/31/2029	$23.50	$32,731.58
02/01/2029 – 01/31/2030	$24.00	$33,428.00
02/01/2030 – 01/31/2031	$24.50	$34,124.42

For the sake of clarity, this Section 4 replaces all of Section 2(e) of the Third Amendment, other than the change in address for payment of Rent, which provision remains unchanged and in full force and effect.

4. Operating Expenses. Beginning on the Extension Commencement Date, Tenant shall be responsible for its Pro Rata Share of Operating Expenses for the New Premises, which shall be 8.78%. Prior to the Extension Commencement Date, Tenant shall continue to pay its Pro Rata Share of Operating Expenses for the Current Premises, as set forth in the Original Lease. Operating Expenses for 2020 are estimated to be $11.95 per rentable square foot.

5. Signage. Landlord shall provide Tenant, at Landlord's expense, with directory and suite signage consistent with the signage for the Current Premises. Tenant shall have the right to continue to maintain, repair, and replace its sign panel on the existing monument sign for the Building. Tenant's right to install signage on the New Monument Sign (as defined in the Third Amendment) and Tenant's right to exterior signage pursuant to the Signage Opportunity (as defined and set forth in the Third Amendment) are hereby deleted and of no further force or effect; provided, however, in the event that Tenant leases additional space in the Building during the Term of the Lease, Tenant's right to install signage on the New Monument Sign and Tenant's

right to exterior signage pursuant to the Signage Opportunity shall be reinstated subject to the availability of such signage at such time.

6. Parking. Effective upon the Extension Commencement Date, Tenant shall be allocated a total of sixty-seven (67) parking spaces, with seven (7) of such parking spaces being reserved Covered Parking Spaces and the balance shall be sixty (60) Surface Parking Spaces (the "**Parking Allotment**"). Reserved Covered Parking Spaces shall be charged a monthly fee at Landlord's standard parking rates, which, as of the Extension Commencement Date, are $125.00 for each reserved Covered Parking Space per space per month. Tenant's parking rights shall continue to be subject to the other terms, conditions, and adjustments provided in the Original Lease, except that Section 5 of the Third Amendment is hereby deleted in its entirety. Additionally, subject to availability as determined in Landlord's sole discretion, Tenant shall have the option to lease up to an additional three (3) Covered Parking Spaces on a month-to-month basis, which spaces shall be part of the Parking Allotment and included in Tenant's monthly parking fee.

7. Option to Renew. Tenant shall continue to have one (1) option to renew the Lease for the entirety of the Current Premises, on the terms and conditions set forth in the Third Amendment. References in the Third Amendment to the "New Premises" shall refer to the New Premises as defined in this Amendment.

8. Tenant Improvements. Section 6 of the Third Amendment is deleted in its entirety and replaced with the following provisions. For sake of clarity, Tenant shall have no right to receive, and Landlord shall have no obligation to pay, the Landlord's Allowance as defined in the Third Amendment.

(a) Current Premises. Landlord and Tenant acknowledge that Tenant is presently occupying the Current Premises, having surrendered the Surrender Premises (as defined in the Third Amendment), as required by the Third Amendment.

(b) Drawings. Tenant shall provide Landlord with construction drawings (the "**Drawings**") for the improvements to be installed in the New Premises by Tenant (the "**Initial Improvements**" or the "**Work**") prepared by Tenant's architect. The Drawings shall be subject to Landlord's approval (not to be unreasonably withheld or delayed), as hereinafter described. Landlord shall give its approval or disapproval (giving reasonably detailed reasons in the case of disapproval) of the Drawings within ten (10) business days after their delivery to Landlord. If Landlord fails to notify Tenant that it approves or disapproves the Drawings within ten (10) business days after receipt by Landlord of such Drawings, then Landlord shall be deemed to have approved the Drawings. Landlord shall cooperate with Tenant by discussing or reviewing the Drawings at Tenant's request prior to completion of the full, final detailed Drawings in order to expedite the preparation of and the subsequent approval process concerning the Drawings. Notwithstanding anything to the contrary contained herein, Tenant, at Tenant's sole cost and

expense, shall have the right to install and maintain security cameras in the common hallways adjacent to the New Premises.

(c) Permits. No portion of the Work shall be undertaken or commenced by Tenant in the New Premises until all necessary building permits have been applied for and obtained by Tenant or Tenant's contractor. Tenant acknowledges that: (a) the applicable governmental agencies are not required to issue approvals, permits, or a certificate of occupancy within any specified period of time; (b) the applicable governmental agencies may impose additional requirements as a condition of issuing approvals, permits, or a certificate of occupancy which could cause delays; and (c) that Landlord is not responsible for the length of the period of time taken by applicable governmental agencies, or any delays caused by additional requirements of the applicable governmental agencies, in obtaining such approvals, permits, or a certificate of occupancy. Tenant and/or its contractor shall be solely responsible for filing applications and other necessary documentation for the issuance of all required governmental permits for the construction of the Initial Improvements, and will also obtain final inspection approval, if applicable, or any other final governmental approval of the Initial Improvements that may be required by applicable codes and regulations for the New Premises, upon substantial completion of the Initial Improvements.

(d) Improvements Allowance. The Initial Improvements (as well as installation of Tenant's own trade fixtures, equipment, and furniture) are to be constructed at Tenant's expense. Landlord has agreed to provide Tenant with an improvement allowance of up to $250,710.00 (the "**Improvements Allowance**"), to be applied toward the cost of the Initial Improvements. Up to $83,750.00 of the Improvements Allowance may be used by Tenant for moving, cabling costs, and furniture costs related to the New Premises. Tenant may submit requests for disbursements of the Improvements Allowance not more than monthly. To draw on the Improvements Allowance, Tenant must submit to Landlord a written notice requesting disbursement, together with (i) invoices for all costs included in the request for disbursement; (ii) proof that such costs have been paid, including appropriate lien waivers in a form acceptable to Landlord; and (iii) such other documentation as Landlord may reasonably request. Landlord shall make disbursements from the requested portion of the Improvements Allowance within sixty (60) days following Landlord's receipt of a proper request for disbursement and Landlord may make such disbursements to Tenant or pay directly to Tenant's contractors, as agreed to by Landlord and Tenant. Tenant will be responsible for paying the excess of the cost of the Initial Improvements over the Improvements Allowance. In the event the actual cost of the Initial Improvements is less than the Improvements Allowance, Tenant shall not be entitled to any additional Initial Improvements or a rebate or credit against Rent, and the unused portion of the Improvements Allowance shall remain the property of Landlord. If the Initial Improvements to be constructed with the Improvements Allowance have not been substantially completed (as defined herein) on or prior to December 31, 2021, Landlord's obligation to provide the Improvements Allowance shall terminate and expire and Tenant shall be solely responsible for all costs associated with construction of the Initial Improvements. No disbursement of any part

of the Improvements Allowance by Landlord will constitute acceptance of any condition of the Initial Improvements, an approval of any action taken or omission of Tenant or its contractors, subcontractors, and material suppliers, or waive any other rights or claims that Landlord might have at law or in equity. In the event that Landlord does not make disbursement of the Improvements Allowance within sixty (60) days following Landlord's receipt of a proper request for disbursement, Tenant shall provide a second written notice to Landlord requesting payment within ten (10) business days following Landlord's receipt of such notice. If Landlord fails to make payment within such ten (10) business day period, Tenant may offset the requested disbursement amount against Rent.

(e) Contractors. All construction will be done through Tenant's contractors. All contractors used by Tenant shall be approved by Landlord in advance, which approval shall not be unreasonably withheld, conditioned, or delayed. Landlord shall give its approval or disapproval (giving reasonably detailed reasons in case of disapproval) of the proposed contractor(s) within three (3) business days after Landlord's receipt of a written request for approval from Tenant. If Landlord fails to notify Tenant that it approves or disapproves the proposed contractor(s) within the three (3) business day period, then Landlord shall be deemed to have approved the proposed contractor(s); provided, however, that Landlord shall not be deemed to approve any proposed contractor(s) to which Landlord previously expressly disapproved under a prior Tenant request for approval. Tenant shall require all contractors performing work in the New Premises to carry and maintain, at no expense to Landlord, any or all of the following insurance policies as determined by Landlord, written by insurance companies acceptable to Landlord: (a) commercial general liability insurance, which shall name Tenant and Landlord as additional insureds, in such amounts and with such endorsements that Landlord requires; (b) worker's compensation insurance in such amounts as required by law and covering all persons engaged in the Work; and (c) insurance against such other perils or legal risks and in such amounts as Landlord may require. Upon Landlord's request, Tenant shall provide Landlord with duplicate original counterparts of any of the insurance policies required by this paragraph.

(f) Construction Supervision. All contractors rendering any service to Tenant must contact Landlord or Landlord's contractor in advance and obtain permission to provide materials or work to the New Premises, and are subject to Landlord's supervision, approval, and control of performance, including installation of Tenant's trade fixtures, equipment, and furniture, in accordance with the terms of this Lease. This provision applies to all work performed in or around the Building, including, without limitation, installation of telecommunications equipment and installations of any nature affecting doors, walls, lighting, electrical connections, the HVAC system, ductwork, woodwork, trim, windows, ceilings, equipment, or other physical portions of the Building.

(i)Tenant may perform the Work at such time as Tenant deems appropriate, both during Ordinary Business Hours and at other times, except that any Excessive Noise Work (as defined below) may only be performed during hours other than Ordinary Business Hours, if

such Excessive Noise Work during Ordinary Business Hours would unreasonably interfere or disturb other tenants' or occupants' use or occupancy of their respective premises in the Building. "Excessive Noise Work" shall mean the Work creating excessive noise or vibration, including, without limitation, the portion of any Work involving (i) demolition; (ii) cutting, trenching, chopping, drilling, or perforating of floor slabs; or (iii) shooting fasteners into slab, floor, or over-head. Any Excessive Noise Work shall be restricted to hours approved by Landlord and all such movement shall be under the supervision of Landlord by prearrangement before performance. Tenant assumes all risk of damage of said articles being moved through the Building and any injury to persons or public engaged or not engaged in such moving. Any handtrucks, carryalls, or similar appliances used for delivery or receipt of merchandise or equipment shall be equipped with rubber tires, sideguards, and other safeguards as Landlord shall reasonably require.

(ii)Tenant and its contractors must not make nor permit to be made any unseemly or disturbing noises that unreasonably interfere with occupants of the Building, the New Premises or those having business with other tenants whether by the noise from equipment and installations, use of any musical instrument or loud talk.

(iii)Tenant will indemnify Landlord from and against any materialman and mechanics' liens in accordance with Section 13 of the Original Lease and shall otherwise comply with the provisions of Section 13 of the Original Lease with respect to any construction liens.

(iv)Tenant and its contractors must observe all rules and regulations of Landlord which are attached hereto as Exhibit B.

(v)Tenant shall use only new, first-class materials in the Work. All of the Work shall be done in a good and workmanlike manner. Tenant shall obtain contractors' warranties of at least six (6) months duration from the completion of the Work against defects in workmanship and materials on all work performed and equipment installed in the New Premises as part of the Work.

(vi)Upon not less than twenty-four (24) hours' written notice (or by email to (i) Tenant's Project Manager (jon.micheel@cbre.com), (ii) Tenant's general contractor (email address to be provided), and (iii) Tenant (notices@redwoodtrust.com)) to Tenant and Tenant's failure to cure such matter within such 24-hour period, Landlord shall have the right to order Tenant or any of Tenant's contractors who violate the requirements imposed on Tenant or Tenant's contractors in performing work to cease work and remove its equipment and employees from the Building (a "**Cease Order**") to the extent Landlord determines in good faith that such violation is likely to have a material adverse effect on the Building systems, structure or operations, the safety of the Building's occupants, or to otherwise create any other type of hazardous condition, which Cease Order shall remain effective until such time as the violation which is the subject thereof has been cured. No such action by Landlord shall delay the

commencement of the Lease or the obligation to pay Rent or any other obligations herein set forth.

(vii)Tenant shall permit access to the New Premises, and the Work shall be subject to inspection, by Landlord and Landlord's architects, engineers, contractors and other representatives, at all reasonable times during the period in which the Work is being constructed and installed and following completion of the Work, provided Landlord uses commercially reasonable efforts to minimize interference with Tenant's business operations in the New Premises and the Work then being performed.

(g) Miscellaneous. Approval by Landlord's architects or engineers does not constitute approval by Landlord. Any approval by Landlord or Landlord's architects or engineers of any of Tenant's drawing, plans, or specifications which are prepared in connection with construction of the Initial Improvements or other improvements in the New Premises shall not in any way constitute a representation or warranty of Landlord as to the adequacy of sufficiency of the drawings, plans or specifications. Failure by Tenant to pay any amount when due under this Amendment or the failure by Tenant to perform any of its other obligations under this Agreement shall be an Event of Default under the Lease (subject to the same notice and cure provisions as provided in the Lease), entitling Landlord to all of its remedies under the Lease following any uncured Event of Default. As used in this Section 9, "including" means "including without limitation."

(h) Landlord's Violation. Notwithstanding anything to the contrary set forth elsewhere in this Lease, if any noted violation of any applicable law, ordinance or governmental regulation (including, without limitation, the Americans With Disabilities Act of 1990 (42 U.S.C. §12101 et seq.) and regulations and guidelines promulgated thereunder) which is not caused by Tenant's acts or omissions (or the acts or omissions of Tenant's agents, contractors, and/or employees) (herein called a "**Landlord's Violation**") shall actually delay (or prevent) Tenant from obtaining any governmental permits, consents, approvals or other documentation required by Tenant for the performance of any Work or to occupy the New Premises, then, upon the giving of notice by Tenant to Landlord of such prevention or delay and of the applicable Landlord's Violations, Landlord shall promptly commence and thereafter diligently prosecute to completion the cure and removal of record of such Landlord's Violations. In the event that Tenant is prevented or delayed from obtaining any permits, consents, approvals or other documentation required by Tenant for the performance of any Work or to occupy the New Premises as a result of a Landlord's Violation, then Base Rent and additional Rent shall abate for one (1) day for each day of such delay until Landlord cures such Landlord's Violation.

9. Condition of Building, Current Premises. Tenant and Landlord acknowledge and agree that, as of the Effective Date, Tenant is presently in possession of the Current Premises and the Current Premises are in a good and sanitary order, condition, and repair, acceptable to Tenant. Tenant shall be conclusively deemed to have accepted the New Premises in its "AS-IS"

condition existing on the Effective Date, subject to latent defect and Landlord's obligation to deliver the New Premises in the condition set forth in this Section 10. Tenant expressly acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty other than those in the Original Lease with respect to the New Premises or the Building, or with respect to the suitability of any part of the same for the conduct of Tenant's business. Landlord shall not have any obligation to construct or install any improvements or alterations or to pay for any construction or installation in, to, or on the New Premises, other than the demising wall shown on Exhibit A, which shall be installed by Landlord at Landlord's cost and expense, prior to the Extension Commencement Date (the "**Landlord's Demising Wall Work**"). Landlord shall coordinate with Tenant and use reasonable efforts (which shall not require the use of overtime or premium labor except as provided below) to minimize interference with Tenant's access to and use and occupancy of the New Premises in performing the Landlord's Demising Wall Work and shall perform the Landlord's Demising Wall Work diligently and in a good workmanlike manner and in compliance with applicable laws. Notwithstanding the foregoing, Landlord, at its expense shall perform any portions of the Landlord's Demising Wall Work during hours other than Ordinary Business Hours if the work in question (i) includes any Excessive Noise Work, (ii) results in a denial of reasonable access to the New Premises; (iii) interferes in any material respect with the ordinary conduct of Tenant's business in the New Premises, or (iv) involves a material interruption in any essential services during Ordinary Business Hours that serve the New Premises.

10. Brokers. Tenant and Landlord each represents that it did not deal with any broker or finder in connection with this Amendment other than John Marold of CBRE, Inc. ("**Landlord's Broker**"), and Frederic de Loizaga of CBRE, Inc. and Aaron Wright of Cushman & Wakefield (collectively "**Tenant's Broker**"). Landlord shall indemnify Tenant against any liability or expense (including reasonable attorneys' fees and costs of defense) for any brokerage commission or finder's fee claimed by anyone based on any express or implied commitment made by Landlord or its agents or representatives in connection with this Amendment. Tenant shall indemnify Landlord against any liability or expense (including reasonable attorneys' fees and costs of defense) for any brokerage commission or finder's fee claimed by anyone based on any express or implied commitment made by Tenant or its agents or representatives. The parties' liability under this Section 11 shall survive any expiration or termination of the Lease.

11. Effect. Except as amended by this Amendment, all of the terms, covenants, conditions, provisions, and agreements of the Lease remain in full force and effect. The provisions of this Amendment supersede and control over any conflicting provisions in the Lease.

12. Estoppel. Tenant hereby acknowledges and confirms that, as of the date hereof and to Tenant's knowledge, Landlord has performed all obligations on the part of the Landlord under the Lease and that Tenant has no claims against Landlord or claims of offset against any rent or other sums payable by Tenant under the Lease.

13. Interpretation. As used in this Amendment, the word "including" is not exclusive and means "including, without limitation" unless used with specific terms of exclusion. The word "party" means one of Landlord or Tenant, and "parties" means both, unless the context specifically indicates that reference to a third party is intended. References to sections or exhibits mean the sections of this Amendment and exhibits attached to this Amendment, unless the reference specifies another document.

14. Miscellaneous. The parties have read this Amendment and have received the advice of legal counsel with respect to this Amendment or have had the opportunity to receive legal advice, and they have freely and voluntarily entered into this Amendment. This Amendment embodies the entire agreement between the parties as to its subject matter and supersedes any prior agreements with respect thereto. There are no agreements or understandings between the parties with respect to the subject matter of this Amendment not set forth in this Amendment or the Lease. This Amendment cannot be modified except by a writing signed by both parties.

15. Signing and Delivery. This Amendment will be effective only when both Landlord and Tenant have signed and delivered it. This Amendment may be signed in counterparts and, when counterparts of this Amendment have been signed and delivered by both of the parties as provided in this Section 16, this Amendment will be fully binding and effective, just as if both of the parties had signed and delivered a single counterpart of this Amendment. This Amendment is not an offer to lease and cannot be accepted by performance or otherwise rendered effective in any manner other than in accordance with this Section 16. Landlord's submission of an unsigned copy this Amendment to Tenant for evaluation, negotiation, or signature by Tenant will not constitute signature of this Amendment by Landlord or otherwise bind Landlord, regardless of whether the cover letter or email transmitting that copy of this Amendment is signed or contains words of approval.

[The remainder of this page is intentionally blank; signatures follow.]

Signed by the parties on the dates stated below:

Landlord:

ARTIS HRA Inverness Point, LP
a Delaware limited partnership

By: ARTIS HRA Inverness Point GP, LLC,
a Delaware limited liability company,
General Partner

By: /s/ BRUCE BACKSTROM
Bruce Backstrom, Authorized Signatory

Date: July 23, 2020

Tenant:

Redwood Trust, Inc., a Maryland corporation

By: /s/ ANDREW STONE
Print Name: Andrew Stone
Its: Executive Vice President & General Counsel

Date: July 22, 2020

EXHIBIT A

<u>DEPICTION OF THE NEW PREMISES AND THE SURRENDER PREMISES</u>

[*See attached*] **[NOTE TO DRAFT: DEPICTION SHOWN BELOW TO BE INSERTED AS CLEAN STANDALONE PDF PAGE IN EXECUTION VERSION OF LEASE.]**

EXHIBIT B

CONTRACTOR RULES AND REGULATIONS

Artis HRA Inverness Point, LP
8310 South Valley Highway
CONTRACTOR INFORMATION,
RULES AND REGULATIONS

All general contractors, subcontractors, suppliers, vendors, etc. shall be immediately advised of the following rules concerning their proper conduct within the building. It is the general contractor's responsibility to ensure that their subcontractors read and understand these rules and regulations. Ignorance of these rules is neither a waiver of liability nor responsibility.

1. Contractor will perform all work according to Douglass County codes and will pull a permit from the Douglas County when required.

2. Contractor must provide the management office with a list of after hours/emergency contact names and phone numbers for 24-hour notification during the length of the construction job.

3. Inform the management office in writing of construction start and completion dates. Provide the management office with a construction schedule and a list of subcontractors, contact names, and phone numbers. Contractors and subcontractors will be required to sign out a "contractor" badge from building management office and must wear the badge in plain sight while in or around the building. Contractor is responsible for all badges issued and will be charged for replacement if not returned.

4. Contractors and their subcontractors must have current Certificates of Insurance with **Artis HRA Inverness Point, LP and Hannay Realty Advisors listed as certificate holder and additional insured** on file in the management office prior to commencement of any work. Maintenance of current certificates on file with the building management office will be the sole responsibility of the contractor.

5. **Insurance Requirements**: All contractors performing work in, on, or on behalf of the property, its Landlord, or Tenants shall be subject to the following minimum insurance requirements –

   - General Liability - $2,000,000 general aggregate
   - Automobile Liability - $1,000,000 combined single limit
   - Excess Liability - $1,000,000 each occurrence & aggregate
   - Workers Comp./Employee Liability – in compliance with statutory limits

6. All work of the contractor must be conducted within the confines of government health and safety standards. Any injury accidents requiring medical attention must be reported to the Management Office.

7. Contractor **must** have a minimum 10 lb. ABC fire extinguisher on the construction site at all times.

8. All flammable, combustible, and toxic materials are to be stored in approved containers supplied by the contractor at all times. No gasoline-powered devices will be permitted within the building. All equipment will be electrically operated. All hazardous materials must be removed by the Contractor according to EPA and OSHA guidelines upon completion of the project.

9. No one shall be allowed to endanger the building or its occupants in any manner whatsoever. Contractor shall immediately correct any hazardous conditions. If contractor fails to correct the hazardous condition, 8310 S. Valley Highway Management reserves the right to correct the situation at contractor's expense.

10. Access to any construction job site is restricted to the general contractor and their subcontractors. All unauthorized persons will be asked to leave the job site.

11. **Deliveries**: Large deliveries must be arranged in advance through the property management office (303-799-0979) before 8:00 a.m. and after 6:00 p.m., or on weekends. All deliveries will be received through the garage unless otherwise specified by the property management office. The garage entrance is off the East side of the building. Access must be coordinated with property management and/or the building engineer.

12. Vehicles left in the parking garage or parking lot without prior authorization will be towed at owner's expense.

13. **Dumpster**: A construction dumpster is not provided. The individual contractors are responsible for removal of trash from the job site. If a dumpster is required, the individual contractor is responsible for scheduling the delivery of a dumpster. The location and delivery of roll-off dumpsters for construction debris must be coordinated in advance through the property management office. Contractors will be responsible for maintaining a clean area around such dumpsters for the duration of the project. Dumpster must be set up on plywood in the parking lot, damaged occurred to the asphalt will be the contractors responsibility.

14. **Freight elevator:** Access to the office tower is strictly limited to use of the freight elevator and includes, but is not limited to, delivery and removal of materials and equipment. Materials and equipment may not be brought in or taken out through the public lobbies. The passenger freight elevator may be used before 8:00 am, after 6:00 pm and on weekends;

however, other deliveries and delivery personnel must be accommodated during certain hours of the work week days.

15. Any activity that would adversely affect the business of tenants (loud noises or music, core or hammer drilling, fumes, or any system shutdowns) must be conducted during non-building hours and must be coordinated in advance with the management office for after hours access clearances.

16. Proper floor, wall, door frame and other protections are expected to be provided and maintained for large deliveries of materials, for entrances to construction areas, and common areas located between the freight elevator and construction areas. Construction paths across common areas and/or lobbies must be kept clean at all times and such cleaning will be the responsibility of construction contractor. **Safety measures for slip/trip precautions are the responsibility of the contractors.**

17. Any work affecting the **fire and life safety systems** must be coordinated at **least 24 hours in advance** through the property management office. The Management must be contacted prior to doing fire alarm or sprinkler work. The Building Engineer on duty will be contacted for authorization to bypass alarm systems. Smoke detection devices must be bagged for the duration of any work that may create dusty conditions that could set off an alarm. Detection devices will be un-bagged and rendered 100% operational at the conclusion of each workday and over weekends. Any modifications or additions to the fire system must be checked with the building fire system contractor and acceptance of such work will be subject to their approval.

18. Building return air shafts (and Fan Powered Boxes, where applicable) must be protected under dusty conditions by the use of a suitable filter media. Installation and removal of such media should be coordinated through the property management office. Fan Powered Box filters will be replaced at end of job, within scope of contractors work. **Proper dust control measures must be used and maintained at all times. All sanding operations require a HEPA filtration device(s) at all times.**

19. Painting, varnishing, and any processes that involve petroleum or solvent-based chemicals may not be performed during normal working hours. Latex or water-based processes may be reviewed on a case by case basis for application during normal working hours.

18. **X-Rays or GPS are required for all core drilling, regardless of location.** Core drilling, X-rays or GPS must be performed before 5:00 a.m., after 7:00 p.m., or on weekends and should be coordinated in advance through the property management office. Certain types of demolition and the use of powder-actuated tools should be coordinated through the management office to minimize conflicts with other tenants in adjacent spaces or floors.

19. After-hours access to tenant spaces or secure floors will require written authorization from the tenant before access will be granted. Security escort will be needed at tenants request and paid for by vendor.

20. No equipment or materials are to be stored outside the confines of the specific construction area without written permission from the management office.

21. Notify the Management Office in the event that material or equipment specific to your construction is missing. Any unauthorized removal of material will be prosecuted.

22. The building does not loan out ladders, tools, or vacuum cleaners.

23. Storage is not permitted in the electrical/telephone closets.

24. All construction debris shall be removed on a timely basis and shall not be allowed to produce a fire hazard. If contractor fails to keep the premises clean, Management reserves the right to remove the debris at the contractor's expense.

25. Existing window blinds should be pulled to the top of the window and covered in plastic for duration of the job.

28. Retail construction areas must utilize paper window coverings at all times during the construction process.

29. Tenant telephone equipment may not be installed in the building telephone closets. Tenant telephone equipment must be installed within the tenant's leased premises. Please notify the management office if tenant communications equipment is planned for installation in the building telephone closet. All penetrations are to be fire stopped by vendor. **NO EXCEPTIONS.**

29. Absolutely **NO SMOKING** will be allowed inside the building or within the construction area. Construction workers may utilize the designated indoor or outdoor smoking areas and should not loiter around the building lobby or entrances.

30. **NO RADIOS**, television sets, or recorded music will be allowed on the construction site.

31. At the completion of the job, deliver any warranty information, as-built drawings, air balance reports, and a copy of the Certificate of Compliance to the 1700 Broadway Management Office.

If further information is needed, please contact the MDC Realty Advisors' management office (303-799-0979).

Contractor/Vendor Signature verifying this has been read and will adhere to. DATE

Exhibit 10.4

REDWOOD TRUST, INC.
AMENDED AND RESTATED 2014 INCENTIVE AWARD PLAN

PERFORMANCE AWARD AGREEMENT (CASH – PERFORMANCE-VESTING)

This Performance Award Agreement (Cash) (the " Award Agreement") is made effective as of August 5, 2020 (the "Grant Date"), between Redwood Trust, Inc., a Maryland corporation (the "Company") and [_______] (the "Participant").

WHEREAS, the Company maintains the Redwood Trust, Inc. 2014 Incentive Award Plan (the " Plan"), which provides for the issuance of Performance Awards (as defined in the Plan); and

WHEREAS, all capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Plan or Exhibit A attached hereto.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Participant and the Company do hereby agree as follows:

1. Grant of Award.

(a) For good and valuable consideration, effective as of the date hereof, the Company hereby grants to the Participant a Performance Award (the "Award") upon the terms and conditions set forth in this Award Agreement (including any exhibits attached hereto).

(b) The amount of the Award (the "Award Amount") shall be $[______].

2. Vesting of Award.

(a) *General Vesting*. Subject to Sections 2(b), 2(c), 4 and 5 hereof, the Award shall vest as follows. The date on which an Award, or portion thereof, vests is referred to as a "Vesting Date". The portion of the Award that is earned based on the achievement of the Performance Goals during the Performance Period, as described in Exhibit A attached hereto, shall vest on August 4, 2023, subject to the Participant's continued employment through such Vesting Date.

(b) *Qualifying Termination*.

(i) If the Participant experiences a Qualifying Termination during the Performance Period other than a Termination of Service as an Employee by the Company without Cause, the Award shall remain outstanding and eligible to vest on the last day of the Performance Period, based on the actual achievement of the Performance Goals during the Performance Period, as described in Exhibit A attached hereto. If the Participant experiences a Qualifying Termination during the Performance Period that is a Termination of Service as an Employee by the Company without Cause, then (x) the Award Amount shall be reduced on a pro-rated basis to reflect the number of days of employment completed during the period beginning on the first day of the Performance Period, divided by (y) 1,095 (or, if less, the number of days in the Performance Period) and (y) the Award shall remain outstanding and eligible to vest on the last day of the Performance Period based on such prorated Target Award Amount and the actual achievement of the Performance Goals during the Performance Period, as described in Exhibit A attached hereto.

(iii) For purposes of this Award Agreement, a " Qualifying Termination" means a Termination of Service as an Employee by the Company without Cause or due to the Participant's death or Disability. In addition, a "Qualifying Termination" means a Termination of Service as an Employee (i) prior to a Change in Control by the Participant for Good Reason, but only if the Participant is party to an employment agreement with the Company that contains a definition of Good Reason or (ii) on or following a Change in Control for Good Reason (regardless of whether the Participant is party to an employment agreement with the Company that contains a definition of Good Reason).

(iv) For purposes of this Award Agreement, " Cause" shall have such meaning defined in the Participant's employment agreement with the Company or, if no such agreement exists or does exist but does not contain such a definition, shall mean (i) the Participant's material failure to substantially perform the reasonable and lawful duties of his or her position for the Company, which failure shall continue for thirty (30) days after written notice thereof by the Company to the Participant; (ii) acts or omissions constituting gross negligence, recklessness or willful misconduct on the Participant's part in respect of the performance of his or her duties, his or her fiduciary obligations or otherwise relating to the business of the Company; (iii) the habitual or repeated neglect of the Participant's duties; (iv) the Participant's conviction of a felony; (v) the Participant's theft or embezzlement, or attempted theft or embezzlement, of money or tangible or intangible assets or property of the Company or its employees, customers, clients, or others having business relations with the Company; (vi) any act of moral turpitude by the Participant injurious to the interest, property, operations, business or reputation of the Company; or (vii) the Participant's unauthorized use or disclosure of trade secrets or confidential or proprietary information pertaining to the Company's business.

(v) For purposes of this Award Agreement, " Disability" shall mean the Participant is "disabled" within the meaning of Section 409A of the Code.

(vi) For purposes of this Award Agreement, " Good Reason" shall have such meaning defined in the Participant's employment agreement with the Company or, if no such agreement exists or does exist but does not contain such a definition, shall mean the occurrence, without the Participant's express written consent, of any one or more of the following events: (i) a material reduction in the Participant's base salary or wages or a material reduction by the Company in the value of the Participant's total compensation package (salary, wages, bonus opportunity, equity incentive award opportunity and benefits) if such a reduction is not made in proportion to an across-the-board reduction for all similarly-situated service providers of the Company; or (ii) the relocation of the Participant's principal Company office to a location more than twenty-five (25) miles from its location as of the date hereof, except for required travel on the Company's business to the extent necessary to fulfill the Participant's obligations to the Company. Notwithstanding the foregoing, the Participant will not be deemed to have resigned for Good Reason unless (1) the Participant provides the Company with written notice setting forth in reasonable detail the facts and circumstances claimed by the Participant to constitute Good Reason within ninety (90) days after the date of the occurrence of any event that you know or should reasonably have known to constitute Good Reason, (2) the Company fails to cure such acts or omissions within thirty (30) days following its receipt of such notice, and (3) the effective date of the Participant's termination for Good Reason occurs no later than thirty (30) days after the expiration of the Company's cure period.

(c) *Change in Control*. In the event of a Change in Control, the Award (or portion thereof) that remains outstanding as of immediately prior to such Change in Control will be treated in accordance with Exhibit A attached hereto.

3. Payment of Award. Any Award or portion thereof that vests in accordance with Section 2 hereof shall be paid to the Participant within 60 days following the applicable Vesting Date. The Award, or portion thereof, that becomes payable pursuant to the terms of the Plan and this Award Agreement shall be payable in cash.

4. Forfeiture. If the Participant incurs a Termination of Service prior to an applicable Vesting Date for any reason other than a Qualifying Termination, the Award, to the extent not theretofore vested), will thereupon automatically be forfeited, terminated and cancelled, and the Participant shall forfeit all right, entitlement and interest thereto and in such unvested Award, or portion thereof. Any portion of the Award that is not earned due to the failure by the Company to achieve the Performance Goals (in whole or in part) during the Performance Period, as described in Exhibit A attached hereto, shall automatically be forfeited by the Participant as of the last day of the Performance Period, and the Participant's rights in any such portion of the Award shall thereupon lapse and expire.

5. Adjustments. The Performance Goals shall be subject to adjustment as set forth in this Award Agreement and the Plan.

6. At-Will Employment. This Award Agreement is not an employment contract and nothing in this Award Agreement shall be deemed to create in any way whatsoever any obligation of the Participant to continue as an Employee, Consultant or Director of the Company or on the part of the Company to continue the employment or other service relationship of the Participant with the Company. It is understood and agreed to by the Participant that the Award and participation in the Plan does not alter the at-will nature of the Participant's relationship with the Company (subject to the terms of any separate employment agreement the Participant may have with the Company). The at-will nature of the Participant's relationship with the Company can only be altered by a writing signed by both the Participant and the Chief Executive Officer or the President of the Company.

7. Notices. Any notice required or permitted under this Award Agreement shall be deemed given when delivered personally, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to the Participant either at the Participant's address set forth below or such other address as the Participant may designate in writing to the Company, and to the Company: Attention: General Counsel, at the Company's address or such other address as the Company may designate in writing to the Participant.

8. Failure to Enforce Not a Waiver. The failure of the Company to enforce at any time any provision of this Award Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

9. Restrictive Covenants; Arbitration. The Participant agrees and acknowledges that the Participant's right to receive and retain the Award and any payments hereunder is subject to and conditioned upon the Participant's continued compliance with the restrictive covenants contained in Exhibit B attached hereto. In addition, the Participant agrees and acknowledges that any dispute arising with respect to this Award and this Award Agreement will be subject to the Alternative Dispute Resolution provisions set forth in an Employment and Confidentiality Agreement by and between the Participant and the Company.

10. Existing Agreements. This Award Agreement does not supersede nor does it modify any existing agreements between the Participant and the Company.

11. Incorporation of Plan; Deferred Compensation Plan. The Plan is incorporated by reference and made a part of this Award Agreement, and this Award Agreement is subject to all terms and conditions of the Plan as in effect from time to time. This Award shall not constitute Compensation for purposes of the Company's Executive Deferred Compensation Plan, as amended.

12. Amendments. This Award Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto.

13. Withholding. The Company shall withhold, or cause to be withheld, compensation otherwise vesting or issuable under this Award in satisfaction of any applicable withholding tax obligations. To the extent that any Federal Insurance Contributions Act tax withholding obligations arise in connection with the Award prior to the applicable vesting date, the Administrator shall accelerate the payment of a portion of the Award sufficient to satisfy (but not in excess of) such tax withholding obligations and any tax withholding obligations associated with any such accelerated payment, and the Administrator may withhold such amounts in satisfaction of such withholding obligations.

14. Section 409A. Notwithstanding anything to the contrary in this Award Agreement, this Award Agreement is intended to comply with or be exempt from Section 409A of the Code and this Award Agreement and the Plan shall be interpreted in a manner consistent with such intent. Notwithstanding anything to the contrary in this Award Agreement, no amounts shall be paid to the Participant under this Award Agreement during the six (6)-month period following the Participant's "separation from service" (within the meaning of Section 409A of the Code) to the extent that the Administrator determines that the Participant is a "specified employee" (within the meaning of Section 409A of the Code) at the time of such separation from service and that paying such amounts at the time or times indicated in this Award Agreement would be a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code. If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six (6)-month period (or such earlier date upon which such amount can be paid under Section 409A of the Code without being subject to such additional taxes), the Company shall pay to the Participant in a lump-sum all amounts that would have otherwise been payable to the Participant during such six (6)-month period under this Award Agreement.

15. Performance-Based Compensation. This Award is not intended to constitute qualified performance-based compensation for purposes of the Plan or Section 162(m) of the Code.

16. Miscellaneous.

(a) *Governing Law*. The laws of the State of Maryland shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Award Agreement regardless of the law that might be applied under principles of conflicts of laws.

(b) *Counterparts*. This Award Agreement may be executed in any number of counterparts, any of which may be transmitted by facsimile or e-mail, and each of which shall be deemed to be an original, but all of which together shall be deemed to be one and the same instrument.

(c) *Entire Agreement*. This Award Agreement, including the exhibits attached hereto, constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties hereto.

(d) *Headings*. The headings contained in this Award Agreement are for the convenience of the parties only. They are not operative terms of this Award Agreement, and are not intended to define or limit in any way the terms of this Award Agreement.

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement as of the date and year first above written.

REDWOOD TRUST, INC. PARTICIPANT

By:_ ____
Its:_ [Name]

EXHIBIT A

PERFORMANCE GOALS

The actual Award Amount that is earned hereunder shall be determined based on the achievement of relative total shareholder return performance goals during the Performance Period, as set forth below. The Award Amount that is earned in accordance with the terms below shall vest in accordance with Section 2 of the Award Agreement.

The "Performance Period" shall be the period beginning on (and including) August 5, 2020 and ending on (and including) the earlier of August 4, 2023 and the date of consummation of a Change in Control. The "Eligible Award Amount" shall be equal to the Award Amount, multiplied by the percentage corresponding to the Company's Relative TSR during the Performance Period, determined in accordance with the table below.

Relative TSR (X)	Percentage of Target Award Amount that is Earned
X < 60th percentile	0%
60th percentile ≤ X < 65th percentile	80%
65th percentile ≤ X < 70th percentile	120%
70th percentile ≤ X < 75th percentile	160%
75th percentile ≤ X < 80th percentile	200%
80th percentile ≤ X < 85th percentile	240%
85th percentile ≤ X < 90th percentile	280%
90th percentile ≤ X < 95th percentile	320%
95th percentile ≤ X < 100th percentile	360%
X = 100th percentile	400%

If the Company's actual performance results falls between two goals on the table, the percentage of the Target Award Amount that is earned shall not be determined on a straight-line, mathematical interpolation between the applicable amounts.

Change in Control

Notwithstanding the foregoing, in the event that a Change in Control occurs and the Participant either (i) remains in continuous employment until immediately prior to such Change in Control or (ii) experienced a Termination of Service as an Employee prior to such Change in Control and the Award Amount not subject to forfeiture in connection with such termination under Section 4 of the Award Agreement, then the Performance Period will end upon such Change in Control, and the amount of Eligible Award Amount will be determined by reference to the Company's actual Relative TSR achieved during the shortened Performance Period.

Vesting (Change in Control): If the Performance Period ends due to the occurrence of a Change in Control and:

(i) the Participant remains in continuous employment until the date of such Change in Control, then the Eligible Award Amount that becomes eligible for vesting due to the Change in Control shall remain outstanding and eligible to vest on August 4, 2023, subject only to continued employment through such date. However, if the Participant experiences a Qualifying Termination upon or following such Change in Control but prior to or on August 4, 2023, then the Eligible Award Amount shall vest as of such Qualifying Termination; or

(ii) the Participant experienced a Qualifying Termination prior to the date of the Change in Control, then the Eligible Award Amount that becomes eligible for vesting due to the Change in Control shall vest immediately prior to such Change in Control.

Certain Defined Terms

"Comparator Group Companies" means only those entities that are set forth on Schedule I attached hereto (collectively, the " Comparator Group"); provided, however, that if a Comparator Group Company is acquired or otherwise ceases to have a class of equity securities that is both registered under the Securities Exchange Act of 1934 and actively traded on a U.S. public securities market, such Comparator Group Company will be removed from the Comparator Group.

"Dividend Reinvestment Factor" shall mean, with respect to the Company and a designated period of time, the number of shares of Common Stock that would have been acquired from the reinvestment of cash dividends, if any, which have been declared to all or substantially all holders of the outstanding shares of Common Stock with a record date during such designated period of time, with respect to one share of Common Stock outstanding on the first day of such designated period of time. Such number of shares shall be determined cumulatively, for each cash dividend declared with a record date during such designated period of time (beginning with the first such cash dividend with a record date during such designated period of time and continuing chronologically with each such subsequent cash dividend declared with a record date during such designated period of time (and in each case other than the first such cash dividend, taking into account any increase in shares resulting from the application of this formula to the chronologically immediately preceding cash dividend)), by multiplying (i) the applicable number of shares of Common Stock immediately prior to the record date of such cash dividend (which in the case of the first such cash dividend declared with a record date during such designated period of time shall be one) by (ii) the per share amount of such cash dividend and dividing the product by the Fair Market Value per share of Common Stock on the ex-dividend date with respect to such dividend. With respect to a Comparator Group Company, Dividend Reinvestment Factor shall be determined in a manner consistent with the foregoing, but in respect of such Comparator Group Company's common stock.

"Per Share Price" means, with respect to the Company and any Comparator Group Company, the average of the closing prices of the applicable company's common stock during the sixty (60) consecutive trading days ending on the day prior to the Valuation Date, adjusted to reflect the reinvestment of any cash dividends declared to all or substantially all holders of the outstanding shares of such company's common stock with a record date during the calculation period; provided, however, that for purposes of calculating the Company's Per Share Price in the event of a Change in Control, the Per Share Price shall be the price per share of Common Stock paid in connection with such Change in Control or, to the extent that the consideration in the Change in Control transaction is paid in stock of the acquiror or its affiliate, then, unless otherwise determined by the Administrator (including in connection with valuing any shares that are not publicly traded), Per Share Price shall mean the value of the consideration paid per share of Common Stock based on the average of the closing trading prices of a share of such acquiror stock on the principal exchange on which such shares are then traded for each trading day during the five consecutive trading days ending on and including the date on which a Change in Control occurs.

"Relative TSR" means, with respect to the Performance Period, the Company's TSR, as a percentile with respect to the range of TSRs of each of the Comparator Group Companies.

"TSR" means, for the Performance Period, the Company's or a Comparator Group Company's cumulative total shareholder return (rounded to the nearest hundredth), expressed as a percentage, determined as the quotient obtained by dividing:

(A) the sum of:

(x) the Per Share Price as of the Valuation Date, plus

(y) the Per Share Price as of the Valuation Date multiplied by the Dividend Reinvestment Factor with respect to the Performance Period,

by,

(B) the Per Share Price as of the first day of the Performance Period, which, in the case of the Company is $[______][1], and, in the case of a Comparator Group Company, is the amount set forth on Schedule I hereto under the heading "Initial Per Share Price".

Notwithstanding the foregoing, the Committee shall make appropriate adjustments in calculating TSR to reflect any dividends which may be declared or have a record date during the sixty (60) consecutive trading days prior to the end of the Performance Period, as determined by the Committee in its sole discretion.

In addition, TSR for a Comparator Group Company will be deemed to be negative one hundred percent (minus 100%) if the Comparator Group Company (i) files for bankruptcy, reorganization or liquidation under any chapter of the U.S. Bankruptcy Code; (ii) is the subject of an involuntary bankruptcy proceeding that is not dismissed within thirty (30) days; or (iii) is the subject of a stockholder approved plan of liquidation or dissolution.

"Valuation Date" means August 4, 2023; provided, however, that in the event of a Change in Control that occurs prior to August 4, 2023, the Valuation Date shall mean the date of the Change in Control.

---

[1] [Insert closing price of RWT common stock on grant date.]

SCHEDULE I

COMPARATOR GROUP COMPANIES

Comparator Group Company:	**Initial Per Share Price:**
[*insert list of S&P 600 SmallCap Financials Index constituents as of grant date*]	[*to be inserted*][2]

[2] [Insert closing price of common stock on grant date.]

EXHIBIT B
RESTRICTIVE COVENANTS

1. Non-Disparagement. While providing services to the Company and thereafter, the Participant agrees not to make negative comments or statements about, or otherwise criticize or disparage, in any format or through any medium, the Company or any entity controlled by, controlling or under common control with the Company ("Affiliates") or any of the officers, directors, managers, employees, services, operations, investments or products of the Company or any of its Affiliates. For purposes of the foregoing sentence, disparagement shall include, but not be limited to, negative comments or statements intended or reasonably likely to be harmful or disruptive to a person's or entity's respective business, business reputation, business operations, or personal reputation.

2. Non-Solicitation. While providing services to the Company and, for a period of one (1) year thereafter, the Participant shall not directly or indirectly solicit, induce, or encourage any employee or consultant of any member of the Company and its subsidiaries or Affiliates to terminate their employment or other relationship with the Company and its Affiliates or to cease to render services to any member of the Company and its subsidiaries or Affiliates and the Participant shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity. While providing services to the Company and thereafter, the Participant shall not use any trade secret of the Company or its subsidiaries or Affiliates to solicit, induce, or encourage any customer, client, vendor, or other party doing business with any member of the Company and its subsidiaries or Affiliates to terminate its relationship therewith or transfer its business from any member of the Company and its subsidiaries or Affiliates and the Participant shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

3. Confidentiality. The Participant shall keep secret and retain in the strictest confidence all confidential, proprietary and non-public matters, tangible or intangible, of or related to the Company, its stockholders, subsidiaries, affiliates, successors, assigns, officers, directors, attorneys, fiduciaries, representatives, employees, licensees and agents including, without limitation, trade secrets, business strategies and operations, seller, counterparty and customer lists, manufacturers, vendors, material suppliers, financial information, personnel information, legal advice and counsel obtained from counsel, information regarding litigation, actual, pending or threatened, research and development, identities and habits of employees and agents and business relationships, and shall not disclose them to any person, entity or any federal, state or local agency or authority, except as may be required by law; provided that, in the event disclosure is sought as a result of any subpoena or other legal process initiated against the Participant, the Participant shall immediately give the Company's General Counsel written notice thereof in order to afford the Company an opportunity to contest such disclosure (such notice to be delivered to: Redwood Trust, Inc., One Belvedere Place, Suite 300, Mill Valley, CA, 94941, Attn: General Counsel).

4. Exceptions. Nothing herein shall prohibit or restrict the Participant from: (i) making any disclosure of information required by law; (ii) providing information to, or testifying or otherwise assisting in any investigation or proceeding brought by, any federal or state regulatory or law enforcement agency or legislative body, any self-regulatory organization, or the Company's Human Resources, Legal, or Compliance Departments; (iii) testifying, participating in or otherwise assisting in a proceeding relating to an alleged violation of the Sarbanes-Oxley Act of 2002, any federal, state or municipal law relating to fraud or any rule or regulation of any self-regulatory organization; or (iv) filing a charge with, reporting possible violations to, or participating or cooperating with the Securities and Exchange Commission or any other federal, state or local regulatory body or law enforcement agency (each a "Governmental

Agency”). Nothing herein shall be construed to limit the Participant’s right to receive an award for any information provided to a Governmental Agency in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation. In addition, notwithstanding the foregoing obligations, pursuant to 18 U.S.C. § 1833(b), the Participant understands and acknowledges that the Participant shall not be held criminally or civilly liable under any U.S. federal or state trade secret law for the disclosure of a trade secret that is made: (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and protected from public disclosure. Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b).

Exhibit 10.5

REDWOOD TRUST, INC.
AMENDED AND RESTATED 2014 INCENTIVE AWARD PLAN

PERFORMANCE AWARD AGREEMENT (CASH – TIME-VESTING)

This Performance Award Agreement (Cash) (the " Award Agreement") is made effective as of August 5, 2020 (the "Grant Date"), between Redwood Trust, Inc., a Maryland corporation (the "Company") and [_______] (the "Participant").

WHEREAS, the Company maintains the Redwood Trust, Inc. 2014 Incentive Award Plan (the " Plan"), which provides for the issuance of Performance Awards (as defined in the Plan); and

WHEREAS, all capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Plan.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Participant and the Company do hereby agree as follows:

1. Grant of Award.

(a) For good and valuable consideration, effective as of the date hereof, the Company hereby grants to the Participant a Performance Award (the "Award") upon the terms and conditions set forth in this Award Agreement (including any exhibits attached hereto).

(b) The amount of the Award (the "Award Amount") shall be $[______].

2. Vesting of Award.

(a) *General Vesting*. Subject to Sections 2(b), 4 and 5 hereof, the Award shall vest as follows. The date on which an Award, or portion thereof, vests is referred to as a "Vesting Date". The Award shall vest with respect to [25% of the Award on August 4, 2021 and as to 75% of the Award on August 4, 2023] / [one-third of the Award on each of August 4, 2021, August 4, 2022 and August 4, 2023], in each case subject to the Participant's continued employment through such Vesting Date.

(b) *Qualifying Termination*.

(i) If the Participant experiences a Qualifying Termination, the Award will vest in full as of immediately prior to such Qualifying Termination (to the extent the Award remains outstanding as of such termination).

(iii) For purposes of this Award Agreement, a " Qualifying Termination" means a Termination of Service as an Employee by the Company without Cause or due to the Participant's death or Disability. In addition, a "Qualifying Termination" means a Termination of Service as an Employee (i) prior to a Change in Control by the Participant for Good Reason, but only if the Participant is party to an employment agreement with the Company that contains a definition of Good Reason or (ii) on or following a Change in Control for Good Reason (regardless of whether the Participant is party to an employment agreement with the Company that contains a definition of Good Reason).

(iv) For purposes of this Award Agreement, " Cause" shall have such meaning defined in the Participant's employment agreement with the Company or, if no such agreement exists or does exist but does not contain such a definition, shall mean (i) the Participant's material failure to substantially perform the reasonable and lawful duties of his or her position for the Company, which failure shall continue for thirty (30) days after written notice thereof by the Company to the Participant; (ii) acts or omissions constituting gross negligence, recklessness or willful misconduct on the Participant's part in respect of the performance of his or her duties, his or her fiduciary obligations or otherwise relating to the business of the Company; (iii) the habitual or repeated neglect of the Participant's duties; (iv) the Participant's conviction of a felony; (v) the Participant's theft or embezzlement, or attempted theft or embezzlement, of money or tangible or intangible assets or property of the Company or its employees, customers, clients, or others having business relations with the Company; (vi) any act of moral turpitude by the Participant injurious to the interest, property, operations, business or reputation of the Company; or (vii) the Participant's unauthorized use or disclosure of trade secrets or confidential or proprietary information pertaining to the Company's business.

(v) For purposes of this Award Agreement, " Disability" shall mean the Participant is "disabled" within the meaning of Section 409A of the Code.

(vi) For purposes of this Award Agreement, " Good Reason" shall have such meaning defined in the Participant's employment agreement with the Company or, if no such agreement exists or does exist but does not contain such a definition, shall mean the occurrence, without the Participant's express written consent, of any one or more of the following events: (i) a material reduction in the Participant's base salary or wages or a material reduction by the Company in the value of the Participant's total compensation package (salary, wages, bonus opportunity, equity incentive award opportunity and benefits) if such a reduction is not made in proportion to an across-the-board reduction for all similarly-situated service providers of the Company; or (ii) the relocation of the Participant's principal Company office to a location more than twenty-five (25) miles from its location as of the date hereof, except for required travel on the Company's business to the extent necessary to fulfill the Participant's obligations to the Company. Notwithstanding the foregoing, the Participant will not be deemed to have resigned for Good Reason unless (1) the Participant provides the Company with written notice setting forth in reasonable detail the facts and circumstances claimed by the Participant to constitute Good Reason within ninety (90) days after the date of the occurrence of any event that you know or should reasonably have known to constitute Good Reason, (2) the Company fails to cure such acts or omissions within thirty (30) days following its receipt of such notice, and (3) the effective date of the Participant's termination for Good Reason occurs no later than thirty (30) days after the expiration of the Company's cure period.

3. Payment of Award. Any Award or portion thereof that vests in accordance with Section 2 hereof shall be paid to the Participant within 60 days following the applicable Vesting Date. The Award, or portion thereof, that becomes payable pursuant to the terms of the Plan and this Award Agreement shall be payable in cash.

4. Forfeiture. If the Participant incurs a Termination of Service prior to an applicable Vesting Date for any reason other than a Qualifying Termination, the Award, to the extent not theretofore vested), will thereupon automatically be forfeited, terminated and cancelled, and the Participant shall forfeit all right, entitlement and interest thereto and in such unvested Award, or portion thereof.

5. [Reserved.]

6. At-Will Employment. This Award Agreement is not an employment contract and nothing in this Award Agreement shall be deemed to create in any way whatsoever any obligation of the Participant to continue as an Employee, Consultant or Director of the Company or on the part of the Company to continue the employment or other service relationship of the Participant with the Company. It is understood and agreed to by the Participant that the Award and participation in the Plan does not alter the at-will nature of the Participant's relationship with the Company (subject to the terms of any separate employment agreement the Participant may have with the Company). The at-will nature of the Participant's relationship with the Company can only be altered by a writing signed by both the Participant and the Chief Executive Officer or the President of the Company.

7. Notices. Any notice required or permitted under this Award Agreement shall be deemed given when delivered personally, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to the Participant either at the Participant's address set forth below or such other address as the Participant may designate in writing to the Company, and to the Company: Attention: General Counsel, at the Company's address or such other address as the Company may designate in writing to the Participant.

8. Failure to Enforce Not a Waiver. The failure of the Company to enforce at any time any provision of this Award Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

9. Restrictive Covenants; Arbitration. The Participant agrees and acknowledges that the Participant's right to receive and retain the Award and any payments hereunder is subject to and conditioned upon the Participant's continued compliance with the restrictive covenants contained in Exhibit A attached hereto. In addition, the Participant agrees and acknowledges that any dispute arising with respect to this Award and this Award Agreement will be subject to the Alternative Dispute Resolution provisions set forth in an Employment and Confidentiality Agreement by and between the Participant and the Company.

10. Existing Agreements. This Award Agreement does not supersede nor does it modify any existing agreements between the Participant and the Company.

11. Incorporation of Plan; Deferred Compensation Plan. The Plan is incorporated by reference and made a part of this Award Agreement, and this Award Agreement is subject to all terms and conditions of the Plan as in effect from time to time. This Award shall not constitute Compensation for purposes of the Company's Executive Deferred Compensation Plan, as amended.

12. Amendments. This Award Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto.

13. Withholding. The Company shall withhold, or cause to be withheld, compensation otherwise vesting or issuable under this Award in satisfaction of any applicable withholding tax obligations. To the extent that any Federal Insurance Contributions Act tax withholding obligations arise in connection with the Award prior to the applicable vesting date, the Administrator shall accelerate the payment of a portion of the Award sufficient to satisfy (but not in excess of) such tax withholding obligations and any tax withholding obligations associated with any such accelerated payment, and the Administrator may withhold such amounts in satisfaction of such withholding obligations.

14. Section 409A. Notwithstanding anything to the contrary in this Award Agreement, this Award Agreement is intended to comply with or be exempt from Section 409A of the Code and this Award Agreement and the Plan shall be interpreted in a manner consistent with such intent. Notwithstanding anything to the contrary in this Award Agreement, no amounts shall be paid to the

Participant under this Award Agreement during the six (6)-month period following the Participant's "separation from service" (within the meaning of Section 409A of the Code) to the extent that the Administrator determines that the Participant is a "specified employee" (within the meaning of Section 409A of the Code) at the time of such separation from service and that paying such amounts at the time or times indicated in this Award Agreement would be a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code. If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six (6)-month period (or such earlier date upon which such amount can be paid under Section 409A of the Code without being subject to such additional taxes), the Company shall pay to the Participant in a lump-sum all amounts that would have otherwise been payable to the Participant during such six (6)-month period under this Award Agreement.

15. Performance-Based Compensation. This Award is not intended to constitute qualified performance-based compensation for purposes of the Plan or Section 162(m) of the Code.

16. Miscellaneous.

(a) *Governing Law*. The laws of the State of Maryland shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Award Agreement regardless of the law that might be applied under principles of conflicts of laws.

(b) *Counterparts*. This Award Agreement may be executed in any number of counterparts, any of which may be transmitted by facsimile or e-mail, and each of which shall be deemed to be an original, but all of which together shall be deemed to be one and the same instrument.

(c) *Entire Agreement*. This Award Agreement, including the exhibits attached hereto, constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties hereto.

(d) *Headings*. The headings contained in this Award Agreement are for the convenience of the parties only. They are not operative terms of this Award Agreement, and are not intended to define or limit in any way the terms of this Award Agreement.

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement as of the date and year first above written.

REDWOOD TRUST, INC. PARTICIPANT

By:_ ____
Its:_ [Name]

EXHIBIT A

RESTRICTIVE COVENANTS

1. Non-Disparagement. While providing services to the Company and thereafter, the Participant agrees not to make negative comments or statements about, or otherwise criticize or disparage, in any format or through any medium, the Company or any entity controlled by, controlling or under common control with the Company (“Affiliates”) or any of the officers, directors, managers, employees, services, operations, investments or products of the Company or any of its Affiliates. For purposes of the foregoing sentence, disparagement shall include, but not be limited to, negative comments or statements intended or reasonably likely to be harmful or disruptive to a person’s or entity’s respective business, business reputation, business operations, or personal reputation.

2. Non-Solicitation. While providing services to the Company and, for a period of one (1) year thereafter, the Participant shall not directly or indirectly solicit, induce, or encourage any employee or consultant of any member of the Company and its subsidiaries or Affiliates to terminate their employment or other relationship with the Company and its Affiliates or to cease to render services to any member of the Company and its subsidiaries or Affiliates and the Participant shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity. While providing services to the Company and thereafter, the Participant shall not use any trade secret of the Company or its subsidiaries or Affiliates to solicit, induce, or encourage any customer, client, vendor, or other party doing business with any member of the Company and its subsidiaries or Affiliates to terminate its relationship therewith or transfer its business from any member of the Company and its subsidiaries or Affiliates and the Participant shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

3. Confidentiality. The Participant shall keep secret and retain in the strictest confidence all confidential, proprietary and non-public matters, tangible or intangible, of or related to the Company, its stockholders, subsidiaries, affiliates, successors, assigns, officers, directors, attorneys, fiduciaries, representatives, employees, licensees and agents including, without limitation, trade secrets, business strategies and operations, seller, counterparty and customer lists, manufacturers, vendors, material suppliers, financial information, personnel information, legal advice and counsel obtained from counsel, information regarding litigation, actual, pending or threatened, research and development, identities and habits of employees and agents and business relationships, and shall not disclose them to any person, entity or any federal, state or local agency or authority, except as may be required by law; provided that, in the event disclosure is sought as a result of any subpoena or other legal process initiated against the Participant, the Participant shall immediately give the Company’s General Counsel written notice thereof in order to afford the Company an opportunity to contest such disclosure (such notice to be delivered to: Redwood Trust, Inc., One Belvedere Place, Suite 300, Mill Valley, CA, 94941, Attn: General Counsel).

4. Exceptions. Nothing herein shall prohibit or restrict the Participant from: (i) making any disclosure of information required by law; (ii) providing information to, or testifying or otherwise assisting in any investigation or proceeding brought by, any federal or state regulatory or law enforcement agency or legislative body, any self-regulatory organization, or the Company’s Human Resources, Legal, or Compliance Departments; (iii) testifying, participating in or otherwise assisting in a proceeding relating to an alleged violation of the Sarbanes-Oxley Act of 2002, any federal, state or municipal law relating to fraud or any rule or regulation of any self-regulatory organization; or (iv) filing a charge with, reporting possible violations to, or participating or cooperating with the Securities and Exchange Commission or any other federal, state or local regulatory body or law enforcement agency (each a “Governmental Agency”). Nothing herein shall be construed to limit the Participant’s right to receive an award for any

information provided to a Governmental Agency in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation. In addition, notwithstanding the foregoing obligations, pursuant to 18 U.S.C. § 1833(b), the Participant understands and acknowledges that the Participant shall not be held criminally or civilly liable under any U.S. federal or state trade secret law for the disclosure of a trade secret that is made: (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and protected from public disclosure. Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b).

EXHIBIT 31.1

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

I, Christopher J. Abate, certify that:

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

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

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

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

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

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

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

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

Date: August 7, 2020

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

EXHIBIT 31.2

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

I, Collin L. Cochrane, certify that:

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

Date: August 7, 2020

/s/ Collin L. Cochrane

Collin L. Cochrane
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Redwood Trust, Inc. (the "Registrant") hereby certifies that the Registrant's Quarterly Report on Form 10-Q for the three months ended June 30, 2020 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 7, 2020	/s/ Christopher J. Abate
	Christopher J. Abate
	Chief Executive Officer

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

EXHIBIT 32.2

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Redwood Trust, Inc. (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the three months ended June 30, 2020 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 7, 2020	/s/ Collin L. Cochrane
	Collin L. Cochrane
	Chief Financial Officer

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