

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: September 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**

(State or Other Jurisdiction of  
Incorporation or Organization)

**68-0329422**

(I.R.S. Employer  
Identification No.)

**One Belvedere Place, Suite 300**

**Mill Valley, California**

(Address of Principal Executive Offices)

**94941**

(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 ☒

Non-accelerated filer ☐

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**  
Common stock, par value \$0.01 per share

**Trading symbol(s)**  
RWT

**Name of each exchange on which registered**  
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

111,928,020 shares outstanding as of November 2, 2020

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

	<b>Page</b>
<b>PART I —</b>	
<b>FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	2
Consolidated Balance Sheets at September 30, 2020 (Unaudited) and December 31, 2019	2
Consolidated Statements of Income (Loss) for the Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)	3
Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)	4
Consolidated Statements of Changes in Stockholders' Equity for the Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)	5
Consolidated Statements of Cash Flows for the Nine Months Ended September 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	24
Note 6. Residential Loans	33
Note 7. Business Purpose Residential Loans	35
Note 8. Multifamily Loans	38
Note 9. Real Estate Securities	39
Note 10. Other Investments	43
Note 11. Derivative Financial Instruments	46
Note 12. Other Assets and Liabilities	48
Note 13. Short-Term Debt	49
Note 14. Asset-Backed Securities Issued	51
Note 15. Long-Term Debt	52
Note 16. Commitments and Contingencies	54
Note 17. Equity	59
Note 18. Equity Compensation Plans	62
Note 19. Mortgage Banking Activities, Net	64
Note 20. Other Income	65
Note 21. General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses	66
Note 22. Taxes	67
Note 23. Segment Information	68
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	73
Item 3. Quantitative and Qualitative Disclosures About Market Risk	104
Item 4. Controls and Procedures	104
<b>PART II —</b>	
<b>OTHER INFORMATION</b>	
Item 1. Legal Proceedings	105
Item 1A. Risk Factors	106
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	107
Item 3. Defaults Upon Senior Securities	107
Item 4. Mine Safety Disclosures (Not Applicable)	107
Item 5. Other Information	107
Item 6. Exhibits	108
Signatures	110

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

**(In Thousands, except Share Data)**  
**(Unaudited)**

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
<b>ASSETS<sup>(1)</sup></b>		
Residential loans, held-for-sale, at fair value	\$ 105,128	\$ 536,385
Residential loans, held-for-investment, at fair value	4,389,808	7,178,465
Business purpose residential loans, held-for-sale, at fair value	285,549	331,565
Business purpose residential loans, held-for-investment, at fair value	3,670,552	3,175,178
Multifamily loans, held-for-investment, at fair value	491,415	4,408,524
Real estate securities, at fair value	351,335	1,099,874
Other investments	384,628	358,130
Cash and cash equivalents	450,684	196,966
Restricted cash	73,594	93,867
Goodwill and intangible assets	60,737	161,464
Derivative assets	14,709	35,701
Other assets	124,273	419,321
<b>Total Assets</b>	<b>\$ 10,402,412</b>	<b>\$ 17,995,440</b>
<b>LIABILITIES AND EQUITY<sup>(1)</sup></b>		
<b>Liabilities</b>		
Short-term debt, net	\$ 482,761	\$ 2,329,145
Derivative liabilities	1,612	163,424
Accrued expenses and other liabilities	155,989	206,893
Asset-backed securities issued (includes \$6,969,376 and \$10,515,475 at fair value), net	7,172,398	10,515,475
Long-term debt, net	1,536,188	2,953,272
<b>Total liabilities</b>	<b>9,348,948</b>	<b>16,168,209</b>
<b>Commitments and Contingencies (see Note 16)</b>		
<b>Equity</b>		
Common stock, par value \$0.01 per share, 395,000,000 and 270,000,000 shares authorized; 111,904,322 and 114,353,036 issued and outstanding	1,119	1,144
Additional paid-in capital	2,261,911	2,269,617
Accumulated other comprehensive (loss) income	(20,560)	41,513
Cumulative earnings	942,982	1,579,124
Cumulative distributions to stockholders	(2,131,988)	(2,064,167)
<b>Total equity</b>	<b>1,053,464</b>	<b>1,827,231</b>
<b>Total Liabilities and Equity</b>	<b>\$ 10,402,412</b>	<b>\$ 17,995,440</b>

(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 September 30, 2020 and December 31, 2019, assets of consolidated VIEs totaled \$8,197,095 and \$11,931,869, respectively. At September 30, 2020 and December 31, 2019, liabilities of consolidated VIEs totaled \$ 7,238,047 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) (Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Interest Income</b>				
Residential loans	\$ 44,921	\$ 77,070	\$ 179,331	\$ 230,308
Business purpose residential loans	55,637	5,446	161,710	12,231
Multifamily loans	4,918	36,829	49,960	94,134
Real estate securities	10,135	23,047	38,471	72,514
Other interest income	6,371	7,725	20,537	20,513
Total interest income	121,982	150,117	450,009	429,700
<b>Interest Expense</b>				
Short-term debt	(5,145)	(24,239)	(45,119)	(70,732)
Asset-backed securities issued	(66,514)	(71,065)	(232,316)	(196,473)
Long-term debt	(28,752)	(21,300)	(72,313)	(64,895)
Total interest expense	(100,411)	(116,604)	(349,748)	(332,100)
<b>Net Interest Income</b>	21,571	33,513	100,261	97,600
<b>Non-interest Income (Loss)</b>				
Mortgage banking activities, net	59,395	9,515	24,511	40,984
Investment fair value changes, net	107,047	11,444	(611,557)	34,741
Other income, net	(114)	4,356	3,979	13,840
Realized gains, net	602	4,714	30,419	18,227
Total non-interest income (loss), net	166,930	30,029	(552,648)	107,792
General and administrative expenses	(27,630)	(24,899)	(84,832)	(70,722)
Loan acquisition costs	(2,158)	(1,916)	(7,716)	(5,507)
Other expenses	(7,788)	(2,531)	(104,286)	(6,021)
<b>Net Income (Loss) before (Provision for) Benefit from Income Taxes</b>	150,925	34,196	(649,221)	123,142
(Provision for) benefit from income taxes	(9,113)	114	13,079	(3,102)
<b>Net Income (Loss)</b>	<u>\$ 141,812</u>	<u>\$ 34,310</u>	<u>\$ (636,142)</u>	<u>\$ 120,040</u>
Basic earnings (loss) per common share	\$ 1.21	\$ 0.33	\$ (5.60)	\$ 1.20
Diluted earnings (loss) per common share	\$ 1.02	\$ 0.31	\$ (5.60)	\$ 1.09
Basic weighted average shares outstanding	113,403,102	101,872,126	113,952,308	97,214,064
Diluted weighted average shares outstanding	141,969,977	136,522,709	113,952,308	131,202,689

*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) (Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Net Income (Loss)</b>	\$ 141,812	\$ 34,310	\$ (636,142)	\$ 120,040
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities	8,236	4,484	(19,890)	19,764
Reclassification of unrealized gain on available-for-sale securities to net income	(445)	(3,492)	(11,525)	(15,807)
Net unrealized loss on interest rate agreements	—	(11,791)	(32,806)	(27,130)
Reclassification of unrealized loss on interest rate agreements to net income	1,040	—	2,148	—
<b>Total other comprehensive income (loss)</b>	<b>8,831</b>	<b>(10,799)</b>	<b>(62,073)</b>	<b>(23,173)</b>
<b>Total Comprehensive Income (Loss)</b>	<b>\$ 150,643</b>	<b>\$ 23,511</b>	<b>\$ (698,215)</b>	<b>\$ 96,867</b>

*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 September 30, 2020**

(In Thousands, except Share Data) (Unaudited)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
	Shares	Amount					
<b>June 30, 2020</b>	114,940,197	\$ 1,149	\$ 2,279,625	\$ (29,391)	\$ 801,170	\$ (2,115,977)	\$ 936,576
Net income	—	—	—	—	141,812	—	141,812
Other comprehensive income	—	—	—	8,831	—	—	8,831
Employee stock purchase and incentive plans	11,460	—	9	—	—	—	9
Non-cash equity award compensation	—	—	3,906	—	—	—	3,906
Share repurchases	(3,047,335)	(30)	(21,629)	—	—	—	(21,659)
Common dividends declared (\$0.14 per share)	—	—	—	—	—	(16,011)	(16,011)
<b>September 30, 2020</b>	<u>111,904,322</u>	<u>\$ 1,119</u>	<u>\$ 2,261,911</u>	<u>\$ (20,560)</u>	<u>\$ 942,982</u>	<u>\$ (2,131,988)</u>	<u>\$ 1,053,464</u>

**For the Nine Months Ended September 30, 2020**

(In Thousands, except Share Data) (Unaudited)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
	Shares	Amount					
<b>December 31, 2019</b>	114,353,036	\$ 1,144	\$ 2,269,617	\$ 41,513	\$ 1,579,124	\$ (2,064,167)	\$ 1,827,231
Net loss	—	—	—	—	(636,142)	—	(636,142)
Other comprehensive loss	—	—	—	(62,073)	—	—	(62,073)
Issuance of common stock	350,088	3	5,544	—	—	—	5,547
Employee stock purchase and incentive plans	248,533	2	(2,767)	—	—	—	(2,765)
Non-cash equity award compensation	—	—	11,146	—	—	—	11,146
Share repurchases	(3,047,335)	(30)	(21,629)	—	—	—	(21,659)
Common dividends declared (\$0.585 per share)	—	—	—	—	—	(67,821)	(67,821)
<b>September 30, 2020</b>	<u>111,904,322</u>	<u>\$ 1,119</u>	<u>\$ 2,261,911</u>	<u>\$ (20,560)</u>	<u>\$ 942,982</u>	<u>\$ (2,131,988)</u>	<u>\$ 1,053,464</u>

**For the Three Months Ended September 30, 2019**

(In Thousands, except Share Data) (Unaudited)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
	Shares	Amount					
<b>June 30, 2019</b>	97,715,021	\$ 977	\$ 2,013,044	\$ 48,923	\$ 1,495,671	\$ (1,994,583)	\$ 1,564,032
Net income	—	—	—	—	34,310	—	34,310
Other comprehensive loss	—	—	—	(10,799)	—	—	(10,799)
Issuance of common stock	14,375,000	144	228,339	—	—	—	228,483
Employee stock purchase and incentive plans	11,710	—	154	—	—	—	154
Non-cash equity award compensation	—	—	3,297	—	—	—	3,297
Common dividends declared (\$0.30 per share)	—	—	—	—	—	(34,418)	(34,418)
<b>September 30, 2019</b>	<u>112,101,731</u>	<u>\$ 1,121</u>	<u>\$ 2,244,834</u>	<u>\$ 38,124</u>	<u>\$ 1,529,981</u>	<u>\$ (2,029,001)</u>	<u>\$ 1,785,059</u>

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

**For the Nine Months Ended September 30, 2019**

(In Thousands, except Share Data) (Unaudited)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
	Shares	Amount					
<b>December 31, 2018</b>	84,884,344	\$ 849	\$ 1,811,422	\$ 61,297	\$ 1,409,941	\$ (1,934,715)	\$ 1,348,794
Net income	—	—	—	—	120,040	—	120,040
Other comprehensive loss	—	—	—	(23,173)	—	—	(23,173)
Issuance of common stock	26,666,191	267	418,324	—	—	—	418,591
Direct stock purchase and dividend reinvestment plan	399,838	4	6,303	—	—	—	6,307
Employee stock purchase and incentive plans	151,358	1	(1,767)	—	—	—	(1,766)
Non-cash equity award compensation	—	—	10,552	—	—	—	10,552
Common dividends declared (\$0.90 per share)	—	—	—	—	—	(94,286)	(94,286)
<b>September 30, 2019</b>	<u>112,101,731</u>	<u>\$ 1,121</u>	<u>\$ 2,244,834</u>	<u>\$ 38,124</u>	<u>\$ 1,529,981</u>	<u>\$ (2,029,001)</u>	<u>\$ 1,785,059</u>

*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)	Nine Months Ended September 30,	
	2020	2019
<b>Cash Flows From Operating Activities:</b>		
Net (loss) income	\$ (636,142)	\$ 120,040
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Amortization of premiums, discounts, and securities issuance costs, net	6,213	(3,486)
Depreciation and amortization of non-financial assets	13,166	5,673
Originations of held-for-sale loans	(654,820)	(124,392)
Purchases of held-for-sale loans	(2,893,246)	(4,002,509)
Proceeds from sales of held-for-sale loans	3,224,526	2,971,811
Principal payments on held-for-sale loans	53,677	77,100
Net settlements of derivatives	(187,130)	(32,902)
Non-cash equity award compensation expense	11,146	10,552
Goodwill impairment expense	88,675	—
Market valuation adjustments	606,764	(62,720)
Realized gains, net	(30,419)	(18,227)
Net change in:		
Accrued interest receivable and other assets	304,147	(141,197)
Accrued interest payable and accrued expenses and other liabilities	(82,489)	(1,049)
Net cash used in operating activities	(175,932)	(1,201,306)
<b>Cash Flows From Investing Activities:</b>		
Originations of loan investments	(327,494)	(171,915)
Purchases of loan investment	—	(49,489)
Proceeds from sales of loan investments	1,574,160	9,422
Principal payments on loan investments	1,652,418	1,091,652
Purchases of real estate securities	(106,422)	(309,839)
Purchases of residential securities held in consolidated securitization trust	—	(193,212)
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	634,709	487,469
Principal payments on real estate securities	19,446	62,711
Purchases of servicer advance investments	(179,419)	(69,610)
Principal repayments from servicer advance investments	83,124	150,512
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	40,898	(33,090)
Other investing activities, net	(19,865)	(24,989)
Net cash provided by investing activities	3,514,545	915,516
<b>Cash Flows From Financing Activities:</b>		
Proceeds from borrowings on short-term debt	3,981,572	4,009,083
Repayments on short-term debt	(5,828,972)	(4,435,823)
Proceeds from issuance of asset-backed securities	1,343,845	1,020,136
Repayments on asset-backed securities issued	(1,037,546)	(720,651)
Proceeds from issuance of long-term debt	1,251,850	387,053
Deferred long-term debt issuance costs paid	(9,526)	(7,023)
Repayments on long-term debt	(2,640,007)	—
Net settlements of derivatives	(84,336)	—
Net proceeds from issuance of common stock	5,791	426,970
Net payments on repurchase of common stock	(21,659)	—
Taxes paid on equity award distributions	(3,009)	—
Dividends paid	(67,821)	(94,286)
Other financing activities, net	4,650	1,400
Net cash (used in) provided by financing activities	(3,105,168)	586,859
Net increase in cash, cash equivalents and restricted cash	233,445	301,069
Cash, cash equivalents and restricted cash at beginning of period <sup>(1)</sup>	290,833	205,077
Cash, cash equivalents and restricted cash at end of period <sup>(1)</sup>	\$ 524,278	\$ 506,146



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

(In Thousands) (Unaudited)	Nine Months Ended September 30,	
	2020	2019
<b>Supplemental Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$ 364,875	\$ 319,036
Taxes	218	6,977
<b>Supplemental Noncash Information:</b>		
Real estate securities retained from loan securitizations	\$ 46,560	\$ 7,759
Retention of mortgage servicing rights from loan securitizations and sales	—	868
Consolidation of residential loans held in securitization trusts	—	1,190,995
Consolidation of residential ABS	—	997,783
(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	770,754	1,361,015
Transfers from residential loans to real estate owned	12,547	5,280
Right-of-use asset obtained in exchange for operating lease liability	5,362	13,016
Reduction in operating lease liability due to lease modification	1,466	—

(1) Cash, cash equivalents, and restricted cash at September 30, 2020 includes cash and cash equivalents of \$ 451 million and restricted cash of \$ 74 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.*

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 September 30, 2020 and December 31, 2019, and for the three and nine months ended September 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 September 30, 2020 and results of operations for all periods presented have been made. The results of operations for the three and nine months ended September 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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 nine months ended September 30, 2020 is summarized in the table below.

**Table 2.1 – Intangible Assets – Activity**

<b>(Dollars in Thousands)</b>	<b>Carrying Value at December 31, 2019</b>	<b>Additions</b>	<b>Amortization Expense</b>	<b>Carrying Value at September 30, 2020</b>	<b>Weighted Average Amortization Period (in years)</b>
Borrower network	\$ 43,952	\$ —	\$ (4,854)	\$ 39,098	7
Broker network	15,083	—	(2,715)	12,368	5
Non-compete agreements	8,236	—	(2,375)	5,861	3
Tradenames	3,472	—	(1,000)	2,472	3
Developed technology	1,613	—	(675)	938	2
Loan administration fees on existing loan assets	433	—	(433)	—	1
<b>Total</b>	<b>\$ 72,789</b>	<b>\$ —</b>	<b>\$ (12,052)</b>	<b>\$ 60,737</b>	<b>6</b>

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**

<b>(In Thousands)</b>	<b>September 30, 2020</b>
2020 (3 months)	\$ 3,873
2021	15,304
2022	12,800
2023	10,091
2024	7,073
2025 and thereafter	11,596
<b>Total Future Intangible Asset Amortization</b>	<b>\$ 60,737</b>

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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 \$5 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 September 30, 2020, the carrying value of this deferred liability was \$14 million and was recorded as a component of Accrued expenses and other liabilities on our consolidated balance sheets. During the three and nine months ended September 30, 2020, we recorded \$0.1 million and \$0.6 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 nine months ended September 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 September 30, 2019	Nine Months Ended September 30, 2019
Supplementary pro forma information:		
Net interest income	\$ 45,702	\$ 133,446
Non-interest income	38,177	116,649
Net income	46,609	140,790

**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 nine months ended September 30, 2020.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 August 2020, the FASB issued ASU 2020-06, "Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)." This new guidance simplifies the accounting for convertible debt by reducing the number of accounting models to separately present certain conversion features in equity. This new guidance is effective for fiscal years beginning after December 31, 2021. Early adoption is permitted. We plan to adopt this new guidance by the required date and do not anticipate that this update will have a material impact on our consolidated financial statements.

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

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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

**Balance Sheet Netting**

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

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

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

September 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 <sup>(1)</sup>		Net Amount
				Financial Instruments	Cash Collateral (Received) Pledged	
<b>Assets <sup>(2)</sup></b>						
Interest rate agreements	\$ 3,471	\$ —	\$ 3,471	\$ (15)	\$ (1,240)	\$ 2,216
TBAs	402	—	402	—	(263)	139
Futures	63	—	63	—	—	63
<b>Total Assets</b>	<u>\$ 3,936</u>	<u>\$ —</u>	<u>\$ 3,936</u>	<u>\$ (15)</u>	<u>\$ (1,503)</u>	<u>\$ 2,418</u>
<b>Liabilities <sup>(2)</sup></b>						
Interest rate agreements	\$ (15)	\$ —	\$ (15)	\$ 15	\$ —	\$ —
TBAs	(263)	—	(263)	—	263	—
Loan warehouse debt	(81,898)	—	(81,898)	81,898	—	—
Security repurchase agreements	(75,054)	—	(75,054)	75,054	—	—
<b>Total Liabilities</b>	<u>\$ (157,230)</u>	<u>\$ —</u>	<u>\$ (157,230)</u>	<u>\$ 156,967</u>	<u>\$ 263</u>	<u>\$ —</u>



**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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 <sup>(1)</sup>		
				Financial Instruments	Cash Collateral (Received) Pledged	Net Amount
<b>Assets <sup>(2)</sup></b>						
Interest rate agreements	\$ 19,020	\$ —	\$ 19,020	\$ (14,178)	\$ (915)	\$ 3,927
TBAs	5,755	—	5,755	(5,755)	—	—
Futures	137	—	137	—	—	137
<b>Total Assets</b>	<u>\$ 24,912</u>	<u>\$ —</u>	<u>\$ 24,912</u>	<u>\$ (19,933)</u>	<u>\$ (915)</u>	<u>\$ 4,064</u>
<b>Liabilities <sup>(2)</sup></b>						
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	—	—
<b>Total Liabilities</b>	<u>\$ (1,690,828)</u>	<u>\$ —</u>	<u>\$ (1,690,828)</u>	<u>\$ 1,548,637</u>	<u>\$ 141,260</u>	<u>\$ (931)</u>

- (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.

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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

***Analysis of Consolidated VIEs***

At September 30, 2020, we consolidated Legacy Sequoia, Sequoia Choice, 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 September 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 \$5 million, \$211 million, \$418 million, \$27 million, and \$232 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 September 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 September 30, 2020, the estimated fair value of our investment in the Servicing Investment entities was \$65 million.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 Accounted for as Collateralized Financing Entities**

<b>September 30, 2020</b>							
<b>(Dollars in Thousands)</b>	<b>Legacy Sequoia</b>	<b>Sequoia Choice</b>	<b>Freddie Mac SLST</b>	<b>Freddie Mac K-Series</b>	<b>CAFL</b>	<b>Servicing Investment</b>	<b>Total Consolidated VIEs</b>
Residential loans, held-for-investment	\$ 296,765	\$ 1,836,361	\$ 2,256,682	\$ —	\$ —	\$ —	\$ 4,389,808
Business purpose residential loans, held-for-investment	—	—	—	—	2,969,692	—	2,969,692
Multifamily loans, held-for-investment	—	—	—	491,415	—	—	491,415
Other investments	—	—	—	—	—	278,487	278,487
Cash and cash equivalents	—	—	—	—	—	10,425	10,425
Restricted cash	146	—	—	—	—	20,649	20,795
Accrued interest receivable	402	7,292	6,928	1,342	12,071	2,609	30,644
Other assets	784	—	887	—	4,158	—	5,829
<b>Total Assets</b>	<b>\$ 298,097</b>	<b>\$ 1,843,653</b>	<b>\$ 2,264,497</b>	<b>\$ 492,757</b>	<b>\$ 2,985,921</b>	<b>\$ 312,170</b>	<b>\$ 8,197,095</b>
Short-term debt	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 228,998	\$ 228,998
Accrued interest payable	180	5,652	5,009	1,182	9,337	137	21,497
Accrued expenses and other liabilities	—	47	—	—	—	18,129	18,176
Asset-backed securities issued	292,484	1,626,564	1,841,313	464,865	2,744,150	—	6,969,376
<b>Total Liabilities</b>	<b>\$ 292,664</b>	<b>\$ 1,632,263</b>	<b>\$ 1,846,322</b>	<b>\$ 466,047</b>	<b>\$ 2,753,487</b>	<b>\$ 247,264</b>	<b>\$ 7,238,047</b>
<b>Number of VIEs</b>	<b>20</b>	<b>10</b>	<b>2</b>	<b>1</b>	<b>13</b>	<b>3</b>	<b>49</b>

  

<b>December 31, 2019</b>							
<b>(Dollars in Thousands)</b>	<b>Legacy Sequoia</b>	<b>Sequoia Choice</b>	<b>Freddie Mac SLST</b>	<b>Freddie Mac K-Series</b>	<b>CAFL</b>	<b>Servicing Investment</b>	<b>Total Consolidated VIEs</b>
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
<b>Total Assets</b>	<b>\$ 409,148</b>	<b>\$ 2,301,314</b>	<b>\$ 2,374,973</b>	<b>\$ 4,422,063</b>	<b>\$ 2,203,919</b>	<b>\$ 220,452</b>	<b>\$ 11,931,869</b>
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
<b>Total Liabilities</b>	<b>\$ 402,860</b>	<b>\$ 2,044,957</b>	<b>\$ 1,923,696</b>	<b>\$ 4,169,126</b>	<b>\$ 2,008,736</b>	<b>\$ 167,697</b>	<b>\$ 10,717,072</b>
<b>Number of VIEs</b>	<b>20</b>	<b>9</b>	<b>2</b>	<b>5</b>	<b>10</b>	<b>3</b>	<b>49</b>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

**Table 4.2 – Income (Loss) from Consolidated VIEs Accounted for as Collateralized Financing Entities**

<b>Three Months Ended September 30, 2020</b>							
<b>(Dollars in Thousands)</b>	<b>Legacy Sequoia</b>	<b>Sequoia Choice</b>	<b>Freddie Mac SLST</b>	<b>Freddie Mac K-Series</b>	<b>CAFL</b>	<b>Servicing Investment</b>	<b>Total Consolidated VIEs</b>
Interest income	\$ 1,795	\$ 20,919	\$ 21,696	\$ 4,918	\$ 36,181	\$ 4,403	\$ 89,912
Interest expense	(1,058)	(17,828)	(15,473)	(4,426)	(27,499)	(1,587)	(67,871)
<b>Net interest income</b>	<b>737</b>	<b>3,091</b>	<b>6,223</b>	<b>492</b>	<b>8,682</b>	<b>2,816</b>	<b>22,041</b>
<b>Non-interest income</b>							
Investment fair value changes, net	(81)	7,851	82,214	2,166	9,692	(422)	101,420
<b>Total non-interest income, net</b>	<b>(81)</b>	<b>7,851</b>	<b>82,214</b>	<b>2,166</b>	<b>9,692</b>	<b>(422)</b>	<b>101,420</b>
General and administrative expenses	—	—	—	—	—	(41)	(41)
Other expenses	—	—	—	—	—	(471)	(471)
<b>Income from Consolidated VIEs</b>	<b>\$ 656</b>	<b>\$ 10,942</b>	<b>\$ 88,437</b>	<b>\$ 2,658</b>	<b>\$ 18,374</b>	<b>\$ 1,882</b>	<b>\$ 122,949</b>
<b>Nine Months Ended September 30, 2020</b>							
<b>(Dollars in Thousands)</b>	<b>Legacy Sequoia</b>	<b>Sequoia Choice</b>	<b>Freddie Mac SLST</b>	<b>Freddie Mac K-Series</b>	<b>CAFL</b>	<b>Servicing Investment</b>	<b>Total Consolidated VIEs</b>
Interest income	\$ 7,675	\$ 68,566	\$ 64,869	\$ 49,960	\$ 99,169	\$ 13,026	\$ 303,265
Interest expense	(5,098)	(58,455)	(47,495)	(47,154)	(75,600)	(4,961)	(238,763)
<b>Net interest income</b>	<b>2,577</b>	<b>10,111</b>	<b>17,374</b>	<b>2,806</b>	<b>23,569</b>	<b>8,065</b>	<b>64,502</b>
<b>Non-interest income</b>							
Investment fair value changes, net	(702)	(22,065)	(33,081)	(82,744)	(41,841)	(9,015)	(189,448)
<b>Total non-interest income, net</b>	<b>(702)</b>	<b>(22,065)</b>	<b>(33,081)</b>	<b>(82,744)</b>	<b>(41,841)</b>	<b>(9,015)</b>	<b>(189,448)</b>
General and administrative expenses	—	—	—	—	—	(784)	(784)
Other expenses	—	—	—	—	—	346	346
<b>Income (Loss) from Consolidated VIEs</b>	<b>\$ 1,875</b>	<b>\$ (11,954)</b>	<b>\$ (15,707)</b>	<b>\$ (79,938)</b>	<b>\$ (18,272)</b>	<b>\$ (1,388)</b>	<b>\$ (125,384)</b>
<b>Three Months Ended September 30, 2019</b>							
<b>(Dollars in Thousands)</b>	<b>Legacy Sequoia</b>	<b>Sequoia Choice</b>	<b>Freddie Mac SLST</b>	<b>Freddie Mac K-Series</b>	<b>CAFL</b>	<b>Servicing Investment</b>	<b>Total Consolidated VIEs</b>
Interest income	\$ 4,295	\$ 27,555	\$ 11,830	\$ 36,829	\$ —	\$ 3,922	\$ 84,431
Interest expense	(3,452)	(23,576)	(8,709)	(35,328)	—	(2,891)	(73,956)
<b>Net interest income</b>	<b>843</b>	<b>3,979</b>	<b>3,121</b>	<b>1,501</b>	<b>—</b>	<b>1,031</b>	<b>10,475</b>
<b>Non-interest income</b>							
Investment fair value changes, net	(407)	2,722	17,300	7,445	—	963	28,023
<b>Total non-interest income, net</b>	<b>(407)</b>	<b>2,722</b>	<b>17,300</b>	<b>7,445</b>	<b>—</b>	<b>963</b>	<b>28,023</b>
General and administrative expenses	—	—	—	—	—	(16)	(16)
Other expenses	—	—	—	—	—	(395)	(395)
<b>Income from Consolidated VIEs</b>	<b>\$ 436</b>	<b>\$ 6,701</b>	<b>\$ 20,421</b>	<b>\$ 8,946</b>	<b>\$ —</b>	<b>\$ 1,583</b>	<b>\$ 38,087</b>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

	Nine Months Ended September 30, 2019						
(Dollars in Thousands)	Legacy Sequoia	Sequoia Choice	Freddie Mac SLST	Freddie Mac K-Series	CAFL	Servicing Investment	Total Consolidated VIEs
Interest income	\$ 13,924	\$ 80,045	\$ 35,221	\$ 94,134	\$ —	\$ 10,847	\$ 234,171
Interest expense	(11,548)	(68,823)	(26,013)	(90,089)	—	(9,905)	(206,378)
<b>Net interest income</b>	2,376	11,222	9,208	4,045	—	942	27,793
<b>Non-interest income</b>							
Investment fair value changes, net	(904)	8,866	31,702	13,810	—	3,462	56,936
<b>Total non-interest income, net</b>	(904)	8,866	31,702	13,810	—	3,462	56,936
General and administrative expenses	—	—	—	—	—	(87)	(87)
Other expenses	—	—	—	—	—	(864)	(864)
<b>Income from Consolidated VIEs</b>	<u>\$ 1,472</u>	<u>\$ 20,088</u>	<u>\$ 40,910</u>	<u>\$ 17,855</u>	<u>\$ —</u>	<u>\$ 3,453</u>	<u>\$ 83,778</u>

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 MSR. 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.

During the third quarter of 2020, we re-securitized subordinate securities we owned in our consolidated Freddie Mac SLST securitization trusts, through the transfer of these financial assets to a re-securitization trust that we sponsored. We retain a subordinate investment in the re-securitization trust and maintain certain discretionary rights associated with the ownership of this investment that we determined reflected a controlling financial interest in the entity, as we have both the power to direct the activities that most significantly impact the performance of the VIE and the right to receive benefits of and the obligation to absorb losses from the VIE that could potentially be significant to the VIE. At securitization, we issued \$210 million of ABS and have elected to account for the ABS issued at amortized cost.

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

Since 2012, we have transferred residential loans to 51 Sequoia securitization entities sponsored by us that are still outstanding as of September 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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

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

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Principal balance of loans transferred	\$ —	\$ 366,999	\$ 1,573,703	\$ 1,116,092
Trading securities retained, at fair value	—	1,228	43,362	4,736
AFS securities retained, at fair value	—	1,069	3,198	3,023

The following table summarizes the cash flows during the three and nine months ended September 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**

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Proceeds from new transfers	\$ —	\$ 376,126	\$ 1,610,761	\$ 1,138,778
MSR fees received	2,280	2,919	7,445	9,084
Funding of compensating interest, net	4	(76)	(293)	(213)
Cash flows received on retained securities	5,873	6,603	19,242	20,892

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 nine months ended September 30, 2020 and 2019.

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

At Date of Securitization	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
	Senior IO Securities	Subordinate Securities	Senior IO Securities	Subordinate Securities
Prepayment rates	N/A	N/A	37 %	15 %
Discount rates	N/A	N/A	14 %	7 %
Credit loss assumptions	N/A	N/A	0.20 %	0.20 %

  

At Date of Securitization	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Senior IO Securities	Subordinate Securities	Senior IO Securities	Subordinate Securities
Prepayment rates	41 %	13 %	25 %	15 %
Discount rates	16 %	6 %	14 %	7 %
Credit loss assumptions	0.21 %	0.22 %	0.20 %	0.20 %

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

The following table presents additional information at September 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)	September 30, 2020	December 31, 2019
On-balance sheet assets, at fair value:		
Interest-only, senior and subordinate securities, classified as trading	\$ 19,878	\$ 88,425
Subordinate securities, classified as AFS	124,132	140,649
Mortgage servicing rights	14,240	40,254
Maximum loss exposure <sup>(1)</sup>	<u>\$ 158,250</u>	<u>\$ 269,328</u>
Assets transferred:		
Principal balance of loans outstanding	\$ 8,571,916	\$ 10,299,442
Principal balance of loans 30+ days delinquent	200,910	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 September 30, 2020 and December 31, 2019.

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

September 30, 2020 (Dollars in Thousands)	MSRs	Senior Securities <sup>(1)</sup>	Subordinate Securities
Fair value at September 30, 2020	\$ 14,240	\$ 16,226	\$ 127,783
Expected life (in years) <sup>(2)</sup>	3	3	10
Prepayment speed assumption (annual CPR) <sup>(2)</sup>	26 %	30 %	27 %
Decrease in fair value from:			
10% adverse change	\$ 1,105	\$ 1,622	\$ 1,075
25% adverse change	2,678	3,675	3,735
Discount rate assumption <sup>(2)</sup>	12 %	17 %	6 %
Decrease in fair value from:			
100 basis point increase	\$ 383	\$ 327	\$ 10,219
200 basis point increase	746	638	19,348
Credit loss assumption <sup>(2)</sup>	N/A	0.38 %	0.38 %
Decrease in fair value from:			
10% higher losses	N/A	\$ —	\$ 2,274
25% higher losses	N/A	—	5,500

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

**December 31, 2019**

<b>(Dollars in Thousands)</b>	<b>MSRs</b>	<b>Senior Securities <sup>(1)</sup></b>	<b>Subordinate Securities</b>
Fair value at December 31, 2019	\$ 40,254	\$ 48,765	\$ 180,309
Expected life (in years) <sup>(2)</sup>	6	6	14
Prepayment speed assumption (annual CPR) <sup>(2)</sup>	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 <sup>(2)</sup>	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 <sup>(2)</sup>	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 \$16 million and \$49 million of interest-only securities at September 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 September 30, 2020 and December 31, 2019, grouped by asset type.

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

<b>(In Thousands)</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
<b>Mortgage-Backed Securities</b>		
Senior	\$ 11,865	\$ 127,094
Mezzanine	2,016	508,195
Subordinate	193,445	235,510
<b>Total Mortgage-Backed Securities</b>	<b>207,326</b>	<b>870,799</b>
Excess MSR	15,205	16,216
<b>Total Investments in Third-Party Sponsored VIEs</b>	<b>\$ 222,531</b>	<b>\$ 887,015</b>

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.



**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 September 30, 2020 and December 31, 2019.

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

(In Thousands)	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Residential loans, held-for-sale at fair value	\$ 105,091	\$ 105,091	\$ 536,385	\$ 536,509
Residential loans, held-for-investment	4,389,808	4,389,808	7,178,465	7,178,465
Business purpose residential loans, held-for-sale	285,549	285,549	331,565	331,565
Business purpose residential loans, held-for-investment	3,670,552	3,670,552	3,175,178	3,175,178
Multifamily loans	491,415	491,415	4,408,524	4,408,524
Real estate securities	351,335	351,335	1,099,874	1,099,874
Servicer advance investments <sup>(1)</sup>	258,621	258,621	169,204	169,204
MSRs <sup>(1)</sup>	14,878	14,878	42,224	42,224
Excess MSRs <sup>(1)</sup>	35,070	35,070	31,814	31,814
Shared home appreciation options <sup>(1)</sup>	41,758	41,758	45,085	45,085
Cash and cash equivalents	450,684	450,684	196,966	196,966
Restricted cash	73,594	73,594	93,867	93,867
Derivative assets	14,709	14,709	35,701	35,701
REO <sup>(2)</sup>	8,535	9,654	9,462	10,389
Margin receivable <sup>(2)</sup>	3,809	3,809	209,776	209,776
FHLBC stock <sup>(2)</sup>	5,000	5,000	43,393	43,393
Guarantee asset <sup>(2)</sup>	579	579	1,686	1,686
Pledged collateral <sup>(2)</sup>	8,172	8,172	32,945	32,945
<b>Liabilities</b>				
Short-term debt	\$ 482,761	\$ 482,761	\$ 2,329,145	\$ 2,329,145
Margin payable <sup>(3)</sup>	—	—	1,700	1,700
Guarantee obligation <sup>(3)</sup>	11,264	10,185	14,009	13,754
Contingent consideration <sup>(3)</sup>	—	—	28,484	28,484
Derivative liabilities	1,612	1,612	163,424	163,424
ABS issued, net				
Fair value	6,969,376	6,969,376	10,515,475	10,515,475
Amortized cost	203,022	207,812	—	—
FHLBC long-term borrowings	1,000	1,000	1,999,999	1,999,999
Other long-term debt, net	886,054	885,172	183,520	184,666
Convertible notes, net	510,472	476,071	631,125	661,985
Trust preferred securities and subordinated notes, net	138,663	73,238	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.

During the three and nine months ended September 30, 2020, we elected the fair value option for \$8 million and \$96 million of securities, respectively, \$172 million and \$2.86 billion of residential loans (principal balance), respectively, \$260 million and \$956 million of business purpose residential loans (principal balance), respectively, zero and \$179 million of servicer advance investments, respectively, zero 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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

The following table presents the assets and liabilities that are reported at fair value on our consolidated balance sheets on a recurring basis at September 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*

September 30, 2020 (In Thousands)	Carrying Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets				
Residential loans	\$ 4,494,899	\$ —	\$ —	\$ 4,494,899
Business purpose residential loans	3,956,101	—	—	3,956,101
Multifamily loans	491,415	—	—	491,415
Real estate securities	351,335	—	—	351,335
Servicer advance investments	258,621	—	—	258,621
MSRs	14,878	—	—	14,878
Excess MSRs	35,070	—	—	35,070
Shared home appreciation options	41,758	—	—	41,758
Derivative assets	14,709	464	3,472	10,773
Pledged collateral	8,172	8,172	—	—
FHLBC stock	5,000	—	5,000	—
Guarantee asset	579	—	—	579
Liabilities				
Derivative liabilities	\$ 1,612	\$ 263	\$ 15	\$ 1,334
ABS issued	6,969,376	—	—	6,969,376

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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	
Real estate securities	1,099,874	—	—	1,099,874	
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 nine months ended September 30, 2020.

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

<b>(In Thousands)</b>	<b>Assets</b>								
	<b>Residential Loans</b>	<b>Business Purpose Residential Loans</b>	<b>Multifamily Loans</b>	<b>Trading Securities</b>	<b>AFS Securities</b>	<b>Servicer Advance Investments</b>	<b>MSRs</b>	<b>Excess MSRs</b>	<b>Shared Home Appreciation Options</b>
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	2,927,697	—	—	96,318	56,664	179,419	—	10,906	3,517
Originations	—	982,315	—	—	—	—	—	—	—
Sales	(4,783,682)	(53,434)	—	(579,466)	(55,193)	—	—	—	—
Principal paydowns	(1,210,117)	(489,243)	(5,830)	(8,502)	(10,345)	(83,124)	—	—	(2,558)
Deconsolidations	—	—	(3,849,779)	—	—	—	—	—	—
Gains (losses) in net income (loss), net	(152,145)	16,246	(61,500)	(224,728)	(23,287)	(6,878)	(27,346)	(7,650)	(4,286)
Other settlements, net <sup>(1)</sup>	(1,599)	(6,526)	—	—	—	—	—	—	—
<b>Ending balance - September 30, 2020</b>	<b>\$ 4,494,899</b>	<b>\$ 3,956,101</b>	<b>\$ 491,415</b>	<b>\$ 144,162</b>	<b>\$ 207,173</b>	<b>\$ 258,621</b>	<b>\$ 14,878</b>	<b>\$ 35,070</b>	<b>\$ 41,758</b>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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)**

(In Thousands)	Assets		Liabilities	
	Guarantee Asset	Derivatives <sup>(2)</sup>	Contingent Consideration	ABS Issued
Beginning balance - December 31, 2019	\$ 1,686	\$ 8,860	\$ 28,484	\$ 10,515,475
Acquisitions	—	—	—	1,137,656
Principal paydowns	—	—	(13,353)	(1,035,359)
Deconsolidations	—	—	—	(3,706,789)
Gains (losses) in net income (loss), net	(1,107)	34,620	(446)	58,393
Other settlements, net <sup>(1)</sup>	—	(34,041)	(14,685)	—
<b>Ending balance - September 30, 2020</b>	<b>\$ 579</b>	<b>\$ 9,439</b>	<b>\$ —</b>	<b>\$ 6,969,376</b>

(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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 September 30, 2020 and 2019. Gains or losses incurred on assets or liabilities sold, matured, called, or fully written down during the three and nine months ended September 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 September 30, 2020 and 2019 Included in Net Income**

(In Thousands)	Included in Net Income			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Assets</b>				
Residential loans at Redwood	\$ (107)	\$ 17,771	\$ (865)	\$ 82,408
Business purpose residential loans	21,155	584	17,901	4,069
Net investments in consolidated Sequoia entities <sup>(1)</sup>	7,700	1,860	(22,802)	7,051
Net investments in consolidated Freddie Mac SLST entities <sup>(1)</sup>	82,209	17,300	(33,087)	31,702
Net investments in consolidated Freddie Mac K-Series entities <sup>(1)</sup>	2,165	7,445	(11,014)	13,810
Net investments in consolidated CAFL entities <sup>(1)</sup>	9,673	—	(41,048)	—
Trading securities	(3,549)	11,206	(80,358)	33,196
Servicer advance investments	25	1,585	(6,172)	3,025
MSRs	(2,376)	(5,892)	(16,798)	(16,971)
Excess MSRs	(1,127)	(1,634)	(7,650)	(2,137)
Shared home appreciation options	2,384	29	(4,286)	29
Loan purchase and interest rate lock commitments	10,791	4,678	10,773	4,757
Other assets - Guarantee asset	(191)	(216)	(1,107)	(834)
<b>Liabilities</b>				
Loan purchase commitments	\$ 420	\$ (1,668)	\$ (1,334)	\$ (1,669)

(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 September 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 September 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 September 30, 2020.

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

September 30, 2020 (In Thousands)	Carrying Value	Fair Value Measurements Using			Gain (Loss) for	
					Three Months Ended	Nine Months Ended
		Level 1	Level 2	Level 3	September 30, 2020	September 30, 2020
<b>Assets</b>						
REO	\$ 3,523	\$ —	\$ —	\$ 3,523	\$ (805)	\$ (840)

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 nine months ended September 30, 2020 and 2019.

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

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Mortgage Banking Activities, Net</b>				
Residential loans held-for-sale, at fair value	\$ (478)	\$ (6,623)	\$ (15,972)	\$ 289
Residential loan purchase and forward sale commitments	13,067	12,943	35,123	41,142
Single-family rental loans held-for-sale, at fair value	43,191	1,283	55,868	4,200
Single-family rental loan purchase and interest rate lock commitments	—	564	341	1,273
Residential bridge loans	938	1,010	(4,256)	2,108
Risk management derivatives, net	(99)	(2,972)	(52,931)	(15,387)
<b>Total mortgage banking activities, net <sup>(1)</sup></b>	<b>\$ 56,619</b>	<b>\$ 6,205</b>	<b>\$ 18,173</b>	<b>\$ 33,625</b>
<b>Investment Fair Value Changes, Net</b>				
Residential loans held-for-investment, at Redwood	\$ 218	\$ 7,667	\$ (93,314)	\$ 71,323
Single-family rental loans held-for-investment	—	22	(20,806)	22
Residential bridge loans held-for-investment	6,812	(742)	(10,016)	(1,363)
Trading securities	(3,600)	15,275	(224,679)	55,577
Servicer advance investments	26	1,585	(6,172)	3,025
Excess MSR	(1,127)	(1,635)	(7,650)	(2,137)
Net investments in Legacy Sequoia entities <sup>(2)</sup>	(81)	(407)	(702)	(904)
Net investments in Sequoia Choice entities <sup>(2)</sup>	7,851	2,722	(22,065)	8,866
Net investments in Freddie Mac SLST entities <sup>(2)</sup>	82,214	17,300	(33,081)	31,702
Net investments in Freddie Mac K-Series entities <sup>(2)</sup>	2,166	7,445	(82,744)	13,810
Net investments in CAFL entities <sup>(2)</sup>	9,673	—	(41,048)	—
Other investments	2,451	(355)	(9,111)	(632)
Risk management derivatives, net	—	(37,433)	(59,142)	(144,548)
Credit recoveries (losses) on AFS securities	444	—	(1,027)	—
<b>Total investment fair value changes, net</b>	<b>\$ 107,047</b>	<b>\$ 11,444</b>	<b>\$ (611,557)</b>	<b>\$ 34,741</b>
<b>Other Income</b>				
MSRs	\$ (4,783)	\$ (7,489)	\$ (27,346)	\$ (21,243)
Risk management derivatives, net	—	4,389	13,966	13,157
Gain on re-measurement of 5 Arches investment	—	—	—	2,440
<b>Total other income <sup>(3)</sup></b>	<b>\$ (4,783)</b>	<b>\$ (3,100)</b>	<b>\$ (13,380)</b>	<b>\$ (5,646)</b>
<b>Total Market Valuation Gains (Losses), Net</b>	<b>\$ 158,883</b>	<b>\$ 14,549</b>	<b>\$ (606,764)</b>	<b>\$ 62,720</b>

(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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

At September 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**

September 30, 2020 (Dollars in Thousands, except Input Values)	Fair Value	Unobservable Input	Input Values			
			Range			Weighted Average <sup>(1)</sup>
Assets						
Residential loans, at fair value:						
Jumbo fixed-rate loans	\$ 6,312	Prepayment rate (annual CPR)	20	-	20 %	20 %
		Whole loan spread to swap rate	350	-	350 bps	350 bps
Jumbo loans committed to sell	98,779	Whole loan committed sales price	\$ 101.61	- \$ 103.40		\$ 103.23
Loans held by Legacy Sequoia <sup>(2)</sup>	296,765	Liability price			N/A	N/A
Loans held by Sequoia Choice <sup>(2)</sup>	1,836,361	Liability price			N/A	N/A
Loans held by Freddie Mac SLST <sup>(2)</sup>	2,256,682	Liability price			N/A	N/A
Business purpose residential loans:						
Single-family rental loans	285,549	Senior credit spread	130	-	130 bps	130 bps
		Subordinate credit spread	200	-	1,600 bps	551 bps
		Senior credit support	30	-	32 %	31 %
		IO discount rate	8	-	9 %	9 %
		Prepayment rate (annual CPR)	—	-	3 %	3 %
		Non-securitizable loan dollar price	\$ 101	- \$ 101		\$ 101
Single-family rental loans held by CAFL	2,969,692	Liability price			N/A	N/A
Residential bridge loans	700,860	Discount rate	6	-	12 %	8 %
		Non-performing loan dollar price	\$ 3	- \$ 100		\$ 89
Multifamily loans held by Freddie Mac K-Series <sup>(2)</sup>	491,415	Liability price			N/A	N/A
Trading and AFS securities	351,335	Discount rate	3	-	34 %	9 %
		Prepayment rate (annual CPR)	7	-	65 %	24 %
		Default rate	—	-	26 %	1 %
		Loss severity	—	-	50 %	19 %
		CRT dollar price	\$ 49	- \$ 103		\$ 84
Servicer advance investments	258,621	Discount rate	3	-	4 %	4 %
		Prepayment rate (annual CPR)	8	-	14 %	13 %
		Expected remaining life <sup>(3)</sup>	1	-	2 years	2 years
		Mortgage servicing income	6	-	16 bps	8 bps
MSRs	14,878	Discount rate	12	-	12 %	12 %
		Prepayment rate (annual CPR)	8	-	97 %	26 %
		Per loan annual cost to service	\$ 95	- \$ 95		\$ 95
Excess MSRs	35,070	Discount rate	15	-	21 %	18 %
		Prepayment rate (annual CPR)	10	-	13 %	11 %
		Excess mortgage servicing income	9	-	17 bps	12 bps



**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

**September 30, 2020**

September 30, 2020			Input Values			
(Dollars in Thousands, except Input Values)	Fair Value	Unobservable Input	Range			Weighted Average <sup>(1)</sup>
<b>Assets (continued)</b>						
Shared home appreciation options	\$ 41,758	Discount rate	16	-	16 %	16 %
		Prepayment rate (annual CPR)	8	-	26 %	19 %
		Home price appreciation	2	-	3 %	3 %
Guarantee asset	579	Discount rate	12	-	12 %	12 %
		Prepayment rate (annual CPR)	42	-	42 %	42 %
REO	3,523	Loss severity	3	-	63 %	23 %
Residential loan purchase commitments, net	10,282	Committed sales price	\$ 100.89	- \$ 103.40		\$ 102.59
		Pull-through rate	13	-	100 %	58 %
		Whole loan spread to TBA price	\$ 2.00	- \$ 2.00		\$ 2.00
		Whole loan spread to swap rate - fixed rate	350	-	350 bps	350 bps
		Prepayment rate (annual CPR)	15	-	15 %	15 %
		MSR multiple	0.8	-	4.1 x	3.4 x
<b>Liabilities</b>						
ABS issued <sup>(2)</sup> :						
At consolidated Sequoia entities	1,919,048	Discount rate	2	-	30 %	3 %
		Prepayment rate (annual CPR)	5	-	53 %	27 %
		Default rate	—	-	40 %	2 %
		Loss severity	—	-	50 %	31 %
At consolidated Freddie Mac SLST entities	1,841,313	Dollar price	\$ 1	- \$ 108		\$ 99
At consolidated Freddie Mac K-Series entities <sup>(4)</sup>	464,865	Discount rate	1	-	18 %	2 %
At consolidated CAFL entities <sup>(4)</sup>	2,744,150	Discount rate	0.2	-	40 %	3 %
		Prepayment rate (annual CPR)	—	-	3 %	— %
		Default rate	—	-	18 %	11 %
		Loss severity	30	-	30 %	30 %

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

(2) The fair value of the loans 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 September 30, 2020, the fair value of securities we owned at the consolidated Sequoia, Freddie Mac SLST, Freddie Mac K-Series, and CAFL entities was \$215 million, \$416 million, \$27 million, and \$229 million, respectively.

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

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

**Determination of Fair Value**

We generally use both market comparable information and discounted cash flow modeling techniques to determine the fair value of our Level 3 assets and liabilities. Use of these techniques requires determination of relevant 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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 September 30, 2020 and December 31, 2019.

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

<b>September 30, 2020 (In Thousands)</b>	<b>Redwood</b>	<b>Legacy Sequoia</b>	<b>Sequoia Choice</b>	<b>Freddie Mac SLST</b>	<b>Total</b>
Held-for-sale at fair value	\$ 105,128	\$ —	\$ —	\$ —	\$ 105,128
Held-for-investment at fair value	—	296,765	1,836,361	2,256,682	4,389,808
<b>Total Residential Loans</b>	<b>\$ 105,128</b>	<b>\$ 296,765</b>	<b>\$ 1,836,361</b>	<b>\$ 2,256,682</b>	<b>\$ 4,494,936</b>
<b>December 31, 2019 (In Thousands)</b>	<b>Redwood</b>	<b>Legacy Sequoia</b>	<b>Sequoia Choice</b>	<b>Freddie Mac SLST</b>	<b>Total</b>
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
<b>Total Residential Loans</b>	<b>\$ 2,648,282</b>	<b>\$ 407,890</b>	<b>\$ 2,291,463</b>	<b>\$ 2,367,215</b>	<b>\$ 7,714,850</b>

At September 30, 2020, we owned mortgage servicing rights associated with \$103 million (principal balance) of residential loans owned at Redwood that were purchased from third-party originators. The value of these MSRs is included in the carrying value of the associated loans on our consolidated balance sheets. We contract with licensed sub-servicers that perform servicing functions for these loans.

**Residential Loans Held-for-Sale**

*At Fair Value*

The following table summarizes the characteristics of residential loans held-for-sale at September 30, 2020 and December 31, 2019.

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

<b>(Dollars in Thousands)</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Number of loans	118	669
Unpaid principal balance	\$ 102,921	\$ 524,928
Fair value of loans	\$ 105,128	\$ 536,280
Number of loans with 90+ day delinquencies	2	1
Unpaid principal balance of loans with 90+ day delinquencies	\$ 2,356	\$ 747
Fair value of loans with 90+ day delinquencies	\$ 1,767	\$ 616
Number of loans in foreclosure	—	—
Market value of loans pledged as collateral under short-term borrowing agreements	\$ 95,023	\$ 201,949

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

The following table provides the activity of residential loans held-for-sale during the three and nine months ended September 30, 2020 and 2019.

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

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Principal balance of loans acquired	\$ 172,162	\$ 1,446,750	\$ 2,859,813	\$ 3,936,111
Principal balance of loans sold	87,868	1,534,315	5,024,663	3,921,280
Net market valuation gains (losses) recorded <sup>(1)</sup>	(478)	(6,623)	(15,972)	286

(1) Net market valuation gains (losses) on residential loans held-for-sale are recorded through Mortgage banking activities, net on our consolidated statements of income (loss).

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

The following tables summarize the characteristics of the residential loans owned at Redwood and at consolidated Sequoia and Freddie Mac SLST entities at September 30, 2020 and December 31, 2019.

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

<b>September 30, 2020</b>		<b>Legacy</b>		<b>Sequoia</b>		<b>Freddie Mac</b>	
<b>(Dollars in Thousands)</b>		<b>Redwood</b>	<b>Sequoia</b>	<b>Choice</b>		<b>SLST</b>	
Number of loans		—	1,976	2,546		13,893	
Unpaid principal balance	\$	—	\$ 352,392	\$ 1,811,967	\$	2,304,047	
Fair value of loans	\$	—	\$ 296,765	\$ 1,836,361	\$	2,256,683	
Number of loans with 90+ day delinquencies <sup>(1)</sup>		—	49	132		1,772	
Unpaid principal balance of loans with 90+ day delinquencies	\$	—	\$ 16,076	\$ 102,693	\$	339,537	
Fair value of loans with 90+ day delinquencies <sup>(2)</sup>	\$	—	N/A	N/A		N/A	
Number of loans in foreclosure		—	21	3		175	
Unpaid principal balance of loans in foreclosure	\$	—	\$ 4,820	\$ 1,814	\$	28,380	

  

<b>December 31, 2019</b>		<b>Legacy</b>		<b>Sequoia</b>		<b>Freddie Mac</b>	
<b>(Dollars in Thousands)</b>		<b>Redwood</b>	<b>Sequoia</b>	<b>Choice</b>		<b>SLST</b>	
Number of loans		2,940	2,198	3,156		14,502	
Unpaid principal balance	\$	2,052,778	\$ 424,829	\$ 2,240,679	\$	2,428,035	
Fair value of loans	\$	2,111,897	\$ 407,890	\$ 2,291,463	\$	2,367,215	
Number of loans with 90+ day delinquencies <sup>(1)</sup>		2	39	9		587	
Unpaid principal balance of loans with 90+ day delinquencies	\$	1,585	\$ 9,803	\$ 6,755	\$	134,680	
Fair value of loans with 90+ day delinquencies <sup>(2)</sup>	\$	1,424	N/A	N/A		N/A	
Number of loans in foreclosure		—	16	3		208	
Unpaid principal balance of loans in foreclosure	\$	—	\$ 3,673	\$ 2,290	\$	33,042	

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

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

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

The following table provides the activity of residential loans held-for-investment at Redwood during the three and nine months ended September 30, 2020 and 2019.

**Table 6.5 – Quarterly Activity of Residential Loans Held-for-Investment at Redwood**

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Principal balance of loans acquired	\$ —	\$ —	\$ —	\$ 39,194
Principal balance of loans sold	—	—	—	—
Fair value of loans transferred from HFS to HFI	—	—	13,258	68,703
Fair value of loans transferred from HFI to HFS	—	—	1,870,986	22,814
Net market valuation gains (losses) recorded <sup>(1)</sup>	218	7,667	(93,314)	71,323

(1) Net market valuation gains (losses) on residential loans held-for-investment at Redwood are recorded through Investment fair value changes, net on our consolidated statements of income (loss).

The following table provides the activity of residential loans held-for-investment at consolidated entities during the three and nine months ended September 30, 2020 and 2019.

**Table 6.6 – Quarterly Activity of Residential Loans Held-for-Investment at Consolidated Entities**

(In Thousands)	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	Legacy Sequoia	Sequoia Choice	Freddie Mac SLST	Legacy Sequoia	Sequoia Choice	Freddie Mac SLST
Fair value of loans transferred from HFS to HFI <sup>(1)</sup>	N/A	\$ —	N/A	N/A	\$ 270,506	N/A
Net market valuation gains (losses) recorded <sup>(2)</sup>	\$ 21,938	\$ (5,175)	\$ 159,687	\$ (38,996)	\$ (21,727)	\$ 15,254

  

(In Thousands)	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	Legacy Sequoia	Sequoia Choice	Freddie Mac SLST	Legacy Sequoia	Sequoia Choice	Freddie Mac SLST
Fair value of loans transferred from HFS to HFI <sup>(1)</sup>	N/A	\$ 727,088	N/A	N/A	\$ 1,076,671	N/A
Net market valuation gains (losses) recorded <sup>(2)</sup>	\$ (103)	\$ (11,029)	\$ 39,783	\$ 5,271	\$ 4,841	\$ 94,788

(1) Represents the transfer of loans from held-for-sale to held-for-investment associated with Sequoia Choice securitizations.

(2) For loans held at our consolidated Legacy Sequoia, Sequoia Choice, and Freddie Mac SLST entities, market value changes are based on the estimated fair value of the associated ABS issued, pursuant to collateralized financing entity guidelines. The net impact to our income statement associated with our economic investments in these 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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

***Business Purpose Residential Loan Originations***

During the three months ended September 30, 2020, we funded \$261 million of business purpose residential loans and sold \$2 million of residential bridge loans and \$2 million of single-family rental loans 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 gain of less than \$0.1 million on these loans through Mortgage banking activities, net on our consolidated statements of income (loss) for the three months ended September 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 securitization. Additionally, during the three and nine months ended September 30, 2020, we recorded loan origination fee income associated with business purpose residential loans of \$3 million and \$13 million, respectively, through Mortgage banking activities, net on our consolidated statements of income (loss).

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

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

<b>September 30, 2020</b> <b>(In Thousands)</b>	<b>Single-Family Rental</b>		<b>Residential Bridge</b>	<b>Total</b>
	<b>Redwood</b>	<b>CAFL</b>		
Held-for-sale at fair value	\$ 285,549	—	\$ —	\$ 285,549
Held-for-investment at fair value	—	2,969,692	700,860	3,670,552
<b>Total Business Purpose Residential Loans</b>	<b>\$ 285,549</b>	<b>\$ 2,969,692</b>	<b>\$ 700,860</b>	<b>\$ 3,956,101</b>

  

<b>December 31, 2019</b> <b>(In Thousands)</b>	<b>Single-Family Rental</b>		<b>Residential Bridge</b>	<b>Total</b>
	<b>Redwood</b>	<b>CAFL</b>		
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
<b>Total Business Purpose Residential Loans</b>	<b>\$ 569,185</b>	<b>\$ 2,192,552</b>	<b>\$ 745,006</b>	<b>\$ 3,506,743</b>

The following tables summarize the characteristics of the business purpose residential loans owned at Redwood at September 30, 2020 and December 31, 2019.

**Table 7.2 – Characteristics of Business Purpose Residential Loans**

<b>September 30, 2020</b> <b>(Dollars in Thousands)</b>	<b>Single-Family Rental at Redwood</b>	<b>Single-Family Rental at CAFL</b>	<b>Residential Bridge</b>
Number of loans	140	1,027	2,262
Unpaid principal balance	\$ 272,492	\$ 2,815,045	\$ 708,555
Fair value of loans	\$ 285,549	\$ 2,969,692	\$ 700,860
Weighted average coupon	5.26 %	5.50 %	8.02 %
Weighted average remaining loan term (years)	7	6	1
Number of loans with 90+ day delinquencies <sup>(1)</sup>	6	26	24
Unpaid principal balance of loans with 90+ day delinquencies	\$ 3,018	\$ 70,949	\$ 38,437
Fair value of loans with 90+ day delinquencies <sup>(2)</sup>	\$ 2,954	N/A	\$ 33,464
Number of loans in foreclosure	—	9	24
Unpaid principal balance of loans in foreclosure	\$ —	\$ 14,032	\$ 39,755
Fair value of loans in foreclosure <sup>(2)</sup>	\$ —	N/A	\$ 34,489

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

**December 31, 2019**

(Dollars in Thousands)	Single-Family Rental at Redwood	Single-Family Rental at CAFL	Residential Bridge
Number of loans	308	783	2,653
Unpaid principal balance	\$ 552,848	\$ 2,078,214	\$ 742,528
Fair value of loans	\$ 569,185	\$ 2,192,552	\$ 745,006
Weighted average coupon	4.96 %	5.70 %	8.11 %
Weighted average remaining loan term (years)	9	7	2
Number of loans with 90+ day delinquencies <sup>(1)</sup>	2	18	31
Unpaid principal balance of loans with 90+ day delinquencies	\$ 1,688	\$ 29,039	\$ 14,186
Fair value of loans with 90+ day delinquencies <sup>(2)</sup>	\$ 1,818	N/A	\$ 12,111
Number of loans in foreclosure	1	5	15
Unpaid principal balance of loans in foreclosure	\$ 130	\$ 9,169	\$ 8,987
Fair value of loans in foreclosure <sup>(2)</sup>	\$ 130	N/A	\$ 6,917

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

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

*Single-Family Rental Loans*

During the three and nine months ended September 30, 2020, we originated \$196 million and \$632 million of single-family rental loans, respectively. During the nine months ended September 30, 2020, we transferred \$925 million of single-family rental loans from held-for-sale to held-for-investment associated with three CAFL securitizations and sold \$34 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 nine months ended September 30, 2020, we recorded net market valuation gains of \$43 million and \$34 million, respectively, on single-family rental loans. The \$43 million of net market valuation gains recorded during the three months ended September 30, 2020 were recorded through Mortgage banking activities, net on our consolidated statements of income (loss). Of the \$34 million of net market valuation gains recorded during the nine months ended September 30, 2020, \$5 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 nine months ended September 30, 2019, we recorded net market valuation gains of \$1 million and \$3 million, respectively, on single-family rental loans through Mortgage banking activities, net on our consolidated statements of income (loss).

*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. The outstanding single-family rental loans held-for-investment at CAFL at September 30, 2020 were first-lien, fixed-rate loans with original maturities of five, seven, or ten years.

During the three and nine months ended September 30, 2020, we recorded a net market valuation gain of \$8 million and a net market valuation loss of \$14 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*

The outstanding residential bridge loans held-for-investment at September 30, 2020 were first lien, fixed-rate, interest-only loans with original maturities of six to 24 months. During the nine months ended September 30, 2020, we transferred four loans with a fair value of \$5 million to REO, which is included in Other assets on our consolidated balance sheets.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

During the three and nine months ended September 30, 2020, \$64 million and \$324 million of newly originated residential bridge loans, respectively, were transferred to our investment portfolio. During the three and nine months ended September 30, 2020, we recorded a net market valuation gain of \$7 million and a net market valuation loss of \$10 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 both the three and nine months ended September 30, 2019, we recorded net market valuation losses of \$1 million on residential bridge loans held-for-investment at fair value through Investment fair value changes, net on our consolidated statements of income (loss).

At September 30, 2020, we had a \$225 million commitment to fund residential bridge loans. See *Note 16* for additional information on this commitment.

**Note 8. Multifamily Loans**

Since 2018, we have 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.

The following table summarizes the characteristics of the multifamily loans consolidated at Redwood at September 30, 2020 and December 31, 2019.

**Table 8.1 – Characteristics of Multifamily Loans**

<b>(Dollars in Thousands)</b>	<b>September 30, 2020</b>		<b>December 31, 2019</b>	
Number of loans	28		279	
Unpaid principal balance	\$	464,680	\$	4,195,000
Fair value of loans	\$	491,415	\$	4,408,524
Weighted average coupon	4.25 %		4.13 %	
Weighted average remaining loan term (years)	5		6	
Number of loans with 90+ day delinquencies	—		—	
Number of loans in foreclosure	—		—	

The outstanding multifamily loans held-for-investment at the Freddie Mac K-Series entities at September 30, 2020 were first-lien, fixed-rate loans that were originated in 2015 and had original loan terms of ten years. The following table provides the activity of multifamily loans held-for-investment during the three and nine months ended September 30, 2020 and 2019.

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

<b>(In Thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net market valuation gains (losses) recorded <sup>(1)</sup>	\$ 2,340	\$ 47,353	\$ (61,500)	\$ 178,374

(1) Net market valuation gains (losses) on multifamily loans held-for-investment are recorded through Investment fair value changes, net on our consolidated statements of income (loss). For loans held at our consolidated Freddie Mac K-Series entities, market value changes are based on the estimated fair value of the associated ABS issued, pursuant to collateralized financing entity guidelines. The net impact to our income statement associated with our economic investment in these securitization entities is presented in *Note 5*.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 September 30, 2020 and December 31, 2019.

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

(In Thousands)	September 30, 2020	December 31, 2019
Trading	\$ 144,162	\$ 860,540
Available-for-sale	207,173	239,334
<b>Total Real Estate Securities</b>	<b>\$ 351,335</b>	<b>\$ 1,099,874</b>

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.

**Trading Securities**

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

**Table 9.2 – Trading Securities by Position**

(In Thousands)	September 30, 2020	December 31, 2019
Senior	\$ 28,091	\$ 150,067
Mezzanine	3,651	538,489
Subordinate	112,420	171,984
<b>Total Trading Securities</b>	<b>\$ 144,162</b>	<b>\$ 860,540</b>

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 September 30, 2020 and December 31, 2019, our senior trading securities included \$28 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 \$12 million and \$36 million of certificated mortgage servicing rights at September 30, 2020 and December 31, 2019, respectively, which are securities we retained from certain of our Sequoia securitizations that represent certificated servicing strips. At September 30, 2020 and December 31, 2019, our trading securities included \$60 million and \$161 million of RPL securities, respectively.

At September 30, 2020 and December 31, 2019, our mezzanine trading securities had an unpaid principal balance of \$4 million and \$537 million, respectively. At September 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 September 30, 2020 and December 31, 2019, our subordinate trading securities had an unpaid principal balance of \$266 million and \$302 million, respectively. At September 30, 2020 and December 31, 2019, the fair value of our subordinate securities was \$112 million and \$172 million, respectively, and included \$50 million and \$90 million, respectively, of Agency residential mortgage credit risk transfer (or "CRT") securities, and \$55 million and \$82 million, respectively, of other third-party residential securities, including \$51 million and \$76 million of RPL securities, respectively.



**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

During the three and nine months ended September 30, 2020, we acquired \$11 million and \$78 million (principal balance), respectively, of securities for which we elected the fair value option and classified as trading, and sold \$16 million and \$721 million, respectively, of such securities. During the three and nine months ended September 30, 2019, we acquired \$66 million and \$335 million (principal balance), respectively, of securities for which we elected the fair value option and classified as trading, and sold \$236 million and \$397 million, respectively, of such securities.

During the three and nine months ended September 30, 2020, we recorded net market valuation losses of \$4 million and \$225 million, respectively, on trading securities, included in Investment fair value changes, net on our consolidated statements of income (loss). During the three and nine months ended September 30, 2019, we recorded net market valuation gains of \$15 million and \$56 million, respectively, on trading securities, included in Investment fair value changes, net on our consolidated statements of income (loss).

**AFS Securities**

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

**Table 9.3 – Available-for-Sale Securities by Position**

(In Thousands)	September 30, 2020	December 31, 2019
Senior	\$ —	\$ 25,792
Mezzanine	2,016	13,687
Subordinate	205,157	199,855
<b>Total AFS Securities</b>	<b>\$ 207,173</b>	<b>\$ 239,334</b>

At September 30, 2020 and December 31, 2019, our available-for-sale securities were comprised of \$60 million and \$230 million of residential mortgage-backed securities, respectively, and \$48 million and \$9 million of multifamily mortgage-backed securities, respectively. At September 30, 2020 and December 31, 2019, our residential available-for-sale securities were comprised of \$124 million and \$141 million of residential mortgage-backed securities we retained from our Sequoia securitizations, respectively, and \$35 million and \$90 million of other third-party residential securities, respectively.

During the three and nine months ended September 30, 2020, we purchased \$25 million and \$57 million of AFS securities, respectively, and sold zero and \$55 million of AFS securities, respectively, which resulted in net realized gains of zero and \$5 million, respectively. During the three and nine months ended September 30, 2019, we purchased \$12 million and \$21 million of AFS securities, respectively, and sold \$15 million and \$82 million of AFS securities, respectively, which resulted in net realized gains of \$4 million and \$13 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 September 30, 2020, we had \$45 million of AFS securities with contractual maturities less than five years, \$3 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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

**Table 9.4 – Carrying Value of AFS Securities**

<b>September 30, 2020</b>				
<b>(In Thousands)</b>	<b>Senior</b>	<b>Mezzanine</b>	<b>Subordinate</b>	<b>Total</b>
Principal balance	\$ —	\$ 2,000	\$ 287,659	\$ 289,659
Credit reserve	—	—	(43,186)	(43,186)
Unamortized discount, net	—	—	(99,221)	(99,221)
Amortized cost	—	2,000	145,252	147,252
Gross unrealized gains	—	16	63,439	63,455
Gross unrealized losses	—	—	(2,507)	(2,507)
Allowance for credit losses	—	—	(1,027)	(1,027)
<b>Carrying Value</b>	<b>\$ —</b>	<b>\$ 2,016</b>	<b>\$ 205,157</b>	<b>\$ 207,173</b>

  

<b>December 31, 2019</b>				
<b>(In Thousands)</b>	<b>Senior</b>	<b>Mezzanine</b>	<b>Subordinate</b>	<b>Total</b>
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)
<b>Carrying Value</b>	<b>\$ 25,792</b>	<b>\$ 13,687</b>	<b>\$ 199,855</b>	<b>\$ 239,334</b>

The following table presents the changes for the three and nine months ended September 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**

<b>(In Thousands)</b>	<b>Three Months Ended September 30, 2020</b>		<b>Nine Months Ended September 30, 2020</b>	
	<b>Credit Reserve</b>	<b>Unamortized Discount, Net</b>	<b>Credit Reserve</b>	<b>Unamortized Discount, Net</b>
Beginning balance	\$ 37,785	\$ 104,260	\$ 32,940	\$ 124,255
Amortization of net discount	—	(1,766)	—	(4,607)
Realized credit losses	(194)	—	(897)	—
Acquisitions	1,303	1,019	6,487	1,796
Sales, calls, other	—	—	(726)	(16,841)
(Release of) transfers to credit reserves, net	4,292	(4,292)	5,382	(5,382)
<b>Ending Balance</b>	<b>\$ 43,186</b>	<b>\$ 99,221</b>	<b>\$ 43,186</b>	<b>\$ 99,221</b>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

***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 September 30, 2020 and December 31, 2019.

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

(In Thousands)	Less Than 12 Consecutive Months			12 Consecutive Months or Longer		
	Amortized Cost	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Losses	Fair Value
September 30, 2020	\$ 32,890	\$ (2,507)	\$ 30,330	\$ —	\$ —	\$ —
December 31, 2019	—	—	—	5,830	(29)	5,801

At September 30, 2020, after giving effect to purchases, sales, and extinguishment due to credit losses, our consolidated balance sheet included 96 AFS securities, of which seven 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 and one was in a continuous unrealized loss position for 12 consecutive months or longer.

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

Gross unrealized losses on our AFS securities were \$3 million at September 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 September 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 September 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 September 30, 2020.

***Table 9.7 – Significant Credit Quality Indicators***

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

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

**Table 9.8 – Rollforward of Allowance for Credit Losses**

(In Thousands)	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Beginning balance allowance for credit losses	\$ 1,471	\$ —
Transition impact from adoption of new standard	—	—
Additions to allowance for credit losses on securities for which credit losses were not previously recorded	339	1,864
Additional increases or decreases to the allowance for credit losses on securities that had an allowance recorded in a previous period	(783)	(837)
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	—	—
<b>Ending balance of allowance for credit losses</b>	<b>\$ 1,027</b>	<b>\$ 1,027</b>

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 nine months ended September 30, 2020 and 2019.

**Table 9.9 – Gross Realized Gains and Losses on AFS Securities**

(In Thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Gross realized gains - sales	\$ —	\$ 3,656	\$ 8,779	\$ 13,143
Gross realized gains - calls	—	1,058	—	5,084
Gross realized losses - sales	—	—	(4,144)	—
<b>Total Realized Gains on Sales and Calls of AFS Securities, net</b>	<b>\$ —</b>	<b>\$ 4,714</b>	<b>\$ 4,635</b>	<b>\$ 18,227</b>

**Note 10. Other Investments**

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

**Table 10.1 – Components of Other Investments**

(In Thousands)	September 30, 2020	December 31, 2019
Servicer advance investments	\$ 258,621	\$ 169,204
Shared home appreciation options	41,758	45,085
Excess MSRs	35,070	31,814
Mortgage servicing rights	14,878	42,224
Investment in multifamily loan fund	(323)	39,802
Other	34,624	30,001
<b>Total Other Investments</b>	<b>\$ 384,628</b>	<b>\$ 358,130</b>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

*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 MSR 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 nine months ended September 30, 2020, we funded additional purchases of outstanding servicer advances and excess MSR under the same partnership structure. At September 30, 2020, we had funded \$94 million of total capital to the SA Buyers (see *Note 16* for additional detail).

At September 30, 2020, our servicer advance investments had a carrying value of \$259 million and were associated with a portfolio of residential mortgage loans with an unpaid principal balance of \$9.71 billion. The outstanding servicer advance receivables associated with this investment were \$242 million at September 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 September 30, 2020 and December 31, 2019.

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

(In Thousands)	September 30, 2020	December 31, 2019
Principal and interest advances	\$ 88,370	\$ 15,081
Escrow advances (taxes and insurance advances)	115,352	96,732
Corporate advances	38,337	39,769
<b>Total Servicer Advance Receivables</b>	<b>\$ 242,059</b>	<b>\$ 151,582</b>

We account for our servicer advance investments at fair value and during the three and nine months ended September 30, 2020, we recorded \$ million and \$8 million, respectively, of interest income associated with these investments, and recorded net market valuation gain of less than \$0.1 million and a net market valuation loss of \$6 million, respectively, through Investment fair value changes, net in our consolidated statements of income (loss). During the three and nine months ended September 30, 2019, we recorded \$3 million and \$9 million, respectively, of interest income associated with these investments for each of these periods, and recorded net market valuation gains of \$2 million and \$3 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 September 30, 2020 and December 31, 2019, our MSRs had a fair value of \$15 million and \$42 million, respectively, and were associated with loans with an aggregate principal balance of \$3.14 billion and \$4.35 billion, respectively. During the three and nine months ended September 30, 2020, including net market valuation gains and losses on our MSRs and related risk management derivatives, we recorded net losses of \$2 million and \$6 million, respectively, through Other income on our consolidated statements of income (loss). During the three and nine months ended September 30, 2019, we recognized \$0.4 million and \$2 million of income, net, respectively, through Other income on our consolidated statements of income (loss).

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

*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 nine months ended September 30, 2020, we recognized \$3 million and \$9 million of interest income, respectively, through Other interest income, and recorded net market valuation losses of \$1 million and \$8 million, respectively, through Investment fair value changes, net on our consolidated statements of income (loss). During the three and nine months ended September 30, 2019, we recognized \$2 million and \$6 million of interest income, respectively, through Other interest income, and recorded net market valuation losses of \$2 million for both periods through Investment fair value changes, net on our consolidated statements of income (loss).

*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. At September 30, 2020, the carrying amount of our investment in the partnership was zero and we had no remaining funding obligations to the partnership. During the three and nine months ended September 30, 2020, we acquired \$28 million and \$56 million of securities, respectively, from the partnership's securitization transactions. During the three and nine months ended September 30, 2020, we recorded income of \$0.3 million and \$0.6 million, respectively, associated with this investment in Other income on our consolidated statements of income (loss). During the three and nine months ended September 30, 2019, we recorded \$1 million and \$0.5 million of income, respectively, 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 September 30, 2020, we had acquired \$7 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 nine months ended September 30, 2020, we recorded a net market valuation gain of \$2 million and a net market valuation loss of \$4 million, respectively, related to these assets through Investment fair value changes, net on our consolidated statements of income (loss).

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**Note 11. Derivative Financial Instruments**

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

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

(In Thousands)	September 30, 2020		December 31, 2019	
	Fair Value	Notional Amount	Fair Value	Notional Amount
<b>Assets - Risk Management Derivatives</b>				
Interest rate swaps	\$ 78	\$ 25,000	\$ 17,095	\$ 1,399,000
TBAs	402	140,000	5,755	2,445,000
Interest rate futures	63	40,000	777	213,700
Swaptions	3,393	285,000	1,925	1,065,000
<b>Assets - Other Derivatives</b>				
Loan purchase and interest rate lock commitments	10,773	1,724,207	10,149	1,537,162
<b>Total Assets</b>	<u>\$ 14,709</u>	<u>\$ 2,214,207</u>	<u>\$ 35,701</u>	<u>\$ 6,659,862</u>
<b>Liabilities - Cash Flow Hedges</b>				
Interest rate swaps	\$ —	\$ —	\$ (51,530)	\$ 139,500
<b>Liabilities - Risk Management Derivatives</b>				
Interest rate swaps	(15)	25,000	(97,235)	2,314,300
TBAs	(263)	105,000	(13,359)	4,160,000
Interest rate futures	—	—	(10)	12,300
<b>Liabilities - Other Derivatives</b>				
Loan purchase commitments	(1,334)	231,651	(1,290)	303,394
<b>Total Liabilities</b>	<u>\$ (1,612)</u>	<u>\$ 361,651</u>	<u>\$ (163,424)</u>	<u>\$ 6,929,494</u>
<b>Total Derivative Financial Instruments, Net</b>	<u>\$ 13,097</u>	<u>\$ 2,575,858</u>	<u>\$ (127,723)</u>	<u>\$ 13,589,356</u>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 September 30, 2020, we were party to swaps and swaptions with an aggregate notional amount of \$335 million, TBA agreements sold with an aggregate notional amount of \$245 million, and interest rate futures contracts with an aggregate notional amount of \$40 million. 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 nine months ended September 30, 2020, risk management derivatives had net market valuation losses of zero and \$98 million, respectively. During the three and nine months ended September 30, 2019, risk management derivatives had net market valuation losses of \$36 million and \$147 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 nine months ended September 30, 2020, LPCs and IRLCs had net market valuation gains of \$14 million and \$35 million, respectively, that were recorded in Mortgage banking activities, net on our consolidated statements of income (loss). For the three and nine months ended September 30, 2019, LPCs and IRLCs had net market valuation gains of \$14 million and \$42 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 \$82 million and \$51 million at September 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 September 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 nine months ended September 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 nine months ended September 30, 2019, changes in the values of designated cash flow hedges were negative \$12 million and negative \$27 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 nine months ended September 30, 2020 and 2019.

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

<b>(In Thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net interest expense on cash flows hedges	\$ —	\$ (727)	\$ (860)	\$ (2,004)
Realized net losses reclassified from other comprehensive income	(1,040)	—	(2,148)	—
<b>Total Interest Expense</b>	<b>\$ (1,040)</b>	<b>\$ (727)</b>	<b>\$ (3,008)</b>	<b>\$ (2,004)</b>



**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

***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 September 30, 2020, we assessed this risk as remote and did not record a specific valuation adjustment.

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

**Note 12. Other Assets and Liabilities**

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

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

<b>(In Thousands)</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Accrued interest receivable	\$ 39,330	\$ 71,058
Investment receivable	25,767	23,330
Right-of-use asset	13,487	11,866
REO	8,535	9,462
Pledged collateral	8,172	32,945
Income tax receivables	8,148	36
FHLBC stock	5,000	43,393
Fixed assets and leasehold improvements <sup>(1)</sup>	4,408	4,901
Margin receivable	3,809	209,776
Other	7,617	12,554
<b>Total Other Assets</b>	<b>\$ 124,273</b>	<b>\$ 419,321</b>

(1) Fixed assets and leasehold improvements had a basis of \$12 million and accumulated depreciation of \$8 million at September 30, 2020.

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

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

<b>(In Thousands)</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Accrued interest payable	\$ 34,225	\$ 60,655
Payable to minority partner	17,492	13,189
Accrued compensation	17,127	33,888
Lease liability	15,123	13,443
Deferred consideration	14,442	—
Guarantee obligations	11,264	14,009
Current accounts payable	8,717	5,468
Residential loan and MSR repurchase reserve	8,565	4,268
Residential bridge loan holdbacks	6,350	10,682
Deferred tax liabilities	5,152	5,152
Accrued operating expenses	3,922	4,358
Contingent consideration	—	28,484
Other	13,610	13,297
<b>Total Accrued Expenses and Other Liabilities</b>	<b>\$ 155,989</b>	<b>\$ 206,893</b>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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.

*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 September 30, 2020, we had met all margin calls due.

*REO*

The carrying value of REO at September 30, 2020 was \$9 million, which included \$3 million of REO from our residential bridge loan portfolio, \$1 million from our consolidated Legacy Sequoia entities, \$1 million from our consolidated Freddie Mac SLST entities, and \$4 million from consolidated CAFL entities. At September 30, 2020, there were two residential bridge loan REO assets, three REO assets at our Legacy Sequoia entities, nine REO assets at our Freddie Mac SLST entities, and three REO assets at our CAFL entities recorded on our consolidated balance sheets. During the nine months ended September 30, 2020, transfers into REO included a \$5 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 nine months ended September 30, 2020, there were REO liquidations of \$13 million, resulting in \$0.3 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 September 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 September 30, 2020 and December 31, 2019.

*Table 13.1 – Short-Term Debt*

(Dollars in Thousands)	September 30, 2020					
	Number of Facilities	Outstanding Balance	Limit	Weighted Average Interest Rate	Maturity	Weighted Average Days Until Maturity
<b>Facilities</b>						
Residential loan warehouse <sup>(1)</sup>	4	\$ 81,898	\$ 600,000	2.90 %	10/2020-8/2021	203
Business purpose residential loan warehouse <sup>(2)</sup>	2	96,811	500,000	3.28 %	6/2021-5/2022	437
Real estate securities repo <sup>(1)</sup>	3	75,054	—	2.87 %	10/2020-12/2020	38
<b>Total Short-Term Debt Facilities</b>	<b>9</b>	<b>253,763</b>				
Servicer advance financing	1	228,998	400,000	1.96 %	11/2020	61
<b>Total Short-Term Debt</b>		<b>\$ 482,761</b>				

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

(1) Borrowings under our facilities are generally charged interest based on a specified margin over the one-month LIBOR interest rate. At September 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 September 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 September 30, 2020 and December 31, 2019.

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

(In Thousands)	September 30, 2020	December 31, 2019
<b>Collateral Type</b>		
Held-for-sale residential loans	\$ 95,023	\$ 201,949
Business purpose residential loans	110,505	988,179
Real estate securities		
On balance sheet	24,670	618,881
Sequoia Choice securitizations <sup>(1)</sup>	63,088	111,341
Freddie Mac SLST securitizations <sup>(1)</sup>	—	381,640
Freddie Mac K-Series securitizations <sup>(1)</sup>	26,550	252,284
CAFL securitizations <sup>(1)</sup>	—	127,840
Total real estate securities owned	114,308	1,491,986
Other assets	—	16,252
<b>Total Collateral for Short-Term Debt Facilities</b>	<b>\$ 319,836</b>	<b>\$ 2,698,366</b>

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

For the three and nine months ended September 30, 2020, the average balances of our short-term debt facilities were \$13 million and \$1.42 billion, respectively. At September 30, 2020 and December 31, 2019, accrued interest payable on our short-term debt facilities was \$1 million and \$6 million, respectively.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 September 30, 2020, the fair value of servicer advances, cash and restricted cash collateralizing the securitization financing was \$270 million. At September 30, 2020, the accrued interest payable balance on this financing was \$0.1 million and the unamortized capitalized commitment costs were \$0.2 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 \$ million at September 30, 2020. At both September 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 September 30, 2020.

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

(In Thousands)	September 30, 2020			
	Within 30 days	31 to 90 days	Over 90 days	Total
<b>Collateral Type</b>				
Held-for-sale residential loans	\$ 1,217	\$ —	\$ 80,681	\$ 81,898
Business purpose residential loans	—	—	96,811	96,811
Real estate securities	37,217	37,837	—	75,054
<b>Total Secured Short-Term Debt</b>	<b>38,434</b>	<b>37,837</b>	<b>177,492</b>	<b>253,763</b>
Servicer advance financing	—	228,998	—	228,998
<b>Total Short-Term Debt</b>	<b>\$ 38,434</b>	<b>\$ 266,835</b>	<b>\$ 177,492</b>	<b>\$ 482,761</b>

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

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

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

September 30, 2020 (Dollars in Thousands)	Legacy Sequoia	Sequoia Choice	Freddie Mac SLST <sup>(1)</sup>	Freddie Mac K-Series	CAFL	Total
Certificates with principal balance	\$ 347,985	\$ 1,571,714	\$ 1,925,144	\$ 418,212	\$ 2,528,974	\$ 6,792,029
Interest-only certificates	1,268	6,805	24,053	13,122	137,064	182,312
Market valuation adjustments	(56,769)	48,045	95,138	33,531	78,112	198,057
<b>ABS Issued, Net</b>	<b>\$ 292,484</b>	<b>\$ 1,626,564</b>	<b>\$ 2,044,335</b>	<b>\$ 464,865</b>	<b>\$ 2,744,150</b>	<b>\$ 7,172,398</b>
Range of weighted average interest rates, by series	0.35% to 1.96%	2.23% to 5.02%	3.50% to 4.75%	3.39 %	3.18% to 5.53%	
Stated maturities	2024 - 2036	2047 - 2050	2028 - 2059	2025	2022 - 2048	
Number of series	20	10	3	1	13	

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

<b>December 31, 2019</b> <b>(Dollars in Thousands)</b>	<b>Legacy Sequoia</b>	<b>Sequoia Choice</b>	<b>Freddie Mac SLST</b>	<b>Freddie Mac K- Series</b>	<b>CAFL</b>	<b>Total</b>
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
<b>ABS Issued, Net</b>	<b>\$ 402,465</b>	<b>\$ 2,037,198</b>	<b>\$ 1,918,322</b>	<b>\$ 4,156,239</b>	<b>\$ 2,001,251</b>	<b>\$ 10,515,475</b>
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	

(1) Includes \$208 million (principal balance) of ABS issued by a re-securitization trust sponsored by Redwood and accounted for at amortized cost.

During the third quarter of 2020, we transferred all of the subordinate securities we owned from two consolidated re-performing loan securitization VIEs sponsored by Freddie Mac SLST to a re-securitization trust, which we determined was a VIE and for which we determined we are the primary beneficiary. At issuance, we sold \$210 million (principal balance) of ABS issued to third parties and retained 100% of the remaining beneficial ownership interest in the trust through ownership of a subordinate security issued by the trust. The ABS was issued at a discount and we have elected to account for the ABS issued at amortized cost. At September 30, 2020, the carrying value of the ABS issued was \$203 million and the debt discount was \$5 million. The stated coupon of the ABS issued was 4.75% at issuance and the final stated maturity occurs in July 2059. The ABS issued is subject to optional redemption and interest rate step-ups prior to the stated maturity according to the terms of the respective governing agreements.

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 September 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 September 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**

<b>(In Thousands)</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Legacy Sequoia	\$ 180	\$ 395
Sequoia Choice	5,652	7,732
Freddie Mac SLST <sup>(1)</sup>	5,831	5,374
Freddie Mac K-Series	1,182	12,887
CAFL	9,180	7,298
<b>Total Accrued Interest Payable on ABS Issued</b>	<b>\$ 22,025</b>	<b>\$ 33,686</b>

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

**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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

***FHLBC Borrowings***

At September 30, 2020, \$1 million of advances were outstanding under our FHLBC borrowing agreement, with a weighted average interest rate of 0.35%. 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 nine months ended September 30, 2020, we repaid zero and \$2.00 billion, respectively, of our FHLBC borrowings. At September 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 September 30, 2020, our subsidiary held \$5 million of FHLBC stock that is included in Other assets in our consolidated balance sheets.

***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 based on the market value of the underlying collateral) 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 September 30, 2020, we had borrowings under this facility totaling \$180 million and \$1 million of unamortized deferred issuance costs, for a net carrying value of \$179 million. At September 30, 2020, the fair value of real estate securities pledged as collateral under this long-term debt facility was \$232 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 September 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 \$102 million. At September 30, 2020, the fair value of real estate securities pledged as collateral under this long-term debt facility was \$112 million and included securities retained from our consolidated CAFL securitizations.

***Non-Recourse Business Purpose Loan Financing Facilities***

In the third 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 3.85% (with a 0.50% LIBOR floor), through July 2022. We do not have the ability to increase borrowings under this borrowing facility above the existing amounts outstanding. At September 30, 2020, we had borrowings under this facility totaling \$158 million and \$1 million of unamortized deferred issuance costs, for a net carrying value of \$157 million. At September 30, 2020, \$216 million of bridge loans were pledged as collateral under this 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 September 30, 2020, we had borrowings under this facility totaling \$302 million and \$4 million of unamortized deferred issuance costs, for a net carrying value of \$298 million. At September 30, 2020, \$369 million of bridge loans and \$25 million of other BPL investments were pledged as collateral under this facility.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

***Recourse Business Purpose Loan Financing Facilities***

In the third 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 3.00% through September 2023 and are recourse to Redwood. This facility has an aggregate maximum borrowing capacity of \$250 million. At September 30, 2020, we had no borrowings outstanding under this 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 4.00% (with a 1.00% LIBOR floor) through May 2022 and are recourse to Redwood. This facility has an aggregate maximum borrowing capacity of \$350 million. At September 30, 2020, we had borrowings under this facility totaling \$150 million and \$1 million of unamortized deferred issuance costs, for a net carrying value of \$150 million. At September 30, 2020, \$18 million of bridge loans and \$194 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. We had no borrowings outstanding under this facility at September 30, 2020. At September 30, 2020, \$33 million of MSRs and certificated servicing rights were pledged as collateral under this facility.

***Convertible Notes***

At September 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 September 30, 2020, the accrued interest payable balance on this debt was \$5 million and the unamortized deferred issuance costs were \$4 million.

At September 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 September 30, 2020, the accrued interest payable on this debt was \$2 million, the unamortized deferred issuance costs were \$2 million, and the debt discount was \$1 million.

At September 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 \$0 million in Realized gains, net on our consolidated statements of income (loss). At September 30, 2020, the accrued interest payable balance on this debt was \$1 million and the unamortized deferred issuance costs were \$3 million.

***Trust Preferred Securities and Subordinated Notes***

At September 30, 2020, we had trust preferred securities and subordinated notes outstanding of \$100 million and \$40 million, respectively. At both September 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 September 30, 2020, we were obligated under seven non-cancelable operating leases with expiration dates through 2031 for \$18 million of cumulative lease payments. Our operating lease expense was \$3 million and \$2 million for the nine months ended September 30, 2020 and 2019, respectively.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

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

(In Thousands)	September 30, 2020
2020 (3 months)	\$ 930
2021	2,949
2022	2,427
2023	1,913
2024	1,917
2025	8,039
<b>Total Lease Commitments</b>	<b>18,175</b>
Less: Imputed interest	(3,052)
<b>Lease Liability</b>	<b>\$ 15,123</b>

During the nine months ended September 30, 2020, we entered into three office leases and determined that each of these leases qualified as operating leases. At September 30, 2020, our lease liability was \$15 million, which was a component of Accrued expenses and other liabilities, and our right-of-use asset was \$13 million, which was a component of Other assets.

We determined that none of our leases contained an implicit interest rate and used a discount rate equal to our incremental borrowing rate on a collateralized basis to determine the present value of our total lease payments. As such, we determined the applicable discount rate for each of our leases using a swap rate plus an applicable spread for borrowing arrangements secured by our real estate loans and securities for a length of time equal to the remaining lease term on the date of adoption. At September 30, 2020, the weighted-average remaining lease term and weighted-average discount rate for our leases was 7 years and 5.0%, respectively.

**Commitment to Fund Residential Bridge Loans**

As of September 30, 2020, we had commitments to fund up to \$225 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 September 30, 2020, we recorded a \$1 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 \$15 million at September 30, 2020.

**Commitment to Fund Partnerships**

In the fourth quarter of 2018, we invested into 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.

**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 September 30, 2020, the balance of this liability was \$14 million, which will be paid in a mix of cash and common stock in March 2021.



**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

***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 September 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 September 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 \$.19 billion, subject to our risk-sharing arrangements with the Agencies. At September 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 September 30, 2020, we had not incurred any losses under these arrangements. For the three and nine months ended September 30, 2020, other income related to these arrangements was \$1 million and \$3 million, respectively, and net market valuation losses related to these investments were \$0.3 million and \$0.9 million, respectively. For the three and nine months ended September 30, 2019, other income related to these arrangements was \$1 million and \$2 million, respectively, and net market valuation losses related to these investments were \$0.1 million and \$0.2 million, respectively.

All of the loans in the reference pools subject to these risk-sharing arrangements were originated in 2014 and 2015, and at September 30, 2020, the loans had an unpaid principal balance of \$1.12 billion and a weighted average FICO score of 758 (at origination) and LTV ratio of 75% (at origination). At September 30, 2020, \$42 million of the loans were 90 days or more delinquent, and none of these loans were in foreclosure. At September 30, 2020, the carrying value of our guarantee obligation was \$1 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 September 30, 2020 and December 31, 2019, assets of such SPEs totaled \$47 million and \$48 million, respectively, and liabilities of such SPEs totaled \$11 million and \$14 million, respectively.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

***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 September 30, 2020 and December 31, 2019, our repurchase reserve associated with our residential loans and MSRs was \$9 million and \$4 million, respectively, and was recorded in Accrued expenses and other liabilities on our consolidated balance sheets.

We received eight and ten repurchase requests during the nine months ended September 30, 2020 and 2019, respectively, and did not repurchase any loans during either of these periods. During the nine months ended September 30, 2020 and 2019, we recorded repurchase provisions of \$4 million and reversals of repurchase provisions of \$0.2 million, respectively, that were recorded in Mortgage banking activities, net; Investment fair value changes, net; and Other income on our consolidated statements of income (loss).

***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 September 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 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").

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, including through structuring arrangements that incentivize both the counterparty and us to continue to engage in residential loan purchase and sale transactions in the future.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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 September 30, 2020, as well as an accrual for the estimated costs associated with counterparties where a resolution or go-forward framework has been agreed to or has been discussed but not finalized, a portion of which was recorded through Other expense and a portion of which was recorded through Mortgage banking activities, net on our consolidated income statement. In accordance with GAAP, the accrual for estimated costs is based on the opinion of management, that it is probable that these resolutions and forward-looking joint business undertakings and structured arrangements will result in an expense and the amount of expense can be reasonably estimated. In addition, as previously disclosed, one such counterparty filed a breach of contract lawsuit against us in May 2020 alleging that it had suffered in excess of \$2 million of losses as a result of our alleged failure to purchase residential mortgage loans from it; and in October 2020 we and the plaintiff agreed to settle the lawsuit on mutually satisfactory terms.

During the three and nine months ended September 30, 2020, we recorded \$4 million and \$9 million of expenses, respectively, in association with Residential Loan Seller Demands. At September 30, 2020, the aggregate amount of our accrual for estimated costs associated with Residential Loan Seller Demands was \$6.5 million, a portion of which would be contingent on the successful completion of future residential loan purchase and sale transactions with certain counterparties, with the expectation of generating future revenue for the Company.

With respect to Residential Loan Seller Demands that have not been resolved or been accrued for, 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 and we cannot be certain that the resolution of these matters, whether through litigation, 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 litigation 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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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 nine months ended September 30, 2020 and 2019. During the three and nine months ended September 30, 2020, we recognized net unrealized gains (losses) on our Level 3 AFS securities which we owned as of September 30, 2020 of \$8 million and negative \$16 million, respectively.

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

(In Thousands)	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
	Available-for-Sale Securities	Interest Rate Agreements Accounted for as Cash Flow Hedges	Available-for-Sale Securities	Interest Rate Agreements Accounted for as Cash Flow Hedges
Balance at beginning of period	\$ 53,246	\$ (82,637)	\$ 98,307	\$ (49,384)
Other comprehensive income (loss) before reclassifications	8,236	—	4,484	(11,791)
Amounts reclassified from other accumulated comprehensive income	(445)	1,040	(3,492)	—
Net current-period other comprehensive income (loss)	7,791	1,040	992	(11,791)
<b>Balance at End of Period</b>	<b>\$ 61,037</b>	<b>\$ (81,597)</b>	<b>\$ 99,299</b>	<b>\$ (61,175)</b>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

(In Thousands)	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Available-for-Sale Securities	Interest Rate Agreements Accounted for as Cash Flow Hedges	Available-for-Sale Securities	Interest Rate Agreements Accounted for as Cash Flow Hedges
Balance at beginning of period	\$ 92,452	\$ (50,939)	\$ 95,342	\$ (34,045)
Other comprehensive income (loss) before reclassifications	(19,890)	(32,806)	19,764	(27,130)
Amounts reclassified from other accumulated comprehensive income	(11,525)	2,148	(15,807)	—
Net current-period other comprehensive income (loss)	(31,415)	(30,658)	3,957	(27,130)
<b>Balance at End of Period</b>	<b>\$ 61,037</b>	<b>\$ (81,597)</b>	<b>\$ 99,299</b>	<b>\$ (61,175)</b>

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

*Table 17.2 – Reclassifications Out of Accumulated Other Comprehensive Income*

(In Thousands)	Affected Line Item in the Income Statement	Amount Reclassified From Accumulated Other Comprehensive Income	
		Three Months Ended September 30,	
		2020	2019
<b>Net Realized (Gain) Loss on AFS Securities</b>			
Credit loss recovery on AFS securities	Investment fair value changes, net	\$ (444)	\$ —
Gain on sale of AFS securities	Realized gains, net	—	(3,492)
		<u>\$ (444)</u>	<u>\$ (3,492)</u>
<b>Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges</b>			
Amortization of deferred loss	Interest expense	\$ 1,040	\$ —
		<u>\$ 1,040</u>	<u>\$ —</u>

(In Thousands)	Affected Line Item in the Income Statement	Amount Reclassified From Accumulated Other Comprehensive Income	
		Nine Months Ended September 30,	
		2020	2019
<b>Net Realized (Gain) Loss on AFS Securities</b>			
Credit loss expense on AFS securities	Investment fair value changes, net	\$ 1,027	\$ —
Gain on sale of AFS securities	Realized gains, net	(12,552)	(15,807)
		<u>\$ (11,525)</u>	<u>\$ (15,807)</u>
<b>Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges</b>			
Amortization of deferred loss	Interest expense	\$ 2,148	\$ —
		<u>\$ 2,148</u>	<u>\$ —</u>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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. In March 2020, we increased the maximum aggregate amount of common stock offered under the ATM program to \$175 million. During the nine months ended September 30, 2020, we issued 129,500 common shares for net proceeds of approximately \$2 million through ATM offerings. At September 30, 2020, approximately \$110 million remained outstanding for future offerings under this program.

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

During the nine months ended September 30, 2020, we did not issue any shares of common stock through our Direct Stock Purchase and Dividend Reinvestment Plan. During the nine months ended September 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 nine months ended September 30, 2020 and 2019.

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

(In Thousands, except Share Data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Basic Earnings (Loss) per Common Share:</b>				
Net income (loss) attributable to Redwood	\$ 141,812	\$ 34,310	\$ (636,142)	\$ 120,040
Less: Dividends and undistributed earnings allocated to participating securities	(4,067)	(856)	(1,427)	(3,260)
Net income (loss) allocated to common shareholders	\$ 137,745	\$ 33,454	\$ (637,569)	\$ 116,780
Basic weighted average common shares outstanding	113,403,102	101,872,126	113,952,308	97,214,064
<b>Basic Earnings (Loss) per Common Share</b>	\$ 1.21	\$ 0.33	\$ (5.60)	\$ 1.20
<b>Diluted Earnings (Loss) per Common Share:</b>				
Net income (loss) attributable to Redwood	\$ 141,812	\$ 34,310	\$ (636,142)	\$ 120,040
Less: Dividends and undistributed earnings allocated to participating securities	(3,512)	(1,036)	(1,427)	(3,625)
Adjust for interest expense and gain on extinguishment of convertible notes for the period, net of tax	6,990	8,887	—	26,271
Net income (loss) allocated to common shareholders	\$ 145,290	\$ 42,161	\$ (637,569)	\$ 142,686
Weighted average common shares outstanding	113,403,102	101,872,126	113,952,308	97,214,064
Net effect of dilutive equity awards	—	362,743	—	261,155
Net effect of assumed convertible notes conversion to common shares	28,566,875	34,287,840	—	33,727,470
Diluted weighted average common shares outstanding	141,969,977	136,522,709	113,952,308	131,202,689
<b>Diluted Earnings (Loss) per Common Share</b>	\$ 1.02	\$ 0.31	\$ (5.60)	\$ 1.09

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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

During the three months ended September 30, 2020 and the three and nine months ended September 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 nine months ended September 30, 2020, 32,225,825 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 nine months ended September 30, 2020, the number of outstanding equity awards that were antidilutive totaled 13,560 and 15,457, respectively. For the three and nine months ended September 30, 2019, the number of outstanding equity awards that were antidilutive totaled 11,710 and 9,361, 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. During the three months ended September 30, 2020, we repurchased 3,047,335 shares of our common stock pursuant to this authorization for \$22 million. At September 30, 2020, \$78 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 September 30, 2020 and December 31, 2019, 8,629,455 and 3,637,480 shares of common stock, respectively, were available for grant under our Incentive Plan. During the second quarter of 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 \$20 million at September 30, 2020, as shown in the following table.

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

(In Thousands)	Nine Months Ended September 30, 2020					
	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	108	3,581	6,780	—	160	10,629
Performance-based valuation adjustment	—	—	—	(7,352)	—	(7,352)
Equity grant forfeitures	(529)	(2,161)	(4,733)	(648)	—	(8,071)
Equity compensation expense	(807)	(1,067)	(6,268)	326	(80)	(7,896)
<b>Unrecognized Compensation Cost at End of Period</b>	<b>\$ 762</b>	<b>\$ 3,887</b>	<b>\$ 13,637</b>	<b>\$ 1,272</b>	<b>\$ 80</b>	<b>\$ 19,638</b>

At September 30, 2020, the weighted average amortization period remaining for all of our equity awards was one year.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

At September 30, 2020 and December 31, 2019, there were 80,550 and 216,470 shares, respectively, of RSAs outstanding. Restrictions on these shares lapse through 2022. During the nine months ended September 30, 2020, there were no RSAs granted, restrictions on 101,063 RSAs lapsed and those shares were distributed, and 34,857 RSAs were forfeited.

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

At September 30, 2020 and December 31, 2019, there were 294,986 and 275,173 shares, respectively, of RSUs outstanding. Restrictions on these shares lapse through 2024. During the nine months ended September 30, 2020, there were 205,482 RSUs granted, 55,514 RSUs distributed, and 130,155 RSUs forfeited.

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

At September 30, 2020 and December 31, 2019, there were 2,420,737 and 2,630,805 DSUs, respectively, outstanding of which 1,406,190 and 1,286,063, respectively, had vested. During the nine months ended September 30, 2020, there were 494,719 DSUs granted, 413,533 DSUs distributed, and 291,253 DSUs forfeited. Unvested DSUs at September 30, 2020 vest through 2024.

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

At September 30, 2020 and December 31, 2019, the target number of PSUs that were unvested was 739,895 and 839,070, respectively. During the nine months ended September 30, 2020, 99,175 PSUs were forfeited. Vesting for all PSUs will generally occur at the end of three years from their grant date based on various Total Shareholder Return ("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 September 30, 2020 and December 31, 2019, 477,142 and 430,772 shares had been purchased, respectively, and there remained a negligible amount of uninvested employee contributions in the ESPP at September 30, 2020.



**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 nine months ended September 30, 2020 and 2019.

**Table 19.1 – Mortgage Banking Activities**

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Residential Mortgage Banking Activities, Net</b>				
Changes in fair value of:				
Residential loans, at fair value <sup>(1)</sup>	\$ 12,589	\$ 6,320	\$ 19,151	\$ 41,431
Risk management derivatives <sup>(2)</sup>	(10)	(1,710)	(31,304)	(11,608)
Other income (expense), net <sup>(3)</sup>	(715)	407	(7,069)	1,380
Total residential mortgage banking activities, net	11,864	5,017	(19,222)	31,203
<b>Business Purpose Mortgage Banking Activities, Net:</b>				
Changes in fair value of:				
Single-family rental loans, at fair value <sup>(1)</sup>	43,191	1,847	56,209	5,473
Risk management derivatives <sup>(2)</sup>	(89)	(1,262)	(21,627)	(3,779)
Residential bridge loans, at fair value	938	1,010	(4,256)	2,108
Other income, net <sup>(4)</sup>	3,491	2,903	13,407	5,979
Total business purpose mortgage banking activities, net	47,531	4,498	43,733	9,781
<b>Mortgage Banking Activities, Net</b>	<u>\$ 59,395</u>	<u>\$ 9,515</u>	<u>\$ 24,511</u>	<u>\$ 40,984</u>

(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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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 nine months ended September 30, 2020 and 2019.

**Table 20.1 – Other Income**

<b>(In Thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
MSR (loss) income, net	\$ (2,362)	\$ 431	\$ (5,595)	\$ 2,342
Risk share income	1,200	905	3,146	2,351
FHLBC capital stock dividend	116	541	1,201	1,623
Equity investment income	341	560	615	732
5 Arches loan administration fee income	688	1,344	2,206	3,298
Gain on re-measurement of investment in 5 Arches	—	—	—	2,441
Other	(97)	575	2,406	1,053
<b>Other (Loss) Income</b>	<b>\$ (114)</b>	<b>\$ 4,356</b>	<b>\$ 3,979</b>	<b>\$ 13,840</b>

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

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

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>General and Administrative Expenses</b>				
Fixed compensation expense	\$ 10,103	\$ 9,391	\$ 36,605	\$ 26,740
Variable compensation expense	5,882	3,489	9,171	11,356
Equity compensation expense	2,639	3,155	7,896	10,132
Acquisition-related equity compensation expense <sup>(1)</sup>	1,212	—	3,636	—
Systems and consulting	2,145	3,230	7,752	7,594
Office costs	1,859	1,517	5,854	4,406
Accounting and legal	1,601	1,767	6,605	3,852
Corporate costs	831	482	2,128	1,701
Other operating expenses	1,358	1,868	5,185	4,941
<b>Total General and Administrative Expenses</b>	<b>27,630</b>	<b>24,899</b>	<b>84,832</b>	<b>70,722</b>
<b>Loan Acquisition Costs</b>				
Commissions	879	659	3,027	1,432
Underwriting costs	771	1,074	3,289	3,184
Transfer and holding costs	508	183	1,400	891
<b>Total Loan Acquisition Costs</b>	<b>2,158</b>	<b>1,916</b>	<b>7,716</b>	<b>5,507</b>
<b>Other Expenses</b>				
Goodwill impairment expense	—	—	88,675	—
Amortization of purchase-related intangible assets	3,873	1,897	12,052	4,608
Contingent consideration expense <sup>(2)</sup>	135	236	581	547
Other	3,780	398	2,978	866
<b>Total Other Expenses</b>	<b>7,788</b>	<b>2,531</b>	<b>104,286</b>	<b>6,021</b>
<b>Total General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses</b>	<b>\$ 37,576</b>	<b>\$ 29,346</b>	<b>\$ 196,834</b>	<b>\$ 82,250</b>

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

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

***Variable Compensation Expense***

During the three months ended September 30, 2020, \$8 million of cash-based retention awards were granted to certain executive and non-executive employees that will vest and be paid over the next three years, subject to continued employment through the vesting periods from 2021 through 2023. Additionally, during the three months ended September 30, 2020, Long-Term Relative TSR Performance Vesting Cash Awards ("Cash Performance Awards") with an aggregate granted award value of \$2 million, were granted to certain executive and non-executive employees that will vest between 0% to 400% of granted award value based on a relative total stockholder return measure, and are contingent on continued employment over a three-year service period.

The value of the cash-based retention awards is being amortized into expense on a straight-line basis over each award's respective vesting period. The Cash Performance Awards are amortized on a straight-line basis over three years, however, are remeasured at fair value each quarter-end and the cumulative straight-line expense is true-up in respect to their updated value. For both the three and nine months ended September 30, 2020, variable compensation expense included \$3 million in aggregate, related to the cash-based retention awards and the Cash Performance awards.

**Note 22. Taxes**

For the nine months ended September 30, 2020 and 2019, we recognized a benefit for income taxes of \$3 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 September 30, 2020 and 2019.

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

	<b>September 30, 2020</b>	<b>September 30, 2019</b>
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) %	(2.5) %
Change in valuation allowance	(4.0) %	(2.5) %
Dividends paid deduction <sup>(1)</sup>	— %	(22.1) %
<b>Effective Tax Rate</b>	<b>2.0 %</b>	<b>2.5 %</b>

(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 nine months ended September 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, 2017 to 2020, and State, 2016 to 2020) at September 30, 2020 and December 31, 2019, and concluded that we had no uncertain tax positions that resulted in material unrecognized tax benefits.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**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.

*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 repurchasing 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.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

**Table 23.1 – Business Segment Financial Information**

<b>Three Months Ended September 30, 2020</b>					
<b>(In Thousands)</b>	<b>Residential Lending</b>	<b>Business Purpose Lending</b>	<b>Third-Party Investments</b>	<b>Corporate/ Other</b>	<b>Total</b>
Interest income	\$ 26,672	\$ 55,930	\$ 37,576	\$ 1,804	\$ 121,982
Interest expense	(22,541)	(46,027)	(27,534)	(4,309)	(100,411)
<b>Net interest income</b>	4,131	9,903	10,042	(2,505)	21,571
<b>Non-interest income</b>					
Mortgage banking activities, net	11,864	47,531	—	—	59,395
Investment fair value changes, net	2,443	16,892	87,890	(178)	107,047
Other income, net	(2,011)	623	340	934	(114)
Realized gains, net	—	—	602	—	602
<b>Total non-interest income, net</b>	12,296	65,046	88,832	756	166,930
General and administrative expenses	(4,602)	(9,321)	(709)	(12,998)	(27,630)
Loan acquisition costs	(304)	(1,660)	(194)	—	(2,158)
Other expenses	(3,309)	(3,874)	(470)	(135)	(7,788)
(Provision for) benefit from income taxes	(826)	(8,544)	257	—	(9,113)
<b>Segment Contribution</b>	<u>\$ 7,386</u>	<u>\$ 51,550</u>	<u>\$ 97,758</u>	<u>\$ (14,882)</u>	
<b>Net Income</b>					<u>\$ 141,812</u>
Non-cash amortization (expense) income, net	\$ 1,785	\$ (6,719)	\$ 117	\$ (1,516)	\$ (6,333)
<b>Nine Months Ended September 30, 2020</b>					
<b>(In Thousands)</b>	<b>Residential Lending</b>	<b>Business Purpose Lending</b>	<b>Third-Party Investments</b>	<b>Corporate/ Other</b>	<b>Total</b>
Interest income	\$ 123,956	\$ 162,732	\$ 155,583	\$ 7,738	\$ 450,009
Interest expense	(94,112)	(119,854)	(123,160)	(12,622)	(349,748)
<b>Net interest income</b>	29,844	42,878	32,423	(4,884)	100,261
<b>Non-interest income</b>					
Mortgage banking activities, net	(19,222)	43,733	—	—	24,511
Investment fair value changes, net	(159,107)	(84,837)	(366,696)	(917)	(611,557)
Other income, net	(2,278)	3,493	1,072	1,692	3,979
Realized gains, net	2,001	—	3,236	25,182	30,419
<b>Total non-interest income, net</b>	(178,606)	(37,611)	(362,388)	25,957	(552,648)
General and administrative expenses	(12,901)	(29,977)	(4,230)	(37,724)	(84,832)
Loan acquisition costs	(1,512)	(5,630)	(567)	(7)	(7,716)
Other expenses	(3,309)	(100,743)	347	(581)	(104,286)
Benefit from income taxes	7,827	477	4,775	—	13,079
<b>Segment Contribution</b>	<u>\$ (158,657)</u>	<u>\$ (130,606)</u>	<u>\$ (329,640)</u>	<u>\$ (17,239)</u>	
<b>Net Loss</b>					<u>\$ (636,142)</u>
Non-cash amortization (expense) income, net	\$ 602	\$ (18,050)	\$ 1,105	\$ (3,035)	\$ (19,378)
Other significant non-cash expense: goodwill impairment	\$ —	\$ (88,675)	\$ —	\$ —	\$ (88,675)

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

<b>Three Months Ended September 30, 2019</b>					
<b>(In Thousands)</b>	<b>Residential Lending</b>	<b>Business Purpose Lending</b>	<b>Third-Party Investments</b>	<b>Corporate/ Other</b>	<b>Total</b>
Interest income	\$ 69,586	\$ 5,527	\$ 70,709	\$ 4,295	\$ 150,117
Interest expense	(48,798)	(2,813)	(61,541)	(3,452)	(116,604)
<b>Net interest income</b>	<b>20,788</b>	<b>2,714</b>	<b>9,168</b>	<b>843</b>	<b>33,513</b>
<b>Non-interest income</b>					
Mortgage banking activities, net	5,016	4,499	—	—	9,515
Investment fair value changes, net	(11,088)	(1,073)	24,057	(452)	11,444
Other income, net	1,878	1,918	560	—	4,356
Realized gains, net	—	—	4,714	—	4,714
<b>Total non-interest income, net</b>	<b>(4,194)</b>	<b>5,344</b>	<b>29,331</b>	<b>(452)</b>	<b>30,029</b>
General and administrative expenses	(5,581)	(6,028)	(676)	(12,614)	(24,899)
Loan acquisition costs	(867)	(756)	(180)	(113)	(1,916)
Other expenses	—	(1,900)	(395)	(236)	(2,531)
Benefit from (provision for) income taxes	228	(8)	(106)	—	114
<b>Segment Contribution</b>	<b>\$ 10,374</b>	<b>\$ (634)</b>	<b>\$ 37,142</b>	<b>\$ (12,572)</b>	
<b>Net Income</b>					<b>\$ 34,310</b>
Non-cash amortization income (expense), net	\$ 2,537	\$ (2,107)	\$ —	\$ (1,148)	\$ (718)

  

<b>Nine Months Ended September 30, 2019</b>					
<b>(In Thousands)</b>	<b>Residential Lending</b>	<b>Business Purpose Lending</b>	<b>Third-Party Investments</b>	<b>Corporate/ Other</b>	<b>Total</b>
Interest income	\$ 204,036	\$ 12,595	\$ 199,145	\$ 13,924	\$ 429,700
Interest expense	(145,795)	(6,590)	(168,167)	(11,548)	(332,100)
<b>Net interest income</b>	<b>58,241</b>	<b>6,005</b>	<b>30,978</b>	<b>2,376</b>	<b>97,600</b>
<b>Non-interest income</b>					
Mortgage banking activities, net	31,202	9,782	—	—	40,984
Investment fair value changes, net	(20,910)	(1,833)	58,492	(1,008)	34,741
Other income, net	6,317	4,213	600	2,710	13,840
Realized gains, net	7,728	—	10,499	—	18,227
<b>Total non-interest income, net</b>	<b>24,337</b>	<b>12,162</b>	<b>69,591</b>	<b>1,702</b>	<b>107,792</b>
General and administrative expenses	(17,591)	(13,452)	(2,239)	(37,440)	(70,722)
Loan acquisition costs	(2,859)	(2,017)	(503)	(128)	(5,507)
Other expenses	—	(4,432)	(864)	(725)	(6,021)
(Provision for) benefit from income taxes	(1,757)	25	(1,370)	—	(3,102)
<b>Segment Contribution</b>	<b>\$ 60,371</b>	<b>\$ (1,709)</b>	<b>\$ 95,593</b>	<b>\$ (34,215)</b>	
<b>Net Income</b>					<b>\$ 120,040</b>
Non-cash amortization income (expense), net	\$ 6,780	\$ (4,907)	\$ (824)	\$ (1,939)	\$ (890)

**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

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

(In Thousands)	Three Months Ended September 30,					
	2020			2019		
	Legacy Consolidated VIEs (1)	Other	Total	Legacy Consolidated VIEs (1)	Other	Total
Interest income	\$ 1,795	\$ 9	\$ 1,804	\$ 4,295	\$ —	\$ 4,295
Interest expense	(1,058)	(3,251)	(4,309)	(3,452)	—	(3,452)
<b>Net interest income</b>	<b>737</b>	<b>(3,242)</b>	<b>(2,505)</b>	<b>843</b>	<b>—</b>	<b>843</b>
<b>Non-interest income</b>						
Investment fair value changes, net	(81)	(97)	(178)	(407)	(45)	(452)
Other income	—	934	934	—	—	—
<b>Total non-interest income, net</b>	<b>(81)</b>	<b>837</b>	<b>756</b>	<b>(407)</b>	<b>(45)</b>	<b>(452)</b>
General and administrative expenses	—	(12,998)	(12,998)	—	(12,614)	(12,614)
Loan acquisition costs	—	—	—	—	(113)	(113)
Other expenses	—	(135)	(135)	—	(236)	(236)
<b>Total</b>	<b>\$ 656</b>	<b>\$ (15,538)</b>	<b>\$ (14,882)</b>	<b>\$ 436</b>	<b>\$ (13,008)</b>	<b>\$ (12,572)</b>

  

(In Thousands)	Nine Months Ended September 30,					
	2020			2019		
	Legacy Consolidated VIEs (1)	Other	Total	Legacy Consolidated VIEs (1)	Other	Total
Interest income	\$ 7,675	\$ 63	\$ 7,738	\$ 13,924	\$ —	\$ 13,924
Interest expense	(5,098)	(7,524)	(12,622)	(11,548)	—	(11,548)
<b>Net interest income</b>	<b>2,577</b>	<b>(7,461)</b>	<b>(4,884)</b>	<b>2,376</b>	<b>—</b>	<b>2,376</b>
<b>Non-interest income</b>						
Investment fair value changes, net	(702)	(215)	(917)	(904)	(104)	(1,008)
Other income	—	1,692	1,692	—	2,710	2,710
Realized gains, net	—	25,182	25,182	—	—	—
<b>Total non-interest income, net</b>	<b>(702)</b>	<b>26,659</b>	<b>25,957</b>	<b>(904)</b>	<b>2,606</b>	<b>1,702</b>
General and administrative expenses	—	(37,724)	(37,724)	—	(37,440)	(37,440)
Loan acquisition costs	—	(7)	(7)	—	(128)	(128)
Other expenses	—	(581)	(581)	—	(725)	(725)
<b>Total</b>	<b>\$ 1,875</b>	<b>\$ (19,114)</b>	<b>\$ (17,239)</b>	<b>\$ 1,472</b>	<b>\$ (35,687)</b>	<b>\$ (34,215)</b>

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



**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

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

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

**Table 23.3 – Supplemental Segment Information**

<b>(In Thousands)</b>	<b>Residential Lending</b>	<b>Business Purpose Lending</b>	<b>Third-Party Investments</b>	<b>Corporate/ Other</b>	<b>Total</b>
<b>September 30, 2020</b>					
Residential loans	\$ 1,941,489	\$ —	\$ 2,256,682	\$ 296,765	\$ 4,494,936
Business purpose residential loans	—	3,956,101	—	—	3,956,101
Multifamily loans	—	—	491,415	—	491,415
Real estate securities	146,608	—	204,727	—	351,335
Other investments	14,878	25,713	344,037	—	384,628
Goodwill and intangible assets	—	60,737	—	—	60,737
Total assets	2,148,643	4,134,913	3,315,039	803,817	10,402,412
<b>December 31, 2019</b>					
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](http://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 driving the flow of capital in the housing finance market, our strategic initiatives designed to capitalize on those trends, our ability to attract capital to finance those initiatives, our approach to raising capital, 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 optimism that we will end 2020 on a high note, that excess liquidity will continue to support higher prices for mortgage related investments and enhance their scarcity value, that our portfolio values still have room to recover value from unrealized losses incurred in the first quarter of 2020, and our belief that secular trends supporting our investment thesis are accelerating due to the COVID-19 pandemic; (iii) expectations with respect to activity in our Residential Lending segment, including our expectation that our expanded prime program will contribute more significantly to our 2021 loan acquisition volumes, and the potential for significantly increased industry-wide jumbo loan origination volumes and for interest rates on jumbo loans to continue to converge towards those for conforming borrowers; (iv) our expectations related to opportunities to provide technology-enabled solutions to disrupt traditional private-sector workflows; (v) statements regarding our capital available for investment, including our statement that we have ample capital available to deploy into our operating businesses and to pursue opportunistic third-party investments; (vi) statements relating to acquiring residential mortgage loans in the future that we have identified for purchase or plan to purchase, including the amount of such loans that we identified for purchase during the third quarter of 2020 and at September 30, 2020, and expected fallout and the corresponding volume of residential mortgage loans expected to be available for purchase, and expected residential mortgage loan sales in the fourth quarter, including through forward sales agreements we entered into during the third quarter; (vii) statements we make regarding future dividends, including with respect to our regular quarterly dividends in 2020; and (viii) 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

In the third quarter of 2020, we positioned ourselves to take advantage of opportunities emerging in our markets. Though we remain wary of a volatile election season and rising rates of COVID-19 infections in many parts of the U.S., our businesses are back to operating at full speed and we are optimistic that we will end 2020 on a high note.

After recasting our balance sheet and positioning our businesses to relaunch from a position of strength, we are now conducting new business at a rapid pace and leveraging industry relationships forged over many business cycles. But after such a profoundly challenging period for our sector and country, we were compelled to think critically about the type of company we want to lead over the long-term – including how we fit into a nation grappling with civil unrest, pandemic fatigue, and a depressed job market.

We emerged with great clarity on who we are and where we are headed. Our business continues moving towards where our capital is most impactful – in our residential and business purpose lending segments, complemented by portfolio strategies where we hold distinct competitive advantages. With the Federal Reserve providing an unprecedented amount of stimulus to financial markets, the detachment of asset prices from certain underlying fundamentals is the most pronounced we have seen since the lead up to the Great Financial Crisis. A vast amount of capital is now in need of deployment, and we believe this excess liquidity will continue to support higher prices for mortgage related investments and exacerbate their scarcity value. As such, it has become a strategic priority for many investment firms to access the whole-loans that underlie such investments. This is exactly what Redwood's residential and business purpose lending platforms are built to generate.

Demand for loans we originate or acquire has only grown stronger as the year has unfolded. This demand has enabled us to enhance our distribution strategies to compete more effectively for volume while reducing our exposure to market volatility. Recently completed non-mark-to-market financing facilities supporting our residential, business purpose, and third party investments, including financing residential loans in forbearance, helped achieve this reduced exposure. While most of these new facilities were completed with our traditional banking counterparties, we are expanding our reach by also working with non-bank financing sources that will allow us to use our working capital more efficiently.

In the third quarter, our residential mortgage lock volume was \$2.12 billion, growing from nearly zero in the second quarter. It was also the highest quarterly volume sourced exclusively through our residential loan seller network in five years. Moreover, we achieved this through purchase activity with only about 40% of our loan sellers. We also have yet to formally relaunch our expanded prime program, Redwood Choice, which we expect to contribute more significantly to our 2021 acquisition volumes. Additionally, the mortgage finance industry remains focused on the refinancing opportunity for conforming mortgage loans. In our view, there is potential for significantly increased jumbo loan origination and acquisition volumes, driven by evolving consumer demand and the potential for interest rates on jumbo mortgage loans to continue converging towards those for conforming mortgage loans. Our recent efforts have positioned us to compete effectively in what may be a substantially larger market. The recent completion of our first Sequoia securitization backed largely by loans originated since the COVID-19 crisis began is an important affirmation of our progress.

Similarly, our business purpose origination activity remained strong in the third quarter – providing us with a favorable combination of robust underwriting coupled with higher margins. Our third quarter single-family rental securitization was met with extremely high demand, with the AAA-rated securities pricing with an interest rate of 1.36%. In addition to the benefit from lower benchmark rates, blended credit spreads for the offered bonds were better than the execution we achieved in our final transaction of 2019, well in advance of this spring's volatility.

As our operating strategies take shape, our investment portfolio's asset values have continued to recover since incurring unrealized losses during the first quarter. The significant upside we have seen in these investments appears to be a story unique to Redwood – with many of our competitors exiting their non-agency portfolios in response to the pandemic. Though we can't predict the pace or extent of a broad-based economic recovery, we believe our portfolio values still have room for further recovery, with the investment portfolio currently yielding in the low- to mid-double digits to our basis in those assets at September 30, 2020.

As we focus on growth opportunities ahead, we believe the secular trends supporting our housing thesis are not just intact, but accelerating due to the COVID-19 pandemic. The nationwide push toward single-family housing – whether rented or owned – is no longer a nuanced data point, but has become widely recognized as families look for more space to live socially distanced, work, and learn from home. As this shift unfolds, densely populated cities continue to see home prices and rents stay relatively flat or decline, while neighboring suburbs enjoy robust demand and home price appreciation – in many cases exceeding 10-20% over prior year levels. With over 65% of single-family homes having 3 bedrooms or more, compared to only 11% of apartment units, we expect the trend towards single-family living to continue and to be supported by low interest rates.

While we are pleased with our market positioning and expectations for growth, navigating the Company through prolonged market volatility will remain a primary focus. The high standards we have set for service to our customers are well-established, but it is critical for us to maintain an infrastructure that can preserve this standard while allowing us to scale profitably and safely. To accomplish this, we are committed to innovating and investing in our technology.

Our businesses recently completed an updated technology roadmap that identified significant opportunities to provide technology-enabled solutions to our network of loan sellers and sponsors. We aim to disrupt traditional private-sector workflows and ideologies that have inhibited automation in the non-agency mortgage market.

Non-agency residential loan purchase workflows and timelines is one such opportunity. We recently announced the pilot launch of Redwood “Rapid Funding”, a technology-enabled program that will permit qualifying originators to transact with us on a significantly accelerated purchase timeline. Our delegated process allows originators to control their closing timelines; adding this feature will enable them to free up capital more quickly and remove risk from their balance sheets. Our program will also create opportunities for faster settlements to our loan buyer network – particularly depositories – that ultimately could lead to better outcomes for borrowers.

At CoreVest, our business purpose lending subsidiary, technology and data architecture have long been hallmarks of the platform’s advantages in client acquisition and retention. A culture of consistent iteration of the technology suite – particularly in the proprietary use of leading cloud-based systems to automate workflow management – keeps the platform’s first-mover advantage fresh. This client-centric approach keeps customers coming back, as evidenced by our approximately 50% repeat borrower rate, but also positions us to capitalize as this area of the market continues to grow.

Though our business platforms serve different parts of the housing market, our core mission unifies them. We aim to make quality housing accessible to all Americans, whether rented or owned. For example, we finance build-to-rent communities in the Midwest, workforce housing in the South, and high-balance residential mortgages on the coasts. Our mission also speaks to the role we play in our communities, and motivates us to advocate for and advance inclusion and diversity initiatives across our industry. By focusing on financing solutions for all consumers and investors not served by government-sponsored loan programs, we believe we can make a positive impact for our stakeholders – especially our shareholders, employees, and communities.

### Third Quarter Overview

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

**Table 1 – Key Financial Metrics**

<b>(In Thousands, except per Share Data)</b>	<b>Three Months Ended September 30, 2020</b>		<b>Nine Months Ended September 30, 2020</b>	
Net income (loss) per diluted common share	\$	1.02	\$	(5.60)
Book value per share	\$	9.41	\$	9.41
REIT taxable income (loss) per share	\$	0.07	\$	(0.10)
Dividends per share	\$	0.14	\$	0.585

- Our third quarter 2020 results benefited from renewed momentum in our operating businesses. Volumes grew significantly at our residential business, and business purpose lending results benefited from strong securitization execution and improved valuations on loans held in inventory.
- Our book value increased \$1.26 per share to \$9.41 per share during the third quarter of 2020, resulting primarily from positive investment fair value changes as well as from improved mortgage banking results. During the third quarter of 2020, we repurchased three million shares of our common stock for \$22 million, resulting in a \$0.03 per share benefit to book value.
- During the third quarter of 2020, we entered into two separate non-recourse debt transactions and closed two non-marginable (i.e., not subject to margin calls based on the market value of the underlying collateral) loan warehouse facilities. These transactions helped reduce our recourse debt from \$1.82 billion at June 30, 2020 to \$1.35 billion at September 30, 2020, and reduced our marginable debt from \$375 million at June 30, 2020 to \$120 million at September 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, including additional details regarding market value-based margin call provisions compared to asset value-based margin call provisions, are provided in the "Liquidity and Capital Resources" section that follows in this MD&A under the heading *"Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities."*
- Residential jumbo loan purchase commitments were \$1.20 billion, and we purchased \$176 million of residential jumbo loans during the third quarter of 2020. At September 30, 2020, our pipeline of jumbo residential loans identified for purchase was \$1.79 billion.
- Our business purpose lending platform originated \$261 million of business purpose mortgage loans in the third quarter, including \$196 million of single-family rental loans and \$66 million of residential bridge loans. During the quarter, we also completed one \$293 million securitization of single-family rental loans.
- During the third quarter of 2020, we sold \$13 million of third-party securities, and retained \$16 million of single-family rental ("SFR") securities from a securitization we completed during the quarter.

## 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 third quarter of 2020, compared to the third quarter of 2019, and increases or decreases in the "nine-month periods" refer to the change in results for the first nine months of 2020, compared to the first nine months of 2019.

### Consolidated Results of Operations

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

**Table 2 – Net Income (Loss)**

(In Thousands, except per Share Data)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
<b>Net Interest Income</b>	\$ 21,571	\$ 33,513	\$ (11,942)	\$ 100,261	\$ 97,600	\$ 2,661
<b>Non-interest Income</b>						
Mortgage banking activities, net	59,395	9,515	49,880	24,511	40,984	(16,473)
Investment fair value changes, net	107,047	11,444	95,603	(611,557)	34,741	(646,298)
Other income	(114)	4,356	(4,470)	3,979	13,840	(9,861)
Realized gains, net	602	4,714	(4,112)	30,419	18,227	12,192
Total non-interest income (loss), net	166,930	30,029	136,901	(552,648)	107,792	(660,440)
General and administrative expenses	(27,630)	(24,899)	(2,731)	(84,832)	(70,722)	(14,110)
Loan acquisition costs	(2,158)	(1,916)	(242)	(7,716)	(5,507)	(2,209)
Other expenses	(7,788)	(2,531)	(5,257)	(104,286)	(6,021)	(98,265)
<b>Net income (loss) before income taxes</b>	150,925	34,196	116,729	(649,221)	123,142	(772,363)
(Provision for) benefit from income taxes	(9,113)	114	(9,227)	13,079	(3,102)	16,181
<b>Net Income (Loss)</b>	<u>\$ 141,812</u>	<u>\$ 34,310</u>	<u>\$ 107,502</u>	<u>\$ (636,142)</u>	<u>\$ 120,040</u>	<u>\$ (756,182)</u>
Diluted earnings (loss) per common share	\$ 1.02	\$ 0.31	\$ 0.71	\$ (5.60)	\$ 1.09	\$ (6.69)

#### Net Interest Income

The decrease in net interest income during the three-month periods was primarily due to lower average asset balances during the third quarter of 2020 resulting from portfolio repositioning in the first half of 2020 related to the COVID-19 pandemic, and higher borrowing costs associated with non-marginable and non-recourse debt facilities we entered into in the second and third quarters of 2020.

The increase in net interest income during the nine-month periods was primarily due to higher net interest income from bridge loans and loans held for investment at CAFL entities, which we consolidated beginning in the fourth quarter of 2019 following the acquisition of CoreVest. These increases were mostly offset by a reduction in net interest income resulting from sales of investments in the first half of 2020 as we repositioned our portfolio in response to the COVID-19 pandemic.

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



#### *Mortgage Banking Activities, Net*

The increase in income from mortgage banking activities during the three-month periods was primarily due to improved valuations on SFR loans held in inventory at June 30, 2020 and originated during the third quarter of 2020, resulting from improved securitization execution at our business purpose mortgage banking operations.

The decrease in income from mortgage banking activities during the nine-month periods was predominantly due to a decrease in loan acquisition volumes at our residential mortgage banking business, as well as lower margins, in both cases due to pandemic-related market disruptions.

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 September 30, 2020, investment fair value changes reflected further increases in the fair value of our investment assets, as spreads continued to tighten during the third quarter. During the nine months ended September 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 nine-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 nine months ended September 30, 2019.

#### *Realized Gains, Net*

During the three and nine months ended September 30, 2020, we realized gains of \$1 million and \$30 million, respectively, primarily resulting from the sale of zero and \$55 million of AFS securities, respectively, and for the nine-month period, a \$25 million gain from the repurchase of \$125 million of convertible debt during the second quarter of 2020. During the three and nine months ended September 30, 2019, we realized gains of \$5 million and \$18 million, respectively, primarily from the sale of \$15 million and \$82 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 nine months ended September 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 nine-month periods primarily resulted from \$4 million and \$19 million of additional expenses, respectively, from the consolidation of 5 Arches and CoreVest operations during 2019 after their respective acquisitions.

#### *Loan Acquisition Costs*

The increase in loan acquisition costs for the three- and nine-month periods primarily resulted from an increase in origination activity at our business purpose mortgage banking operations, and also increased as a result of the acquisition of CoreVest during the fourth quarter of 2019.

#### *Other Expenses*

The increase in other expenses for the three-month periods was primarily due to higher amortization expense from intangible assets we recorded in association with the acquisitions of 5 Arches and CoreVest in 2019. The increase in other expenses for the nine-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-month periods, the increase in provision for income taxes was the result of higher GAAP income earned at our TRS in the current year versus the prior year. For the nine-month periods, the change to a benefit from income taxes from a provision for income taxes in the prior year was the result of year-to-date 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 nine months ended September 30, 2020 and 2019.

Table 3 – Net Interest Income

(Dollars in Thousands)	Three Months Ended September 30,					
	2020			2019		
	Interest Income/ (Expense)	Average Balance <sup>(1)</sup>	Yield	Interest Income/ (Expense)	Average Balance <sup>(1)</sup>	Yield
<b>Interest Income</b>						
Residential loans, held-for-sale	\$ 434	\$ 53,297	3.3 %	\$ 10,583	\$ 973,917	4.3 %
Residential loans - HFI at Redwood <sup>(2)</sup>	77	—	— %	22,809	2,325,304	3.9 %
Residential loans - HFI at Legacy Sequoia <sup>(2)</sup>	1,795	285,077	2.5 %	4,293	436,963	3.9 %
Residential loans - HFI at Sequoia Choice <sup>(2)</sup>	20,919	1,910,771	4.4 %	27,555	2,320,989	4.7 %
Residential loans - HFI at Freddie Mac SLST <sup>(2)</sup>	21,696	2,153,447	4.0 %	11,830	1,278,036	3.7 %
Business purpose residential loans	19,456	1,149,171	6.8 %	5,446	296,037	7.4 %
Single-family rental loans - HFI at CAFL	36,181	2,663,541	5.4 %	—	—	— %
Multifamily loans - HFI at Freddie Mac K-Series	4,918	489,736	4.0 %	36,829	3,767,847	3.9 %
Trading securities	6,539	140,892	18.6 %	17,877	1,168,952	6.1 %
Available-for-sale securities	3,596	135,942	10.6 %	5,170	174,530	11.8 %
Other interest income	6,371	859,808	3.0 %	7,725	612,554	5.0 %
<b>Total interest income</b>	<b>121,982</b>	<b>9,841,682</b>	<b>5.0 %</b>	<b>150,117</b>	<b>13,355,129</b>	<b>4.5 %</b>
<b>Interest Expense</b>						
Short-term debt facilities	(3,558)	313,190	(4.5)%	(18,209)	1,974,174	(3.7)%
Short-term debt - servicer advance financing	(1,587)	218,885	(2.9)%	(2,891)	212,988	(5.4)%
Short-term debt - convertible notes, net	—	—	— %	(3,139)	200,445	(6.3)%
ABS issued - Legacy Sequoia <sup>(2)</sup>	(1,058)	280,954	(1.5)%	(3,452)	428,101	(3.2)%
ABS issued - Sequoia Choice <sup>(2)</sup>	(17,828)	1,708,687	(4.2)%	(23,576)	2,085,622	(4.5)%
ABS issued - Freddie Mac SLST <sup>(2)</sup>	(16,819)	1,892,967	(3.6)%	(8,709)	1,023,046	(3.4)%
ABS issued - Freddie Mac K-Series	(4,426)	464,693	(3.8)%	(35,328)	3,559,970	(4.0)%
ABS issued - CAFL	(26,383)	2,509,828	(4.2)%	—	—	— %
Long-term debt - FHLBC	(1)	1,000	(0.4)%	(12,311)	1,999,999	(2.5)%
Long-term debt - other	(28,751)	1,743,531	(6.6)%	(8,989)	602,434	(6.0)%
<b>Total interest expense</b>	<b>(100,411)</b>	<b>9,133,735</b>	<b>(4.4)%</b>	<b>(116,604)</b>	<b>12,086,779</b>	<b>(3.9)%</b>
<b>Net Interest Income</b>	<b>\$ 21,571</b>			<b>\$ 33,513</b>		

(Dollars in Thousands)	Nine Months Ended September 30,					
	2020			2019		
	Interest Income/ (Expense)	Average Balance <sup>(1)</sup>	Yield	Interest Income/ (Expense)	Average Balance <sup>(1)</sup>	Yield
<b>Interest Income</b>						
Residential loans, held-for-sale	\$ 17,220	\$ 599,609	3.8 %	\$ 30,056	\$ 886,902	4.5 %
Residential loans - HFI at Redwood <sup>(2)</sup>	21,003	659,998	4.2 %	71,089	2,368,340	4.0 %
Residential loans - HFI at Legacy Sequoia <sup>(2)</sup>	7,673	327,460	3.1 %	13,916	466,580	4.0 %
Residential loans - HFI at Sequoia Choice <sup>(2)</sup>	68,566	1,957,484	4.7 %	80,026	2,227,573	4.8 %
Residential loans - HFI at Freddie Mac SLST <sup>(2)</sup>	64,869	2,203,677	3.9 %	35,221	1,238,334	3.8 %
Business purpose residential loans	62,541	1,266,493	6.6 %	12,231	219,132	7.4 %
Single-family rental loans - HFI at CAFL	99,169	2,411,312	5.5 %	—	—	— %
Multifamily loans - HFI at Freddie Mac K-Series	49,960	1,711,123	3.9 %	94,134	3,191,093	3.9 %
Trading securities	26,789	336,151	10.6 %	56,138	1,188,563	6.3 %
Available-for-sale securities	11,682	139,487	11.2 %	16,376	189,881	11.5 %
Other interest income	20,537	763,898	3.6 %	20,513	582,795	4.7 %
<b>Total interest income</b>	<b>450,009</b>	<b>12,376,692</b>	<b>4.8 %</b>	<b>429,700</b>	<b>12,559,193</b>	<b>4.6 %</b>
<b>Interest Expense</b>						
Short-term debt facilities	(40,158)	1,415,975	(3.8)%	(51,424)	1,814,088	(3.8)%
Short-term debt - servicer advance financing	(4,961)	199,517	(3.3)%	(9,905)	239,218	(5.5)%
Short-term debt - convertible notes, net	—	—	— %	(9,403)	200,135	(6.3)%
ABS issued - Legacy Sequoia <sup>(2)</sup>	(5,099)	322,829	(2.1)%	(11,548)	458,173	(3.4)%
ABS issued - Sequoia Choice <sup>(2)</sup>	(58,455)	1,757,851	(4.4)%	(68,823)	2,018,406	(4.5)%
ABS issued - Freddie Mac SLST <sup>(2)</sup>	(48,840)	1,861,309	(3.5)%	(26,014)	997,460	(3.5)%
ABS issued - Freddie Mac K-Series	(47,154)	1,614,333	(3.9)%	(90,088)	3,012,017	(4.0)%
ABS issued - CAFL	(72,768)	2,247,583	(4.3)%	—	—	— %
Long-term debt - FHLBC	(10,411)	786,790	(1.8)%	(38,728)	1,999,999	(2.6)%
Long-term debt - other	(61,902)	1,349,802	(6.1)%	(26,167)	582,753	(6.0)%
<b>Total interest expense</b>	<b>(349,748)</b>	<b>11,555,989</b>	<b>(4.0)%</b>	<b>(332,100)</b>	<b>11,322,249</b>	<b>(3.9)%</b>
<b>Net Interest Income</b>	<b>\$ 100,261</b>			<b>\$ 97,600</b>		

- (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 nine months ended September 30, 2020 and 2019.

**Table 4 – Net Interest Income by Segment**

(In Thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
<b>Net Interest Income by Segment</b>						
Residential Lending	\$ 4,131	\$ 20,788	\$ (16,657)	\$ 29,844	\$ 58,241	\$ (28,397)
Business Purpose Lending	9,903	2,714	7,189	42,878	6,005	36,873
Third-Party Investments	10,042	9,168	874	32,423	30,978	1,445
Corporate/Other	(2,505)	843	(3,348)	(4,884)	2,376	(7,260)
<b>Net Interest Income</b>	<b>\$ 21,571</b>	<b>\$ 33,513</b>	<b>\$ (11,942)</b>	<b>\$ 100,261</b>	<b>\$ 97,600</b>	<b>\$ 2,661</b>

The Corporate/Other line item in the table above includes net interest income from consolidated Legacy Sequoia entities, and for the three and nine months ended September 30, 2020, also includes \$3 million and \$8 million, respectively, of interest expense on our convertible debt and trust-preferred securities. While our convertible debt and trust-preferred interest expense is generally allocated to our segments, given the large balance of undeployed capital (cash) held at a corporate level during the second and third quarters 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 nine months ended September 30, 2020 and 2019.

**Table 5 – Segment Results Summary**

(In Thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
<b>Segment Contribution from:</b>						
Residential Lending	\$ 7,386	\$ 10,374	\$ (2,988)	\$ (158,657)	\$ 60,371	\$ (219,028)
Business Purpose Lending	51,550	(634)	52,184	(130,606)	(1,709)	(128,897)
Third-Party Investments	97,758	37,142	60,616	(329,640)	95,593	(425,233)
Corporate/Other	(14,882)	(12,572)	(2,310)	(17,239)	(34,215)	16,976
<b>Net Income (Loss)</b>	<b>\$ 141,812</b>	<b>\$ 34,310</b>	<b>\$ 107,502</b>	<b>\$ (636,142)</b>	<b>\$ 120,040</b>	<b>\$ (756,182)</b>

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

The decrease in net income from Corporate/Other for the three-month periods was primarily due to \$3 million of convertible debt expense allocated to this segment for the third quarter of 2020, as discussed above. The increase in net income from Corporate/Other for the nine-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 \$7 million of net income during the third quarter of 2020, driven primarily by \$12 million of mortgage banking income and \$6 million of net interest income from investments. Residential mortgage banking activities improved significantly during the third quarter of 2020, as loan purchase commitments increased to \$1.20 billion and gross margins recovered to pre-pandemic levels.

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.

### Investment Portfolio

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

**Table 6 – Residential Lending Investments**

(In Thousands)	September 30, 2020	December 31, 2019
Residential loans at Redwood <sup>(1)</sup>	\$ —	\$ 2,111,897
Residential securities at Redwood	146,608	229,074
Residential securities at consolidated Sequoia Choice entities <sup>(2)</sup>	209,797	254,265
Other investments	14,878	42,224
<b>Total Segment Investments</b>	<b>\$ 371,283</b>	<b>\$ 2,637,460</b>

(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 \$1.84 billion of loans and \$1.63 billion of ABS issued associated with these investments at September 30, 2020.

During the third quarter of 2020, we did not add or dispose of any securities within our residential lending investment portfolio. 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 and retained \$13 million of investment securities from three Sequoia securitizations we completed during the quarter.

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.

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 nine months ended September 30, 2020.

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

<b>(In Thousands)</b>	<b>Three Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2020</b>
<b>Investment Fair Value Changes, Net</b>		
Changes in fair value of:		
Residential loans held-for-investment, at Redwood	\$ 218	\$ (93,314)
Trading securities	(5,145)	(50,633)
Net investments in Sequoia Choice entities <sup>(1)</sup>	7,851	(22,065)
Risk-sharing and other investments	(272)	(3,350)
Risk management derivatives, net	—	10,735
Impairments on AFS securities	(209)	(480)
<b>Investment Fair Value Changes, Net</b>	<b>\$ 2,443</b>	<b>\$ (159,107)</b>

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

Spreads generally continued to tighten during the third quarter of 2020, which resulted in positive fair value changes for many of our investments, recovering a further portion of the negative fair value changes incurred during the first quarter of 2020 due to the pandemic. Additionally, during the third quarter of 2020, most of our investment securities experienced increased prepayments, which generally benefited our subordinate securities, but negatively impacted our interest-only and certificated servicing securities and caused a net negative fair value change for our trading securities. Certain of our subordinate securities also experienced negative fair value changes due to increased delinquencies and loss expectations.

#### *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 nine months ended September 30, 2020.

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

<b>(In Thousands)</b>	<b>Three Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2020</b>
Balance at beginning of period	\$ 20,233	\$ 536,385
Acquisitions	176,106	2,927,700
Sales	(88,634)	(3,528,715)
Transfers between portfolios <sup>(1)</sup>	—	263,172
Principal repayments	(2,317)	(80,307)
Changes in fair value, net	(260)	(13,107)
<b>Balance at End of Period</b>	<b>\$ 105,128</b>	<b>\$ 105,128</b>

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

The following table provides the fair value changes of our residential loan purchase and forward sale commitments during the three and nine months ended September 30, 2020.

**Table 8a – Residential Loan Purchase and Forward Sale Commitments and Associated Gains**

(In Thousands)	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Loan purchase commitments entered into	\$ 2,117,808	\$ 5,475,334
Market valuation gains, net	\$ 13,067	\$ 35,123

Income from mortgage banking activities is comprised of mark-to-market adjustments on loans from the time they are purchased to when they are sold, mark-to-market adjustments on new and outstanding loan purchase commitments, gains/losses from associated hedges, and other miscellaneous income/expenses (see *Note 19* of our *Notes to Consolidated Financial Statements* in Part I, Item I of this Quarterly Report on Form 10-Q).

During the three months ended September 30, 2020, our residential mortgage loan conduit entered into loan purchase commitments of \$2.12 billion, purchased \$176 million of prime residential jumbo loans and sold \$89 million of loans to third parties. At September 30, 2020, we had identified \$1.79 billion of loans for purchase (gross loan locks outstanding, unadjusted for fallout) and had outstanding forward sale agreements for \$525 million of loans. This activity resulted in income from mortgage banking activities of \$12 million for the third quarter of 2020.

During the second quarter of 2020, our residential mortgage loan conduit entered into loan purchase commitments of \$112 million, purchased \$56 million of prime residential jumbo loans, and sold \$711 million of loans to third parties. Additionally, during the second quarter of 2020, we transferred \$271 million of loans to a Sequoia securitization. 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 entered into loan purchase commitments of \$3.25 billion, purchased \$2.70 billion of prime residential jumbo loans, transferred \$1.62 billion of loans to a Sequoia Select securitization 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. At September 30, 2020, we had residential warehouse facilities outstanding with four different counterparties, with \$600 million of total capacity and \$518 million of available capacity. These included non-marginable (i.e., not subject to margin calls based on the market value of the underlying collateral) facilities with \$200 million of total capacity and marginable facilities with \$400 million of total capacity.

#### **Business Purpose Lending Segment**

##### *Overview*

Our Business Purpose Lending segment generated \$52 million of net income during the third quarter of 2020, driven primarily by \$48 million of mortgage banking income and \$17 million of positive investment fair value changes. Business purpose mortgage banking activities improved from the second quarter of 2020, as spreads tightened significantly on securitization execution, resulting in improved valuations on SFR loans.

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.

## Investment Portfolio

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

**Table 9 – Business Purpose Lending Investments**

<b>(In Thousands)</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Single-family rental loans at Redwood <sup>(1)</sup>	\$ —	\$ 237,620
Residential bridge loans at Redwood	700,860	745,006
Single-family rental securities at consolidated CAFL entities <sup>(2)</sup>	229,315	191,301
Other investments	25,713	21,002
<b>Total Segment Investments</b>	<b>\$ 955,888</b>	<b>\$ 1,194,929</b>

(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 \$2.97 billion of loans and \$2.74 billion of ABS issued associated with these investments at September 30, 2020.

During the third quarter of 2020, we funded \$66 million of business purpose bridge loans and received principal payments of \$155 million. In addition, we retained \$16 million of securities from a \$323 million (principal balance) single-family rental loan securitization we completed during the third quarter.

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 nine months ended September 30, 2020.

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

(In Thousands)	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
<b>Investment Fair Value Changes, Net</b>		
Changes in fair value of:		
Single-family rental loans held-for-investment	\$ —	\$ (20,806)
Residential bridge loans held-for-investment	6,812	(10,016)
REO	407	(356)
Net investments in CAFL entities <sup>(1)</sup>	9,673	(41,048)
Other	—	(1,011)
Risk management derivatives, net	—	(11,600)
<b>Investment Fair Value Changes, Net</b>	<b>\$ 16,892</b>	<b>\$ (84,837)</b>

(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.

Spreads generally continued to tighten during the third quarter of 2020, which resulted in positive fair value changes for many of our investments, recovering a further portion of the negative fair value changes incurred during the first quarter of 2020 due to the pandemic. While spreads generally tightened on most of our CAFL securities investments, certain of our subordinate securities experienced negative fair value changes due to increased delinquencies and loss expectations. Additionally, while spreads generally tightened on most of our residential bridge loans, we also experienced an increase in non-performing residential bridge loans (see *Investments* section that follows for additional information on our residential bridge loans and associated delinquencies).

#### *Mortgage Banking*

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

**Table 11 – Business Purpose Residential Loans — Origination Activity**

(In Thousands)	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	Single-Family Rental	Residential Bridge <sup>(1)</sup>	Total	Single-Family Rental	Residential Bridge <sup>(1)</sup>	Total
Fair value at beginning of period	\$ 379,795	\$ —	\$ 379,795	\$ 331,565	\$ —	\$ 331,565
Originations	195,744	65,517	261,261	631,936	351,353	983,289
Sales	(7,695)	(1,567)	(9,262)	(33,843)	(23,860)	(57,703)
Transfers between portfolios <sup>(2)</sup>	(322,829)	(63,979)	(386,808)	(706,443)	(324,081)	(1,030,524)
Principal repayments	(2,577)	—	(2,577)	(4,847)	—	(4,847)
Changes in fair value, net	43,111	29	43,140	67,181	(3,412)	63,769
<b>Fair Value at End of Period</b>	<b>\$ 285,549</b>	<b>\$ —</b>	<b>\$ 285,549</b>	<b>\$ 285,549</b>	<b>\$ —</b>	<b>\$ 285,549</b>

(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 September 30, 2020, we funded \$196 million of single-family rental loans and sold \$2 million of such loans to a third party. All of our outstanding SFR loans are held as inventory in our mortgage banking business and classified as held-for-sale. During the three months ended September 30, 2020, we funded \$66 million of residential bridge loans, sold \$2 million of loans to a third party and transferred \$64 million of loans to our BPL investment portfolio. Additionally, we completed a single-family rental loan securitization, receiving gross proceeds of \$323 million, backed by a combination of loans held in inventory at June 30, 2020 and newly-originated loans during the third quarter.

During the second quarter of 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 second quarter of 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 first quarter of 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. At September 30, 2020, we had business purpose warehouse facilities outstanding with four different counterparties, with \$1.10 billion of total capacity and \$853 million of available capacity. All of these facilities are non-marginable (i.e., not subject to margin calls based on the market value of the underlying collateral).

### **Third-Party Investments Segment**

#### *Overview*

As a result of asset sales during the first half of 2020 that were driven by the impact of the pandemic, the composition of our portfolio evolved and in the second quarter of 2020 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 \$98 million of net income during the third quarter of 2020, driven primarily by \$88 million of positive investment fair value changes and \$10 million of net interest income; 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; and incurred a net loss of \$504 million during the first quarter of 2020, driven primarily by \$532 million of negative investment fair value changes that were triggered by the pandemic.

#### *Investment Portfolio*

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

**Table 12 – Third-Party Investments**

<b>(In Thousands)</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Residential securities at Redwood	\$ 149,192	\$ 466,672
Residential securities at consolidated Freddie Mac SLST entities <sup>(1)</sup>	416,256	448,893
Multifamily securities at Redwood	55,535	404,128
Multifamily securities at consolidated Freddie Mac K-Series entities <sup>(2)</sup>	26,550	252,285
Other investments	344,037	294,904
<b>Total Segment Investments</b>	<b>\$ 991,570</b>	<b>\$ 1,866,882</b>

(1) Represents our economic investment in securities issued by consolidated Freddie Mac SLST securitization entities. For GAAP purposes, we consolidated \$2.26 billion of loans and \$1.84 billion of ABS issued associated with these investments at September 30, 2020.

(2) Represents our economic investment in securities issued by consolidated Freddie Mac K-Series securitization entities. For GAAP purposes, we consolidated \$491 million of loans and \$465 million of ABS issued associated with these investments at September 30, 2020.

During the third quarter, we retained \$28 million of multifamily securities from a securitization issued through our multifamily joint venture, purchased \$15 million of CRT and third-party investments, and sold \$13 million of CRT and third-party investments.

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 nine months ended September 30, 2020.

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

(In Thousands)	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
<b>Investment Fair Value Changes, Net</b>		
Changes in fair value of:		
Trading securities	\$ 1,544	\$ (174,047)
Servicer advance investments	26	(6,172)
Excess MSRs	(1,127)	(7,650)
Shared home appreciation options	2,384	(4,286)
Net investments in Freddie Mac SLST entities <sup>(1)</sup>	82,214	(33,081)
Net investments in Freddie Mac K-Series entities <sup>(1)</sup>	2,166	(82,744)
Risk management derivatives, net	—	(58,158)
Other	30	(11)
Impairments on AFS securities	653	(547)
<b>Investment Fair Value Changes, Net</b>	<b>\$ 87,890</b>	<b>\$ (366,696)</b>

(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.

Spreads generally continued to tighten during the third quarter of 2020, which resulted in positive fair value changes for many of our investments, particularly our investments in consolidated Freddie Mac SLST securitizations, recovering a further portion of the negative fair value changes incurred during the first quarter of 2020 due to the pandemic. While spreads generally tightened on most of our third-party investments, certain of our subordinate securities experienced negative fair value changes due to increased delinquencies and loss expectations. Additionally, during the third quarter of 2020, most of our investment securities experienced increased prepayments, which generally benefited our subordinate securities, but negatively impacted our interest-only trading securities and excess MSR investments, and caused a net negative fair value change for excess MSRs.

## Investments

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

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

<b>(In Thousands)</b>	<b>Three Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2020</b>
Fair value at beginning of period	\$ —	\$ 2,111,897
Sales	—	(1,254,935)
Transfers between portfolios <sup>(1)</sup>	—	(533,612)
Principal repayments	—	(229,818)
Changes in fair value, net	—	(93,532)
<b>Fair Value at End of Period</b>	<b>\$ —</b>	<b>\$ —</b>

(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 nine months ended September 30, 2020.

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

<b>(In Thousands)</b>	<b>Three Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2020</b>
Fair value at beginning of period	\$ —	\$ 237,620
Transfers between portfolios	—	(215,417)
Principal repayments	—	(1,397)
Changes in fair value, net	—	(20,806)
<b>Fair Value at End of Period</b>	<b>\$ —</b>	<b>\$ —</b>

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 nine months ended September 30, 2020.

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

<b>(In Thousands)</b>	<b>Three Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2020</b>
Fair value at beginning of period	\$ 787,367	\$ 745,006
Transfers between portfolios <sup>(1)</sup>	63,979	323,945
Transfers to REO	(2,691)	(4,598)
Principal repayments	(154,572)	(354,167)
Changes in fair value, net	6,777	(9,326)
<b>Fair Value at End of Period</b>	<b>\$ 700,860</b>	<b>\$ 700,860</b>

(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 \$701 million of residential bridge loans held-for-investment at September 30, 2020 were comprised of first-lien, fixed-rate, interest-only loans with a weighted average coupon of 8.02% and original maturities of six to 24 months. At origination, the weighted average FICO score of borrowers backing these loans was 730 and the weighted average LTV ratio of these loans was 67%. At September 30, 2020, of the 2,262 loans in this portfolio, 24 of these loans with an aggregate fair value of \$33 million and an unpaid principal balance of \$38 million were greater than 90 days delinquent, of which 24 loans with an aggregate fair value of \$34 million and an unpaid principal balance of \$40 million were in foreclosure.

During the second and third quarters of 2020, we entered into new non-recourse facilities to finance bridge loan investments and we entered into new non-marginable (i.e., not subject to margin calls based on the market value of the underlying collateral) recourse facilities that will be used to finance business purpose bridge loans. 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 nine months ended September 30, 2020.

**Table 17 – Real Estate Securities Activity by Collateral Type**

<b>Three Months Ended September 30, 2020</b>	<b>Residential</b>			<b>Multifamily</b>	<b>Total</b>
<b>(In Thousands)</b>	<b>Senior</b>	<b>Mezzanine</b>	<b>Subordinate</b>	<b>Mezzanine</b>	
Beginning fair value	\$ 32,860	\$ 3,514	\$ 252,901	\$ 27,161	\$ 316,436
Acquisitions					
Third-party securities	2,598	2,000	11,000	28,314	43,912
Sales					
Third-party securities	—	—	(12,929)	—	(12,929)
Effect of principal payments <sup>(1)</sup>	—	(17)	(889)	(546)	(1,452)
Change in fair value, net	(7,367)	170	11,959	606	5,368
<b>Ending Fair Value <sup>(2)</sup></b>	<b>\$ 28,091</b>	<b>\$ 5,667</b>	<b>\$ 262,042</b>	<b>\$ 55,535</b>	<b>\$ 351,335</b>

**Nine Months Ended September 30, 2020**

(In Thousands)	Residential			Multifamily	
	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	19,225	2,000	25,750	59,446	106,421
Sales					
Sequoia securities	(33,375)	(31,334)	(6,394)	—	(71,103)
Third-party securities	(115,354)	(93,728)	(66,991)	(287,483)	(563,556)
Gains on sales and calls, net	3,357	400	2,482	(1,604)	4,635
Effect of principal payments <sup>(1)</sup>	(4,464)	(991)	(4,989)	(4,561)	(15,005)
Change in fair value, net	(60,520)	(22,477)	(59,104)	(114,391)	(256,492)
<b>Ending Fair Value <sup>(2)</sup></b>	<b>\$ 28,091</b>	<b>\$ 5,667</b>	<b>\$ 262,042</b>	<b>\$ 55,535</b>	<b>\$ 351,335</b>

(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 September 30, 2020, excludes \$210 million and \$229 million of securities retained from our consolidated Sequoia Choice and CAFL securitizations, respectively, as well as \$416 million and \$27 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 September 30, 2020, we sold \$13 million of securities and during the three months ended June 30, 2020, we sold \$82 million of securities, in our normal course of business. 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 September 30, 2020, our securities consisted of fixed-rate assets (81%), adjustable-rate assets (16%), hybrid assets that reset within the next year (2%), and hybrid assets that reset between 12 and 36 months (1%).

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 September 30, 2020.

**Table 18 – Real Estate Securities Financed with Repurchase Debt**

September 30, 2020 (Dollars in Thousands, except Weighted Average Price)	Real Estate Securities <sup>(1)</sup>	Repurchase Debt	Allocated Capital	Weighted Average Price <sup>(2)</sup>	Financing Haircut <sup>(3)</sup>
Residential Securities					
Mezzanine <sup>(4)</sup>	\$ 63,088	\$ (44,459)	\$ 18,629	\$ 102	30 %
<b>Total Residential Securities</b>	<b>63,088</b>	<b>(44,459)</b>	<b>18,629</b>	<b>102</b>	<b>30 %</b>
Multifamily Securities <sup>(5)</sup>	51,220	(30,595)	20,625	69	40 %
<b>Total</b>	<b>\$ 114,308</b>	<b>\$ (75,054)</b>	<b>\$ 39,254</b>		

(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 \$63 million of securities we owned that were issued by consolidated Sequoia Choice securitizations, which we consolidate in accordance with GAAP.

(5) Includes \$27 million of securities we owned that were issued by consolidated Freddie Mac K-Series securitizations, which we consolidate in accordance with GAAP.

At September 30, 2020, we had short-term debt incurred through repurchase facilities of \$75 million, which was secured by \$114 million of real estate securities (including securities owned in consolidated securitization entities). Our repo borrowings were made under facilities with three different counterparties, and the weighted average cost of funds for these facilities during the third quarter of 2020 was approximately 3.57% per annum.

At September 30, 2020, real estate securities with a fair value of \$345 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. Additionally, at September 30, 2020, we had \$416 million of re-performing loan securities financed with \$208 million of non-recourse securitization debt. The remaining \$358 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 September 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**

<b>September 30, 2020</b>							
<b>(In Thousands)</b>	<b>Sequoia 2012-2020</b>	<b>Third Party 2013-2020</b>	<b>Agency CRT 2018-2020</b>	<b>Third Party &lt;=2008</b>	<b>Total Residential Securities</b>	<b>Multifamily 2019-2020</b>	<b>Total Real Estate Securities</b>
Senior <sup>(1)</sup>	\$ 16,226	\$ 11,862	\$ —	\$ 3	\$ 28,091	\$ —	\$ 28,091
Mezzanine <sup>(2)</sup>	3,651	2,016	—	—	5,667	—	5,667
Subordinate <sup>(1)</sup>	124,132	82,168	49,761	5,981	262,042	55,535	317,577
<b>Total Securities <sup>(3)</sup></b>	<b>\$ 144,009</b>	<b>\$ 96,046</b>	<b>\$ 49,761</b>	<b>\$ 5,984</b>	<b>\$ 295,800</b>	<b>\$ 55,535</b>	<b>\$ 351,335</b>

(1) At September 30, 2020, senior Sequoia and third-party securities included \$28 million of IO securities. At September 30, 2020, subordinate third-party securities included \$13 million of IO securities. Our interest-only securities included \$12 million of certificated mortgage servicing investments securities at September 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 September 30, 2020, excluded \$210 million, \$416 million, \$27 million, and \$229 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 \$7.55 billion of loans and \$6.68 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 nine months ended September 30, 2020.

**Table 20 – Interest Income — AFS Securities**

**Three Months Ended September 30, 2020**

<b>(Dollars in Thousands)</b>	<b>Interest Income</b>	<b>Discount (Premium) Amortization</b>	<b>Total Interest Income</b>	<b>Average Amortized Cost</b>	<b>Yield as a Result of</b>		
					<b>Interest Income</b>	<b>Discount (Premium) Amortization</b>	<b>Total Interest Income</b>
<b>Residential</b>							
Mezzanine	\$ 6	\$ —	\$ 6	\$ 782	3.07 %	— %	3.07 %
Subordinate	1,824	1,766	3,590	135,160	5.40 %	5.23 %	10.63 %
<b>Total AFS Securities</b>	<b>\$ 1,830</b>	<b>\$ 1,766</b>	<b>\$ 3,596</b>	<b>\$ 135,942</b>	<b>5.38 %</b>	<b>5.20 %</b>	<b>10.58 %</b>

**Nine Months Ended September 30, 2020**

<b>(Dollars in Thousands)</b>	<b>Interest Income</b>	<b>Discount (Premium) Amortization</b>	<b>Total Interest Income</b>	<b>Average Amortized Cost</b>	<b>Yield as a Result of</b>		
					<b>Interest Income</b>	<b>Discount (Premium) Amortization</b>	<b>Total Interest Income</b>
<b>Residential</b>							
Senior	\$ 221	\$ 529	\$ 750	\$ 4,481	6.58 %	15.74 %	22.32 %
Mezzanine	103	14	117	3,251	4.22 %	0.57 %	4.79 %
Subordinate	6,751	4,064	10,815	131,755	6.83 %	4.11 %	10.94 %
<b>Total AFS Securities</b>	<b>\$ 7,075</b>	<b>\$ 4,607</b>	<b>\$ 11,682</b>	<b>\$ 139,487</b>	<b>6.77 %</b>	<b>4.40 %</b>	<b>11.17 %</b>

## Taxable Income and Tax Provision

### Taxable Income

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

Table 21 – Taxable Income

(In Thousands, except per Share Data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020 est. <sup>(1)</sup>	2019	2020 est. <sup>(1)</sup>	2019
REIT taxable (loss) income	\$ 7,362	\$ 38,626	\$ (13,016)	\$ 91,948
Taxable REIT subsidiary income	34,975	2,821	26,890	25,865
<b>Total Taxable (Loss) Income</b>	<b>\$ 42,337</b>	<b>\$ 41,447</b>	<b>\$ 13,874</b>	<b>\$ 117,813</b>
REIT taxable (loss) income per share	\$ 0.07	\$ 0.34	\$ (0.10)	\$ 0.89
Total taxable income per share	\$ 0.38	\$ 0.37	\$ 0.14	\$ 1.16
Distributions to shareholders	\$ 15,701	\$ 33,627	\$ 66,808	\$ 91,931
Distributions to shareholders per share	\$ 0.14	\$ 0.30	\$ 0.585	\$ 0.90

(1) Our tax results for the three and nine months ended September 30, 2020 are estimates until we file tax returns for this year.

In accordance with Internal Revenue Code rules applicable to disaster losses, TRS taxable income for the nine months ended September 30, 2020, was adjusted to recognize \$59 million of losses incurred in the first quarter of 2020 into the fourth quarter of 2019.

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, if any, 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 nine months ended September 30, 2020, we recorded a tax provision of \$9 million and a tax benefit of \$13 million, respectively. For the three and nine months ended September 30, 2019, we recorded a tax benefit of \$0.1 million and a tax provision of \$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 recorded in 2020 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 September 30, 2020, our total capital was \$1.70 billion and included \$1.05 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 September 30, 2020, our unrestricted cash was \$451 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 portfolio investments, to fund strategic acquisitions and investments, or for other purposes. To the extent we seek to raise additional capital, our approach will continue to be based on what we believe to be in the best interests of the company.

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 Nine Months Ended September 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 securities acquisitions, 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 nine 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 (i.e., not subject to margin calls based on the market value of the underlying collateral) and 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 market value-based 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 negative \$176 million during the nine months ended September 30, 2020. This amount includes the net cash utilized during the period from the purchase and sale of residential mortgage loans and the origination and sale of our business purpose loans associated with our mortgage banking activities. Purchases of loans are financed to a large extent with short-term and long-term debt, for which changes in cash are included as a component of financing activities. 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 \$94 million and negative \$123 million during the first nine 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 \$187 million of cash payments. Additionally, during the six months ended June 30, 2020, our margin receivable (which was primarily associated with our hedges), decreased by \$207 million, resulting in an increase to our cash flows from operations. These changes in operating cash flows resulted from actions taken in response to the pandemic that we would generally not expect to recur at such a magnitude in subsequent periods. Additionally, during the six months ended June 30, 2020, we received \$38 million in cash related to FHLBC stock that was transferred back to the FHLBC, upon the repayment of substantially all of our borrowings from the FHLBC.

### ***Cash Flows from Investing Activities***

During the nine months ended September 30, 2020, our net cash provided by investing activities was \$3.51 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.

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 nine months ended September 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 nine months ended September 30, 2020, our net cash used in financing activities was \$3.11 billion. This primarily resulted from \$1.85 billion of net repayments of short-term debt and \$2.64 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, and repurchased \$22 million of stock in the third quarter. These outflows of cash were partially offset by \$306 million of net proceeds from the issuance and settlements of ABS issued. Additionally, during the nine months ended September 30, 2020, we had cash inflows of \$1.25 billion related to borrowings under three new non-marginable facilities that were generally used to repay existing borrowings from marginable facilities.

During the nine months ended September 30, 2020, we declared dividends of \$0.585 per common share. On September 11, 2020, the Board of Directors declared a regular dividend of \$0.14 per share for the third quarter of 2020, which was paid on September 29, 2020 to shareholders of record on September 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. During the three months ended September 30, 2020, we repurchased 3,047,335 shares of our common stock pursuant to this authorization for \$22 million. At September 30, 2020, \$78 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.

### ***Loan Warehouse Facilities***

We maintain loan warehouse facilities to finance our residential jumbo loan inventory, SFR loan inventory and for our bridge loan investments. These facilities can be classified as short-term or long-term depending on their specific terms and provisions. At September 30, 2020, we had residential warehouse facilities outstanding with four different counterparties, with \$600 million of total capacity and \$518 million of available capacity. These included non-marginable facilities with \$200 million of total capacity and marginable facilities with \$400 million of total capacity. At September 30, 2020, we had business purpose warehouse facilities outstanding with four different counterparties, with \$1.1 billion of total capacity and \$853 million of available capacity. All of these facilities are non-marginable.

## 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 September 30, 2020, we had \$483 million of short-term debt outstanding. During the first nine months of 2020, the highest balance of our short-term debt outstanding was \$3.23 billion.

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 nine months 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 Facilities

In the third 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 3.85% (with a 0.50% LIBOR floor), through July 2022. At September 30, 2020, we had borrowings under this facility totaling \$158 million and \$1 million of unamortized deferred issuance costs, for a net carrying value of \$157 million. At September 30, 2020, \$216 million of bridge loans were pledged as collateral under this 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. Borrowings under this facility may be repaid in full at our option and the facility terminated without penalty beginning 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 September 30, 2020, we had borrowings under this facility totaling \$302 million and \$4 million of unamortized deferred issuance costs, for a net carrying value of \$298 million. At September 30, 2020, \$369 million of bridge loans and \$25 million of other BPL investments were pledged as collateral under this facility.

#### *Recourse Business Purpose Loan Financing Facilities*

In the third 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 3.00% through September 2023 and are recourse to Redwood. This facility has an aggregate maximum borrowing capacity of \$250 million. At September 30, 2020, we had no borrowings outstanding under this 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 4.00% (with a 1.00% LIBOR floor) through May 2022 and are recourse to Redwood. This facility has an aggregate maximum borrowing capacity of \$350 million. At September 30, 2020, we had borrowings under this facility totaling \$150 million and \$1 million of unamortized deferred issuance costs, for a net carrying value of \$150 million. At September 30, 2020, \$18 million of bridge loans and \$194 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 \$112 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. We had no borrowings outstanding under this facility at September 30, 2020. At September 30, 2020, \$33 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 nine months ended September 30, 2020, we issued \$515 million and \$1.30 billion of ABS, respectively, through our consolidated securitization entities. This included \$310 million and \$847 million of CAFL ABS issued during the three and nine months ended September 30, 2020, respectively, and zero and \$249 million of Sequoia Choice ABS issued during the three and nine months ended September 30, 2020, respectively. Additionally, for the three months ended September 30, 2020, this includes \$205 million of ABS issued through a re-securitization entity sponsored by us. 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 have sought, or 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.

As of September 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.

#### **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 origination and acquisition of mortgage loans (including those we originate or 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 our Q1 2020 Quarterly Report on Form 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 September 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, which determinations of market value were generally within the sole discretion of the lending counterparty. 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. Of our active financing arrangements with outstanding balances at September 30, 2020, only our short-term securities repurchase facilities (with \$75 million of borrowings outstanding at September 30, 2020), and two of our residential mortgage loan warehouse facilities (with \$8 million of borrowings outstanding at September 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.

At September 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 September 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 third 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 September 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 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").

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, including through 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 September 30, 2020, as well as an accrual for the estimated costs associated with counterparties where a resolution or go-forward framework has been agreed to or has been discussed but not finalized. In accordance with GAAP, the accrual for estimated costs is based on the opinion of management, that it is probable that these resolutions and forward-looking joint business undertakings and structured arrangements will result in an expense and the amount of expense can be reasonably estimated. At September 30, 2020, the aggregate amount of our accrual for estimated costs associated with Residential Loan Seller Demands was \$6.5 million, a 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. In addition, as previously disclosed, one such counterparty filed a breach of contract lawsuit against us in May 2020 alleging that it had suffered in excess of \$2 million of losses as a result of our alleged failure to purchase residential mortgage loans from it; and in October 2020 we and the plaintiff agreed to settle the lawsuit on mutually satisfactory terms.

With respect to Residential Loan Seller Demands that have not been resolved or accrued for, 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 and we cannot be certain that the resolution of these matters, whether through litigation, 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 litigation 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 September 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. During the three months ended September 30, 2020, we repurchased 3,047,335 shares of our common stock pursuant to this authorization for \$22 million. At September 30, 2020, \$78 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 September 30, 2020.

<b>(In Thousands, except per Share Data)</b>	<b>Total Number of Shares Purchased or Acquired</b>	<b>Average Price per Share Paid</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased under the Plans or Programs</b>
July 1, 2020 - July 31, 2020	—	\$ —	—	\$ —
August 1, 2020 - August 31, 2020	1,980	\$ 7.07	1,980	\$ 85,998
September 1, 2020 - September 30, 2020	1,067	\$ 7.15	1,067	\$ 78,369
Total	<u>3,047</u>	<u>\$ 7.10</u>	<u>3,047</u>	<u>\$ 78,369</u>

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Not Applicable****Item 5. Other Information**

On November 6, 2020, Redwood amended and restated its employment agreements with each of Christopher J. Abate (Redwood's CEO), Dashiell I. Robinson (Redwood's President), and Andrew P. Stone (Redwood's Executive Vice President, General Counsel, and Secretary). These agreements were amended and restated to, among other things, update or clarify certain defined terms and vesting-related provisions and to reflect previously disclosed compensation terms applicable to these officers. The three amended and restated employment agreements are filed as Exhibits 10.1, 10.2, and 10.3 to this Quarterly Report on Form 10-Q (collectively, the "Amended Employment Agreements") and the description of the Amended Employment Agreements set forth in this Part II, Item 5 is qualified in its entirety by reference to the full text of the Amended Employment Agreements.

## Item 6. Exhibits

Exhibit Number	Exhibit
3.1	<a href="#">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)</a>
3.1.1	<a href="#">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)</a>
3.1.2	<a href="#">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)</a>
3.1.3	<a href="#">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)</a>
3.1.4	<a href="#">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)</a>
3.1.5	<a href="#">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)</a>
3.1.6	<a href="#">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)</a>
3.1.7	<a href="#">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)</a>
3.1.8	<a href="#">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)</a>
3.1.9	<a href="#">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)</a>
3.1.10	<a href="#">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)</a>
3.1.11	<a href="#">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)</a>
3.1.12	<a href="#">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)</a>
3.2.1	<a href="#">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)</a>
3.2.2	<a href="#">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)</a>
3.2.3	<a href="#">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)</a>
10.1*	<a href="#">Fifth Amended and Restated Employment Agreement, dated as of November 6, 2020, by and between Christopher J. Abate and the Registrant (filed herewith)</a>
10.2*	<a href="#">Third Amended and Restated Employment Agreement, dated as of November 6, 2020, by and between Dashiell I. Robinson and the Registrant (filed herewith)</a>
10.3*	<a href="#">Fifth Amended and Restated Employment Agreement, dated as of November 6, 2020, by and between Andrew P. Stone and the Registrant (filed herewith)</a>
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
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 September 30, 2020, is filed in inline XBRL-formatted interactive data files:  (i) Consolidated Balance Sheets at September 30, 2020 and December 31, 2019; (ii) Consolidated Statements of Income (Loss) for the three and nine months ended September 30, 2020 and 2019; (iii) Statements of Consolidated Comprehensive Income (Loss) for the three and nine months ended September 30, 2020 and 2019; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2020 and 2019; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019; and (vi) Notes to Consolidated Financial Statements.

Exhibit Number	Exhibit
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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

## SIGNATURES

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

### REDWOOD TRUST, INC.

Date: November 6, 2020

By: /s/ Christopher J. Abate  
Christopher J. Abate  
Chief Executive Officer  
(Principal Executive Officer)

Date: November 6, 2020

By: /s/ Collin L. Cochrane  
Collin L. Cochrane  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## FIFTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Fifth Amended and Restated Employment Agreement (“Agreement”), effective as of November 6, 2020 (the “Effective Date”), is entered into by and between **Christopher J. Abate** (the “Executive”) and **Redwood Trust, Inc.**, a Maryland corporation (the “Company”), and amends and restates in its entirety that certain Fourth Amended and Restated Employment Agreement by and between the Executive and the Company effective August 6, 2019 (as subsequently amended, the “Prior Agreement”).

The Company desires to establish its right to the continued services of the Executive, in the capacity, on the terms and conditions, and subject to the rights of termination hereinafter set forth, and the Executive is willing to accept such continued employment in such capacity, on such terms and conditions, and subject to such rights of termination.

In consideration of the mutual agreements hereinafter set forth, the Executive and the Company have agreed and do hereby agree as follows:

**1. Employment and Responsibilities.** During the Term, the Executive shall serve as Chief Executive Officer of the Company, reporting to the Board of Directors of the Company (the “Board”). The Executive does hereby accept and agree to such employment. The Executive’s duties shall be such executive and managerial duties as the Board shall from time to time prescribe and as provided in the By-Laws of the Company. The Executive does hereby accept and agree to such continued employment. The Board of Directors may, from time to time, in its sole discretion, modify, reassign and/or augment the Executive’s responsibilities, and any such modification, reassignment and/or augmentation shall be deemed a waiver by the Executive of his rights under Section 6(e)(i) hereof only with his express written consent. Any such modification, reassignment or augmentation of responsibilities shall be in writing. The Executive shall devote such time, energy and skill to the performance of his duties for the Company and for the benefit of the Company as may be necessary or required for the effective conduct and operation of the Company’s business. Furthermore, the Executive shall act only in good faith and exercise due diligence and care in the performance of his duties to the Company under this Agreement.

**2. Term of Agreement.** The term of this Agreement (the “Term”) shall commence on the Effective Date and shall continue through December 31, 2020; provided, however, that (i) on January 1, 2021 and each succeeding January 1, the Term shall automatically be extended for one additional year unless, not later than three months prior to any such January 1, either party shall have given written notice to the other that it does not wish to extend the Term and (ii) such one year extensions of the Term shall not occur on and after the January 1 of the year in which the Executive will attain age sixty-five (65) but instead the Term shall be extended only until the date of the Executive’s sixty-fifth (65th) birthday.

### **3. Compensation.**

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**(a) Base Salary.** The Company shall pay the Executive, and the Executive agrees to accept from the Company, in payment for his services to the Company a base salary (the "Base Salary") at the rate of \$800,000 per year (effective on January 1, 2021), paid in accordance with the customary payroll practices of the Company subject to annual review and increase by the Board in its sole discretion (or by the Board's separately designated Compensation Committee in its sole discretion). For the avoidance of doubt, references to the Board in this Section 3 shall include the Board's separately designated Compensation Committee.

**(b) Performance Bonus - Board of Directors' Discretion.** The Executive shall be eligible to receive an annual bonus. The Board in its discretion will determine whether such annual bonus will be paid, the amount of such bonus and its form of payment. The Executive's target annual bonus amount is 185% of his Base Salary (the "Target Bonus"). If the Board determines in its discretion that the Executive's performance meets or exceeds the criteria established by the Board for the award of a Target Bonus, the Board may award the Executive the Target Bonus or a higher amount. Likewise, if the Executive's performance does not meet said criteria, the Board may award a lesser amount, or no bonus may be awarded. Unless otherwise provided in this Agreement, the Executive's eligibility to receive any bonus under this Section 3(b) shall be expressly conditioned on, among other things, the Executive remaining employed with the Company up through any designated distribution date set by the Board.

**(c) Equity Incentive Awards.** Executive shall be eligible to receive grants of equity-based long-term incentive awards, which may include options to purchase Company stock, performance or restricted stock units and Company restricted stock contributions to Company's deferred compensation plan, or other equity-based awards. Such awards shall be determined in the discretion of the Board. In the event of a "Change of Control" (as defined in Exhibit D attached hereto) in which the surviving or acquiring corporation does not assume the Executive's outstanding equity-related awards (including options and equity-based awards granted both before and after the Effective Date) or substitute similar equity-related awards, such equity-related awards shall immediately vest and become exercisable if the Executive's service with the Company has not terminated before the effective date of the Change of Control; provided, however, that the foregoing provision shall only apply if the Company is not the surviving corporation or if shares of the Company's common stock are converted into or exchanged for other securities or cash.

**(d) Annual Review.** The Executive's performance shall be reviewed at least annually. The performance evaluations shall consider and assess the Executive's performance of his duties and responsibilities, the timely accomplishment of existing performance objectives, his level of efficiency and overall effectiveness and/or other factors or criteria that the Company, in its sole discretion, may deem relevant. The frequency of performance evaluations may vary depending upon, among other things, length of service, past performance, changes in job duties or performance levels. The Board shall, at least annually, review the Executive's entire compensation package to determine whether it continues to meet the Company's compensation objectives. Such annual review will include a determination of (i) whether to increase the Base Salary in accordance with Section 3(a); (ii) the incentive performance bonus to be awarded in

accordance with Section 3(b); and (iii) the amount and type of any equity awards granted in accordance with Section 3(c). Positive performance evaluations do not guarantee salary increases or incentive bonuses. Salary increases and incentive bonus awards are solely within the discretion of the Board and may depend upon many factors other than the Executive's performance.

**4. Fringe Benefits.** The Executive shall be entitled to participate in any benefit programs adopted from time to time by the Company for the benefit of its senior executive employees, and the Executive shall be entitled to receive such other fringe benefits as may be granted to him from time to time by the Board.

**(a) Benefit Plans.** The Executive shall be entitled to participate in any benefit plans relating to equity-based compensation awards, pension, thrift, profit sharing, life insurance, medical coverage, education, deferred compensation, or other retirement or employee benefits available to other senior executive employees of the Company, subject to any restrictions (including waiting periods) specified in such plans and/or related individual agreements. The Company shall make commercially reasonable efforts to obtain medical and disability insurance, and such other forms of insurance as the Board shall from time to time determine, for its senior executive employees.

**(b) Paid Time Off.** The Executive shall be entitled to paid time off ("PTO") each calendar year pursuant to the Company's policies applicable to similarly situated employees of the Company, as in effect from time to time and consistent with the Executive's satisfactory performance of the duties set forth in Section 1.

**5. Business Expenses.** The Company shall reimburse the Executive for any and all necessary, customary and usual expenses, properly receipted in accordance with Company policies, incurred by Executive on behalf of the Company.

**6. Termination of Executive's Employment.**

**(a) Death.** If the Executive dies while employed by the Company, his employment shall immediately terminate. The Company's obligation to pay the Executive's Base Salary shall cease as of the date of the Executive's death, and any unpaid Base Salary shall be paid to the Executive's estate. In addition, within fifteen (15) days of the Executive's death, the Company shall pay to the Executive's estate an incentive performance bonus based on Executive's Target Bonus then in effect, prorated for the number of days of employment completed by the Executive during the year of his death. Executive's beneficiaries or his estate shall receive benefits in accordance with the Company's retirement, insurance and other applicable programs and plans then in effect. All stock options or other equity-related awards with time-based vesting, including deferred or restricted stock units, shall vest in full and, in the case of stock options, shall be exercisable for such period as set forth in the applicable award agreement by which such awards are evidenced. All stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable based on the number of target shares and

the performance goals set forth in the applicable award agreement by which such awards are evidenced, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. In addition, in the event the Company grants to the Executive a cash-settled equity award or a long-term incentive compensation award payable in cash, this Section 6(a) shall apply, mutatis mutandis, to any such award(s).

**(b) Disability.** If, as a result of the Executive's incapacity due to physical or mental illness ("Disability"), Executive shall have been absent from the full-time performance of his duties with the Company for six (6) consecutive months, and, within thirty (30) days after written notice is provided to him by the Company, he shall not have returned to the full-time performance of his duties, the Executive's employment under this Agreement may be terminated by the Company for Disability. During any period prior to such termination during which the Executive is absent from the full-time performance of his duties with the Company due to Disability, the Company shall continue to pay the Executive his Base Salary at the rate in effect at the commencement of such period of Disability. Subsequent to such termination, the Executive's benefits shall be determined under the Company's retirement, insurance and other compensation programs then in effect in accordance with the terms of such programs. In addition, within fifteen (15) days of such termination, the Company shall pay to the Executive an incentive performance bonus based on Executive's Target Bonus then in effect, prorated for the number of days of employment completed by the Executive during the year in which his employment terminated. The Executive, the Executive's beneficiaries or his estate shall receive benefits in accordance with the Company's retirement, insurance and other applicable programs and plans then in effect. All stock options or other equity-related awards with time-based vesting, including deferred or restricted stock units, shall vest in full and, in the case of stock options, shall be exercisable for such period as set forth in the applicable award agreement by which such awards are evidenced. All stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable based on the number of target shares and the performance goals set forth in the applicable award agreement by which such awards are evidenced, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. In addition, in the event the Company grants to the Executive a cash-settled equity award or a long-term incentive compensation award payable in cash, this Section 6(b) shall apply, mutatis mutandis, to any such award(s).

**(c) Termination By The Company For Cause.** The Company may terminate the Executive's employment under this Agreement for Cause, at any time prior to expiration of the Term of the Agreement; provided, however, that prior to any termination of employment for Cause pursuant to subsection (i), (ii), or (iii) below, the Company must first provide written notice describing the reason for such termination of employment (and, with respect to subsections (ii) and (iii) below, such notice may be provided on the same date as the termination date). For purposes of this Agreement, "Cause" shall mean (i) the Executive's material failure to substantially perform the reasonable and lawful duties of his position for the Company, which failure shall continue for thirty (30) days after written notice thereof by the Company to the Executive; (ii) acts or omissions constituting gross negligence, recklessness or willful misconduct on the part of the Executive in respect of the performance of his duties hereunder, his

fiduciary obligations or otherwise relating to the business of the Company; (iii) the habitual or repeated neglect of his duties by Executive; (iv) the Executive's conviction of a felony; (v) 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 Executive injurious to the interest, property, operations, business or reputation of the Company; or (vii) unauthorized use or disclosure of trade secrets or confidential or proprietary information pertaining to Company business.

In the event of a termination under this Section 6(c), the Company will pay only the portion of Base Salary or previously awarded bonus unpaid as of the termination date. Fringe benefits which have accrued and/or vested on the termination date will continue in effect according to their terms.

**(d) Termination By The Company Without Cause.** The Company may terminate Executive's employment hereunder at any time without Cause upon 30 days written notice to Executive or pay in lieu thereof. In the event of a termination under this Section 6(d), the Executive shall be entitled to the benefits set forth in Section 7.

**(e) Termination By The Executive For Good Reason.** The Executive shall have the right to terminate the Officer's employment under this Agreement for Good Reason, at any time prior to expiration of the Term of the Agreement. For purposes of this Agreement, "Good Reason" shall mean the occurrence, without the Executive's express written consent, of any one or more of the following events:

**(i)** A material reduction in Executive's responsibilities, title, duties or authority, including, without limitation, (A) Executive ceasing to serve as the chief executive officer of a publicly-traded company or (B) on or after a Change of Control, if as a result of such Change of Control, the Company becomes a subsidiary of another entity and Executive is not appointed (or after appointment, ceases) to be the chief executive officer of the top-tier parent entity of the Company (or its successor);

**(ii)** A material reduction in the Executive's Base Salary or a material reduction by the Company in the value of the Executive's total compensation package (salary, 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 senior executives of the Company;

**(iii)** The relocation of the Executive's principal Company office to a location more than twenty-five (25) miles from its location as of the Effective Date (which location is the Company's headquarters in Mill Valley, California), except for required travel on the Company's business to the extent necessary to fulfill the Executive's obligations under Section 1;

**(iv)** A failure at any time to renew this Agreement for successive one-year periods pursuant to Section 2;

(v) The complete liquidation of the Company; or

(vi) In the event of a merger, consolidation, transfer, or closing of a sale of all or substantially all the assets of the Company with or to any other individual or entity, the failure of the Company's successor to affirmatively adopt this Agreement or to otherwise comply with its obligations pursuant to Section 13 below.

Notwithstanding the foregoing, the Executive will not be deemed to have resigned for Good Reason for purposes of subclause (i) unless (1) the Executive provides the Company with written notice setting forth in reasonable detail the facts and circumstances claimed by the Executive to constitute Good Reason within ninety (90) days after the date of the occurrence of any event that the Executive knows 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 Executive's termination for Good Reason occurs no later than thirty (30) days after the expiration of the Company's cure period. In the event of a termination under this Section 6(e), the Executive shall be entitled to the benefits set forth in Section 7.

**(f) Termination By The Executive Without Good Reason.** The Executive may at any time during the Term terminate his employment hereunder for any reason or no reason by giving the Company notice in writing not less than sixty (60) days in advance of such termination. The Executive shall have no further obligations to the Company after the effective date of termination, as set forth in the notice. In the event of a termination by the Executive under this Section 6(f), the Company will pay only the portion of Base Salary or previously awarded bonus unpaid as of the termination date. Fringe benefits which have accrued and/or vested on the termination date will continue in effect according to their terms.

#### **7. Compensation Upon Termination By the Company without Cause or By The Executive for Good Reason.**

**(a)** If the Executive's employment shall be terminated by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to the following benefits:

**(i) Payment of Unpaid Base Salary.** The Company shall immediately pay the Executive any portion of the Executive's Base Salary through the date of termination or previously awarded bonus not paid prior to the termination date.

**(ii) Severance Payment.**

(A) In the event such termination is not a CIC Termination (as defined below), then the Company shall provide the Executive (x) an amount equal to one and one-half (1.5) times the sum of (i) Executive's Annual Base Salary as in effect immediately prior to his termination and (ii) Executive's Target Bonus in effect immediately prior to his termination and (y) an amount equal to the Executive's Target Bonus in effect immediately prior

to his termination, pro-rated for the number of days of employment completed by the Executive during the year in which his employment is terminated.

(B) In the event such termination of employment occurs within three months prior to, on, or within 24 months following a Change of Control (a “CIC Termination”), then instead of providing the payments in Section 7(a)(ii)(A), the Company shall provide the Executive an amount equal to the sum of (x) the Executive’s Target Bonus in effect immediately prior to his termination, prorated for the number of days of employment completed by the Executive during the year in which his employment terminated; (y) two (2) times the Executive’s Annual Base Salary as in effect immediately prior to his termination; and (z) two (2) times the Executive’s Target Bonus in effect immediately prior to his termination. Notwithstanding the foregoing, the maximum aggregate amount that the Company shall pay to the Executive pursuant to this Section 7(a)(ii)(B) is \$6,500,000.

**(iii) Equity Awards.** All stock options or other equity-related awards with time-based vesting, including deferred or restricted stock units, shall vest in full and, in the case of stock options, shall be exercisable for such period as set forth in the applicable award agreement by which such awards are evidenced. If the Executive’s employment shall be terminated by the Company without Cause, all stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable or exercisable based on (x) the performance goals set forth in the applicable award agreement by which such awards are evidenced and (y) a reduced number of target shares adjusted on a pro-rata basis to reflect the number of days of employment completed during the applicable vesting period in which termination occurs, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. If the Executive’s employment shall be terminated by the Executive for Good Reason, all stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable based on the number of target shares and the performance goals set forth in the applicable award agreement by which such awards are evidenced, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. In addition, in the event the Company grants to the Executive a cash-settled equity award or a long-term incentive compensation award payable in cash, this Section 7(a)(iii) shall apply, mutatis mutandis, to any such award(s).

**(iv) Continuation of Fringe Benefits.** For a period of up to eighteen (18) months (or, in the event of a CIC Termination, twenty-four (24) months) following the date of Executive’s termination of employment with Company, subject to the Executive’s valid election to continue healthcare coverage under Section 4980B of the Internal Revenue Code of 1986, as amended (the “Code”) and the regulations thereunder, the Company shall continue to provide the Executive and the Executive’s eligible dependents with coverage under its group health plans at the same levels and the same cost to the Executive as would have applied if the Executive’s employment had not been terminated based on the Employee’s elections in effect on the date of termination (the “Continued Coverage”), provided that (1) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation

coverage to be, exempt from the application of Section 409A of the Code under Treasury Regulation Section 1.409A-1(a)(5), or (2) the Company is otherwise unable to continue to cover the Executive under its group health plans without penalty under applicable law (including without limitation, Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), the Company may in its sole discretion provide that (i) the Executive shall pay to the Company, on an after-tax basis, a monthly amount equal to the full premium cost of the Continued Coverage for such month and (ii) within 30 days of such premium payment, the Company shall reimburse the Executive in cash (less required withholding) an amount equal to the sum of (A) the excess of (x) the full premium cost of the Continued Coverage for such month over (y) any premium amount that would have been payable by the Executive if the Executive had been actively employed by the Company for such month and (B) an additional tax "gross up" payment to cover all estimated applicable local, state and federal income and payroll taxes imposed on the Executive with respect to the Continued Coverage. For the eighteen (18) month (or, in the event of a CIC Termination, twenty-four (24) month) period following the termination of the Executive's employment, the Company shall also continue to provide the Executive with all life insurance, disability insurance and other fringe benefits set forth in Section 4 as if the Executive's employment under the Agreement had not been terminated; provided, however, that such life insurance, disability insurance and other fringe benefits shall cease as of the date the Executive receives such coverage from a subsequent employer.

**(v) Payment/Benefit Limitation.** If any payment or benefit due under this Agreement, together with all other payments and benefits that the Executive receives or is entitled to receive from the Company or any of its subsidiaries, affiliates or related entities, would (if paid or provided) constitute an "excess parachute payment" for purposes of Section 280G of the Code, the amounts otherwise payable and benefits otherwise due under this Agreement will either (i) be delivered in full, or (ii) be limited to the minimum extent necessary to ensure that no portion thereof will fail to be tax-deductible to the Company by reason of Section 280G of the Code (and therefore, no portion thereof will be subject to the excise tax imposed under Section 4999 of the Code), whichever of the foregoing amounts, taking into account applicable federal, state and local income and employment taxes and the excise tax imposed under Section 4999 of the Code, results in the receipt by the Executive, on an after-tax basis, of the greatest amount of payments and benefits, notwithstanding that all or some portion of such payments and/or benefits may be subject to the excise tax imposed under Section 4999 of the Code. Unless otherwise specified in writing by the Executive, in the event that the payments and/or benefits are to be reduced pursuant to this Section 7(a)(v), such payments and benefits shall be reduced such that the reduction of cash compensation to be provided to the Executive as a result of this Section 7 is minimized. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A of the Code and where two economically equivalent amounts are subject to reduction but payable at different times, such amounts shall be reduced on a pro rata basis but not below zero. All determinations required to be made under this Section 7(a)(v) shall be made by the Company's independent public accounting firm (or such other nationally recognized public accounting firm as may be selected by the Company and to which selection the Executive consents (such consent not to be unreasonably withheld)) which shall provide detailed supporting calculations both to the Company and the Executive within fifteen (15) business days of the receipt of notice from the

Executive that there has been a payment or benefit subject to this Section 7(a)(v), or such earlier time as is requested by the Company.

**(b) No Mitigation Required; No Other Entitlement To Benefits Under Agreement.** The Executive shall not be required in any way to mitigate the amount of any payment provided for in this Section 7, including, without limitation, by seeking other employment, nor shall the amount of any payment provided for in this Section 7 be reduced by any compensation earned by the Executive as the result of employment with another employer after the termination date of employment, or otherwise. Except as set forth in this Section 7, following a termination governed by this Section 7, the Executive shall not be entitled to any other compensation or benefits set forth in this Agreement, except as may be separately negotiated by the parties and approved the Board in writing in conjunction with the termination of Executive's employment under this Section 7.

**(c) Release Agreement.** As a condition of receiving any of the payments, vesting and benefits set forth in this Section 7 (other than the payment provided for in sub-section 7(a)(i)), the Executive shall be required to execute a mutual release agreement in the form attached hereto as Exhibit A or Exhibit B, as appropriate, and such release agreement must have become effective in accordance with its terms within 60 days following the termination date. The Company, in its sole discretion, may modify the term of the required release agreement to comply with applicable law and may incorporate the required release agreement into a termination agreement or other agreement with the Executive.

**(d) Timing of Severance Payments.** Notwithstanding any other provision of this Agreement, all severance payments provided under this Agreement in connection with the termination of the employment of the Executive shall be payable in an amount equal to 75% of such payments on the date that is six months after the termination date, and the remaining 25% shall be payable in six equal monthly installments beginning on the date that is seven months after the termination date and continuing on the same date of each of the five months thereafter.

**(e) Timing of Bonus Payments.** Notwithstanding any other provision of this Agreement, all bonus payments provided under this Agreement in connection with the termination of the employment of the Executive shall be payable on the date that is six months after the termination date.

**8. Disputes Relating To Executive's Termination of Employment For Good Reason .** If the Executive resigns his employment with the Company alleging in good faith as the basis for such resignation "Good Reason" as defined in Section 6(e), and if the Company then disputes the Executive's right to the payment of benefits under Section 7, the Company shall continue to pay the Executive the full compensation (including, without limitation, his Base Salary) in effect at the date the Executive provided written notice of such resignation, and the Company shall continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was then a participant, until the earlier of the expiration of the Term or the date the dispute is finally resolved, either by mutual written agreement of the parties or by application of the provisions of Section 11. For the purposes of this Section 8, the Company shall bear the burden of proving that the grounds for the Executive's resignation do not fall within the scope of



Section 6(e), and there shall be a rebuttable presumption that the Executive alleged such grounds in good faith.

#### **9. Restrictive Covenant Provisions.**

**(a) Noncompetition.** The Executive agrees that during the Term prior to any termination of his employment hereunder, he will not, directly or indirectly, without the prior written consent of a majority of the non-employee members of the Board, manage, operate, join, control, participate in, or be connected as a stockholder (other than as a holder of shares publicly traded on a stock exchange or the NASDAQ National Market System), partner, or other equity holder with, or as an officer, director or employee of, any real estate or mortgage investment organization whose business strategy is competitive with that of the Company, as determined by a majority of the non-employee members of the Board. It is further expressly agreed that the Company will or would suffer irreparable injury if the Executive were to compete with the Company or any subsidiary or affiliate of the Company in violation of this Agreement and that the Company would by reason of such competition be entitled to injunctive relief in a court of appropriate jurisdiction, and the Executive further consents and stipulates to the entry of such injunctive relief in such a court prohibiting the Executive from competing with the Company or any subsidiary or affiliate of the Company, in the areas of business set forth above, in violation of this Agreement.

**(b) Duty To Avoid Conflict Of Interest.** During his employment by the Company, Executive agrees not to engage or participate in, directly or indirectly, any activities in conflict with the best interests of the Company. The Company shall be the final decision-maker with regard to any conflict of interest issue.

**(c) Right To Company Materials.** The Executive agrees that all styles, designs, lists, materials, books, files, reports, correspondence, records, and other documents ("Company Materials") used, prepared, or made available to the Executive shall be and shall remain the property of the Company. Upon the termination of employment or the expiration of this Agreement, the Executive shall immediately return to the Company all Company Materials, and the Executive shall not make or retain any copies thereof.

**(d) Nonsolicitation.** The Executive promises and agrees that he will not directly or indirectly solicit any of the Company's employees to work for any competing real estate or mortgage investment organization as determined under Section 9(a) for a period of one (1) year following the occurrence of any event entitling the Executive to payments and benefits, provided the Company makes all such payments when due according to the provisions herein.

#### **(e) Confidential And Proprietary Information.**

**(1)** It is hereby acknowledged that Executive has and shall gain knowledge of trade secrets and confidential information owned by or related to the Company and/or its affiliates including but not limited to the following: (i) the names, lists, buying habits and practices of customers, clients or vendors, (ii) marketing and related information, (iii) relationships with the persons or entities with whom or with which the Company has contracted, (iv) their products, designs, software, developments, improvements and methods of operation, (v) financial condition, profit performance and financial requirements, (vi) the compensation

paid to employees, (vii) business plans and the information contained therein, and (viii) all other confidential information of, about or concerning the Company, the manner of operation of the Company and other confidential data of any kind, nature or description relating to the Company (collectively, the "Confidential Information"). Confidential Information does not include information which (A) is or becomes generally available to the public other than as a result of a disclosure by Executive; or (B) becomes available to Executive on a non-confidential basis after the termination or expiration of Executive's obligations under this Agreement from a source other than the Company, provided that such source is not bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Company or any other party with respect to such information; or (C) is independently developed after the termination or expiration of Executive's obligations under this agreement without reference to the Confidential Information, provided such independent development can reasonably be proven by Executive by written records.

(2) The parties hereby acknowledge that the Confidential Information constitutes important, unique, material and confidential trade secrets which affect the successful activities of the Company, and constitute a substantial part of the assets and goodwill of the Company. In view of the foregoing, Executive agrees that he will not at any time whether during or after the term of this Agreement, except as required in the course of Executive's employment by Company and at its direction and for its sole benefit, in any fashion, form or manner, directly or indirectly (i) use or divulge, disclose, communicate or provide or permit access to any person, firm, partnership, corporation or other entity, any Confidential Information of any kind, nature or description, or (ii) remove from Company's premises any notes or records relating thereto, or copies or facsimiles thereof (whether made by electronic, electrical, magnetic, optical, laser, acoustic or other means).

(3) Promptly upon the request of Company, and immediately upon the termination of Executive's employment, Executive shall not transfer to any third person and shall deliver to Company all Confidential Information, and other property belonging to the Company, including all copies thereof, in the possession or under the control of the Executive.

(4) Executive represents that the performance of all the terms of this Agreement will not conflict with, and will not breach, any other invention assignment agreement, confidentiality agreement, employment agreement or non-competition agreement to which Executive is or has been a party. To the extent that Executive has confidential information or materials of any former employer, Executive acknowledges that the Company has directed Executive to not disclose such confidential information or materials to the Company or any of its employees, and that the Company prohibits Executive from using said confidential information or materials in any work that Executive may perform for the Company. Executive agrees that Executive will not bring with Executive to the Company, and will not use or disclose any confidential, proprietary information, or trade secrets acquired by Executive prior to his employment with the Company. Executive will not disclose to the Company or any of its employees, or induce the Company or any of its employees to use, any confidential or proprietary information or material belonging to any previous employers or others, nor will Executive bring to the Company or use in connection with Executive's work for the Company

copies of any software, computer files, or any other copyrighted or trademarked materials except those owned by or licensed to the Company. Executive represents that he is not a party to any other agreement that will interfere with his full compliance with this Agreement. Executive further agrees not to enter into any agreement, whether written or oral, in conflict with the provisions of this Agreement.

**(5)** Notwithstanding the generality of the foregoing, nothing in this Agreement is intended to prohibit the Executive from 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, including in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation. Pursuant to 18 U.S.C. Section 1833(b), the Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (x) 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 (y) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

**(f) Inventions.** Any and all inventions, discoveries or improvements that Executive has conceived or made or may conceive or make during the period of employment relating to or in any way pertaining to or connected with the systems, products, computer programs, software, apparatus or methods employed, manufactured or constructed by the Company or to systems, products, apparatus or methods with respect to which the Company engages in, requests or anticipates research or development, shall be promptly and fully disclosed and described by Executive to the Company and shall be the sole and exclusive property of the Company, and Executive shall assign, and hereby does assign to the Company Executive's entire right, title and interest in and to all such inventions, discoveries or improvements as well as any modifications or improvements thereto that may be made.

The obligations outlined in this Section 9(f) do not apply to any invention that qualifies fully under California Labor Code Section 2870 (a copy of which is attached hereto as Exhibit C) or to any rights Executive may have acquired in connection with an invention, discovery or improvement that was developed entirely on Executive's own time for which no equipment, supplies, facilities or trade secret information of the Company was used and (a) that does not relate directly or indirectly to the business of the Company or to the Company's actual or demonstrable anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

**(g) Maryland Law.** The Executive agrees, in accordance with Maryland law, to first offer to the Company corporate opportunities learned of solely as a result of his service as an officer of the Company.

**(h) Breach.** It is expressly agreed that each breach of this Section 9 is a distinct and material breach of this Agreement and that solely a monetary remedy would be inadequate, impracticable and extremely difficult to prove, and that each such breach would cause the

Company irreparable harm. It is further agreed that, in addition to any and all remedies available at law or equity (including money damages), either party shall be entitled to temporary and permanent injunctive relief to enforce the provisions of this Section, without the necessity of proving actual damages. It is further agreed that either party shall be entitled to seek such equitable relief in any forum, including a court of law, notwithstanding the provisions of Section 11. Either party may pursue any of the remedies described herein concurrently or consecutively in any order as to any such breach or violation, and the pursuit of one of such remedies at any time will not be deemed an election of remedies or waiver of the right to pursue any of the other such remedies. Any breach of this Section 9 shall immediately terminate any obligations by the Company to provide Executive with severance and continued benefits pursuant to Section 6 or 7 of this Agreement.

**(i) Unenforceability.** Should any portion of this Section 9 be deemed unenforceable because of its scope, duration or effect, and only in such event, then the parties expressly consent and agree to such limitation on scope, duration or effect as may be finally adjudicated as enforceable, to give this Section 9 its maximum permissible scope, duration and effect.

**10. Notices.** All notices and other communications under this Agreement shall be in writing and shall be given by fax or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three (3) days after mailing or twenty-four (24) hours after transmission of a fax to the respective persons named below:

If to the Company: Redwood Trust, Inc.  
Attn: General Counsel  
One Belvedere Place, Suite 300  
Mill Valley, CA 94941  
Phone: (415) 389-7373  
Fax: (415) 381-1773

If to the Executive: Christopher J. Abate  
c/o Redwood Trust, Inc.  
One Belvedere Place, Suite 300  
Mill Valley, CA 94941  
Phone: (415) 389-7373  
Fax: (415) 381-1773

Either party may change such party's address for notices by notice duly given pursuant hereto.

**11. Resolution of Disputes.** To ensure the rapid and economical resolution of disputes that may arise in connection with the Executive's employment with the Company, the Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, arising from or relating to the enforcement, breach, performance, or interpretation of this

Agreement, the Executive's employment, or the termination of the Executive's employment ("Arbitrable Claims") shall be submitted to confidential mediation in San Francisco, California conducted by a mutually agreeable mediator from Judicial Arbitration and Mediation Services ("JAMS") or its successor under the JAMS Rules of Practice and Procedure then in effect, which can be found at [www.jamsadr.com/adr-rules-procedures](http://www.jamsadr.com/adr-rules-procedures). The cost of JAMS' mediation fees shall be paid by the Company. In the event that mediation is unsuccessful in resolving the Arbitrable Claims, the Arbitrable Claims shall be resolved, to the fullest extent permitted by law, by final, binding and confidential arbitration in San Francisco, California conducted by JAMS or its successor, under the then applicable rules of JAMS.

**The Executive acknowledges that by agreeing to this arbitration procedure, both the Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.**

The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that the Executive or the Company would be entitled to seek in a court of law, including, without limitation, the award of attorneys' fees based on a determination of the extent to which each party has prevailed as to the material issues raised in determination of the dispute. The Company shall pay all JAMS' arbitration fees in excess of those which would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either the Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such mediation or arbitration.

## **12. [Reserved]**

**13. Assignment; Successors.** This Agreement is personal in its nature, and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that, in the event of the merger, consolidation, transfer, or sale of all or substantially all of the assets of the Company with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder.

**14. Governing Law.** This Agreement and the legal relations thus created between the parties hereto shall be governed by and construed under and in accordance with the laws of the State of California.

**15. Entire Agreement; Headings.** This Agreement embodies the entire agreement of the parties with respect to the subject matter hereof and supersedes in their entirety all other or prior agreements, whether oral or written, with respect thereto, including but not limited to the Prior Agreement, but excluding the plans, programs and equity award agreements under which compensation and benefits are provided pursuant to Sections 3 and 4 hereof to the extent such

plans and programs and equity award agreements are not inconsistent with this Agreement. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

**16. Waiver; Modification.** Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto.

**17. Severability.** In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any statute or public policy, only the portions of this Agreement that violate such statute or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

**18. Indemnification.** The Company shall indemnify and hold Executive harmless to the maximum extent permitted by Section 2-418 of the Maryland General Corporations Law or its successor statute, or if greater, by the Company's Bylaws, by any applicable resolution of the Board or by the terms providing the most extensive indemnification contained in any written agreement between the Company and any director or officer of the Company. The Company shall make Executive a named beneficiary under all director and officer liability policies maintained by the Company from time to time for the benefit of its directors and officers, entitled to all benefits provided thereunder to persons serving in a comparable role as an officer of the Company.

**19. Section 409A.** Any payments under this Agreement subject to Section 409A of the Code that are subject to execution of a waiver and release which may be executed and/or revoked in a calendar year following the calendar year in which the payment event (such as a termination of employment) occurs shall commence payment only in the calendar year in which the consideration period or, if applicable, release revocation period ends, as necessary to comply with Section 409A of the Code. Notwithstanding anything to the contrary in this Agreement, no compensation or benefits shall be paid to the Executive during the six (6)-month period following the Executive's "separation from service" from the Company (within the meaning of Section 409A of the Code, a "Separation from Service") if the Company determines that paying such amounts at the time or times indicated in this 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 day of the seventh month following the date of Separation from Service (or such earlier date upon which such amount can be paid under Section 409A without resulting in a prohibited distribution, including as a result of the Executive's death), the Company shall pay the Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Executive during such period. Any right to a

series of installment payments pursuant to this Agreement is to be treated as a right to a series of separate payments. To the extent permitted under Section 409A of the Code, any separate payment or benefit under this Agreement or otherwise shall not be deemed “nonqualified deferred compensation” subject to Section 409A of the Code to the extent provided in the exceptions in Treasury Regulation Section 1.409A-1(b)(4), Section 1.409A-1(b)(9) or any other applicable exception or provision of Section 409A. All payments of nonqualified deferred compensation subject to Section 409A to be made upon a termination of employment under this Agreement may only be made upon the Executive’s “separation from service” from the Company.

**20. Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

**21. Successor Sections.** References herein to sections or rules of the Code shall be deemed to include any successor sections or rules.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the Effective Date.

**REDWOOD TRUST, INC.**

By: /s/ Andrew P. Stone  
Andrew P. Stone  
Executive Vice President & General Counsel

**EXECUTIVE**

/s/ Christopher J. Abate  
Christopher J. Abate



**EXHIBIT A**

**RELEASE AGREEMENT**

Except as otherwise set forth in this Release Agreement or in Sections 7 and 18 of the Employment Agreement between Christopher J. Abate and Redwood Trust, Inc., Christopher J. Abate (“Executive”) hereby generally and completely releases the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date Executive signs this Release Agreement. The Company, its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns, hereby releases Executive and his heirs, executors, successors and assigns, from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date the Company signs this Release Agreement. This general mutual release includes, but is not limited to: (A) all claims arising out of or in any way related to Executive’s employment with the Company or the termination of that employment; (B) all claims related to Executive’s compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (C) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (D) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; (E) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys’ fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) (“ADEA”), the federal Employee Retirement Income Security Act of 1974 (as amended), and the California Fair Employment and Housing Act (as amended); and (F) all claims and rights with respect to Executive’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator; provided, however, that nothing in this paragraph shall be construed in any way to release the

Company from its obligation to indemnify Executive pursuant to agreement, the Company's bylaws or binding resolutions, or applicable law.

Executive acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA, and that the consideration given under his Employment Agreement with the Company for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which he was already entitled. Executive further acknowledges that he has been advised by this writing, as required by the ADEA, that: (A) this waiver and release does not apply to any rights or claims that may arise after the date Executive signs this Release Agreement; (B) Executive should consult with an attorney prior to signing this Release Agreement (although Executive may choose voluntarily not to do so); (C) Executive has twenty-one (21) days to consider this Release Agreement (although Executive may choose voluntarily to sign this Release Agreement earlier); (D) Executive has seven (7) days following the date that he signs this Release Agreement to revoke the Release Agreement by providing written notice to an officer of the Company; and (E) this Release Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after Executive signs this Release Agreement. Both Executive and the Company acknowledge that each has read and understands Section 1542 of the California Civil Code which reads as follows:

**A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party.**

Both Executive and the Company hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to each party's release of any claims hereunder.

Notwithstanding anything herein, the Executive acknowledges and agrees that, pursuant to 18 USC Section 1833(b), the Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (i) 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 (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Mutual Nondisparagement.

(a) Nondisparagement by Executive. At all times following the cessation of the Executive's employment with the Company, the Executive 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.

(b) Nondisparagement by Designated Company Representatives. At all times following the cessation of the Executive's employment with the Company, the Company agrees not to publish, and agrees to cause the Designated Company Representatives not to make, negative comments or statements about, or otherwise criticize or disparage, in any format or through any medium, the Executive. 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 business reputation or personal reputation. For purposes of this sub-section (b), the "Designated Company Representatives" are (i) all executive officers of the Company while serving in such capacity and (ii) all members of the Board of Directors while serving in such capacity.

(c) The foregoing sub-sections (a) and (b) shall not be violated by truthful comments or statements (i) made in response to legal process, in required governmental testimony or filings, in judicial, administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings), in compliance with law, administrative rule, or regulation, or made pursuant to a court or administrative order, or in connection with reporting possible violations of federal law or regulation to any governmental agency or entity, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation, (ii) made by members of the Board of Directors in the course of meetings or discussions of the Board of Directors (or any committee thereof) or in communications between members of the Board of Directors and the Executive, and not disclosed to the public, (iii) made by a member of the Board of Directors in the good faith belief that the statements are required for the proper discharge of his or her fiduciary duties, or (iv) made by the Board of Directors in connection with a termination of the Executive for Cause.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the date set forth below.

**EXECUTIVE**

Name: \_\_\_\_\_  
Christopher J. Abate

Date: \_\_\_\_\_

**COMPANY**

Name: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT B**

**RELEASE AGREEMENT**

Except as otherwise set forth in this Release Agreement or in Sections 7 and 18 of the Employment Agreement between Christopher J. Abate and Redwood Trust, Inc., Christopher J. Abate (“Executive”) hereby generally and completely releases the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date Executive signs this Release Agreement. The Company, its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns, hereby releases Executive and his heirs, executors, successors and assigns, from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date the Company signs this Release Agreement. This general mutual release includes, but is not limited to: (A) all claims arising out of or in any way related to Executive’s employment with the Company or the termination of that employment; (B) all claims related to Executive’s compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (C) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (D) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; (E) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys’ fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) (“ADEA”), the federal Employee Retirement Income Security Act of 1974 (as amended), and the California Fair Employment and Housing Act (as amended); and (F) all claims and rights with respect to Executive’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator; provided, however, that nothing in this paragraph shall be construed in any way to release the

Company from its obligation to indemnify Executive pursuant to agreement, the Company's bylaws or binding resolutions, or applicable law.

Executive acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA, and that the consideration given under his Employment Agreement with the Company for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which he was already entitled. Executive further acknowledges that he has been advised by this writing, as required by the ADEA, that: (A) this waiver and release does not apply to any rights or claims that may arise after the date Executive signs this Release Agreement; (B) Executive should consult with an attorney prior to signing this Release Agreement (although Executive may choose voluntarily not to do so); (C) Executive has forty-five (45) days to consider this Release Agreement (although he may choose voluntarily to sign this Release Agreement earlier); (D) Executive has seven (7) days following the date that he signs this Release Agreement to revoke the Release Agreement by providing written notice to an officer of the Company; (E) this Release Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after Executive signs this Release Agreement; and (F) Executive has received with this Release Agreement a detailed list of the job titles and ages of all employees who were terminated in this group termination and the ages of all employees of the Company in the same job classification or organizational unit who were not terminated.

Both the Executive and the Company acknowledge that each has read and understands Section 1542 of the California Civil Code which reads as follows:

**A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party.**

Both the Executive and the Company hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to each party's release of any claims hereunder.

Notwithstanding anything herein, the Executive acknowledges and agrees that, pursuant to 18 USC Section 1833(b), the Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (i) 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 (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.



Mutual Nondisparagement.

(a) Nondisparagement by Executive. At all times following the cessation of the Executive's employment with the Company, the Executive 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.

(b) Nondisparagement by Designated Company Representatives. At all times following the cessation of the Executive's employment with the Company, the Company agrees not to publish, and agrees to cause the Designated Company Representatives not to make, negative comments or statements about, or otherwise criticize or disparage, in any format or through any medium, the Executive. 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 business reputation or personal reputation. For purposes of this sub-section (b), the "Designated Company Representatives" are (i) all executive officers of the Company while serving in such capacity and (ii) all members of the Board of Directors while serving in such capacity.

(c) The foregoing sub-sections (a) and (b) shall not be violated by truthful comments or statements (i) made in response to legal process, in required governmental testimony or filings, in judicial, administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings), in compliance with law, administrative rule, or regulation, or made pursuant to a court or administrative order, or in connection with reporting possible violations of federal law or regulation to any governmental agency or entity, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation, (ii) made by members of the Board of Directors in the course of meetings or discussions of the Board of Directors (or any committee thereof) or in communications between members of the Board of Directors and the Executive, and not disclosed to the public, (iii) made by a member of the Board of Directors in the good faith belief that the statements are required for the proper discharge of his or her fiduciary duties, or (iv) made by the Board of Directors in connection with a termination of the Executive for Cause.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the date set forth below.

**EXECUTIVE**

Name: \_\_\_\_\_  
Christopher J. Abate

Date: \_\_\_\_\_

**COMPANY**

Name: \_\_\_\_\_

Date: \_\_\_\_\_

## EXHIBIT C

### Section 2870 of California Labor Code

Section 2870 of California Labor Code: Application of provision providing that employee shall assign or offer to assign rights in invention to employer.

a. Any provision and employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information except for those inventions that either:

1. Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or
2. Result from any work performed by the employee for the employer.

b. To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

## EXHIBIT D

### DEFINITION OF “CHANGE OF CONTROL”

*With respect to (i) equity-based or equity-related awards granted prior to the Effective Date and (ii) long-term incentive and/or retention compensation awards that are payable in cash granted prior to the Effective Date, the following definition of Change of Control shall apply:*

“Change of Control” refers to the occurrence of any of the following:

(1) any one person, or more than one person acting as a group (within the meaning of Section 409A of the Code), acquires ownership of stock of the Company that, together with other stock held by such person or group constitutes more than 50 percent of the total fair market value or total voting power of all stock of the Company; or

(2) any one person, or more than one person acting as a group (within the meaning of Section 409A of the Code), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30 percent or more of the total voting power of the stock of the Company; or

(3) during any 12-month period, a majority of the members of the Company’s board of directors is replaced by directors whose appointment or election is not endorsed by a majority of the members of the Company’s board of directors prior to such appointment or election; or

(4) any one person, or more than one person acting as a group (within the meaning of Section 409A of the Code), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisition; provided, that that no change of control shall be deemed to occur when the assets are transferred to:

(x) a shareholder of the Company in exchange for or with respect to its stock,

(y) a person, or more than one person acting as a group (within the meaning of Section 409A of the Code), that owns, directly or indirectly, 50 percent or more of the total value or voting power of all of the outstanding stock of the Company, or

(z) an entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person that owns directly or indirectly 50 percent or more of the total value or voting power of all of the outstanding stock

of the Company, in each case with such persons status determined immediately after the transfer of assets.”

*With respect to (i) equity-based or equity-related awards granted on or following the Effective Date and (ii) long-term incentive and/or retention compensation awards that are payable in cash granted on or following the Effective Date, the following definition of Change of Control shall apply:*

“Change of Control” refers to the occurrence of any of the following:

i. A transaction or series of transactions (other than an offering of common stock to the general public through a registration statement filed with the Securities and Exchange Commission or a transaction or series of transactions that meets the requirements of clauses (i) and (ii) of subsection (c) below) whereby any “person” or related “group” of “persons” (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a “person” that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 30% of the total combined voting power of the Company’s securities outstanding immediately after such acquisition; or

ii. During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new Director(s) (other than a Director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in subsections (a) or (c) of this definition) whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the Directors then still in office who either were Directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

iii. The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company’s assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

1. which results in the Company’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company’s assets or otherwise succeeds to the business of the Company (the Company or such person, the “Successor Entity”)) directly or indirectly, at least a majority of

the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

2. after which no person or group beneficially owns voting securities representing 30% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (ii) as beneficially owning 30% or more of the combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction.”

### THIRD AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Third Amended and Restated Employment Agreement (“Agreement”), effective as of November 6, 2020 (the “Effective Date”), is entered into by and between **Dashiell I. Robinson** (the “Executive”) and **Redwood Trust, Inc.**, a Maryland corporation (the “Company”), and amends and restates in its entirety that certain Second Amended and Restated Employment Agreement by and between the Executive and the Company effective August 6, 2019 (as subsequently amended, the “Prior Agreement”).

The Company desires to establish its right to the continued services of the Executive, in the capacity, on the terms and conditions, and subject to the rights of termination hereinafter set forth, and the Executive is willing to accept such continued employment in such capacity, on such terms and conditions, and subject to such rights of termination.

In consideration of the mutual agreements hereinafter set forth, the Executive and the Company have agreed and do hereby agree as follows:

**1. Employment and Responsibilities.** During the Term, the Executive shall serve as President of the Company, reporting to the Chief Executive Officer of the Company, with responsibilities, duties and authority customary for such position, including, without limitation, business and strategic development and implementation, as well as direct management and oversight of, without limitation, the following officers of Company: head of portfolio strategy and risk; head of residential mortgage business division; and head of business purpose lending division. The Executive does hereby accept and agree to such continued employment. The Chief Executive Officer may, from time to time, in his sole discretion, modify, reassign and/or augment the Executive’s responsibilities, subject to approval by the Board of Directors of the Company (the “Board”), and any such modification, reassignment and/or augmentation shall be deemed a waiver by the Executive of his rights under Section 6(e)(i) hereof only with his express written consent. Any such modification, reassignment or augmentation of responsibilities shall be in writing. The Executive shall devote such time, energy and skill to the performance of his duties for the Company and for the benefit of the Company as may be necessary or required for the effective conduct and operation of the Company’s business. Furthermore, the Executive shall act only in good faith and exercise due diligence and care in the performance of his duties to the Company under this Agreement.

**2. Term of Agreement.** The term of this Agreement (the “Term”) shall commence on the Effective Date and shall continue through December 31, 2020; provided, however, that (i) on January 1, 2021 and each succeeding January 1, the Term shall automatically be extended for one additional year unless, not later than three months prior to any such January 1, either party shall have given written notice to the other that it does not wish to extend the Term and (ii) such one year extensions of the Term shall not occur on and after the January 1 of the year in which the Executive will attain age sixty-five (65) but instead the Term shall be extended only until the date of the Executive’s sixty-fifth (65th) birthday.

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### 3. Compensation.

**(a) Base Salary.** The Company shall pay the Executive, and the Executive agrees to accept from the Company, in payment for his services to the Company a base salary (the “Base Salary”) at the rate of \$700,000 per year, paid in accordance with the customary payroll practices of the Company subject to annual review and increase by the Board in its sole discretion (or by the Board’s separately designated Compensation Committee in its sole discretion). For the avoidance of doubt, references to the Board in this Section 3 shall include the Board’s separately designated Compensation Committee.

**(b) Performance Bonus - Board of Directors’ Discretion.** The Executive shall be eligible to receive an annual bonus. The Board in its discretion will determine whether such annual bonus will be paid, the amount of such bonus and its form of payment. The Executive’s target annual bonus amount is 175% of his Base Salary (the “Target Bonus”). If the Board determines in its discretion that the Executive’s performance meets or exceeds the criteria established by the Board for the award of a Target Bonus, the Board may award the Executive the Target Bonus or a higher amount. Likewise, if the Executive’s performance does not meet said criteria, the Board may award a lesser amount, or no bonus may be awarded. Unless otherwise provided in this Agreement, the Executive’s eligibility to receive any bonus under this Section 3(b) shall be expressly conditioned on, among other things, the Executive remaining employed with the Company up through any designated distribution date set by the Board.

**(c) Equity Incentive Awards.** Executive shall be eligible to receive grants of equity-based long-term incentive awards, which may include options to purchase Company stock, performance or restricted stock units and Company restricted stock contributions to Company’s deferred compensation plan, or other equity-based awards. Such awards shall be determined in the discretion of the Board. In the event of a “Change of Control” (as defined in Exhibit D attached hereto) in which the surviving or acquiring corporation does not assume the Executive’s outstanding equity-related awards (including options and equity-based awards granted both before and after the Effective Date) or substitute similar equity-related awards, such equity-related awards shall immediately vest and become exercisable if the Executive’s service with the Company has not terminated before the effective date of the Change of Control; provided, however, that the foregoing provision shall only apply if the Company is not the surviving corporation or if shares of the Company’s common stock are converted into or exchanged for other securities or cash.

**(d) Annual Review.** The Executive’s performance shall be reviewed at least annually. The performance evaluations shall consider and assess the Executive’s performance of his duties and responsibilities, the timely accomplishment of existing performance objectives, his level of efficiency and overall effectiveness and/or other factors or criteria that the Company, in its sole discretion, may deem relevant. The frequency of performance evaluations may vary depending upon, among other things, length of service, past performance, changes in job duties or performance levels. The Board shall, at least annually, review the Executive’s entire compensation package to determine whether it continues to meet the Company’s compensation objectives. Such annual review will include a determination of (i) whether to increase the Base

Salary in accordance with Section 3(a); (ii) the incentive performance bonus to be awarded in accordance with Section 3(b); and (iii) the amount and type of any equity awards granted in accordance with Section 3(c). Positive performance evaluations do not guarantee salary increases or incentive bonuses. Salary increases and incentive bonus awards are solely within the discretion of the Board and may depend upon many factors other than the Executive's performance.

**4. Fringe Benefits.** The Executive shall be entitled to participate in any benefit programs adopted from time to time by the Company for the benefit of its senior executive employees, and the Executive shall be entitled to receive such other fringe benefits as may be granted to him from time to time by the Board.

**(a) Benefit Plans.** The Executive shall be entitled to participate in any benefit plans relating to equity-based compensation awards, pension, thrift, profit sharing, life insurance, medical coverage, education, deferred compensation, or other retirement or employee benefits available to other senior executive employees of the Company, subject to any restrictions (including waiting periods) specified in such plans and/or related individual agreements. The Company shall make commercially reasonable efforts to obtain medical and disability insurance, and such other forms of insurance as the Board shall from time to time determine, for its senior executive employees.

**(b) Paid Time Off.** The Executive shall be entitled to paid time off ("PTO") each calendar year pursuant to the Company's policies applicable to similarly situated employees of the Company, as in effect from time to time and consistent with the Executive's satisfactory performance of the duties set forth in Section 1.

**5. Business Expenses.** The Company shall reimburse the Executive for any and all necessary, customary and usual expenses, properly receipted in accordance with Company policies, incurred by Executive on behalf of the Company.

**6. Termination of Executive's Employment.**

**(a) Death.** If the Executive dies while employed by the Company, his employment shall immediately terminate. The Company's obligation to pay the Executive's Base Salary shall cease as of the date of the Executive's death, and any unpaid Base Salary shall be paid to the Executive's estate. In addition, within fifteen (15) days of the Executive's death, the Company shall pay to the Executive's estate an incentive performance bonus based on Executive's Target Bonus then in effect, prorated for the number of days of employment completed by the Executive during the year of his death. Executive's beneficiaries or his estate shall receive benefits in accordance with the Company's retirement, insurance and other applicable programs and plans then in effect. All stock options or other equity-related awards with time-based vesting, including deferred or restricted stock units, shall vest in full and, in the case of stock options, shall be exercisable for such period as set forth in the applicable award agreement by which such awards are evidenced. All stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and

shall continue to be eligible to vest and become payable based on the number of target shares and the performance goals set forth in the applicable award agreement by which such awards are evidenced, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. In addition, in the event the Company grants to the Executive a cash-settled equity award or a long-term incentive compensation award payable in cash, this Section 6(a) shall apply, mutatis mutandis, to any such award(s).

**(b) Disability.** If, as a result of the Executive's incapacity due to physical or mental illness ("Disability"), Executive shall have been absent from the full-time performance of his duties with the Company for six (6) consecutive months, and, within thirty (30) days after written notice is provided to him by the Company, he shall not have returned to the full-time performance of his duties, the Executive's employment under this Agreement may be terminated by the Company for Disability. During any period prior to such termination during which the Executive is absent from the full-time performance of his duties with the Company due to Disability, the Company shall continue to pay the Executive his Base Salary at the rate in effect at the commencement of such period of Disability. Subsequent to such termination, the Executive's benefits shall be determined under the Company's retirement, insurance and other compensation programs then in effect in accordance with the terms of such programs. In addition, within fifteen (15) days of such termination, the Company shall pay to the Executive an incentive performance bonus based on Executive's Target Bonus then in effect, prorated for the number of days of employment completed by the Executive during the year in which his employment terminated. The Executive, the Executive's beneficiaries or his estate shall receive benefits in accordance with the Company's retirement, insurance and other applicable programs and plans then in effect. All stock options or other equity-related awards with time-based vesting, including deferred or restricted stock units, shall vest in full and, in the case of stock options, shall be exercisable for such period as set forth in the applicable award agreement by which such awards are evidenced. All stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable based on the number of target shares and the performance goals set forth in the applicable award agreement by which such awards are evidenced, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. In addition, in the event the Company grants to the Executive a cash-settled equity award or a long-term incentive compensation award payable in cash, this Section 6(b) shall apply, mutatis mutandis, to any such award(s).

**(c) Termination By The Company For Cause.** The Company may terminate the Executive's employment under this Agreement for Cause, at any time prior to expiration of the Term of the Agreement; provided, however, that prior to any termination of employment for Cause pursuant to subsection (i), (ii), or (iii) below, the Company must first provide written notice describing the reason for such termination of employment (and, with respect to subsections (ii) and (iii) below, such notice may be provided on the same date as the termination date). For purposes of this Agreement, "Cause" shall mean (i) the Executive's material failure to substantially perform the reasonable and lawful duties of his position for the Company, which failure shall continue for thirty (30) days after written notice thereof by the Company to the Executive; (ii) acts or omissions constituting gross negligence, recklessness or willful

misconduct on the part of the Executive in respect of the performance of his duties hereunder, his fiduciary obligations or otherwise relating to the business of the Company; (iii) the habitual or repeated neglect of his duties by Executive; (iv) the Executive's conviction of a felony; (v) 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 Executive injurious to the interest, property, operations, business or reputation of the Company; or (vii) unauthorized use or disclosure of trade secrets or confidential or proprietary information pertaining to Company business.

In the event of a termination under this Section 6(c), the Company will pay only the portion of Base Salary or previously awarded bonus unpaid as of the termination date. Fringe benefits which have accrued and/or vested on the termination date will continue in effect according to their terms.

**(d) Termination By The Company Without Cause.** The Company may terminate Executive's employment hereunder at any time without Cause upon 30 days written notice to Executive or pay in lieu thereof. In the event of a termination under this Section 6(d), the Executive shall be entitled to the benefits set forth in Section 7.

**(e) Termination By The Executive For Good Reason.** The Executive shall have the right to terminate the Officer's employment under this Agreement for Good Reason, at any time prior to expiration of the Term of the Agreement. For purposes of this Agreement, "Good Reason" shall mean the occurrence, without the Executive's express written consent, of any one or more of the following events:

**(i)** A material reduction in Executive's responsibilities, title, duties or authority, including, without limitation, (A) Executive ceasing to serve as the president of a publicly-traded company (or in a comparable senior officer role of a publicly-traded company reporting directly to the chief executive officer with responsibilities, authority, duties and compensation opportunity comparable to Executive's role as President of the Company (a "Comparable Role") determined as of the Effective Date) or (B) on or after a Change of Control, if as a result of such Change of Control, the Company becomes a subsidiary of another entity and Executive is not appointed (or after appointment, ceases) to be the president (or serve in a Comparable Role determined as of the time immediately prior to the Change of Control) of the top-tier parent entity of the Company (or its successor);

**(ii)** A material reduction in the Executive's Base Salary or a material reduction by the Company in the value of the Executive's total compensation package (salary, 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 senior executives of the Company;

**(iii)** The relocation of the Executive's principal Company office to a location more than twenty-five (25) miles from its location as of the Effective Date (which

location is the Company's headquarters in Mill Valley, California), except for required travel on the Company's business to the extent necessary to fulfill the Executive's obligations under Section 1;

(iv) A failure at any time to renew this Agreement for successive one-year periods pursuant to Section 2;

(v) The complete liquidation of the Company; or

(vi) In the event of a merger, consolidation, transfer, or closing of a sale of all or substantially all the assets of the Company with or to any other individual or entity, the failure of the Company's successor to affirmatively adopt this Agreement or to otherwise comply with its obligations pursuant to Section 13 below.

Notwithstanding the foregoing, the Executive will not be deemed to have resigned for Good Reason for purposes of subclause (i) unless (1) the Executive provides the Company with written notice setting forth in reasonable detail the facts and circumstances claimed by the Executive to constitute Good Reason within ninety (90) days after the date of the occurrence of any event that the Executive knows 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 Executive's termination for Good Reason occurs no later than thirty (30) days after the expiration of the Company's cure period. In the event of a termination under this Section 6(e), the Executive shall be entitled to the benefits set forth in Section 7.

**(f) Termination By The Executive Without Good Reason.** The Executive may at any time during the Term terminate his employment hereunder for any reason or no reason by giving the Company notice in writing not less than sixty (60) days in advance of such termination. The Executive shall have no further obligations to the Company after the effective date of termination, as set forth in the notice. In the event of a termination by the Executive under this Section 6(f), the Company will pay only the portion of Base Salary or previously awarded bonus unpaid as of the termination date. Fringe benefits which have accrued and/or vested on the termination date will continue in effect according to their terms.

## **7. Compensation Upon Termination By the Company without Cause or By The Executive for Good Reason.**

**(a)** If the Executive's employment shall be terminated by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to the following benefits:

**(i) Payment of Unpaid Base Salary.** The Company shall immediately pay the Executive any portion of the Executive's Base Salary through the date of termination or previously awarded bonus not paid prior to the termination date.

**(ii) Severance Payment.**

(A) In the event such termination is not a CIC Termination (as defined below), then the Company shall provide the Executive (x) an amount equal to one (1) times the sum of (i) Executive's Annual Base Salary as in effect immediately prior to his termination and (ii) Executive's Target Bonus in effect immediately prior to his termination and (y) an amount equal to the Executive's Target Bonus in effect immediately prior to his termination, pro-rated for the number of days of employment completed by the Executive during the year in which his employment is terminated.

(B) In the event such termination of employment occurs within three months prior to, on, or within 24 months following a Change of Control (a "CIC Termination"), then instead of providing the payments in Section 7(a)(ii)(A), the Company shall provide the Executive an amount equal to the sum of (x) the Executive's Target Bonus in effect immediately prior to his termination, prorated for the number of days of employment completed by the Executive during the year in which his employment terminated; (y) one-and-one-half (1.5) times the Executive's Annual Base Salary as in effect immediately prior to his termination; and (z) one-and-one-half (1.5) times the Executive's Target Bonus in effect immediately prior to his termination. Notwithstanding the foregoing, the maximum aggregate amount that the Company shall pay to the Executive pursuant to this Section 7(a)(ii)(B) is \$4,000,000.

**(iii) Equity Awards.** All stock options or other equity-related awards with time-based vesting, including deferred or restricted stock units, shall vest in full and, in the case of stock options, shall be exercisable for such period as set forth in the applicable award agreement by which such awards are evidenced. If the Executive's employment shall be terminated by the Company without Cause, all stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable or exercisable based on (x) the performance goals set forth in the applicable award agreement by which such awards are evidenced and (y) a reduced number of target shares adjusted on a pro-rata basis to reflect the number of days of employment completed during the applicable vesting period in which termination occurs, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. If the Executive's employment shall be terminated by the Executive for Good Reason, all stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable based on the number of target shares and the performance goals set forth in the applicable award agreement by which such awards are evidenced, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. In addition, in the event the Company grants to the Executive a cash-settled equity award or a long-term incentive compensation award payable in cash, this Section 7(a)(iii) shall apply, mutatis mutandis, to any such award(s).

**(iv) Continuation of Fringe Benefits.** For a period of up to twelve (12) months (or, in the event of a CIC Termination, eighteen (18) months) following the date of Executive's termination of employment with Company, subject to the Executive's valid election

to continue healthcare coverage under Section 4980B of the Internal Revenue Code of 1986, as amended (the “Code”) and the regulations thereunder, the Company shall continue to provide the Executive and the Executive’s eligible dependents with coverage under its group health plans at the same levels and the same cost to the Executive as would have applied if the Executive’s employment had not been terminated based on the Employee’s elections in effect on the date of termination (the “Continued Coverage”), provided that (1) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A of the Code under Treasury Regulation Section 1.409A-1(a)(5), or (2) the Company is otherwise unable to continue to cover the Executive under its group health plans without penalty under applicable law (including without limitation, Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), the Company may in its sole discretion provide that (i) the Executive shall pay to the Company, on an after-tax basis, a monthly amount equal to the full premium cost of the Continued Coverage for such month and (ii) within 30 days of such premium payment, the Company shall reimburse the Executive in cash (less required withholding) an amount equal to the sum of (A) the excess of (x) the full premium cost of the Continued Coverage for such month over (y) any premium amount that would have been payable by the Executive if the Executive had been actively employed by the Company for such month and (B) an additional tax “gross up” payment to cover all estimated applicable local, state and federal income and payroll taxes imposed on the Executive with respect to the Continued Coverage. For the twelve (12) month (or, in the event of a CIC Termination, eighteen (18) month) period following the termination of the Executive’s employment, the Company shall also continue to provide the Executive with all life insurance, disability insurance and other fringe benefits set forth in Section 4 as if the Executive’s employment under the Agreement had not been terminated; provided, however, that such life insurance, disability insurance and other fringe benefits shall cease as of the date the Executive receives such coverage from a subsequent employer.

**(v) Payment/Benefit Limitation.** If any payment or benefit due under this Agreement, together with all other payments and benefits that the Executive receives or is entitled to receive from the Company or any of its subsidiaries, affiliates or related entities, would (if paid or provided) constitute an “excess parachute payment” for purposes of Section 280G of the Code, the amounts otherwise payable and benefits otherwise due under this Agreement will either (i) be delivered in full, or (ii) be limited to the minimum extent necessary to ensure that no portion thereof will fail to be tax-deductible to the Company by reason of Section 280G of the Code (and therefore, no portion thereof will be subject to the excise tax imposed under Section 4999 of the Code), whichever of the foregoing amounts, taking into account applicable federal, state and local income and employment taxes and the excise tax imposed under Section 4999 of the Code, results in the receipt by the Executive, on an after-tax basis, of the greatest amount of payments and benefits, notwithstanding that all or some portion of such payments and/or benefits may be subject to the excise tax imposed under Section 4999 of the Code. Unless otherwise specified in writing by the Executive, in the event that the payments and/or benefits are to be reduced pursuant to this Section 7(a)(v), such payments and benefits shall be reduced such that the reduction of cash compensation to be provided to the Executive as a result of this Section 7 is minimized. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A of the Code and where two

economically equivalent amounts are subject to reduction but payable at different times, such amounts shall be reduced on a pro rata basis but not below zero. All determinations required to be made under this Section 7(a)(v) shall be made by the Company's independent public accounting firm (or such other nationally recognized public accounting firm as may be selected by the Company and to which selection the Executive consents (such consent not to be unreasonably withheld)) which shall provide detailed supporting calculations both to the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a payment or benefit subject to this Section 7(a)(v), or such earlier time as is requested by the Company.

**(b) No Mitigation Required; No Other Entitlement To Benefits Under Agreement.** The Executive shall not be required in any way to mitigate the amount of any payment provided for in this Section 7, including, without limitation, by seeking other employment, nor shall the amount of any payment provided for in this Section 7 be reduced by any compensation earned by the Executive as the result of employment with another employer after the termination date of employment, or otherwise. Except as set forth in this Section 7, following a termination governed by this Section 7, the Executive shall not be entitled to any other compensation or benefits set forth in this Agreement, except as may be separately negotiated by the parties and approved the Board in writing in conjunction with the termination of Executive's employment under this Section 7.

**(c) Release Agreement.** As a condition of receiving any of the payments, vesting and benefits set forth in this Section 7 (other than the payment provided for in sub-section 7(a)(i)), the Executive shall be required to execute a mutual release agreement in the form attached hereto as Exhibit A or Exhibit B, as appropriate, and such release agreement must have become effective in accordance with its terms within 60 days following the termination date. The Company, in its sole discretion, may modify the term of the required release agreement to comply with applicable law and may incorporate the required release agreement into a termination agreement or other agreement with the Executive.

**(d) Timing of Severance Payments.** Notwithstanding any other provision of this Agreement, all severance payments provided under this Agreement in connection with the termination of the employment of the Executive shall be payable in an amount equal to 75% of such payments on the date that is six months after the termination date, and the remaining 25% shall be payable in six equal monthly installments beginning on the date that is seven months after the termination date and continuing on the same date of each of the five months thereafter.

**(e) Timing of Bonus Payments.** Notwithstanding any other provision of this Agreement, all bonus payments provided under this Agreement in connection with the termination of the employment of the Executive shall be payable on the date that is six months after the termination date.

**8. Disputes Relating To Executive's Termination of Employment For Good Reason .** If the Executive resigns his employment with the Company alleging in good faith as the basis for such resignation "Good Reason" as defined in Section 6(e), and if the Company then



disputes the Executive's right to the payment of benefits under Section 7, the Company shall continue to pay the Executive the full compensation (including, without limitation, his Base Salary) in effect at the date the Executive provided written notice of such resignation, and the Company shall continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was then a participant, until the earlier of the expiration of the Term or the date the dispute is finally resolved, either by mutual written agreement of the parties or by application of the provisions of Section 11. For the purposes of this Section 8, the Company shall bear the burden of proving that the grounds for the Executive's resignation do not fall within the scope of Section 6(e), and there shall be a rebuttable presumption that the Executive alleged such grounds in good faith.

#### **9. Restrictive Covenant Provisions.**

**(a) Noncompetition.** The Executive agrees that during the Term prior to any termination of his employment hereunder, he will not, directly or indirectly, without the prior written consent of a majority of the non-employee members of the Board, manage, operate, join, control, participate in, or be connected as a stockholder (other than as a holder of shares publicly traded on a stock exchange or the NASDAQ National Market System), partner, or other equity holder with, or as an officer, director or employee of, any real estate or mortgage investment organization whose business strategy is competitive with that of the Company, as determined by a majority of the non-employee members of the Board. It is further expressly agreed that the Company will or would suffer irreparable injury if the Executive were to compete with the Company or any subsidiary or affiliate of the Company in violation of this Agreement and that the Company would by reason of such competition be entitled to injunctive relief in a court of appropriate jurisdiction, and the Executive further consents and stipulates to the entry of such injunctive relief in such a court prohibiting the Executive from competing with the Company or any subsidiary or affiliate of the Company, in the areas of business set forth above, in violation of this Agreement.

**(b) Duty To Avoid Conflict Of Interest.** During his employment by the Company, Executive agrees not to engage or participate in, directly or indirectly, any activities in conflict with the best interests of the Company. The Company shall be the final decision-maker with regard to any conflict of interest issue.

**(c) Right To Company Materials.** The Executive agrees that all styles, designs, lists, materials, books, files, reports, correspondence, records, and other documents ("Company Materials") used, prepared, or made available to the Executive shall be and shall remain the property of the Company. Upon the termination of employment or the expiration of this Agreement, the Executive shall immediately return to the Company all Company Materials, and the Executive shall not make or retain any copies thereof.

**(d) Nonsolicitation.** The Executive promises and agrees that he will not directly or indirectly solicit any of the Company's employees to work for any competing real estate or mortgage investment organization as determined under Section 9(a) for a period of one (1) year

following the occurrence of any event entitling the Executive to payments and benefits, provided the Company makes all such payments when due according to the provisions herein.

**(e) Confidential And Proprietary Information.**

(1) It is hereby acknowledged that Executive has and shall gain knowledge of trade secrets and confidential information owned by or related to the Company and/or its affiliates including but not limited to the following: (i) the names, lists, buying habits and practices of customers, clients or vendors, (ii) marketing and related information, (iii) relationships with the persons or entities with whom or with which the Company has contracted, (iv) their products, designs, software, developments, improvements and methods of operation, (v) financial condition, profit performance and financial requirements, (vi) the compensation paid to employees, (vii) business plans and the information contained therein, and (viii) all other confidential information of, about or concerning the Company, the manner of operation of the Company and other confidential data of any kind, nature or description relating to the Company (collectively, the "Confidential Information"). Confidential Information does not include information which (A) is or becomes generally available to the public other than as a result of a disclosure by Executive; or (B) becomes available to Executive on a non-confidential basis after the termination or expiration of Executive's obligations under this Agreement from a source other than the Company, provided that such source is not bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Company or any other party with respect to such information; or (C) is independently developed after the termination or expiration of Executive's obligations under this agreement without reference to the Confidential Information, provided such independent development can reasonably be proven by Executive by written records.

(2) The parties hereby acknowledge that the Confidential Information constitutes important, unique, material and confidential trade secrets which affect the successful activities of the Company, and constitute a substantial part of the assets and goodwill of the Company. In view of the foregoing, Executive agrees that he will not at any time whether during or after the term of this Agreement, except as required in the course of Executive's employment by Company and at its direction and for its sole benefit, in any fashion, form or manner, directly or indirectly (i) use or divulge, disclose, communicate or provide or permit access to any person, firm, partnership, corporation or other entity, any Confidential Information of any kind, nature or description, or (ii) remove from Company's premises any notes or records relating thereto, or copies or facsimiles thereof (whether made by electronic, electrical, magnetic, optical, laser, acoustic or other means).

(3) Promptly upon the request of Company, and immediately upon the termination of Executive's employment, Executive shall not transfer to any third person and shall deliver to Company all Confidential Information, and other property belonging to the Company, including all copies thereof, in the possession or under the control of the Executive.

(4) Executive represents that the performance of all the terms of this Agreement will not conflict with, and will not breach, any other invention assignment agreement,

confidentiality agreement, employment agreement or non-competition agreement to which Executive is or has been a party. To the extent that Executive has confidential information or materials of any former employer, Executive acknowledges that the Company has directed Executive to not disclose such confidential information or materials to the Company or any of its employees, and that the Company prohibits Executive from using said confidential information or materials in any work that Executive may perform for the Company. Executive agrees that Executive will not bring with Executive to the Company, and will not use or disclose any confidential, proprietary information, or trade secrets acquired by Executive prior to his employment with the Company. Executive will not disclose to the Company or any of its employees, or induce the Company or any of its employees to use, any confidential or proprietary information or material belonging to any previous employers or others, nor will Executive bring to the Company or use in connection with Executive's work for the Company copies of any software, computer files, or any other copyrighted or trademarked materials except those owned by or licensed to the Company. Executive represents that he is not a party to any other agreement that will interfere with his full compliance with this Agreement. Executive further agrees not to enter into any agreement, whether written or oral, in conflict with the provisions of this Agreement.

(5) Notwithstanding the generality of the foregoing, nothing in this Agreement is intended to prohibit the Executive from 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, including in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation. Pursuant to 18 U.S.C. Section 1833(b), the Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (x) 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 (y) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(f) **Inventions.** Any and all inventions, discoveries or improvements that Executive has conceived or made or may conceive or make during the period of employment relating to or in any way pertaining to or connected with the systems, products, computer programs, software, apparatus or methods employed, manufactured or constructed by the Company or to systems, products, apparatus or methods with respect to which the Company engages in, requests or anticipates research or development, shall be promptly and fully disclosed and described by Executive to the Company and shall be the sole and exclusive property of the Company, and Executive shall assign, and hereby does assign to the Company Executive's entire right, title and interest in and to all such inventions, discoveries or improvements as well as any modifications or improvements thereto that may be made.

The obligations outlined in this Section 9(f) do not apply to any invention that qualifies fully under California Labor Code Section 2870 (a copy of which is attached hereto as Exhibit C) or to any rights Executive may have acquired in connection with an invention, discovery or improvement that was developed entirely on Executive's own time for which no equipment,

supplies, facilities or trade secret information of the Company was used and (a) that does not relate directly or indirectly to the business of the Company or to the Company's actual or demonstrable anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

**(g) Maryland Law.** The Executive agrees, in accordance with Maryland law, to first offer to the Company corporate opportunities learned of solely as a result of his service as an officer of the Company.

**(h) Breach.** It is expressly agreed that each breach of this Section 9 is a distinct and material breach of this Agreement and that solely a monetary remedy would be inadequate, impracticable and extremely difficult to prove, and that each such breach would cause the Company irreparable harm. It is further agreed that, in addition to any and all remedies available at law or equity (including money damages), either party shall be entitled to temporary and permanent injunctive relief to enforce the provisions of this Section, without the necessity of proving actual damages. It is further agreed that either party shall be entitled to seek such equitable relief in any forum, including a court of law, notwithstanding the provisions of Section 11. Either party may pursue any of the remedies described herein concurrently or consecutively in any order as to any such breach or violation, and the pursuit of one of such remedies at any time will not be deemed an election of remedies or waiver of the right to pursue any of the other such remedies. Any breach of this Section 9 shall immediately terminate any obligations by the Company to provide Executive with severance and continued benefits pursuant to Section 6 or 7 of this Agreement.

**(i) Unenforceability.** Should any portion of this Section 9 be deemed unenforceable because of its scope, duration or effect, and only in such event, then the parties expressly consent and agree to such limitation on scope, duration or effect as may be finally adjudicated as enforceable, to give this Section 9 its maximum permissible scope, duration and effect.

**10. Notices.** All notices and other communications under this Agreement shall be in writing and shall be given by fax or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three (3) days after mailing or twenty-four (24) hours after transmission of a fax to the respective persons named below:

If to the Company:

Redwood Trust, Inc.  
Attn: Chief Executive Officer  
One Belvedere Place, Suite 300  
Mill Valley, CA 94941  
Phone: (415) 389-7373  
Fax: (415) 381-1773

If to the Executive:

Dashiell I. Robinson  
c/o Redwood Trust, Inc.  
One Belvedere Place, Suite 300  
Mill Valley, CA 94941  
Phone: (415) 389-7373  
Fax: (415) 381-1773

Either party may change such party's address for notices by notice duly given pursuant hereto.

**11. Resolution of Disputes.** To ensure the rapid and economical resolution of disputes that may arise in connection with the Executive's employment with the Company, the Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, arising from or relating to the enforcement, breach, performance, or interpretation of this Agreement, the Executive's employment, or the termination of the Executive's employment ("Arbitrable Claims") shall be submitted to confidential mediation in San Francisco, California conducted by a mutually agreeable mediator from Judicial Arbitration and Mediation Services ("JAMS") or its successor under the JAMS Rules of Practice and Procedure then in effect, which can be found at [www.jamsadr.com/adr-rules-procedures](http://www.jamsadr.com/adr-rules-procedures). The cost of JAMS' mediation fees shall be paid by the Company. In the event that mediation is unsuccessful in resolving the Arbitrable Claims, the Arbitrable Claims shall be resolved, to the fullest extent permitted by law, by final, binding and confidential arbitration in San Francisco, California conducted by JAMS or its successor, under the then applicable rules of JAMS.

**The Executive acknowledges that by agreeing to this arbitration procedure, both the Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.**

The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that the Executive or the Company would be entitled to seek in a court of law, including, without limitation, the award of attorneys' fees based on a determination of the extent to which each party has prevailed as to the material issues raised in determination of the dispute. The Company shall pay all JAMS' arbitration fees in excess of those which would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either the Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such mediation or arbitration.

**12. [Reserved]**

**13. Assignment; Successors.** This Agreement is personal in its nature, and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any

rights or obligations hereunder; provided, however, that, in the event of the merger, consolidation, transfer, or sale of all or substantially all of the assets of the Company with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder.

**14. Governing Law.** This Agreement and the legal relations thus created between the parties hereto shall be governed by and construed under and in accordance with the laws of the State of California.

**15. Entire Agreement; Headings.** This Agreement embodies the entire agreement of the parties with respect to the subject matter hereof and supersedes in their entirety all other or prior agreements, whether oral or written, with respect thereto, including but not limited to the Prior Agreement, but excluding the plans, programs and equity award agreements under which compensation and benefits are provided pursuant to Sections 3 and 4 hereof to the extent such plans and programs and equity award agreements are not inconsistent with this Agreement. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

**16. Waiver; Modification.** Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto.

**17. Severability.** In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any statute or public policy, only the portions of this Agreement that violate such statute or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

**18. Indemnification.** The Company shall indemnify and hold Executive harmless to the maximum extent permitted by Section 2-418 of the Maryland General Corporations Law or its successor statute, or if greater, by the Company's Bylaws, by any applicable resolution of the Board or by the terms providing the most extensive indemnification contained in any written agreement between the Company and any director or officer of the Company. The Company shall make Executive a named beneficiary under all director and officer liability policies maintained by the Company from time to time for the benefit of its directors and officers, entitled to all benefits provided thereunder to persons serving in a comparable role as an officer of the Company.

**19. Section 409A.** Any payments under this Agreement subject to Section 409A of the Code that are subject to execution of a waiver and release which may be executed and/or revoked in a calendar year following the calendar year in which the payment event (such as a termination of employment) occurs shall commence payment only in the calendar year in which the consideration period or, if applicable, release revocation period ends, as necessary to comply with Section 409A of the Code. Notwithstanding anything to the contrary in this Agreement, no compensation or benefits shall be paid to the Executive during the six (6)-month period following the Executive's "separation from service" from the Company (within the meaning of Section 409A of the Code, a "Separation from Service") if the Company determines that paying such amounts at the time or times indicated in this 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 day of the seventh month following the date of Separation from Service (or such earlier date upon which such amount can be paid under Section 409A without resulting in a prohibited distribution, including as a result of the Executive's death), the Company shall pay the Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Executive during such period. Any right to a series of installment payments pursuant to this Agreement is to be treated as a right to a series of separate payments. To the extent permitted under Section 409A of the Code, any separate payment or benefit under this Agreement or otherwise shall not be deemed "nonqualified deferred compensation" subject to Section 409A of the Code to the extent provided in the exceptions in Treasury Regulation Section 1.409A-1(b)(4), Section 1.409A-1(b)(9) or any other applicable exception or provision of Section 409A. All payments of nonqualified deferred compensation subject to Section 409A to be made upon a termination of employment under this Agreement may only be made upon the Executive's "separation from service" from the Company.

**20. Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

**21. Successor Sections.** References herein to sections or rules of the Code shall be deemed to include any successor sections or rules.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the Effective Date.

**REDWOOD TRUST, INC.**

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

**EXECUTIVE**

/s/ Dashiell I. Robinson  
Dashiell I. Robinson



**EXHIBIT A**  
**RELEASE AGREEMENT**

Except as otherwise set forth in this Release Agreement or in Sections 7 and 18 of the Employment Agreement between Dashiell I. Robinson and Redwood Trust, Inc., Dashiell I. Robinson ("Executive") hereby generally and completely releases the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date Executive signs this Release Agreement. The Company, its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns, hereby releases Executive and his heirs, executors, successors and assigns, from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date the Company signs this Release Agreement. This general mutual release includes, but is not limited to: (A) all claims arising out of or in any way related to Executive's employment with the Company or the termination of that employment; (B) all claims related to Executive's compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (C) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (D) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; (E) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) ("ADEA"), the federal Employee Retirement Income Security Act of 1974 (as amended), and the California Fair Employment and Housing Act (as amended); and (F) all claims and rights with respect to Executive's right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator; provided, however, that nothing in this paragraph shall be construed in any way to release the Company from its obligation to indemnify Executive pursuant to agreement, the Company's bylaws or binding resolutions, or applicable law.

Executive acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA, and that the consideration given under his Employment Agreement with the Company for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which he was already entitled. Executive further acknowledges that he has been advised by this writing, as required by the ADEA, that: (A) this waiver and release does not apply to any rights or claims that may arise after the date Executive signs this Release Agreement; (B) Executive should consult with an attorney prior to signing this Release

Agreement (although Executive may choose voluntarily not do so); (C) Executive has twenty-one (21) days

to consider this Release Agreement (although Executive may choose voluntarily to sign this Release Agreement earlier); (D) Executive has seven (7) days following the date that he signs this Release Agreement to revoke the Release Agreement by providing written notice to an officer of the Company; and (E) this Release Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after Executive signs this Release Agreement. Both Executive and the Company acknowledge that each has read and understands Section 1542 of the California Civil Code which reads as follows:

**A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party.**

Both Executive and the Company hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to each party's release of any claims hereunder.

Notwithstanding anything herein, the Executive acknowledges and agrees that, pursuant to 18 USC Section 1833(b), the Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (i) 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 (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Mutual Nondisparagement.

(a) Nondisparagement by Executive. At all times following the cessation of the Executive's employment with the Company, the Executive 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.

(b) Nondisparagement by Designated Company Representatives. At all times following the cessation of the Executive's employment with the Company, the Company agrees not to publish, and agrees to cause the Designated Company Representatives not to make, negative comments or statements about, or otherwise criticize or disparage, in any format or through any medium, the Executive. 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 business reputation or personal reputation. For purposes of this sub-section (b), the "Designated Company Representatives" are (i) all executive officers of the Company while serving in such capacity and (ii) all members of the Board of Directors while serving in such capacity.

(c) The foregoing sub-sections (a) and (b) shall not be violated by truthful comments or statements (i) made in response to legal process, in required governmental testimony or filings, in judicial, administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings), in compliance with law, administrative rule, or regulation, or made pursuant to a court or administrative order, or in connection with reporting possible violations of federal law or regulation to any governmental agency or entity, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation, (ii) made by members of the Board of Directors in the course of meetings or discussions of the Board of Directors (or any committee thereof) or in communications between members of the Board of Directors and the Executive, and not disclosed to the public, (iii) made by a member of the Board of Directors in the good faith belief that the statements are required for the proper discharge of his or her fiduciary duties, or (iv) made by the Board of Directors in connection with a termination of the Executive for Cause.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the date set forth below.

**EXECUTIVE**

Name: \_\_\_\_\_  
Dashiell I. Robinson

Date: \_\_\_\_\_

**COMPANY**

Name: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT B**  
**RELEASE AGREEMENT**

Except as otherwise set forth in this Release Agreement or in Sections 7 and 18 of the Employment Agreement between Dashiell I. Robinson and Redwood Trust, Inc., Dashiell I. Robinson ("Executive") hereby generally and completely releases the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date Executive signs this Release Agreement. The Company, its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns, hereby releases Executive and his heirs, executors, successors and assigns, from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date the Company signs this Release Agreement. This general mutual release includes, but is not limited to: (A) all claims arising out of or in any way related to Executive's employment with the Company or the termination of that employment; (B) all claims related to Executive's compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (C) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (D) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; (E) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) ("ADEA"), the federal Employee Retirement Income Security Act of 1974 (as amended), and the California Fair Employment and Housing Act (as amended); and (F) all claims and rights with respect to Executive's right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator; provided, however, that nothing in this paragraph shall be construed in any way to release the Company from its obligation to indemnify Executive pursuant to agreement, the Company's bylaws or binding resolutions, or applicable law.

Executive acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA, and that the consideration given under his Employment Agreement with the Company for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which he was already entitled. Executive further acknowledges that he has been advised by this writing, as required by the ADEA, that: (A) this waiver and release does not apply to any rights or claims that may arise after the date Executive signs this Release Agreement; (B) Executive should consult with an attorney prior to signing this Release Agreement (although Executive may choose voluntarily not to do so); (C) Executive has forty-five

(45) days to consider this Release Agreement (although he may choose voluntarily to sign this Release Agreement earlier); (D) Executive has seven (7) days following the date that he signs this Release Agreement to revoke the Release Agreement by providing written notice to an officer of the Company; (E) this Release Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after Executive signs this Release Agreement; and (F) Executive has received with this Release Agreement a detailed list of the job titles and ages of all employees who were terminated in this group termination and the ages of all employees of the Company in the same job classification or organizational unit who were not terminated.

Both the Executive and the Company acknowledge that each has read and understands Section 1542 of the California Civil Code which reads as follows:

**A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party.**

Both the Executive and the Company hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to each party's release of any claims hereunder.

Notwithstanding anything herein, the Executive acknowledges and agrees that, pursuant to 18 USC Section 1833(b), the Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (i) 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 (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Mutual Nondisparagement.

(a) Nondisparagement by Executive. At all times following the cessation of the Executive's employment with the Company, the Executive 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.

(b) Nondisparagement by Designated Company Representatives. At all times following the cessation of the Executive's employment with the Company, the Company agrees not to publish, and agrees to cause the Designated Company Representatives not to make, negative comments or statements about, or otherwise criticize or disparage, in any format or through any medium, the Executive. 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 business reputation or personal reputation. For purposes of this sub-section (b), the "Designated Company Representatives" are (i) all executive officers of the Company while serving in such capacity and (ii) all members of the Board of Directors while serving in such capacity.

(c) The foregoing sub-sections (a) and (b) shall not be violated by truthful comments or statements (i) made in response to legal process, in required governmental testimony or filings, in judicial, administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings), in compliance with law, administrative rule, or regulation, or made pursuant to a court or administrative order, or in connection with reporting possible violations of federal law or regulation to any governmental agency or entity, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation, (ii) made by members of the Board of Directors in the course of meetings or discussions of the Board of Directors (or any committee thereof) or in communications between members of the Board of Directors and the Executive, and not disclosed to the public, (iii) made by a member of the Board of Directors in the good faith belief that the statements are required for the proper discharge of his or her fiduciary duties, or (iv) made by the Board of Directors in connection with a termination of the Executive for Cause.

*[Signature Page Follows]*



**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the date set forth below.

**EXECUTIVE**

Name: \_\_\_\_\_  
Dashiell I. Robinson

Date: \_\_\_\_\_

**COMPANY**

Name: \_\_\_\_\_

Date: \_\_\_\_\_

## EXHIBIT C

### Section 2870 of California Labor Code

Section 2870 of California Labor Code: Application of provision providing that employee shall assign or offer to assign rights in invention to employer.

a. Any provision and employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information except for those inventions that either:

1. Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or
2. Result from any work performed by the employee for the employer.

b. To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

## EXHIBIT D

### DEFINITION OF “CHANGE OF CONTROL”

*With respect to (i) equity-based or equity-related awards granted prior to the Effective Date and (ii) long-term incentive and/or retention compensation awards that are payable in cash granted prior to the Effective Date, the following definition of Change of Control shall apply:*

“Change of Control” refers to the occurrence of any of the following:

(1) any one person, or more than one person acting as a group (within the meaning of Section 409A of the Code), acquires ownership of stock of the Company that, together with other stock held by such person or group constitutes more than 50 percent of the total fair market value or total voting power of all stock of the Company; or

(2) any one person, or more than one person acting as a group (within the meaning of Section 409A of the Code), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30 percent or more of the total voting power of the stock of the Company; or

(3) during any 12-month period, a majority of the members of the Company’s board of directors is replaced by directors whose appointment or election is not endorsed by a majority of the members of the Company’s board of directors prior to such appointment or election; or

(4) any one person, or more than one person acting as a group (within the meaning of Section 409A of the Code), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisition; provided, that that no change of control shall be deemed to occur when the assets are transferred to:

(x) a shareholder of the Company in exchange for or with respect to its stock,

(y) a person, or more than one person acting as a group (within the meaning of Section 409A of the Code), that owns, directly or indirectly, 50 percent or more of the total value or voting power of all of the outstanding stock of the Company, or

(z) an entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person that owns directly or indirectly 50 percent or more of the total value or voting power of all of the outstanding stock

of the Company, in each case with such persons status determined immediately after the transfer of assets.”

*With respect to (i) equity-based or equity-related awards granted on or following the Effective Date and (ii) long-term incentive and/or retention compensation awards that are payable in cash granted on or following the Effective Date, the following definition of Change of Control shall apply:*

“Change of Control” refers to the occurrence of any of the following:

i. A transaction or series of transactions (other than an offering of common stock to the general public through a registration statement filed with the Securities and Exchange Commission or a transaction or series of transactions that meets the requirements of clauses (i) and (ii) of subsection (c) below) whereby any “person” or related “group” of “persons” (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a “person” that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 30% of the total combined voting power of the Company’s securities outstanding immediately after such acquisition; or

ii. During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new Director(s) (other than a Director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in subsections (a) or (c) of this definition) whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the Directors then still in office who either were Directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

iii. The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company’s assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

1. which results in the Company’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company’s assets or otherwise succeeds to the business of the Company (the Company or such person, the “Successor Entity”)) directly or indirectly, at least a majority of

the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

1. after which no person or group beneficially owns voting securities representing 30% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (ii) as beneficially owning 30% or more of the combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction.”

## FIFTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Fifth Amended and Restated Employment Agreement (“Agreement”), effective as of November 6, 2020 (the “Effective Date”), is entered into by and between **Andrew P. Stone** (the “Executive”) and **Redwood Trust, Inc.**, a Maryland corporation (the “Company”), and amends and restates in its entirety that certain Fourth Amended and Restated Employment Agreement by and between the Executive and the Company effective August 6, 2019 (as subsequently amended, the “Prior Agreement”).

The Company desires to establish its right to the continued services of the Executive, in the capacity, on the terms and conditions, and subject to the rights of termination hereinafter set forth, and the Executive is willing to accept such continued employment in such capacity, on such terms and conditions, and subject to such rights of termination.

In consideration of the mutual agreements hereinafter set forth, the Executive and the Company have agreed and do hereby agree as follows:

**1. Employment and Responsibilities.** During the Term, the Executive shall serve as Executive Vice President and General Counsel of the Company, reporting to the Chief Executive Officer of the Company, with responsibilities, duties and authority customary for such position. The Executive does hereby accept and agree to such continued employment. The Chief Executive Officer may, from time to time, in his sole discretion, modify, reassign and/or augment the Executive’s responsibilities, subject to approval by the Board of Directors of the Company (the “Board”), and any such modification, reassignment and/or augmentation shall be deemed a waiver by the Executive of his rights under Section 6(e)(i) hereof only with his express written consent. Any such modification, reassignment or augmentation of responsibilities shall be in writing. The Executive shall devote such time, energy and skill to the performance of his duties for the Company and for the benefit of the Company as may be necessary or required for the effective conduct and operation of the Company’s business. Furthermore, the Executive shall act only in good faith and exercise due diligence and care in the performance of his duties to the Company under this Agreement.

**2. Term of Agreement.** The term of this Agreement (the “Term”) shall commence on the Effective Date and shall continue through December 31, 2020; provided, however, that (i) on January 1, 2021 and each succeeding January 1, the Term shall automatically be extended for one additional year unless, not later than three months prior to any such January 1, either party shall have given written notice to the other that it does not wish to extend the Term and (ii) such one year extensions of the Term shall not occur on and after the January 1 of the year in which the Executive will attain age sixty-five (65) but instead the Term shall be extended only until the date of the Executive’s sixty-fifth (65th) birthday.

### 3. Compensation.

**(a) Base Salary.** The Company shall pay the Executive, and the Executive agrees to accept from the Company, in payment for his services to the Company a base salary (the “Base Salary”) at the rate of \$420,000 per year, paid in accordance with the customary payroll practices of the Company subject to annual review and increase by the Board in its sole discretion (or by the Board’s separately designated Compensation Committee in its sole discretion). For the avoidance of doubt, references to the Board in this Section 3 shall include the Board’s separately designated Compensation Committee.

**(b) Performance Bonus - Board of Directors’ Discretion.** The Executive shall be eligible to receive an annual bonus. The Board in its discretion will determine whether such annual bonus will be paid, the amount of such bonus and its form of payment. The Executive’s target annual bonus amount is 125% of his Base Salary (the “Target Bonus”). If the Board determines in its discretion that the Executive’s performance meets or exceeds the criteria established by the Board for the award of a Target Bonus, the Board may award the Executive the Target Bonus or a higher amount. Likewise, if the Executive’s performance does not meet said criteria, the Board may award a lesser amount, or no bonus may be awarded. Unless otherwise provided in this Agreement, the Executive’s eligibility to receive any bonus under this Section 3(b) shall be expressly conditioned on, among other things, the Executive remaining employed with the Company up through any designated distribution date set by the Board.

**(c) Equity Incentive Awards.** Executive shall be eligible to receive grants of equity-based long-term incentive awards, which may include options to purchase Company stock, performance or restricted stock units and Company restricted stock contributions to Company’s deferred compensation plan, or other equity-based awards. Such awards shall be determined in the discretion of the Board. In the event of a “Change of Control” (as defined in Exhibit D attached hereto) in which the surviving or acquiring corporation does not assume the Executive’s outstanding equity-related awards (including options and equity-based awards granted both before and after the Effective Date) or substitute similar equity-related awards, such equity-related awards shall immediately vest and become exercisable if the Executive’s service with the Company has not terminated before the effective date of the Change of Control; provided, however, that the foregoing provision shall only apply if the Company is not the surviving corporation or if shares of the Company’s common stock are converted into or exchanged for other securities or cash.

**(d) Annual Review.** The Executive’s performance shall be reviewed at least annually. The performance evaluations shall consider and assess the Executive’s performance of his duties and responsibilities, the timely accomplishment of existing performance objectives, his level of efficiency and overall effectiveness and/or other factors or criteria that the Company, in its sole discretion, may deem relevant. The frequency of performance evaluations may vary depending upon, among other things, length of service, past performance, changes in job duties or performance levels. The Board shall, at least annually, review the Executive’s entire compensation package to determine whether it continues to meet the Company’s compensation objectives. Such annual review will include a determination of (i) whether to increase the Base Salary in accordance with Section 3(a); (ii) the incentive performance bonus to be awarded in accordance with Section 3(b); and (iii) the amount and type of any equity awards granted in accordance with Section 3(c). Positive performance evaluations do not guarantee salary increases



or incentive bonuses. Salary increases and incentive bonus awards are solely within the discretion of the Board and may depend upon many factors other than the Executive's performance.

**4. Fringe Benefits.** The Executive shall be entitled to participate in any benefit programs adopted from time to time by the Company for the benefit of its senior executive employees, and the Executive shall be entitled to receive such other fringe benefits as may be granted to him from time to time by the Board.

**(a) Benefit Plans.** The Executive shall be entitled to participate in any benefit plans relating to equity-based compensation awards, pension, thrift, profit sharing, life insurance, medical coverage, education, deferred compensation, or other retirement or employee benefits available to other senior executive employees of the Company, subject to any restrictions (including waiting periods) specified in such plans and/or related individual agreements. The Company shall make commercially reasonable efforts to obtain medical and disability insurance, and such other forms of insurance as the Board shall from time to time determine, for its senior executive employees.

**(b) Paid Time Off.** The Executive shall be entitled to paid time off ("PTO") each calendar year pursuant to the Company's policies applicable to similarly situated employees of the Company, as in effect from time to time and consistent with the Executive's satisfactory performance of the duties set forth in Section 1.

**5. Business Expenses.** The Company shall reimburse the Executive for any and all necessary, customary and usual expenses, properly receipted in accordance with Company policies, incurred by Executive on behalf of the Company.

**6. Termination of Executive's Employment.**

**(a) Death.** If the Executive dies while employed by the Company, his employment shall immediately terminate. The Company's obligation to pay the Executive's Base Salary shall cease as of the date of the Executive's death, and any unpaid Base Salary shall be paid to the Executive's estate. In addition, within fifteen (15) days of the Executive's death, the Company shall pay to the Executive's estate an incentive performance bonus based on Executive's Target Bonus then in effect, prorated for the number of days of employment completed by the Executive during the year of his death. Executive's beneficiaries or his estate shall receive benefits in accordance with the Company's retirement, insurance and other applicable programs and plans then in effect. All stock options or other equity-related awards with time-based vesting, including deferred or restricted stock units, shall vest in full and, in the case of stock options, shall be exercisable for such period as set forth in the applicable award agreement by which such awards are evidenced. All stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable based on the number of target shares and the performance goals set forth in the applicable award agreement by which such awards are evidenced, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. In addition, in the event the Company grants to the Executive a

cash-settled equity award or a long-term incentive compensation award payable in cash, this Section 6(a) shall apply, mutatis mutandis, to any such award(s).

**(b) Disability.** If, as a result of the Executive's incapacity due to physical or mental illness ("Disability"), Executive shall have been absent from the full-time performance of his duties with the Company for six (6) consecutive months, and, within thirty (30) days after written notice is provided to him by the Company, he shall not have returned to the full-time performance of his duties, the Executive's employment under this Agreement may be terminated by the Company for Disability. During any period prior to such termination during which the Executive is absent from the full-time performance of his duties with the Company due to Disability, the Company shall continue to pay the Executive his Base Salary at the rate in effect at the commencement of such period of Disability. Subsequent to such termination, the Executive's benefits shall be determined under the Company's retirement, insurance and other compensation programs then in effect in accordance with the terms of such programs. In addition, within fifteen (15) days of such termination, the Company shall pay to the Executive an incentive performance bonus based on Executive's Target Bonus then in effect, prorated for the number of days of employment completed by the Executive during the year in which his employment terminated. The Executive, the Executive's beneficiaries or his estate shall receive benefits in accordance with the Company's retirement, insurance and other applicable programs and plans then in effect. All stock options or other equity-related awards with time-based vesting, including deferred or restricted stock units, shall vest in full and, in the case of stock options, shall be exercisable for such period as set forth in the applicable award agreement by which such awards are evidenced. All stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable based on the number of target shares and the performance goals set forth in the applicable award agreement by which such awards are evidenced, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. In addition, in the event the Company grants to the Executive a cash-settled equity award or a long-term incentive compensation award payable in cash, this Section 6(b) shall apply, mutatis mutandis, to any such award(s).

**(c) Termination By The Company For Cause.** The Company may terminate the Executive's employment under this Agreement for Cause, at any time prior to expiration of the Term of the Agreement; provided, however, that prior to any termination of employment for Cause pursuant to subsection (i), (ii), or (iii) below, the Company must first provide written notice describing the reason for such termination of employment (and, with respect to subsections (ii) and (iii) below, such notice may be provided on the same date as the termination date). For purposes of this Agreement, "Cause" shall mean (i) the Executive's material failure to substantially perform the reasonable and lawful duties of his position for the Company, which failure shall continue for thirty (30) days after written notice thereof by the Company to the Executive; (ii) acts or omissions constituting gross negligence, recklessness or willful misconduct on the part of the Executive in respect of the performance of his duties hereunder, his fiduciary obligations or otherwise relating to the business of the Company; (iii) the habitual or repeated neglect of his duties by Executive; (iv) the Executive's conviction of a felony; (v) 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 Executive injurious to the interest, property, operations, business or reputation of the Company; or (vii) unauthorized use or disclosure of trade secrets or confidential or proprietary information pertaining to Company business.

In the event of a termination under this Section 6(c), the Company will pay only the portion of Base Salary or previously awarded bonus unpaid as of the termination date. Fringe benefits which have accrued and/or vested on the termination date will continue in effect according to their terms.

**(d) Termination By The Company Without Cause.** The Company may terminate Executive's employment hereunder at any time without Cause upon 30 days written notice to Executive or pay in lieu thereof. In the event of a termination under this Section 6(d), the Executive shall be entitled to the benefits set forth in Section 7.

**(e) Termination By The Executive For Good Reason.** The Executive shall have the right to terminate the Officer's employment under this Agreement for Good Reason, at any time prior to expiration of the Term of the Agreement. For purposes of this Agreement, "Good Reason" shall mean the occurrence, without the Executive's express written consent, of any one or more of the following events:

**(i)** A material reduction in Executive's responsibilities, title, duties or authority, including, without limitation, (A) Executive ceasing to serve as the chief legal officer of a publicly-traded company or (B) on or after a Change of Control, if as a result of such Change of Control, the Company becomes a subsidiary of another entity and Executive is not appointed (or after appointment, ceases) to be the chief legal officer of the top-tier parent entity of the Company (or its successor);

**(ii)** A material reduction in the Executive's Base Salary or a material reduction by the Company in the value of the Executive's total compensation package (salary, 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 senior executives of the Company;

**(iii)** The relocation of the Executive's principal Company office to a location more than twenty-five (25) miles from its location as of the Effective Date (which location is the Company's headquarters in Mill Valley, California), except for required travel on the Company's business to the extent necessary to fulfill the Executive's obligations under Section 1;

**(iv)** A failure at any time to renew this Agreement for successive one-year periods pursuant to Section 2;

**(v)** The complete liquidation of the Company; or

**(vi)** In the event of a merger, consolidation, transfer, or closing of a sale of all or substantially all the assets of the Company with or to any other individual or entity, the

failure of the Company's successor to affirmatively adopt this Agreement or to otherwise comply with its obligations pursuant to Section 13 below.

Notwithstanding the foregoing, the Executive will not be deemed to have resigned for Good Reason for purposes of subclause (i) unless (1) the Executive provides the Company with written notice setting forth in reasonable detail the facts and circumstances claimed by the Executive to constitute Good Reason within ninety (90) days after the date of the occurrence of any event that the Executive knows 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 Executive's termination for Good Reason occurs no later than thirty (30) days after the expiration of the Company's cure period. In the event of a termination under this Section 6(e), the Executive shall be entitled to the benefits set forth in Section 7.

**(f) Termination By The Executive Without Good Reason.** The Executive may at any time during the Term terminate his employment hereunder for any reason or no reason by giving the Company notice in writing not less than sixty (60) days in advance of such termination. The Executive shall have no further obligations to the Company after the effective date of termination, as set forth in the notice. In the event of a termination by the Executive under this Section 6(f), the Company will pay only the portion of Base Salary or previously awarded bonus unpaid as of the termination date. Fringe benefits which have accrued and/or vested on the termination date will continue in effect according to their terms.

#### **7. Compensation Upon Termination By the Company without Cause or By The Executive for Good Reason.**

**(a)** If the Executive's employment shall be terminated by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to the following benefits:

**(i) Payment of Unpaid Base Salary.** The Company shall immediately pay the Executive any portion of the Executive's Base Salary through the date of termination or previously awarded bonus not paid prior to the termination date.

**(ii) Severance Payment.**

**(A)** In the event such termination is not a CIC Termination (as defined below), then the Company shall provide the Executive the greater of the amounts set forth in clauses (1) and (2) immediately below:

(1) An amount equal to the sum of (x) an amount equal to three-quarters (0.75) times the sum of (i) Executive's Annual Base Salary as in effect immediately prior to his termination and (ii) Executive's Target Bonus in effect immediately prior to his termination and (y) an amount equal to the Executive's Target Bonus in effect immediately prior to his termination pro-rated for the number of days of employment completed by the Executive during the year in which his employment is terminated.

(2) An amount equal to the sum of (x) an amount equal to two (2) times the Executive's Annual Base Salary as in effect immediately prior to his termination and (y) an amount equal to the Executive's Annual Base Salary in effect immediately prior to his termination pro-rated for the number of days of employment completed by the Executive during the year in which his employment is terminated.

(B) In the event such termination of employment occurs within three months prior to, on, or within 24 months following a Change of Control (a "CIC Termination"), then instead of providing the payments in Section 7(a)(ii)(A), the Company shall provide the Executive an amount equal to the sum of (x) the Executive's Target Bonus in effect immediately prior to his termination, prorated for the number of days of employment completed by the Executive during the year in which his employment terminated; (y) one (1) times the Executive's Annual Base Salary as in effect immediately prior to his termination; and (z) one (1) times the Executive's Target Bonus in effect immediately prior to his termination. Notwithstanding the foregoing, the maximum aggregate amount that the Company shall pay to the Executive pursuant to this Section 7(a)(ii)(B) is \$1,750,000.

**(iii) Equity Awards.** All stock options or other equity-related awards with time-based vesting, including deferred or restricted stock units, shall vest in full and, in the case of stock options, shall be exercisable for such period as set forth in the applicable award agreement by which such awards are evidenced. If the Executive's employment shall be terminated by the Company without Cause, all stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable or exercisable based on (x) the performance goals set forth in the applicable award agreement by which such awards are evidenced and (y) a reduced number of target shares adjusted on a pro-rata basis to reflect the number of days of employment completed during the applicable vesting period in which termination occurs, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. If the Executive's employment shall be terminated by the Executive for Good Reason, all stock options or other equity-related awards with performance-based vesting, including performance stock units, shall remain outstanding and shall continue to be eligible to vest and become payable based on the number of target shares and the performance goals set forth in the applicable award agreement by which such awards are evidenced, with any stock options remaining exercisable for such period as set forth in the applicable award agreement. In addition, in the event the Company grants to the Executive a cash-settled equity award or a long-term incentive compensation award payable in cash, this Section 7(a)(iii) shall apply, mutatis mutandis, to any such award(s).

**(iv) Continuation of Fringe Benefits.** For a period of up to nine (9) months (or, in the event of a CIC Termination, twelve (12) months) following the date of Executive's termination of employment with Company, subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations thereunder, the Company shall continue to provide the Executive and the Executive's eligible dependents with coverage under its group health plans at

the same levels and the same cost to the Executive as would have applied if the Executive's employment had not been terminated based on the Employee's elections in effect on the date of termination (the "Continued Coverage"), provided that (1) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A of the Code under Treasury Regulation Section 1.409A-1(a)(5), or (2) the Company is otherwise unable to continue to cover the Executive under its group health plans without penalty under applicable law (including without limitation, Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), the Company may in its sole discretion provide that (i) the Executive shall pay to the Company, on an after-tax basis, a monthly amount equal to the full premium cost of the Continued Coverage for such month and (ii) within 30 days of such premium payment, the Company shall reimburse the Executive in cash (less required withholding) an amount equal to the sum of (A) the excess of (x) the full premium cost of the Continued Coverage for such month over (y) any premium amount that would have been payable by the Executive if the Executive had been actively employed by the Company for such month and (B) an additional tax "gross up" payment to cover all estimated applicable local, state and federal income and payroll taxes imposed on the Executive with respect to the Continued Coverage. For the nine (9) month (or, in the event of a CIC Termination, twelve (12) month) period following the termination of the Executive's employment, the Company shall also continue to provide the Executive with all life insurance, disability insurance and other fringe benefits set forth in Section 4 as if the Executive's employment under the Agreement had not been terminated; provided, however, that such life insurance, disability insurance and other fringe benefits shall cease as of the date the Executive receives such coverage from a subsequent employer.

**(v) Payment/Benefit Limitation.** If any payment or benefit due under this Agreement, together with all other payments and benefits that the Executive receives or is entitled to receive from the Company or any of its subsidiaries, affiliates or related entities, would (if paid or provided) constitute an "excess parachute payment" for purposes of Section 280G of the Code, the amounts otherwise payable and benefits otherwise due under this Agreement will either (i) be delivered in full, or (ii) be limited to the minimum extent necessary to ensure that no portion thereof will fail to be tax-deductible to the Company by reason of Section 280G of the Code (and therefore, no portion thereof will be subject to the excise tax imposed under Section 4999 of the Code), whichever of the foregoing amounts, taking into account applicable federal, state and local income and employment taxes and the excise tax imposed under Section 4999 of the Code, results in the receipt by the Executive, on an after-tax basis, of the greatest amount of payments and benefits, notwithstanding that all or some portion of such payments and/or benefits may be subject to the excise tax imposed under Section 4999 of the Code. Unless otherwise specified in writing by the Executive, in the event that the payments and/or benefits are to be reduced pursuant to this Section 7(a)(v), such payments and benefits shall be reduced such that the reduction of cash compensation to be provided to the Executive as a result of this Section 7 is minimized. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A of the Code and where two economically equivalent amounts are subject to reduction but payable at different times, such amounts shall be reduced on a pro rata basis but not below zero. All determinations required to be made under this Section 7(a)(v) shall be made by the Company's independent public

accounting firm (or such other nationally recognized public accounting firm as may be selected by the Company and to which selection the Executive consents (such consent not to be unreasonably withheld)) which shall provide detailed supporting calculations both to the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a payment or benefit subject to this Section 7(a)(v), or such earlier time as is requested by the Company.

**(b) No Mitigation Required; No Other Entitlement To Benefits Under Agreement.** The Executive shall not be required in any way to mitigate the amount of any payment provided for in this Section 7, including, without limitation, by seeking other employment, nor shall the amount of any payment provided for in this Section 7 be reduced by any compensation earned by the Executive as the result of employment with another employer after the termination date of employment, or otherwise. Except as set forth in this Section 7, following a termination governed by this Section 7, the Executive shall not be entitled to any other compensation or benefits set forth in this Agreement, except as may be separately negotiated by the parties and approved the Board in writing in conjunction with the termination of Executive's employment under this Section 7.

**(c) Release Agreement.** As a condition of receiving any of the payments, vesting and benefits set forth in this Section 7 (other than the payment provided for in sub-section 7(a)(i)), the Executive shall be required to execute a mutual release agreement in the form attached hereto as Exhibit A or Exhibit B, as appropriate, and such release agreement must have become effective in accordance with its terms within 60 days following the termination date. The Company, in its sole discretion, may modify the term of the required release agreement to comply with applicable law and may incorporate the required release agreement into a termination agreement or other agreement with the Executive.

**(d) Timing of Severance Payments.** Notwithstanding any other provision of this Agreement, all severance payments provided under this Agreement in connection with the termination of the employment of the Executive shall be payable in an amount equal to 75% of such payments on the date that is six months after the termination date, and the remaining 25% shall be payable in six equal monthly installments beginning on the date that is seven months after the termination date and continuing on the same date of each of the five months thereafter.

**(e) Timing of Bonus Payments.** Notwithstanding any other provision of this Agreement, all bonus payments provided under this Agreement in connection with the termination of the employment of the Executive shall be payable on the date that is six months after the termination date.

**8. Disputes Relating To Executive's Termination of Employment For Good Reason .** If the Executive resigns his employment with the Company alleging in good faith as the basis for such resignation "Good Reason" as defined in Section 6(e), and if the Company then disputes the Executive's right to the payment of benefits under Section 7, the Company shall continue to pay the Executive the full compensation (including, without limitation, his Base Salary) in effect at the date the Executive provided written notice of such resignation, and the Company shall continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was then a participant, until the earlier of the expiration of the Term or the date the

dispute is finally resolved, either by mutual written agreement of the parties or by application of the provisions of Section 11. For the purposes of this Section 8, the Company shall bear the burden of proving that the grounds for the Executive's resignation do not fall within the scope of Section 6(e), and there shall be a rebuttable presumption that the Executive alleged such grounds in good faith.

#### **9. Restrictive Covenant Provisions.**

**(a) Noncompetition.** The Executive agrees that during the Term prior to any termination of his employment hereunder, he will not, directly or indirectly, without the prior written consent of a majority of the non-employee members of the Board, manage, operate, join, control, participate in, or be connected as a stockholder (other than as a holder of shares publicly traded on a stock exchange or the NASDAQ National Market System), partner, or other equity holder with, or as an officer, director or employee of, any real estate or mortgage investment organization whose business strategy is competitive with that of the Company, as determined by a majority of the non-employee members of the Board. It is further expressly agreed that the Company will or would suffer irreparable injury if the Executive were to compete with the Company or any subsidiary or affiliate of the Company in violation of this Agreement and that the Company would by reason of such competition be entitled to injunctive relief in a court of appropriate jurisdiction, and the Executive further consents and stipulates to the entry of such injunctive relief in such a court prohibiting the Executive from competing with the Company or any subsidiary or affiliate of the Company, in the areas of business set forth above, in violation of this Agreement.

**(b) Duty To Avoid Conflict Of Interest.** During his employment by the Company, Executive agrees not to engage or participate in, directly or indirectly, any activities in conflict with the best interests of the Company. The Company shall be the final decision-maker with regard to any conflict of interest issue.

**(c) Right To Company Materials.** The Executive agrees that all styles, designs, lists, materials, books, files, reports, correspondence, records, and other documents ("Company Materials") used, prepared, or made available to the Executive shall be and shall remain the property of the Company. Upon the termination of employment or the expiration of this Agreement, the Executive shall immediately return to the Company all Company Materials, and the Executive shall not make or retain any copies thereof.

**(d) Nonsolicitation.** The Executive promises and agrees that he will not directly or indirectly solicit any of the Company's employees to work for any competing real estate or mortgage investment organization as determined under Section 9(a) for a period of one (1) year following the occurrence of any event entitling the Executive to payments and benefits, provided the Company makes all such payments when due according to the provisions herein.

#### **(e) Confidential And Proprietary Information.**

**(1)** It is hereby acknowledged that Executive has and shall gain knowledge of trade secrets and confidential information owned by or related to the Company and/or its affiliates including but not limited to the following: (i) the names, lists, buying habits and



practices of customers, clients or vendors, (ii) marketing and related information, (iii) relationships with the persons or entities with whom or with which the Company has contracted, (iv) their products, designs, software, developments, improvements and methods of operation, (v) financial condition, profit performance and financial requirements, (vi) the compensation paid to employees, (vii) business plans and the information contained therein, and (viii) all other confidential information of, about or concerning the Company, the manner of operation of the Company and other confidential data of any kind, nature or description relating to the Company (collectively, the "Confidential Information"). Confidential Information does not include information which (A) is or becomes generally available to the public other than as a result of a disclosure by Executive; or (B) becomes available to Executive on a non-confidential basis after the termination or expiration of Executive's obligations under this Agreement from a source other than the Company, provided that such source is not bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Company or any other party with respect to such information; or (C) is independently developed after the termination or expiration of Executive's obligations under this agreement without reference to the Confidential Information, provided such independent development can reasonably be proven by Executive by written records.

(2) The parties hereby acknowledge that the Confidential Information constitutes important, unique, material and confidential trade secrets which affect the successful activities of the Company, and constitute a substantial part of the assets and goodwill of the Company. In view of the foregoing, Executive agrees that he will not at any time whether during or after the term of this Agreement, except as required in the course of Executive's employment by Company and at its direction and for its sole benefit, in any fashion, form or manner, directly or indirectly (i) use or divulge, disclose, communicate or provide or permit access to any person, firm, partnership, corporation or other entity, any Confidential Information of any kind, nature or description, or (ii) remove from Company's premises any notes or records relating thereto, or copies or facsimiles thereof (whether made by electronic, electrical, magnetic, optical, laser, acoustic or other means).

(3) Promptly upon the request of Company, and immediately upon the termination of Executive's employment, Executive shall not transfer to any third person and shall deliver to Company all Confidential Information, and other property belonging to the Company, including all copies thereof, in the possession or under the control of the Executive.

(4) Executive represents that the performance of all the terms of this Agreement will not conflict with, and will not breach, any other invention assignment agreement, confidentiality agreement, employment agreement or non-competition agreement to which Executive is or has been a party. To the extent that Executive has confidential information or materials of any former employer, Executive acknowledges that the Company has directed Executive to not disclose such confidential information or materials to the Company or any of its employees, and that the Company prohibits Executive from using said confidential information or materials in any work that Executive may perform for the Company. Executive agrees that Executive will not bring with Executive to the Company, and will not use or disclose any confidential, proprietary information, or trade secrets acquired by Executive prior to his

employment with the Company. Executive will not disclose to the Company or any of its employees, or induce the Company or any of its employees to use, any confidential or proprietary information or material belonging to any previous employers or others, nor will Executive bring to the Company or use in connection with Executive's work for the Company copies of any software, computer files, or any other copyrighted or trademarked materials except those owned by or licensed to the Company. Executive represents that he is not a party to any other agreement that will interfere with his full compliance with this Agreement. Executive further agrees not to enter into any agreement, whether written or oral, in conflict with the provisions of this Agreement.

**(5)** Notwithstanding the generality of the foregoing, nothing in this Agreement is intended to prohibit the Executive from 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, including in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation. Pursuant to 18 U.S.C. Section 1833(b), the Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (x) 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 (y) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

**(f) Inventions.** Any and all inventions, discoveries or improvements that Executive has conceived or made or may conceive or make during the period of employment relating to or in any way pertaining to or connected with the systems, products, computer programs, software, apparatus or methods employed, manufactured or constructed by the Company or to systems, products, apparatus or methods with respect to which the Company engages in, requests or anticipates research or development, shall be promptly and fully disclosed and described by Executive to the Company and shall be the sole and exclusive property of the Company, and Executive shall assign, and hereby does assign to the Company Executive's entire right, title and interest in and to all such inventions, discoveries or improvements as well as any modifications or improvements thereto that may be made.

The obligations outlined in this Section 9(f) do not apply to any invention that qualifies fully under California Labor Code Section 2870 (a copy of which is attached hereto as Exhibit C) or to any rights Executive may have acquired in connection with an invention, discovery or improvement that was developed entirely on Executive's own time for which no equipment, supplies, facilities or trade secret information of the Company was used and (a) that does not relate directly or indirectly to the business of the Company or to the Company's actual or demonstrable anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

**(g) Maryland Law.** The Executive agrees, in accordance with Maryland law, to first offer to the Company corporate opportunities learned of solely as a result of his service as an officer of the Company.

**(h) Breach.** It is expressly agreed that each breach of this Section 9 is a distinct and material breach of this Agreement and that solely a monetary remedy would be inadequate, impracticable and extremely difficult to prove, and that each such breach would cause the Company irreparable harm. It is further agreed that, in addition to any and all remedies available at law or equity (including money damages), either party shall be entitled to temporary and permanent injunctive relief to enforce the provisions of this Section, without the necessity of proving actual damages. It is further agreed that either party shall be entitled to seek such equitable relief in any forum, including a court of law, notwithstanding the provisions of Section 11. Either party may pursue any of the remedies described herein concurrently or consecutively in any order as to any such breach or violation, and the pursuit of one of such remedies at any time will not be deemed an election of remedies or waiver of the right to pursue any of the other such remedies. Any breach of this Section 9 shall immediately terminate any obligations by the Company to provide Executive with severance and continued benefits pursuant to Section 6 or 7 of this Agreement.

**(i) Unenforceability.** Should any portion of this Section 9 be deemed unenforceable because of its scope, duration or effect, and only in such event, then the parties expressly consent and agree to such limitation on scope, duration or effect as may be finally adjudicated as enforceable, to give this Section 9 its maximum permissible scope, duration and effect.

**10. Notices.** All notices and other communications under this Agreement shall be in writing and shall be given by fax or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three (3) days after mailing or twenty-four (24) hours after transmission of a fax to the respective persons named below:

If to the Company:     Redwood Trust, Inc.  
                                 Attn: Chief Executive Officer  
                                 One Belvedere Place, Suite 300  
                                 Mill Valley, CA 94941  
                                 Phone: (415) 389-7373  
                                 Fax: (415) 381-1773

If to the Executive:     Andrew P. Stone  
                                 c/o Redwood Trust, Inc.  
                                 One Belvedere Place, Suite 300  
                                 Mill Valley, CA 94941  
                                 Phone: (415) 389-7373  
                                 Fax: (415) 381-1773

Either party may change such party's address for notices by notice duly given pursuant hereto.

**11. Resolution of Disputes.** To ensure the rapid and economical resolution of disputes that may arise in connection with the Executive's employment with the Company, the Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, arising from or relating to the enforcement, breach, performance, or interpretation of this Agreement, the Executive's employment, or the termination of the Executive's employment ("Arbitrable Claims") shall be submitted to confidential mediation in San Francisco, California conducted by a mutually agreeable mediator from Judicial Arbitration and Mediation Services ("JAMS") or its successor under the JAMS Rules of Practice and Procedure then in effect, which can be found at [www.jamsadr.com/adr-rules-procedures](http://www.jamsadr.com/adr-rules-procedures). The cost of JAMS' mediation fees shall be paid by the Company. In the event that mediation is unsuccessful in resolving the Arbitrable Claims, the Arbitrable Claims shall be resolved, to the fullest extent permitted by law, by final, binding and confidential arbitration in San Francisco, California conducted by JAMS or its successor, under the then applicable rules of JAMS.

**The Executive acknowledges that by agreeing to this arbitration procedure, both the Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.**

The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that the Executive or the Company would be entitled to seek in a court of law, including, without limitation, the award of attorneys' fees based on a determination of the extent to which each party has prevailed as to the material issues raised in determination of the dispute. The Company shall pay all JAMS' arbitration fees in excess of those which would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either the Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such mediation or arbitration.

**12. [Reserved]**

**13. Assignment; Successors.** This Agreement is personal in its nature, and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that, in the event of the merger, consolidation, transfer, or sale of all or substantially all of the assets of the Company with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder.

**14. Governing Law.** This Agreement and the legal relations thus created between the parties hereto shall be governed by and construed under and in accordance with the laws of the State of California.

**15. Entire Agreement; Headings.** This Agreement embodies the entire agreement of the parties with respect to the subject matter hereof and supersedes in their entirety all other or prior agreements, whether oral or written, with respect thereto, including but not limited to the Prior Agreement, but excluding the plans, programs and equity award agreements under which compensation and benefits are provided pursuant to Sections 3 and 4 hereof to the extent such plans and programs and equity award agreements are not inconsistent with this Agreement. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

**16. Waiver; Modification.** Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto.

**17. Severability.** In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any statute or public policy, only the portions of this Agreement that violate such statute or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

**18. Indemnification.** The Company shall indemnify and hold Executive harmless to the maximum extent permitted by Section 2-418 of the Maryland General Corporations Law or its successor statute, or if greater, by the Company's Bylaws, by any applicable resolution of the Board or by the terms providing the most extensive indemnification contained in any written agreement between the Company and any director or officer of the Company. The Company shall make Executive a named beneficiary under all director and officer liability policies maintained by the Company from time to time for the benefit of its directors and officers, entitled to all benefits provided thereunder to persons serving in a comparable role as an officer of the Company.

**19. Section 409A.** Any payments under this Agreement subject to Section 409A of the Code that are subject to execution of a waiver and release which may be executed and/or revoked in a calendar year following the calendar year in which the payment event (such as a termination of employment) occurs shall commence payment only in the calendar year in which the consideration period or, if applicable, release revocation period ends, as necessary to comply with Section 409A of the Code. Notwithstanding anything to the contrary in this Agreement, no compensation or benefits shall be paid to the Executive during the six (6)-month period following the Executive's "separation from service" from the Company (within the meaning of Section 409A of the Code, a "Separation from Service") if the Company determines that paying such amounts at the time or times indicated in this 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 day of the seventh month following the date of Separation from Service (or such earlier date upon which such amount can be paid under Section 409A without resulting in a prohibited distribution, including as a result of the Executive's death), the Company shall pay the Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Executive during such period. Any right to a series of installment payments pursuant to this Agreement is to be treated as a right to a series of separate payments. To the extent permitted under Section 409A of the Code, any separate payment or benefit under this Agreement or otherwise shall not be deemed "nonqualified deferred compensation" subject to Section 409A of the Code to the extent provided in the exceptions in Treasury Regulation Section 1.409A-1(b)(4), Section 1.409A-1(b)(9) or any other applicable exception or provision of Section 409A. All payments of nonqualified deferred compensation subject to Section 409A to be made upon a termination of employment under this Agreement may only be made upon the Executive's "separation from service" from the Company.

**20. Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

**21. Successor Sections.** References herein to sections or rules of the Code shall be deemed to include any successor sections or rules.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the Effective Date.

**REDWOOD TRUST, INC.**

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

**EXECUTIVE**

/s/ Andrew P. Stone  
Andrew P. Stone

**EXHIBIT A**

**RELEASE AGREEMENT**

Except as otherwise set forth in this Release Agreement or in Sections 7 and 18 of the Employment Agreement between Andrew P. Stone and Redwood Trust, Inc., Andrew P. Stone (“Executive”) hereby generally and completely releases the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date Executive signs this Release Agreement. The Company, its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns, hereby releases Executive and his heirs, executors, successors and assigns, from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date the Company signs this Release Agreement. This general mutual release includes, but is not limited to: (A) all claims arising out of or in any way related to Executive’s employment with the Company or the termination of that employment; (B) all claims related to Executive’s compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (C) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (D) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; (E) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys’ fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) (“ADEA”), the federal Employee Retirement Income Security Act of 1974 (as amended), and the California Fair Employment and Housing Act (as amended); and (F) all claims and rights with respect to Executive’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator;



provided, however, that nothing in this paragraph shall be construed in any way to release the Company from its obligation to indemnify Executive pursuant to agreement, the Company's bylaws or binding resolutions, or applicable law.

Executive acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA, and that the consideration given under his Employment Agreement with the Company for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which he was already entitled. Executive further acknowledges that he has been advised by this writing, as required by the ADEA, that: (A) this waiver and release does not apply to any rights or claims that may arise after the date Executive signs this Release Agreement; (B) Executive should consult with an attorney prior to signing this Release Agreement (although Executive may choose voluntarily not to do so); (C) Executive has twenty-one (21) days to consider this Release Agreement (although Executive may choose voluntarily to sign this Release Agreement earlier); (D) Executive has seven (7) days following the date that he signs this Release Agreement to revoke the Release Agreement by providing written notice to an officer of the Company; and (E) this Release Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after Executive signs this Release Agreement. Both Executive and the Company acknowledge that each has read and understands Section 1542 of the California Civil Code which reads as follows:

**A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party.**

Both Executive and the Company hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to each party's release of any claims hereunder.

Notwithstanding anything herein, the Executive acknowledges and agrees that, pursuant to 18 USC Section 1833(b), the Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (i) 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 (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Mutual Nondisparagement.

(a) Nondisparagement by Executive. At all times following the cessation of the Executive's employment with the Company, the Executive 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.

(b) Nondisparagement by Designated Company Representatives. At all times following the cessation of the Executive's employment with the Company, the Company agrees not to publish, and agrees to cause the Designated Company Representatives not to make, negative comments or statements about, or otherwise criticize or disparage, in any format or through any medium, the Executive. 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 business reputation or personal reputation. For purposes of this sub-section (b), the "Designated Company Representatives" are (i) all executive officers of the Company while serving in such capacity and (ii) all members of the Board of Directors while serving in such capacity.

(c) The foregoing sub-sections (a) and (b) shall not be violated by truthful comments or statements (i) made in response to legal process, in required governmental testimony or filings, in judicial, administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings), in compliance with law, administrative rule, or regulation, or made pursuant to a court or administrative order, or in connection with reporting possible violations of federal law or regulation to any governmental agency or entity, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation, (ii) made by members of the Board of Directors in the course of meetings or discussions of the Board of Directors (or any committee thereof) or in communications between members of the Board of Directors and the Executive, and not disclosed to the public, (iii) made by a member of the Board of Directors in the good faith belief that the statements are required for the proper discharge of his or her fiduciary duties, or (iv) made by the Board of Directors in connection with a termination of the Executive for Cause.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the date set forth below.

**EXECUTIVE**

Name: \_\_\_\_\_  
Andrew P. Stone

Date: \_\_\_\_\_

**COMPANY**

Name: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT B**

**RELEASE AGREEMENT**

Except as otherwise set forth in this Release Agreement or in Sections 7 and 18 of the Employment Agreement between Andrew P. Stone and Redwood Trust, Inc., Andrew P. Stone (“Executive”) hereby generally and completely releases the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date Executive signs this Release Agreement. The Company, its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns, hereby releases Executive and his heirs, executors, successors and assigns, from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date the Company signs this Release Agreement. This general mutual release includes, but is not limited to: (A) all claims arising out of or in any way related to Executive’s employment with the Company or the termination of that employment; (B) all claims related to Executive’s compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (C) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (D) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; (E) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys’ fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) (“ADEA”), the federal Employee Retirement Income Security Act of 1974 (as amended), and the California Fair Employment and Housing Act (as amended); and (F) all claims and rights with respect to Executive’s right to communicate directly

with, cooperate with, or provide information to, any federal, state or local government regulator; provided, however, that nothing in this paragraph shall be construed in any way to release the Company from its obligation to indemnify Executive pursuant to agreement, the Company's bylaws or binding resolutions, or applicable law.

Executive acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA, and that the consideration given under his Employment Agreement with the Company for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which he was already entitled. Executive further acknowledges that he has been advised by this writing, as required by the ADEA, that: (A) this waiver and release does not apply to any rights or claims that may arise after the date Executive signs this Release Agreement; (B) Executive should consult with an attorney prior to signing this Release Agreement (although Executive may choose voluntarily not to do so); (C) Executive has forty-five (45) days to consider this Release Agreement (although he may choose voluntarily to sign this Release Agreement earlier); (D) Executive has seven (7) days following the date that he signs this Release Agreement to revoke the Release Agreement by providing written notice to an officer of the Company; (E) this Release Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after Executive signs this Release Agreement; and (F) Executive has received with this Release Agreement a detailed list of the job titles and ages of all employees who were terminated in this group termination and the ages of all employees of the Company in the same job classification or organizational unit who were not terminated.

Both the Executive and the Company acknowledge that each has read and understands Section 1542 of the California Civil Code which reads as follows:

**A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party.**

Both the Executive and the Company hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to each party's release of any claims hereunder.

Notwithstanding anything herein, the Executive acknowledges and agrees that, pursuant to 18 USC Section 1833(b), the Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (i) 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 (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Mutual Nondisparagement.

(a) Nondisparagement by Executive. At all times following the cessation of the Executive's employment with the Company, the Executive 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.

(b) Nondisparagement by Designated Company Representatives. At all times following the cessation of the Executive's employment with the Company, the Company agrees not to publish, and agrees to cause the Designated Company Representatives not to make, negative comments or statements about, or otherwise criticize or disparage, in any format or through any medium, the Executive. 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 business reputation or personal reputation. For purposes of this sub-section (b), the "Designated Company Representatives" are (i) all executive officers of the Company while serving in such capacity and (ii) all members of the Board of Directors while serving in such capacity.

(c) The foregoing sub-sections (a) and (b) shall not be violated by truthful comments or statements (i) made in response to legal process, in required governmental testimony or filings, in judicial, administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings), in compliance with law, administrative rule, or regulation, or made pursuant to a court or administrative order, or in connection with reporting possible violations of federal law or regulation to any governmental agency or entity, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation, (ii) made by members of the Board of Directors in the course of meetings or discussions of the Board of Directors (or any committee thereof) or in communications between members of the Board of Directors and the Executive, and not disclosed to the public, (iii) made by a member of the Board of Directors in the good faith belief that the statements are required for the proper discharge of his or her fiduciary duties, or (iv) made by the Board of Directors in connection with a termination of the Executive for Cause.

*[Signature Page Follows]*



**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the date set forth below.

**EXECUTIVE**

Name: \_\_\_\_\_  
Andrew P. Stone

Date: \_\_\_\_\_

**COMPANY**

Name: \_\_\_\_\_

Date: \_\_\_\_\_

## EXHIBIT C

### Section 2870 of California Labor Code

Section 2870 of California Labor Code: Application of provision providing that employee shall assign or offer to assign rights in invention to employer.

a. Any provision and employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information except for those inventions that either:

1. Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or
2. Result from any work performed by the employee for the employer.

b. To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

## EXHIBIT D

### DEFINITION OF “CHANGE OF CONTROL”

*With respect to (i) equity-based or equity-related awards granted prior to the Effective Date and (ii) long-term incentive and/or retention compensation awards that are payable in cash granted prior to the Effective Date, the following definition of Change of Control shall apply:*

“Change of Control” refers to the occurrence of any of the following:

(1) any one person, or more than one person acting as a group (within the meaning of Section 409A of the Code), acquires ownership of stock of the Company that, together with other stock held by such person or group constitutes more than 50 percent of the total fair market value or total voting power of all stock of the Company; or

(2) any one person, or more than one person acting as a group (within the meaning of Section 409A of the Code), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30 percent or more of the total voting power of the stock of the Company; or

(3) during any 12-month period, a majority of the members of the Company’s board of directors is replaced by directors whose appointment or election is not endorsed by a majority of the members of the Company’s board of directors prior to such appointment or election; or

(4) any one person, or more than one person acting as a group (within the meaning of Section 409A of the Code), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisition; provided, that that no change of control shall be deemed to occur when the assets are transferred to:

(x) a shareholder of the Company in exchange for or with respect to its stock,

(y) a person, or more than one person acting as a group (within the meaning of Section 409A of the Code), that owns, directly or indirectly, 50 percent or more of the total value or voting power of all of the outstanding stock of the Company, or

(z) an entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person that owns directly or indirectly 50 percent or more of the total value or voting power of all of the outstanding stock

of the Company, in each case with such persons status determined immediately after the transfer of assets.”

*With respect to (i) equity-based or equity-related awards granted on or following the Effective Date and (ii) long-term incentive and/or retention compensation awards that are payable in cash granted on or following the Effective Date, the following definition of Change of Control shall apply:*

“Change of Control” refers to the occurrence of any of the following:

i. A transaction or series of transactions (other than an offering of common stock to the general public through a registration statement filed with the Securities and Exchange Commission or a transaction or series of transactions that meets the requirements of clauses (i) and (ii) of subsection (c) below) whereby any “person” or related “group” of “persons” (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a “person” that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 30% of the total combined voting power of the Company’s securities outstanding immediately after such acquisition; or

ii. During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new Director(s) (other than a Director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in subsections (a) or (c) of this definition) whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the Directors then still in office who either were Directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

iii. The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company’s assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

1. which results in the Company’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company’s assets or otherwise succeeds to the business of the Company (the Company or such person, the “Successor Entity”)) directly or indirectly, at least a majority of

the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

2. after which no person or group beneficially owns voting securities representing 30% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (ii) as beneficially owning 30% or more of the combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction.”

**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: November 6, 2020

/s/ Christopher J. Abate

Christopher J. Abate  
Chief Executive Officer

**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: November 6, 2020

/s/ Collin L. Cochrane

Collin L. Cochrane

Chief Financial Officer



**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 September 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: November 6, 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.

**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 September 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: November 6, 2020

/s/ Collin L. Cochrane

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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.