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: March 31, 2021

OR

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

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

REDWOOD TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

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

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

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

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

Common Stock, $0.01 par value per share	113,010,497 shares outstanding as of May 4, 2021

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2021 FORM 10-Q REPORT
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In Thousands, except Share Data) (Unaudited)	March 31, 2021	December 31, 2020
ASSETS [1]		
Residential loans, held-for-sale, at fair value	$ 996,512	$ 176,641
Residential loans, held-for-investment, at fair value	3,705,324	4,072,410
Business purpose loans, held-for-sale, at fair value	333,110	245,394
Business purpose loans, held-for-investment, at fair value	3,839,010	3,890,959
Multifamily loans, held-for-investment, at fair value	489,545	492,221
Real estate securities, at fair value	364,320	344,125
Other investments	322,579	348,175
Cash and cash equivalents	426,019	461,260
Restricted cash	95,775	83,190
Intangible assets	52,992	56,865
Derivative assets	129,924	53,238
Other assets	141,738	130,588
Total Assets	$ 10,896,848	$ 10,355,066
LIABILITIES AND EQUITY [1]		
Liabilities		
Short-term debt, net	$ 1,253,882	$ 522,609
Derivative liabilities	73,178	16,072
Accrued expenses and other liabilities	244,274	179,340
Asset-backed securities issued (includes $6,475,472 and $6,900,362 at fair value), net	6,671,677	7,100,661
Long-term debt, net	1,438,262	1,425,485
Total liabilities	9,681,273	9,244,167
Commitments and Contingencies (see *Note 16)*		
Equity		
Common stock, par value $0.01 per share, 395,000,000 shares authorized; 112,998,732 and 112,090,006 issued and outstanding	1,130	1,121
Additional paid-in capital	2,281,647	2,264,874
Accumulated other comprehensive income (loss)	4,988	(4,221)
Cumulative earnings	1,094,534	997,277
Cumulative distributions to stockholders	(2,166,724)	(2,148,152)
Total equity	1,215,575	1,110,899
Total Liabilities and Equity	$ 10,896,848	$ 10,355,066

(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 March 31, 2021 and December 31, 2020, assets of consolidated VIEs totaled $7,724,203 and $8,141,069, respectively. At March 31, 2021 and December 31, 2020, liabilities of consolidated VIEs totaled $6,704,943 and $7,148,414, 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 March 31, 2021	2020
Interest Income		
Residential loans	$ 43,655	$ 79,436
Business purpose loans	64,188	52,654
Multifamily loans	4,786	40,172
Real estate securities	9,663	18,309
Other interest income	6,013	7,510
Total interest income	128,305	198,081
Interest Expense		
Short-term debt	(7,773)	(23,067)
Asset-backed securities issued	(72,561)	(100,498)
Long-term debt	(22,218)	(23,106)
Total interest expense	(102,552)	(146,671)
Net Interest Income	25,753	51,410
Non-interest Income (Loss)		
Mortgage banking activities, net	82,607	(28,902)
Investment fair value changes, net	45,087	(870,832)
Other income, net	3,843	2,928
Realized gains, net	2,716	3,852
Total non-interest income (loss), net	134,253	(892,954)
General and administrative expenses	(43,551)	(28,682)
Loan acquisition costs	(3,559)	(3,986)
Other expenses	(4,096)	(91,415)
Net Income (Loss) before (Provision for) Benefit from Income Taxes	108,800	(965,627)
(Provision for) benefit from income taxes	(11,543)	22,229
Net Income (Loss)	$ 97,257	$ (943,398)
Basic earnings (loss) per common share	$ 0.84	$ (8.28)
Diluted earnings (loss) per common share	$ 0.72	$ (8.28)
Basic weighted average shares outstanding	112,276,842	114,076,568
Diluted weighted average shares outstanding	141,039,285	114,076,568

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

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

(In Thousands)	Three Months Ended March 31,	
(Unaudited)	2021	2020
Net Income (Loss)	$ 97,257	$ (943,398)
Other comprehensive income (loss):		
Net unrealized gain (loss) on available-for-sale securities	10,986	(80,519)
Reclassification of unrealized gain on available-for-sale securities to net income	(2,795)	(13,798)
Net unrealized loss on interest rate agreements	—	(32,806)
Reclassification of unrealized loss on interest rate agreements to net income	1,018	79
Total other comprehensive income (loss)	9,209	(127,044)
Total Comprehensive Income (Loss)	$ 106,466	$ (1,070,442)

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 March 31, 2021

(In Thousands, except Share Data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
December 31, 2020	112,090,006	$ 1,121	$ 2,264,874	$ (4,221)	$ 997,277	$ (2,148,152)	$ 1,110,899
Net income	—	—	—	—	97,257	—	97,257
Other comprehensive income	—	—	—	9,209	—	—	9,209
Issuance of common stock	806,068	8	13,366	—	—	—	13,374
Employee stock purchase and incentive plans	102,658	1	(811)	—	—	—	(810)
Non-cash equity award compensation	—	—	4,218	—	—	—	4,218
Common dividends declared ($0.16 per share)	—	—	—	—	—	(18,572)	(18,572)
March 31, 2021	112,998,732	$ 1,130	$ 2,281,647	$ 4,988	$ 1,094,534	$ (2,166,724)	$ 1,215,575

For the Three Months Ended March 31, 2020

(In Thousands, except Share Data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
December 31, 2019	114,353,036	$ 1,144	$ 2,269,617	$ 41,513	$ 1,579,124	$ (2,064,167)	$ 1,827,231
Net loss	—	—	—	—	(943,398)	—	(943,398)
Other comprehensive loss	—	—	—	(127,044)	—	—	(127,044)
Issuance of common stock	350,088	3	5,544	—	—	—	5,547
Employee stock purchase and incentive plans	134,409	1	(2,541)	—	—	—	(2,540)
Non-cash equity award compensation	—	—	3,188	—	—	—	3,188
Common dividends declared ($0.32 per share)	—	—	—	—	—	(37,782)	(37,782)
March 31, 2020	114,837,533	$ 1,148	$ 2,275,808	$ (85,531)	$ 635,726	$ (2,101,949)	$ 725,202

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)	Three Months Ended March 31, 2021	2020
Cash Flows From Operating Activities:		
Net income (loss)	$ 97,257	$ (943,398)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of premiums, discounts, and securities issuance costs, net	2,216	(596)
Depreciation and amortization of non-financial assets	4,172	4,677
Originations of held-for-sale loans	(254,975)	(280,076)
Purchases of held-for-sale loans	(3,150,432)	(2,665,447)
Proceeds from sales of held-for-sale loans	2,345,164	2,733,285
Principal payments on held-for-sale loans	4,477	19,778
Net settlements of derivatives	24,849	(163,442)
Non-cash equity award compensation expense	4,218	3,188
Goodwill impairment expense	—	88,675
Market valuation adjustments	(119,783)	912,477
Realized gains, net	(2,716)	(3,852)
Net change in:		
Accrued interest receivable and other assets	2,565	107,740
Accrued interest payable and accrued expenses and other liabilities	76,824	(54,414)
Net cash used in operating activities	(966,164)	(241,405)
Cash Flows From Investing Activities:		
Originations of loan investments	(133,229)	(206,634)
Proceeds from sales of loan investments	8,877	—
Principal payments on loan investments	649,749	638,508
Purchases of real estate securities	(15,880)	(52,259)
Sales of securities held in consolidated securitization trusts	8,197	121,000
Proceeds from sales of real estate securities	25,747	529,494
Principal payments on real estate securities	11,746	11,952
Purchases of servicer advance investments	—	(158,618)
Principal repayments from servicer advance investments	24,804	22,815
Other investing activities, net	2,601	4,328
Net cash provided by investing activities	582,612	910,586
Cash Flows From Financing Activities:		
Proceeds from borrowings on short-term debt	2,724,508	2,972,646
Repayments on short-term debt	(1,993,506)	(2,960,444)
Proceeds from issuance of asset-backed securities	147,086	377,164
Repayments on asset-backed securities issued	(507,037)	(363,696)
Proceeds from borrowings on long-term debt	164,456	133,961
Repayments on long-term debt	(154,074)	(633,448)
Net settlements of derivatives	—	(84,336)
Net proceeds from issuance of common stock	115	2,262
Taxes paid on equity award distributions	(925)	(2,632)
Dividends paid	(18,572)	—
Other financing activities, net	(1,155)	2,494
Net cash provided by (used in) financing activities	360,896	(556,029)
Net (decrease) increase in cash, cash equivalents and restricted cash	(22,656)	113,152
Cash, cash equivalents and restricted cash at beginning of period[1]	544,450	290,833
Cash, cash equivalents and restricted cash at end of period[1]	$ 521,794	$ 403,985

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

(In Thousands) (Unaudited)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 99,180	$ 170,884
Taxes	7	109
Supplemental Noncash Information:		
Real estate securities retained from loan securitizations	$ 7,627	$ 46,560
Deconsolidation of multifamily loans held in securitization trusts	—	(3,849,779)
Deconsolidation of multifamily ABS	—	(3,706,789)
Transfers from loans held-for-sale to loans held-for-investment	301,298	382,635
Transfers from loans held-for-investment to loans held-for-sale	—	1,857,781
Transfers from residential loans to real estate owned	14,684	6,363
Right-of-use asset obtained in exchange for operating lease liability	—	5,362
Accrued but unpaid dividends	—	37,800
Issuance of common stock for 5 Arches acquisition	13,375	3,375

(1) Cash, cash equivalents, and restricted cash at March 31, 2021 includes cash and cash equivalents of $ 426 million and restricted cash of $ 96 million, and at December 31, 2020 includes cash and cash equivalents of $461 million and restricted cash of $ 83 million.

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

Note 1. Organization

Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on several distinct areas of housing credit. Our operating platforms occupy a unique position in the housing finance value chain, providing liquidity to growing segments of the U.S. housing market not served by government programs. We deliver customized housing credit investments to a diverse mix of investors, through our best-in-class securitization platforms; whole-loan distribution activities; and our publicly-traded shares. Our consolidated investment portfolio has evolved to incorporate a diverse mix of residential, business purpose and multifamily investments. Our goal is to provide attractive returns to shareholders through a stable and growing stream of earnings and dividends, capital appreciation, and a commitment to technological innovation that facilitates risk-minded scale. We operate our business in three segments: Residential 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 "Internal Revenue Code"), beginning with its taxable year ended December 31, 1994. We generally refer, collectively, to Redwood Trust, Inc. and those of its subsidiaries that are 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 March 31, 2021 and December 31, 2020, and for the three months ended March 31, 2021 and 2020. 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, 2020. In the opinion of management, all normal and recurring adjustments to present fairly the financial condition of the Company at March 31, 2021 and results of operations for all periods presented have been made. The results of operations for the three months ended March 31, 2021 should not be construed as indicative of the results to be expected for the full year.

Note 2. Basis of Presentation - (continued)

Principles of Consolidation

In accordance with GAAP, we determine whether we must consolidate transferred financial assets and variable interest entities ("VIEs") for financial reporting purposes. We currently consolidate the assets and liabilities of certain Sequoia securitization entities issued prior to 2012 ("Legacy Sequoia"), entities formed in connection with the securitization of Redwood Choice expanded-prime loans ("Sequoia Choice"), and entities formed in connection with the securitization of single-family rental loans ("CAFL"). We also consolidate the assets and liabilities of certain Freddie Mac K-Series and Freddie Mac Seasoned Loans Structured Transaction ("SLST") securitizations in which we have invested. Each securitization entity is independent of Redwood and of each other and the assets and liabilities are not owned by and are not legal obligations of Redwood Trust, Inc. Our exposure to these entities is primarily through the financial interests we have purchased or retained, although for 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.

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 entity 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 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.

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

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

Use of Estimates

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

Acquisitions

Refer to our Annual Report on Form 10-K for the year ended December 31, 2020 for additional information regarding the acquisitions of 5 Arches and CoreVest, including purchase price allocations.

Note 2. Basis of Presentation - (continued)

In connection with the acquisitions of 5 Arches and CoreVest in 2019, we identified and recorded finite-lived intangible assets totaling $25 million and $57 million, respectively. The table below presents the amortization period and carrying value of our intangible assets, net of accumulated amortization at March 31, 2021 and December 31, 2020.

Table 2.1 – Intangible Assets – Activity

(Dollars in Thousands)	Intangible Assets at Acquisition	Accumulated Amortization at March 31, 2021	Carrying Value at March 31, 2021	Weighted Average Amortization Period (in years)
Borrower network	$ 45,300	$ (9,437)	$ 35,863	7
Broker network	18,100	(7,542)	10,558	5
Non-compete agreements	9,500	(5,222)	4,278	3
Tradenames	4,000	(2,194)	1,806	3
Developed technology	1,800	(1,313)	487	2
Loan administration fees on existing loan assets	2,600	(2,600)	—	1
Total	$ 81,300	$ (28,308)	$ 52,992	6

(Dollars in Thousands)	Intangible Assets at Acquisition	Accumulated Amortization at December 31, 2020	Carrying Value at December 31, 2020	Weighted Average Amortization Period (in years)
Borrower network	$ 45,300	$ (7,819)	$ 37,481	7
Broker network	18,100	(6,637)	11,463	5
Non-compete agreements	9,500	(4,431)	5,069	3
Tradenames	4,000	(1,860)	2,140	3
Developed technology	1,800	(1,088)	712	2
Loan administration fees on existing loan assets	2,600	(2,600)	—	1
Total	$ 81,300	$ (24,435)	$ 56,865	6

All of our intangible assets are amortized on a straight-line basis. For each of the three months ended March 31, 2021 and 2020, we recorded intangible asset amortization expense of $4 million. Estimated future amortization expense is summarized in the table below.

Table 2.2 – Intangible Asset Amortization Expense by Year

(In Thousands)	March 31, 2021
2021 (9 months)	$ 11,431
2022	12,800
2023	10,091
2024	7,073
2025 and thereafter	11,597
Total Future Intangible Asset Amortization	$ 52,992

On a quarterly basis, we evaluate our finite-lived intangible assets for impairment indicators and additionally evaluate the useful lives of our intangible assets to determine if revisions to the remaining periods of amortization are warranted. We reviewed our finite-lived intangible assets and determined that the estimated lives were appropriate and that there were no indicators of impairment at March 31, 2021.

A liability resulting from the contingent consideration arrangement with 5 Arches was initially recorded in 2019 at its acquisition-date fair value as part of total consideration for the acquisition of 5 Arches. During the three months ended March 31, 2021, we distributed 806,068 shares of Redwood common stock and paid $1 million in cash in full settlement of the remaining deferred consideration associated with this acquisition.

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 March 31, 2021 is a summary of our significant accounting policies.

Recent Accounting Pronouncements

Newly Adopted Accounting Standards Updates ("ASUs")

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements." This new guidance updates various codification topics by clarifying or improving disclosure requirements. This new guidance is effective for fiscal years ending after December 15, 2020. We adopted this guidance, as required, in the first quarter of 2021, which did not have a material impact on our consolidated financial statements.

In October 2020, the FASB issued ASU 2020-09, "Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762." This new guidance aligns certain SEC paragraphs in the codification with new SEC rules issued in March 2020 related to changes to the disclosure requirements for registered debt securities. This new guidance became effective January 4, 2021. We adopted this guidance, as required, in the first quarter of 2021, which did not have a material impact on our consolidated financial statements.

In October 2020, the FASB issued ASU 2020-08, "Codification Improvements to Subtopic 310-20, Receivables - Nonrefundable Fees and Other Costs." This new guidance clarifies that an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33 for each reporting period. This new guidance is effective for fiscal years ending after December 15, 2020. We adopted this guidance, as required, in the first quarter of 2021, which did not have a material impact on our consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, "Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)." This new guidance clarifies the interaction of the accounting for equity securities, equity method investments, and certain forward contracts and purchased options. This new guidance is effective for fiscal years beginning after December 15, 2020. We adopted this guidance, as required, in the first quarter of 2021, which did not have a material impact on our 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. We adopted this guidance, as required, in the first quarter of 2021, 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.

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

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

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 March 31, 2021 and December 31, 2020.

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

				Gross Amounts Not Offset in Consolidated Balance Sheet (1)		
March 31, 2021 (In Thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in Consolidated Balance Sheet	Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet	Financial Instruments	Cash Collateral (Received) Pledged	Net Amount
Assets (2)						
Interest rate agreements	$ 87,960	$ —	$ 87,960	$ —	$ (74,052)	$ 13,908
TBAs	40,800	—	40,800	(29,648)	(8,696)	2,456
Total Assets	$ 128,760	$ —	$ 128,760	$ (29,648)	$ (82,748)	$ 16,364
Liabilities (2)						
TBAs	$ (35,621)	$ —	$ (35,621)	$ 29,648	$ 5,973	$ —
Futures	(2,451)	—	(2,451)	—	2,451	—
Loan warehouse debt	(839,224)	—	(839,224)	839,224	—	—
Security repurchase agreements	(81,670)	—	(81,670)	81,670	—	—
Total Liabilities	$ (958,966)	$ —	$ (958,966)	$ 950,542	$ 8,424	$ —

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

December 31, 2020 (In Thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in Consolidated Balance Sheet	Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet	Gross Amounts Not Offset in Consolidated Balance Sheet (1) Financial Instruments	Gross Amounts Not Offset in Consolidated Balance Sheet (1) Cash Collateral (Received) Pledged	Net Amount
Assets (2)						
Interest rate agreements	$ 19,951	$ —	$ 19,951	$ —	$ (7,769)	$ 12,182
TBAs	18,260	—	18,260	(13,423)	(4,658)	179
Total Assets	$ 38,211	$ —	$ 38,211	$ (13,423)	$ (12,427)	$ 12,361
Liabilities (2)						
TBAs	$ (15,495)	$ —	$ (15,495)	$ 13,423	$ 1,061	$ (1,011)
Loan warehouse debt	(137,269)	—	(137,269)	137,269	—	—
Security repurchase agreements	(77,775)	—	(77,775)	77,775	—	—
Total Liabilities	$ (230,539)	$ —	$ (230,539)	$ 228,467	$ 1,061	$ (1,011)

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

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

For each category of financial instrument set forth in the table above, the assets and liabilities resulting from individual transactions within that category between us and a counterparty are subject to a master netting arrangement or similar agreement with that counterparty that provides for individual transactions to be aggregated and treated as a single transaction. For certain categories of these instruments, 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.

Note 4. Principles of Consolidation - (continued)

Analysis of Consolidated VIEs

At March 31, 2021, we consolidated Legacy Sequoia, Sequoia Choice, CAFL, Freddie Mac SLST, and Freddie Mac K-Series 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 March 31, 2021, the estimated fair value of our investments in the consolidated Legacy Sequoia, Sequoia Choice, CAFL, Freddie Mac SLST, and Freddie Mac K-Series entities was $4 million, $224 million, $264 million, $433 million, and $29 million, respectively.

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 March 31, 2021, 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 March 31, 2021, the estimated fair value of our investment in the Servicing Investment entities was $65 million.

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

March 31, 2021 **(Dollars in Thousands)**	**Legacy Sequoia**	**Sequoia Choice**	**CAFL**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**Servicing Investment**	**Total Consolidated VIEs**
Residential loans, held-for-investment	$ 274,861	$ 1,276,112	$ —	$ 2,154,351	$ —	$ —	$ 3,705,324
Business purpose loans, held-for-investment	—	—	3,212,526	—	—	—	3,212,526
Multifamily loans, held-for-investment	—	—	—	—	489,545	—	489,545
Other investments	—	—	—	—	—	225,723	225,723
Cash and cash equivalents	—	—	—	—	—	10,698	10,698
Restricted cash	148	—	—	—	—	29,518	29,666
Accrued interest receivable	277	5,904	13,528	6,560	1,338	2,191	29,798
Other assets	597	—	12,341	1,860	—	6,125	20,923
Total Assets	$ 275,883	$ 1,282,016	$ 3,238,395	$ 2,162,771	$ 490,883	$ 274,255	$ 7,724,203
Short-term debt	$ —	$ —	$ —	$ —	$ —	$ 192,072	$ 192,072
Accrued interest payable	129	3,658	10,412	4,669	1,208	114	20,190
Accrued expenses and other liabilities	—	28	—	—	—	17,181	17,209
Asset-backed securities issued	271,915	1,054,005	2,963,752	1,725,235	460,565	—	6,475,472
Total Liabilities	$ 272,044	$ 1,057,691	$ 2,974,164	$ 1,729,904	$ 461,773	$ 209,367	$ 6,704,943
Number of VIEs	20	10	14	2	1	3	50

Note 4. Principles of Consolidation - (continued)

December 31, 2020 **(Dollars in Thousands)**	**Legacy Sequoia**	**Sequoia Choice**	**CAFL**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**Servicing Investment**	**Total Consolidated VIEs**
Residential loans, held-for-investment	$ 285,935	$ 1,565,322	$ —	$ 2,221,153	$ —	$ —	$ 4,072,410
Business purpose loans, held-for-investment	—	—	3,249,194	—	—	—	3,249,194
Multifamily loans, held-for-investment	—	—	—	—	492,221	—	492,221
Other investments	—	—	—	—	—	251,773	251,773
Cash and cash equivalents	—	—	—	—	—	11,579	11,579
Restricted cash	148	—	—	—	—	23,220	23,368
Accrued interest receivable	305	6,802	13,055	6,754	1,337	2,334	30,587
Other assets	638	—	2,930	646	—	5,723	9,937
Total Assets	$ 287,026	$ 1,572,124	$ 3,265,179	$ 2,228,553	$ 493,558	$ 294,629	$ 8,141,069
Short-term debt	$ —	$ —	$ —	$ —	$ —	$ 208,375	$ 208,375
Accrued interest payable	141	4,697	10,278	4,846	1,177	135	21,274
Accrued expenses and other liabilities	—	50	—	—	—	18,353	18,403
Asset-backed securities issued	282,326	1,347,357	3,013,093	1,793,620	463,966	—	6,900,362
Total Liabilities	$ 282,467	$ 1,352,104	$ 3,023,371	$ 1,798,466	$ 465,143	$ 226,863	$ 7,148,414
Number of VIEs	20	10	14	2	1	3	50

The following table presents income (loss) from these VIEs for the three months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31, 2021						
(Dollars in Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Servicing Investment**	**Total Consolidated VIEs**
Interest income	$ 1,348	$ 15,483	$ 20,159	$ 4,786	$ 48,873	$ 4,222	$ 94,871
Interest expense	(875)	(12,106)	(14,468)	(4,356)	(39,011)	(1,286)	(72,102)
Net interest income	473	3,377	5,691	430	9,862	2,936	22,769
Non-interest income							
Investment fair value changes, net	(699)	4,898	4,117	8,921	(286)	(1,246)	15,705
Total non-interest income, net	(699)	4,898	4,117	8,921	(286)	(1,246)	15,705
General and administrative expenses	—	—	—	—	—	(38)	(38)
Other expenses	—	—	—	—	—	(330)	(330)
Income from Consolidated VIEs	$ (226)	$ 8,275	$ 9,808	$ 9,351	$ 9,576	$ 1,322	$ 38,106

Note 4. Principles of Consolidation - (continued)

	Three Months Ended March 31, 2020						
(Dollars in Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**CAFL**	**Servicing Investment**	**Total Consolidated VIEs**
Interest income	$ 3,194	$ 25,083	$ 21,986	$ 40,172	$ 30,010	$ 4,083	$ 124,528
Interest expense	(2,522)	(21,510)	(16,176)	(38,348)	(21,939)	(1,577)	(102,072)
Net interest income	672	3,573	5,810	1,824	8,071	2,506	22,456
Non-interest income							
Investment fair value changes, net	(391)	(69,668)	(142,161)	(86,509)	(67,846)	(11,884)	(378,459)
Total non-interest income, net	(391)	(69,668)	(142,161)	(86,509)	(67,846)	(11,884)	(378,459)
General and administrative expenses	—	—	—	—	—	(31)	(31)
Other expenses	—	—	—	—	—	1,882	1,882
Income from Consolidated VIEs	$ 281	$ (66,095)	$ (136,351)	$ (84,685)	$ (59,775)	$ (7,527)	$ (354,152)

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

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

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 to54 Sequoia securitization entities sponsored by us that are still outstanding as of March 31, 2021, and accounted for these transfers as sales for financial reporting purposes, in accordance with ASC 860. We also determined we were not the primary beneficiary of these VIEs as we lacked the power to direct the activities that will have the most significant economic impact on the entities. For certain of these transfers to securitization entities, for the transferred loans where we held the servicing rights prior to the transfer and continued to hold the servicing rights following the transfer, we recorded mortgage servicing rights ("MSRs") on our consolidated balance sheets, and classified those MSRs as Level 3 assets. We also retained senior and subordinate securities in these securitizations that we classified as Level 3 assets. Our continuing involvement in these securitizations is limited to customary servicing obligations associated with retaining servicing rights (which we retain a third-party sub-servicer to perform) and the receipt of interest income associated with the securities we retained.

Note 4. Principles of Consolidation - (continued)

During the three months ended March 31, 2021, we called one of our unconsolidated Sequoia entities, and purchased $19 million (unpaid principal balance) of loans from the securitization trust. In association with this call, we realized a $2 million gain on the securities we owned from this called securitization, which was recognized through Realized gains, net on our consolidated statements of income. At March 31, 2021, we held $19 million of loans for sale at fair value that were acquired following this call.

The following table presents information related to securitization transactions that occurred during the three months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
Principal balance of loans transferred	$ 875,879	$ 1,573,703
Trading securities retained, at fair value	6,549	43,362
AFS securities retained, at fair value	1,078	3,198

The following table summarizes the cash flows during the three months ended March 31, 2021 and 2020 between us and the unconsolidated VIEs sponsored by us and accounted for as sales since 2012.

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

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
Proceeds from new transfers	$ 904,390	$ 1,610,761
MSR fees received	1,607	2,690
Funding of compensating interest, net	(100)	(92)
Cash flows received on retained securities	8,629	6,581

The following table presents the key weighted-average assumptions used to value securities retained at the date of securitization for securitizations completed during the three months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
At Date of Securitization	**Senior IO Securities**	**Subordinate Securities**	**Senior IO Securities**	**Subordinate Securities**
Prepayment rates	12 %	12 %	41 %	13 %
Discount rates	15 %	6 %	16 %	6 %
Credit loss assumptions	0.22 %	0.22 %	0.21 %	0.22 %

Note 4. Principles of Consolidation - (continued)

The following table presents additional information at March 31, 2021 and December 31, 2020, related to unconsolidated VIEs sponsored by Redwood and accounted for as sales since 2012.

Table 4.6 – Unconsolidated VIEs Sponsored by Redwood

(In Thousands)	March 31, 2021	December 31, 2020
On-balance sheet assets, at fair value:		
Interest-only, senior and subordinate securities, classified as trading	$ 21,692	$ 20,982
Subordinate securities, classified as AFS	141,632	136,475
Mortgage servicing rights	7,648	8,413
Maximum loss exposure (1)	$ 170,972	$ 165,870
Assets transferred:		
Principal balance of loans outstanding	$ 7,188,320	$ 7,728,432
Principal balance of loans 30+ days delinquent	88,671	138,029

(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 March 31, 2021 and December 31, 2020.

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

March 31, 2021 (Dollars in Thousands)	MSRs	Senior Securities (1)	Subordinate Securities
Fair value at March 31, 2021	$ 7,648	$ 21,692	$ 141,632
Expected life (in years)(2)	2	4	8
Prepayment speed assumption (annual CPR) (2)	38 %	27 %	33 %
Decrease in fair value from:			
10% adverse change	$ 786	$ 1,541	$ 288
25% adverse change	1,752	3,508	759
Discount rate assumption (2)	12 %	19 %	4 %
Decrease in fair value from:			
100 basis point increase	$ 176	$ 477	$ 9,937
200 basis point increase	346	930	18,961
Credit loss assumption (2)	N/A	0.40 %	0.40 %
Decrease in fair value from:			
10% higher losses	N/A	$ —	$ 2,519
25% higher losses	N/A	—	6,187

Note 4. Principles of Consolidation - (continued)

December 31, 2020 (Dollars in Thousands)	**MSRs**	**Senior Securities (1)**	**Subordinate Securities**
Fair value at December 31, 2020	$ 8,413	$ 17,333	$ 140,124
Expected life (in years)(2)	2	3	8
Prepayment speed assumption (annual CPR)(2)	37 %	31 %	33 %
Decrease in fair value from:			
10% adverse change	$ 906	$ 1,557	$ 452
25% adverse change	2,058	3,754	2,298
Discount rate assumption(2)	12 %	21 %	5 %
Decrease in fair value from:			
100 basis point increase	$ 196	$ 337	$ 9,769
200 basis point increase	380	659	18,650
Credit loss assumption(2)	N/A	0.41 %	0.41 %
Decrease in fair value from:			
10% higher losses	N/A	$ —	$ 2,409
25% higher losses	N/A	—	5,915

(1) Senior securities included $22 million and $17 million of interest-only securities at March 31, 2021 and December 31, 2020, 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 March 31, 2021 and December 31, 2020, grouped by asset type.

Table 4.8 – Third-Party Sponsored VIE Summary

(In Thousands)	**March 31, 2021**	**December 31, 2020**
Mortgage-Backed Securities		
Senior	$ 9,888	$ 11,131
Mezzanine	—	2,014
Subordinate	191,108	173,523
Total Mortgage-Backed Securities	200,996	186,668
Excess MSR	13,267	14,133
Total Investments in Third-Party Sponsored VIEs	$ 214,263	$ 200,801

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

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

Note 5. Fair Value of Financial Instruments

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

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

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

The following table presents the carrying values and estimated fair values of assets and liabilities that are required to be recorded or disclosed at fair value at March 31, 2021 and December 31, 2020.

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

	March 31, 2021		December 31, 2020	
(In Thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Assets				
Residential loans, held-for-sale at fair value	$ 996,476	$ 996,476	$ 176,604	$ 176,604
Residential loans, held-for-investment	3,705,324	3,705,324	4,072,410	4,072,410
Business purpose loans, held-for-sale	333,110	333,110	245,394	245,394
Business purpose loans, held-for-investment	3,839,010	3,839,010	3,890,959	3,890,959
Multifamily loans	489,545	489,545	492,221	492,221
Real estate securities	364,320	364,320	344,125	344,125
Servicer advance investments (1)	206,525	206,525	231,489	231,489
MSRs (1)	7,945	7,945	8,815	8,815
Excess MSRs (1)	32,465	32,465	34,418	34,418
Shared home appreciation options (1)	45,823	45,823	42,440	42,440
Cash and cash equivalents	426,019	426,019	461,260	461,260
Restricted cash	95,775	95,775	83,190	83,190
Derivative assets	129,924	129,924	53,238	53,238
REO (2)	15,829	18,176	8,413	9,229
Margin receivable (2)	16,283	16,283	4,758	4,758
FHLBC stock (2)	5,000	5,000	5,000	5,000
Pledged collateral (2)	—	—	1,177	1,177
Liabilities				
Short-term debt	$ 1,253,882	$ 1,253,882	$ 522,609	$ 522,609
Margin payable (3)	84,306	84,306	—	—
Guarantee obligation (3)	9,238	6,782	10,039	7,843
Derivative liabilities	73,178	73,178	16,072	16,072
ABS issued, net				
Fair value	6,475,472	6,475,472	6,900,362	6,900,362
Amortized cost	196,205	200,157	200,299	204,892
FHLBC long-term borrowings	1,000	1,000	1,000	1,000
Other long-term debt, net	786,869	793,421	774,726	783,570
Convertible notes, net	511,707	522,423	511,085	499,865
Trust preferred securities and subordinated notes, net	138,686	97,650	138,674	80,910

(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 months ended March 31, 2021, we elected the fair value option for $22 million of securities, $3.10 billion of residential loans (principal balance), and $386 million of business purpose loans (principal balance). We anticipate electing the fair value option for all future purchases of residential and business purpose loans that we intend to sell to third parties or transfer to securitizations, for business purpose bridge loans we hold for investment, as well as for certain securities we purchase, including IO securities and fixed-rate securities rated investment grade or higher.

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 March 31, 2021 and December 31, 2020, 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

March 31, 2021	Carrying	Fair Value Measurements Using		
(In Thousands)	Value	Level 1	Level 2	Level 3
Assets				
Residential loans	$ 4,701,800	$ —	$ —	$ 4,701,800
Business purpose loans	4,172,120	—	—	4,172,120
Multifamily loans	489,545	—	—	489,545
Real estate securities	364,320	—	—	364,320
Servicer advance investments	206,525	—	—	206,525
MSRs	7,945	—	—	7,945
Excess MSRs	32,465	—	—	32,465
Shared home appreciation options	45,823	—	—	45,823
Derivative assets	129,924	40,800	87,960	1,164
FHLBC stock	5,000	—	5,000	—
Liabilities				
Derivative liabilities	$ 73,178	$ 38,072	$ —	$ 35,106
ABS issued	6,475,472	—	—	6,475,472

December 31, 2020	Carrying	Fair Value Measurements Using		
(In Thousands)	Value	Level 1	Level 2	Level 3
Assets				
Residential loans	$ 4,249,014	$ —	$ —	$ 4,249,014
Business purpose loans	4,136,353	—	—	4,136,353
Multifamily loans	492,221	—	—	492,221
Real estate securities	344,125	—	—	344,125
Servicer advance investments	231,489	—	—	231,489
MSRs	8,815	—	—	8,815
Excess MSRs	34,418	—	—	34,418
Shared home appreciation options	42,440	—	—	42,440
Derivative assets	53,238	18,260	19,951	15,027
Pledged collateral	1,177	1,177	—	—
FHLBC stock	5,000	—	5,000	—
Liabilities				
Derivative liabilities	$ 16,072	$ 15,495	$ —	$ 577
ABS issued	6,900,362	—	—	6,900,362

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

The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2021.

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

	Assets								
(In Thousands)	**Residential Loans**	**Business Purpose Loans**	**Multifamily Loans**	**Trading Securities**	**AFS Securities**	**Servicer Advance Investments**	**MSRs**	**Excess MSRs**	**Shared Home Appreciation Options**
Beginning balance - December 31, 2020	$ 4,249,014	$ 4,136,353	$ 492,221	$ 125,667	$ 218,458	$ 231,489	$ 8,815	$ 34,418	$ 42,440
Acquisitions	3,146,682	—	—	22,429	1,078	—	—	—	—
Originations	—	386,327	—	—	—	—	—	—	—
Sales	(2,348,126)	(8,877)	—	(23,546)	(2,200)	—	—	—	—
Principal paydowns	(369,393)	(282,289)	(1,946)	(509)	(11,238)	(24,804)	—	—	(1,932)
Gains (losses) in net income (loss), net	24,898	(45,987)	(730)	21,349	4,596	(160)	(870)	(1,953)	5,315
Unrealized losses in OCI, net	—	—	—	—	8,236	—	—	—	—
Other settlements, net [(1)]	(1,275)	(13,407)	—	—	—	—	—	—	—
Ending balance - March 31, 2021	$ 4,701,800	$ 4,172,120	$ 489,545	$ 145,390	$ 218,930	$ 206,525	$ 7,945	$ 32,465	$ 45,823

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

		Liabilities
(In Thousands)	**Derivatives** [(2)]	**ABS Issued**
Beginning balance - December 31, 2020	$ 14,450	$ 6,900,362
Acquisitions	—	147,086
Principal paydowns	—	(494,234)
Gains (losses) in net income (loss), net	(52,761)	(77,742)
Other settlements, net [(1)]	4,369	—
Ending balance - March 31, 2021	$ (33,942)	$ 6,475,472

(1) Other settlements, net for residential and business purpose 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.

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

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

The following table presents the portion of gains or losses included in our consolidated statements of income (loss) that were attributable to Level 3 assets and liabilities recorded at fair value on a recurring basis and held at March 31, 2021 and 2020. Gains or losses incurred on assets or liabilities sold, matured, called, or fully written down during the three months ended March 31, 2021 and 2020 are not included in this presentation.

Table 5.4 – Portion of Net Gains (Losses) Attributable to Level 3 Assets and Liabilities Still Held at March 31, 2021 and 2020 Included in Net Income

	Included in Net Income	
	Three Months Ended March 31,	
(In Thousands)	2021	2020
Assets		
Residential loans at Redwood	$ (9,978)	$ (102,867)
Business purpose loans	5,104	(68,864)
Net investments in consolidated Sequoia entities [(1)]	4,201	(179,499)
Net investments in consolidated Freddie Mac SLST entities [(1)]	4,088	(193,035)
Net investments in consolidated Freddie Mac K-Series entity [(1)]	8,921	(10,351)
Net investments in consolidated CAFL entities [(1)]	370	(271,917)
Trading securities	490	(136,359)
Servicer advance investments	(160)	(6,062)
MSRs	756	(16,640)
Excess MSRs	(1,952)	(9,494)
Shared home appreciation options	5,315	(7,554)
Loan purchase and interest rate lock commitments	1,053	—
Liabilities		
Loan purchase commitments	$ (35,661)	$ (3,967)
Contingent consideration	—	(312)

(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 March 31, 2021 and 2020, which netted together represent the change in value of our investments at the consolidated VIEs, excluding REO.

The following table presents information on assets recorded at fair value on a non-recurring basis at March 31, 2021. 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 March 31, 2021.

Table 5.5 – Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis at March 31, 2021

March 31, 2021	Carrying	Fair Value Measurements Using			Gain (Loss) for Three Months Ended
(In Thousands)	Value	Level 1	Level 2	Level 3	March 31, 2021
Assets					
REO	$ 1,316	$ —	$ —	$ 1,316	$ (3)

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 months ended March 31, 2021 and 2020.

Table 5.6 – Market Valuation Gains and Losses, Net

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
Mortgage Banking Activities, Net		
Residential loans held-for-sale, at fair value	$ 23,112	$ (13,480)
Residential loan purchase and forward sale commitments	(52,385)	21,435
Single-family rental loans held-for-sale, at fair value	10,248	11,467
Single-family rental loan purchase and interest rate lock commitments	—	341
Bridge loans	1,044	(3,934)
Trading securities [(1)]	721	—
Risk management derivatives, net	92,822	(52,832)
Total mortgage banking activities, net [(2)]	$ 75,562	$ (37,003)
Investment Fair Value Changes, Net		
Residential loans at Redwood	$ 317	$ (93,636)
Single-family rental loans held-for-investment	—	(23,028)
Bridge loans held-for-investment	3,304	(38,602)
Trading securities	20,628	(263,325)
Servicer advance investments	(160)	(6,062)
Excess MSRs	(1,953)	(9,494)
Net investments in Legacy Sequoia entities [(3)]	(699)	(391)
Net investments in Sequoia Choice entities [(3)]	4,898	(69,669)
Net investments in Freddie Mac SLST entities [(3)]	4,117	(142,162)
Net investment in Freddie Mac K-Series entity [(3)]	8,921	(86,509)
Net investments in CAFL entities [(3)]	(286)	(67,846)
Shared home appreciation options	5,315	(7,554)
Other investments	310	(1,887)
Risk management derivatives, net	—	(59,142)
Credit recoveries (losses) on AFS securities	375	(1,525)
Total investment fair value changes, net	$ 45,087	$ (870,832)
Other Income		
MSRs	$ (866)	$ (18,608)
Risk management derivatives, net	—	13,966
Total other income [(4)]	$ (866)	$ (4,642)
Total Market Valuation Gains (Losses), Net	$ 119,783	$ (912,477)

(1) Represents fair value changes on trading securities that are being used along with risk management derivatives to manage the mark-to-market risks associated with our residential mortgage banking operations.

(2) Mortgage banking activities, net presented above does not include fee income from loan originations or acquisitions, provisions for repurchases 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.

(3) 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.

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

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

At March 31, 2021, 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, 2020. 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

March 31, 2021 (Dollars in Thousands, except Input Values)	Fair Value	Unobservable Input	Input Values: Range		Input Values: Weighted Average[1]
Assets					
Residential loans, at fair value:					
Jumbo fixed-rate loans	$ 422,819	Prepayment rate (annual CPR)	20 -	20 %	20 %
		Whole loan spread to TBA price	$ 3.75 -	$ 3.75	$ 3.75
		Whole loan spread to swap rate	250 -	250 bps	250 bps
Jumbo loans committed to sell	573,657	Whole loan committed sales price	$ 100.68 -	$ 103.28	$ 101.50
Loans held by Legacy Sequoia [2]	274,861	Liability price		N/A	N/A
Loans held by Sequoia Choice [2]	1,276,112	Liability price		N/A	N/A
Loans held by Freddie Mac SLST [2]	2,154,351	Liability price		N/A	N/A
Business purpose loans:					
Single-family rental loans	333,110	Senior credit spread	75 -	75 bps	75 bps
		Subordinate credit spread	120 -	1,598 bps	312 bps
		Senior credit support	33 -	33 %	33 %
		IO discount rate	7 -	10 %	8 %
		Prepayment rate (annual CPR)	3 -	3 %	3 %
		Non-securitizable loan dollar price	$ 86 -	$ 102	$ 99
Single-family rental loans held by CAFL	3,212,526	Liability price		N/A	N/A
Bridge loans	626,484	Discount rate	6 -	15 %	8 %
Multifamily loans held by Freddie Mac K-Series [2]	489,545	Liability price		N/A	N/A
Trading and AFS securities	364,320	Discount rate	3 -	27 %	8 %
		Prepayment rate (annual CPR)	7 -	65 %	28 %
		Default rate	— -	25 %	4 %
		Loss severity	— -	50 %	20 %
		CRT dollar price	$ 90 -	$ 112	$ 98
Servicer advance investments	206,525	Discount rate	3 -	3 %	3 %
		Prepayment rate (annual CPR)	20 -	30 %	20 %
		Expected remaining life [3]	4 -	4 years	4 years
		Mortgage servicing income	— -	14 bps	8 bps
MSRs	7,945	Discount rate	12 -	12 %	12 %
		Prepayment rate (annual CPR)	9 -	100 %	39 %
		Per loan annual cost to service	$ 97 -	$ 97	$ 97
Excess MSRs	32,465	Discount rate	14 -	17 %	16 %
		Prepayment rate (annual CPR)	20 -	28 %	23 %
		Excess mortgage servicing income	8 -	17 bps	11 bps

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

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

March 31, 2021			**Input Values**	
(Dollars in Thousands, except Input Values)	**Fair Value**	**Unobservable Input**	**Range**	**Weighted Average** (1)
Assets (continued)				
Shared home appreciation options	$ 45,823	Discount rate	13 - 13 %	13 %
		Prepayment rate (annual CPR)	14 - 24 %	17 %
		Home price appreciation	3 - 4 %	3 %
REO	1,316	Loss severity	4 - 53 %%	25 %
Liabilities				
Residential loan purchase commitments, net	33,942	Committed sales price	$ 98.53 - $ 102.15	$ 100.13
		Pull-through rate	22 - 100 %	76 %
		Whole loan spread to TBA price	$ 3.75 - $ 3.75	$ 3.75
		Whole loan spread to swap rate	250 - 250 bps	250 bps
		Prepayment rate (annual CPR)	20 - 20 %	20 %
		MSR multiple	— - 3.8 x	2.8 x
ABS issued (2):				
At consolidated Sequoia entities	1,325,920	Discount rate	1 - 19 %	3 %
		Prepayment rate (annual CPR)	8 - 54 %	31 %
		Default rate	— - 31 %	2 %
		Loss severity	30 - 50 %	32 %
At consolidated Freddie Mac SLST entities	1,725,235	Discount rate	1 - 7 %	3 %
		Prepayment rate (annual CPR)	6 - 8 %	6 %
		Default rate	6 - 12 %	8 %
		Loss severity	35 - 35 %	35 %
At consolidated Freddie Mac K-Series entities (4)	460,565	Discount rate	1 - 10 %	2 %
At consolidated CAFL entities (4)	2,963,752	Discount rate	1 - 20 %	3 %
		Prepayment rate (annual CPR)	3 - 3 %	3 %
		Default rate	3 - 17 %	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 March 31, 2021, the fair value of securities we owned at the consolidated Sequoia, Freddie Mac SLST, Freddie Mac K-Series, and CAFL entities was $226 million, $431 million, $29 million, and $261 million, respectively.

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

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

Determination of Fair Value

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

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, 2020 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 March 31, 2021 and December 31, 2020.

Table 6.1 – Classifications and Carrying Values of Residential Loans

March 31, 2021 (In Thousands)	Redwood	Legacy Sequoia	Sequoia Choice	Freddie Mac SLST	Total
Held-for-sale at fair value	$ 996,512	$ —	$ —	$ —	$ 996,512
Held-for-investment at fair value	—	274,861	1,276,112	2,154,351	3,705,324
Total Residential Loans	$ 996,512	$ 274,861	$ 1,276,112	$ 2,154,351	$ 4,701,836

December 31, 2020 (In Thousands)	Redwood	Legacy Sequoia	Sequoia Choice	Freddie Mac SLST	Total
Held-for-sale at fair value	$ 176,641	$ —	$ —	$ —	$ 176,641
Held-for-investment at fair value	—	285,935	1,565,322	2,221,153	4,072,410
Total Residential Loans	$ 176,641	$ 285,935	$ 1,565,322	$ 2,221,153	$ 4,249,051

At March 31, 2021, we owned mortgage servicing rights associated with $977 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 March 31, 2021 and December 31, 2020.

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

(Dollars in Thousands)	March 31, 2021	December 31, 2020
Number of loans	1,115	198
Unpaid principal balance	$ 990,841	$ 172,748
Fair value of loans	$ 996,512	$ 176,641
Market value of loans pledged as collateral under short-term borrowing agreements	$ 926,076	$ 156,355
Delinquency information		
Number of loans with 90+ day delinquencies	1	1
Unpaid principal balance of loans with 90+ day delinquencies	$ 1,882	$ 1,882
Fair value of loans with 90+ day delinquencies	$ 1,223	$ 1,223
Number of loans in foreclosure	—	—

Note 6. Residential Loans - (continued)

The following table provides the activity of residential loans held-for-sale during the three months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
Principal balance of loans acquired	$ 3,096,048	$ 2,629,908
Principal balance of loans sold	2,275,832	2,656,719
Net market valuation gains (losses) recorded[1]	23,429	(13,480)

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

Residential Loans Held-for-Investment at Fair Value

We invest in residential subordinate securities issued by Legacy Sequoia, Sequoia Choice and Freddie Mac SLST securitization trusts and consolidate the underlying residential loans owned by these entities for financial reporting purposes in accordance with GAAP. The following tables summarize the characteristics of the residential loans owned at consolidated Sequoia and Freddie Mac SLST entities at March 31, 2021 and December 31, 2020.

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

March 31, 2021 **(Dollars in Thousands)**	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**
Number of loans	1,814	1,780	13,294
Unpaid principal balance	$ 314,243	$ 1,264,645	$ 2,184,111
Fair value of loans	$ 274,861	$ 1,276,112	$ 2,154,351
<u>Delinquency information</u>			
Number of loans with 90+ day delinquencies[1]	46	68	1,982
Unpaid principal balance of loans with 90+ day delinquencies	$ 15,831	$ 54,546	$ 362,785
Fair value of loans with 90+ day delinquencies[2]	N/A	N/A	N/A
Number of loans in foreclosure	17	3	251
Unpaid principal balance of loans in foreclosure	$ 4,214	$ 2,248	$ 41,044

Note 6. Residential Loans - (continued)

December 31, 2020 **(Dollars in Thousands)**	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**
Number of loans	1,908	2,177	13,605
Unpaid principal balance	$ 333,474	$ 1,550,454	$ 2,247,771
Fair value of loans	$ 285,935	$ 1,565,322	$ 2,221,153
Delinquency information			
Number of loans with 90+ day delinquencies (1)	52	94	2,110
Unpaid principal balance of loans with 90+ day delinquencies	$ 17,285	$ 74,742	$ 389,245
Fair value of loans with 90+ day delinquencies (2)	N/A	N/A	N/A
Number of loans in foreclosure	21	3	245
Unpaid principal balance of loans in foreclosure	$ 4,939	$ 2,251	$ 38,610

(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.

The following table provides the activity of residential loans held-for-investment at Redwood during the three months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
Fair value of loans transferred from HFS to HFI	$ —	$ 13,258
Fair value of loans transferred from HFI to HFS	—	1,870,986
Net market valuation gains (losses) recorded (1)	—	(93,636)

(1) Subsequent to the transfer of these loans to our investment portfolio, 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 months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31, 2021			**Three Months Ended March 31, 2020**		
(In Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST**
Net market valuation gains (losses) recorded (1)	$ 7,613	$ (2,578)	$ (3,566)	$ (69,014)	$ (110,485)	$ (193,020)

(1) 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 Table 4.2.

Note 7. Business Purpose Loans

We originate and invest in business purpose loans, including single-family rental ("SFR") loans and bridge loans.The following table summarizes the classifications and carrying values of the business purpose loans owned at Redwood and at consolidated CAFL entities at March 31, 2021 and December 31, 2020.

Table 7.1 – Classifications and Carrying Values of Business Purpose Loans

March 31, 2021	**Single-Family Rental**		**Residential**	
(In Thousands)	**Redwood**	**CAFL**	**Bridge**	**Total**
Held-for-sale at fair value	$ 333,110	—	$ —	$ 333,110
Held-for-investment at fair value	—	3,212,526	626,484	3,839,010
Total Business Purpose Loans	$ 333,110	$ 3,212,526	$ 626,484	$ 4,172,120

December 31, 2020	**Single-Family Rental**		**Residential**	
(In Thousands)	**Redwood**	**CAFL**	**Bridge**	**Total**
Held-for-sale at fair value	$ 245,394	$ —	$ —	$ 245,394
Held-for-investment at fair value	—	3,249,194	641,765	3,890,959
Total Business Purpose Loans	$ 245,394	$ 3,249,194	$ 641,765	$ 4,136,353

The following table provides the activity of business purpose loans at Redwood during the three months ended March 31, 2021 and 2020.

Table 7.2 – Activity of Business Purpose Loans at Redwood

	Three Months Ended March 31, 2021		**Three Months Ended March 31, 2020**	
(Dollars in Thousands)	**SFR at Redwood**	**Bridge**	**SFR at Redwood**	**Bridge**
Principal balance of loans originated	$ 253,098	$ 133,229	$ 260,129	$ 227,368
Principal balance of loans sold to third parties	—	8,877	26,148	20,735
Fair value of loans transferred from HFS to HFI (1)	169,404	N/A	378,109	N/A
Mortgage banking activities income (loss) recorded (2)	10,248	542	10,330	(164)
Investment fair value changes recorded (3)	—	3,304	(23,028)	(38,602)

(1) During the three months ended March 31, 2021 and 2020, we transferred $169 million and $378 million of single-family rental loans, respectively, from held-for-sale to held-for-investment associated with one and one CAFL securitizations, respectively.

(2) Represents origination fees and net market valuation changes from the time a loan is originated to when it is sold or transferred to our investment portfolio. For the three months ended March 31, 2021 and 2020, we recorded loan origination fee income of $6 million and $8 million, respectively, through Mortgage banking activities, net on our consolidated statements of income (loss).

(3) Represents net market valuation changes for loans classified as held-for-investment.

Bridge Loans Held-for-Investment

The outstanding bridge loans held-for-investment at March 31, 2021 were first lien, interest-only loans with original maturities of six to 24 months and were comprised of 58% one-month LIBOR-indexed adjustable-rate loans and 42% fixed-rate loans. During the three months ended March 31, 2021, we transferred two loans with a fair value of $1 million to REO, which is included in Other assets on our consolidated balance sheets. At March 31, 2021, we had a $283 million commitment to fund bridge loans. See *Note 16* for additional information on this commitment.

Note 7. Business Purpose Loans - (continued)

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

We invest in securities issued by CAFL securitizations sponsored by CoreVest and consolidate the underlying single-family rental loans owned by these entities. The outstanding single-family rental loans held-for-investment at CAFL at March 31, 2021 were first-lien, fixed-rate loans with original maturities of five, seven, or ten years. The following table provides the activity of single-family rental loans held-for-investment at CAFL during the threes ended March 31, 2021 and 2020.

Table 7.3 – Activity of Single-Family Rental Loans Held-for-Investment at CAFL

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
Net market valuation gains (losses) recorded [1]	$ (60,901)	$ (271,917)

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

Business Purpose Loan Characteristics

The following tables summarize the characteristics of the business purpose loans owned at Redwood and at consolidated CAFL entities at March 31, 2021 and December 31, 2020.

Table 7.4 – Characteristics of Business Purpose Loans

March 31, 2021 **(Dollars in Thousands)**	**Single-Family Rental at Redwood**	**Single-Family Rental at CAFL**	**Bridge**
Number of loans	77	1,120	2,097
Unpaid principal balance	$ 322,181	$ 3,029,498	$ 629,934
Fair value of loans	$ 333,110	$ 3,212,526	$ 626,484
Weighted average coupon	4.84 %	5.41 %	7.93 %
Weighted average remaining loan term (years)	7	5	1
Market value of loans pledged as collateral under short-term debt facilities	$ 74,733	N/A	$ 90,096
Market value of loans pledged as collateral under long-term debt facilities	$ 228,125	N/A	$ 522,050
Delinquency information			
Number of loans with 90+ day delinquencies [1]	9	21	31
Unpaid principal balance of loans with 90+ day delinquencies	$ 6,883	$ 57,985	$ 17,850
Fair value of loans with 90+ day delinquencies [2]	$ 5,676	N/A	$ 14,556
Number of loans in foreclosure	7	11	57
Unpaid principal balance of loans in foreclosure	$ 5,976	$ 21,234	$ 20,424
Fair value of loans in foreclosure [2]	$ 4,808	N/A	$ 17,183

Note 7. Business Purpose Loans - (continued)

December 31, 2020

(Dollars in Thousands)	Single-Family Rental at Redwood	Single-Family Rental at CAFL	Bridge
Number of loans	65	1,094	1,725
Unpaid principal balance	$ 234,475	$ 3,017,137	$ 649,532
Fair value of loans	$ 245,394	$ 3,249,194	$ 641,765
Weighted average coupon	4.84 %	5.44 %	8.09 %
Weighted average remaining loan term (years)	8	5	1
Market value of loans pledged as collateral under short-term debt facilities	$ 34,098	N/A	$ 92,931
Market value of loans pledged as collateral under long-term debt facilities	$ 154,774	N/A	$ 544,151
Delinquency information			
Number of loans with 90+ day delinquencies (1)	10	22	31
Unpaid principal balance of loans with 90+ day delinquencies	$ 7,127	$ 61,440	$ 39,415
Fair value of loans with 90+ day delinquencies (2)	$ 6,143	N/A	$ 33,605
Number of loans in foreclosure	—	10	25
Unpaid principal balance of loans in foreclosure	$ —	$ 24,745	$ 38,552
Fair value of loans in foreclosure (2)	$ —	N/A	$ 33,066

(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.

Note 8. Multifamily Loans

We invest in multifamily subordinate securities issued by a Freddie Mac K-Series securitization trust and consolidate the underlying multifamily loans owned by this entity for financial reporting purposes in accordance with GAAP. The following table summarizes the characteristics of the multifamily loans consolidated at Redwood at March 31, 2021 and December 31, 2020.

Table 8.1 – Characteristics of Multifamily Loans

(Dollars in Thousands)	March 31, 2021	December 31, 2020
Number of loans	28	28
Unpaid principal balance	$ 460,861	$ 462,808
Fair value of loans	$ 489,545	$ 492,221
Weighted average coupon	4.25 %	4.25 %
Weighted average remaining loan term (years)	5	5
Delinquency information		
Number of loans with 90+ day delinquencies	—	—
Number of loans in foreclosure	—	—

Note 8. Multifamily Loans - (continued)

The outstanding multifamily loans held-for-investment at the consolidated Freddie Mac K-Series entity at March 31, 2021 were first-lien, fixed-rate loans that were originated in 2015. The following table provides the activity of multifamily loans held-for-investment during the three months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
Net market valuation gains (losses) recorded (1)	$ (730)	$ (82,431)

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

Note 9. Real Estate Securities

We invest in real estate securities that we create and retain from our Sequoia securitizations or acquire from third parties.The following table presents the fair values of our real estate securities by type at March 31, 2021 and December 31, 2020.

Table 9.1 – Fair Values of Real Estate Securities by Type

(In Thousands)	**March 31, 2021**	**December 31, 2020**
Trading	$ 145,390	$ 125,667
Available-for-sale	218,930	218,458
Total Real Estate Securities	$ 364,320	$ 344,125

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

ote 9. Real Estate Securities - (continued)

Trading Securities

We elected the fair value option for certain securities and classify them as trading securities. Our trading securities include both residential and multifamily mortgage-backed securities, and our residential securities also include securities backed by re-performing loans ("RPL"). The following table presents the fair value of trading securities by position and collateral type at March 31, 2021 and December 31, 2020.

Table 9.2 – Fair Value of Trading Securities by Position

(In Thousands)	March 31, 2021	December 31, 2020
Senior		
Interest-only securities [1]	$ 31,580	$ 28,464
Total Senior	31,580	28,464
Mezzanine		
Sequoia securities	—	3,649
Total Mezzanine	—	3,649
Subordinate		
RPL securities	59,958	47,448
Multifamily securities	9,437	5,592
Other third-party residential securities	44,415	40,514
Total Subordinate	113,810	93,554
Total Trading Securities	$ 145,390	$ 125,667

(1) Includes $18 million and $13 million of Sequoia certificated mortgage servicing rights at March 31, 2021 and December 31, 2020, respectively.

The following table presents the unpaid principal balance of trading securities by position and collateral type at March 31, 2021 and December 31, 2020.

Table 9.3 – Unpaid Principal Balance of Trading Securities by Position

(In Thousands)	March 31, 2021	December 31, 2020
Senior [1]	$ —	$ —
Mezzanine	—	3,577
Subordinate	225,762	242,278
Total Trading Securities	$ 225,762	$ 245,855

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

The following table provides the activity of trading securities during the three months ended March 31, 2021 and 2020.

Table 9.4 – Trading Securities Activity

	Three Months Ended March 31,	
(In Thousands)	2021	2020
Principal balance of securities acquired	$ 15,880	$ 56,471
Principal balance of securities sold	34,743	618,867
Net market valuation gains (losses) recorded[1]	21,349	(263,325)

(1) Net market valuation gains (losses) on trading securities are recorded through Investment fair value changes, net and Mortgage banking activities, net on our consolidated statements of income (loss).

ote 9. Real Estate Securities - (continued)

AFS Securities

The following table presents the fair value of our available-for-sale securities by position and collateral type at March 31, 2021 and December 31, 2020.

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

(In Thousands)	March 31, 2021	December 31, 2020
Mezzanine		
Other third-party residential securities	$ —	$ 2,014
Total Mezzanine	—	2,014
Subordinate		
Sequoia securities	141,632	136,475
Multifamily securities	38,647	43,663
Other third-party residential securities	38,651	36,306
Total Subordinate	218,930	216,444
Total AFS Securities	$ 218,930	$ 218,458

The following table provides the activity of available-for-sale securities during the three months ended March 31, 2021 and 2020.

Table 9.6 – Available-for-Sale Securities Activity

	Three Months Ended March 31,	
(In Thousands)	2021	2020
Fair value of securities acquired	$ 1,078	$ 31,181
Fair value of securities sold	2,200	46,457
Net realized gains recorded	200	3,852

During the three months ended March 31, 2021, we called one of our unconsolidated Sequoia entities, and purchased $19 million (unpaid principal balance) of loans from the securitization trust. In association with this call, we realized a $2 million gain on the securities we owned from this securitization, which was recognized through Realized gains, net on our consolidated statements of income.

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 March 31, 2021, we had $35 million of AFS securities with contractual maturities less than five years, $4 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.

ote 9. Real Estate Securities - (continued)

The following table presents the components of carrying value (which equals fair value) of AFS securities at March 31, 2021 and December 31, 2020.

Table 9.7 – Carrying Value of AFS Securities

March 31, 2021 (In Thousands)	Mezzanine	Subordinate	Total
Principal balance	$ —	$ 273,595	$ 273,595
Credit reserve	—	(44,947)	(44,947)
Unamortized discount, net	—	(94,188)	(94,188)
Amortized cost	—	134,460	134,460
Gross unrealized gains	—	84,735	84,735
Gross unrealized losses	—	(252)	(252)
CECL allowance	—	(13)	(13)
Carrying Value	$ —	$ 218,930	$ 218,930

December 31, 2020 (In Thousands)	Mezzanine	Subordinate	Total
Principal balance	$ 2,000	$ 281,284	$ 283,284
Credit reserve	—	(44,967)	(44,967)
Unamortized discount, net	—	(95,718)	(95,718)
Amortized cost	2,000	140,599	142,599
Gross unrealized gains	14	77,280	77,294
Gross unrealized losses	—	(1,047)	(1,047)
CECL allowance	—	(388)	(388)
Carrying Value	$ 2,014	$ 216,444	$ 218,458

The following table presents the changes for the three months ended March 31, 2021, in unamortized discount and designated credit reserves on residential AFS securities.

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

	Three Months Ended March 31, 2021	
(In Thousands)	Credit Reserve	Unamortized Discount, Net
Beginning balance	$ 44,967	$ 95,718
Amortization of net discount	—	(1,614)
Realized credit losses	(137)	—
Acquisitions	1,935	840
Sales, calls, other	(274)	(2,300)
Transfers to (release of) credit reserves, net	(1,544)	1,544
Ending Balance	$ 44,947	$ 94,188

ote 9. Real Estate Securities - (continued)

AFS Securities with Unrealized Losses

The following table presents the components comprising the total carrying value of residential AFS securities that were in a gross unrealized loss position at March 31, 2021 and December 31, 2020.

Table 9.9 – Components of Fair Value of AFS Securities by Holding Periods

	Less Than 12 Consecutive Months			12 Consecutive Months or Longer		
(In Thousands)	**Amortized Cost**	**Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Unrealized Losses**	**Fair Value**
March 31, 2021	$ 490	$ (2)	$ 488	$ 6,421	$ (250)	$ 6,158
December 31, 2020	9,129	(1,047)	7,920	—	—	—

At March 31, 2021, after giving effect to purchases, sales, and extinguishment due to credit losses, our consolidated balance sheet included 93 AFS securities, of which four were in an unrealized loss position and three were in a continuous unrealized loss position for 12 consecutive months or longer. At December 31, 2020, our consolidated balance sheet included 96 AFS securities, of which five were in an unrealized loss position and zero were 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 $0.3 million at March 31, 2021. 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 March 31, 2021, 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 March 31, 2021, our current expected credit loss ("CECL") allowance related to our AFS securities was $13 thousand. 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 March 31, 2021.

Table 9.10 – Significant Credit Quality Indicators

March 31, 2021	**Subordinate Securities**
Default rate	0.7%
Loss severity	24%

ote 9. Real Estate Securities - (continued)

The following table details the activity related to the allowance for credit losses for AFS securities for the three months ended March 31, 2021.

Table 9.11 – Rollforward of Allowance for Credit Losses

(In Thousands)	Three Months Ended March 31, 2021	
Beginning balance allowance for credit losses	$	388
Additions to allowance for credit losses on securities for which credit losses were not previously recorded		—
Additional increases (decreases) to the allowance for credit losses on securities that had an allowance recorded in a previous period		(375)
Allowance on purchased financial assets with credit deterioration		—
Reduction to allowance for securities sold during the period		—
Reduction to allowance for securities we intend to sell or more likely than not will be required to sell		—
Write-offs charged against allowance		—
Recoveries of amounts previously written off		—
Ending balance of allowance for credit losses	$	13

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 months ended March 31, 2021 and 2020.

Table 9.12 – Gross Realized Gains and Losses on AFS Securities

	Three Months Ended March 31,			
(In Thousands)	2021		2020	
Gross realized gains - sales	$	200	$	7,705
Gross realized gains - calls		2,408		—
Gross realized losses - sales		—		(3,853)
Total Realized Gains on Sales and Calls of AFS Securities, net	$	2,608	$	3,852

Note 10. Other Investments

Other investments at March 31, 2021 and December 31, 2020 are summarized in the following table.

Table 10.1 – Components of Other Investments

(In Thousands)	March 31, 2021		December 31, 2020	
Servicer advance investments	$	206,525	$	231,489
Shared home appreciation options		45,823		42,440
Excess MSRs		32,465		34,418
Mortgage servicing rights		7,945		8,815
Other		29,821		31,013
Total Other Investments	$	322,579	$	348,175

Note 10. Other Investments - (continued)

Servicer advance investments

We and a third-party co-investor, through two partnerships ("SA Buyers") consolidated by us, purchased the outstanding servicer advances and excess MSRs related to a portfolio of legacy residential mortgage-backed securitizations serviced by the co-investor (Refer to our Annual Report on Form 10-K for the year ended December 31, 2020 for additional information regarding the transactions). At March 31, 2021, we had funded $94 million of total capital to the SA Buyers (see *Note 16* for additional detail).

At March 31, 2021, our servicer advance investments had a carrying value of $207 million and were associated with a portfolio of residential mortgage loans with an unpaid principal balance of $8.60 billion. The outstanding servicer advance receivables associated with this investment were $193 million at March 31, 2021, 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 March 31, 2021 and December 31, 2020.

Table 10.2 – Components of Servicer Advance Receivables

(In Thousands)	**March 31, 2021**	**December 31, 2020**
Principal and interest advances	$ 92,628	$ 110,923
Escrow advances (taxes and insurance advances)	74,970	79,279
Corporate advances	25,254	27,454
Total Servicer Advance Receivables	$ 192,852	$ 217,656

We account for our servicer advance investments at fair value and during the three months ended March 31, 2021 and 2020, we recorded $3 million of interest income associated with these investments for each of these periods, and recorded net market valuation losses of $0.2 million and $6 million, respectively, through Investment fair value changes, net in our consolidated statements of income (loss).

Shared Home Appreciation Options

In 2019, we entered into a flow purchase agreement to acquire shared home appreciation options. At March 31, 2021, we had acquired $47 million of shared home appreciation options under this flow purchase agreement. We account for these investments under the fair value option and during the three months ended March 31, 2021 and 2020, we recorded a net market valuation gain of $5 million and a net market valuation loss of $8 million, respectively, related to these assets through Investment fair value changes, net on our consolidated statements of income (loss).

Excess MSRs

In association with our servicer advance investments described above, we (through our consolidated SA Buyers) invested in excess MSRs associated with the same portfolio of legacy residential mortgage-backed securitizations. Additionally, we own excess MSRs associated with specified pools of multifamily loans. We account for our excess MSRs at fair value and during the three months ended March 31, 2021 and 2020, we recognized $3 million of interest income for each of these periods through Other interest income, and recorded net market valuation losses of $2 million and $9 million, respectively, through Investment fair value changes, net on our consolidated statements of income (loss).

Mortgage Servicing Rights

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

Note 10. Other Investments - (continued)

At March 31, 2021 and December 31, 2020, our MSRs had a fair value of $8 million and $9 million, respectively, and were associated with loans with an aggregate principal balance of $2.07 billion and $2.59 billion, respectively. During the three months ended March 31, 2021 and 2020, including net market valuation gains and losses on our MSRs and related risk management derivatives, we recorded net income of $1 million and a net loss of $2 million, respectively, through Other income on our consolidated statements of income (loss).

Note 11. Derivative Financial Instruments

The following table presents the fair value and notional amount of our derivative financial instruments at March 31, 2021 and December 31, 2020.

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

	March 31, 2021		December 31, 2020	
(In Thousands)	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**
Assets - Risk Management Derivatives				
Interest rate swaps	$ 4,350	$ 163,000	$ 224	$ 42,000
TBAs	40,800	3,350,000	18,260	3,520,000
Swaptions	83,610	3,825,000	19,727	1,585,000
Assets - Other Derivatives				
Loan purchase and interest rate lock commitments	1,164	223,783	15,027	2,617,254
Total Assets	$ 129,924	$ 7,561,783	$ 53,238	$ 7,764,254
Liabilities - Risk Management Derivatives				
Interest rate swaps	$ —	$ 4,000	$ —	$ —
TBAs	(35,621)	1,860,000	(15,495)	3,105,000
Interest rate futures	(2,451)	195,000	—	—
Liabilities - Other Derivatives				
Loan purchase commitments	(35,106)	3,073,102	(577)	477,153
Total Liabilities	$ (73,178)	$ 5,132,102	$ (16,072)	$ 3,582,153
Total Derivative Financial Instruments, Net	$ 56,746	$ 12,693,885	$ 37,166	$ 11,346,407

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 March 31, 2021, we were party to swaps and swaptions with an aggregate notional amount of $3.99 billion, TBA agreements with an aggregate notional amount of $5.21 billion, and interest rate futures contracts with an aggregate notional amount of $195 million. At December 31, 2020, we were party to swaps and swaptions with an aggregate notional amount of $1.63 billion and TBA agreements with an aggregate notional amount of $6.63 billion.

During the three months ended March 31, 2021 and 2020, risk management derivatives had a net market valuation gain of $93 million and a net market valuation loss of $98 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).

ote 11. Derivative Financial Instruments - (continued)

Loan Purchase and Interest Rate Lock Commitments

LPCs and IRLCs that qualify as derivatives are recorded at their estimated fair values. For the three months ended March 31, 2021 and 2020, LPCs and IRLCs had a net market valuation loss of $52 million and a net market valuation gain of $22 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 $80 million and $81 million at March 31, 2021 and December 31, 2020, respectively. We are amortizing this loss into interest expense over the remaining term of the debt they were originally hedging. As of March 31, 2021, 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 months ended March 31, 2021 and 2020, changes in the values of designated cash flow hedges werezero and negative $33 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 months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
Net interest expense on cash flows hedges	$ —	$ (860)
Realized net losses reclassified from other comprehensive income	(1,018)	(79)
Total Interest Expense	$ (1,018)	$ (939)

Derivative Counterparty Credit Risk

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2020, we consider counterparty risk as part of our fair value assessments of all derivative financial instruments at each quarter-end. At March 31, 2021, we assessed this risk as remote and did not record an associated specific valuation adjustment.

At March 31, 2021, we were in compliance with our derivative counterparty ISDA agreements.

Note 12. Other Assets and Liabilities

Other assets at March 31, 2021 and December 31, 2020 are summarized in the following table.

Table 12.1 – Components of Other Assets

(In Thousands)	March 31, 2021	December 31, 2020
Accrued interest receivable	$ 40,097	$ 39,445
Investment receivable	37,102	43,176
Margin receivable	16,283	4,758
REO	15,829	8,413
Operating lease right-of-use assets	14,227	15,012
Fixed assets and leasehold improvements (1)	5,153	4,203
FHLBC stock	5,000	5,000
Pledged collateral	—	1,177
Other	8,047	9,404
Total Other Assets	$ 141,738	$ 130,588

(1) Fixed assets and leasehold improvements had a basis of $12 million and accumulated depreciation of $7 million at March 31, 2021.

Accrued expenses and other liabilities at March 31, 2021 and December 31, 2020 are summarized in the following table.

Table 12.2 – Components of Accrued Expenses and Other Liabilities

(In Thousands)	March 31, 2021	December 31, 2020
Margin payable	$ 84,306	$ 14,728
Accrued interest payable	32,167	34,858
Accrued compensation	27,941	24,393
Accrued income taxes payable	17,174	5,614
Payable to minority partner	16,222	16,941
Operating lease liabilities	15,885	16,687
Current accounts payable	15,712	6,455
Guarantee obligations	9,238	10,039
Residential loan and MSR repurchase reserve	8,731	8,631
Bridge loan holdbacks	5,443	5,708
Accrued operating expenses	4,222	5,509
Deferred consideration	—	14,579
Other	7,233	15,198
Total Accrued Expenses and Other Liabilities	$ 244,274	$ 179,340

Deferred Consideration

The deferred consideration presented in the table above is related to our acquisition of 5 Arches in 2019. During the three months ended March 31, 2021, we distributed 806,068 shares of Redwood common stock and paid $1 million in cash in full settlement of the remaining deferred consideration associated with this acquisition.

ote 12. Other Assets and Liabilities - (continued)

REO

The following table summarizes the activity and carrying values of REO assets held at Redwood and at consolidated Legacy Sequoia, Freddie Mac SLST, and CAFL entities during the three months ended March 31, 2021.

Table 12.3 – REO Activity

	Three Months Ended March 31, 2021				
(In Thousands)	**Redwood Bridge**	**Legacy Sequoia**	**Freddie Mac SLST**	**CAFL**	**Total**
Balance at beginning of period	$ 4,600	$ 638	$ 646	$ 2,529	$ 8,413
Transfers to REO	1,483	—	1,276	11,924	14,683
Liquidations [(1)]	(4,880)	(40)	(91)	(1,909)	(6,920)
Changes in fair value, net	282	(2)	28	(655)	(347)
Balance at End of Period	$ 1,485	$ 596	$ 1,859	$ 11,889	$ 15,829

(1) For the three months ended March 31, 2021, REO liquidations resulted in $0.3 million of realized losses, which were recorded in Investment fair value changes, net on our consolidated statements of income (loss).

The following table provides the detail of REO assets at Redwood and at consolidated Legacy Sequoia, Freddie Mac SLST, and CAFL entities at March 31, 2021 and December 31, 2020.

Table 12.4 – REO Assets

Number of REO assets	**Redwood Bridge**	**Legacy Sequoia**	**Freddie Mac SLST**	**CAFL**	**Total**
At March 31, 2021	2	2	20	2	26
At December 31, 2020	3	3	9	2	17

Refer to our Annual Report on Form 10-K for the year ended December 31, 2020 for additional descriptions of our other assets and liabilities.

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 major investment banking firms. At March 31, 2021, 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 March 31, 2021 and December 31, 2020.

Table 13.1 – Short-Term Debt

	March 31, 2021					
(Dollars in Thousands)	**Number of Facilities**	**Outstanding Balance**	**Limit**	**Weighted Average Interest Rate**	**Maturity**	**Weighted Average Days Until Maturity**
Facilities						
Residential loan warehouse [1]	5	$ 839,224	$ 1,600,000	2.15 %	8/2021-3/2022	268
Business purpose loan warehouse [2]	2	140,916	500,000	3.54 %	5/2022-6/2022	436
Real estate securities repo [1]	3	81,670	—	1.72 %	4/2021-6/2021	35
Total Short-Term Debt Facilities	10	1,061,810				
Servicer advance financing	1	192,072	335,000	1.91 %	11/2021	244
Total Short-Term Debt		$ 1,253,882				

	December 31, 2020					
(Dollars in Thousands)	**Number of Facilities**	**Outstanding Balance**	**Limit**	**Weighted Average Interest Rate**	**Maturity**	**Weighted Average Days Until Maturity**
Facilities						
Residential loan warehouse [1]	4	$ 137,269	$ 1,300,000	2.45 %	1/2021-11/2021	268
Business purpose loan warehouse [2]	2	99,190	500,000	3.37 %	5/2022-6/2022	521
Real estate securities repo [1]	3	77,775	—	2.24 %	1/2021-3/2021	36
Total Short-Term Debt Facilities	9	314,234				
Servicer advance financing	1	208,375	335,000	1.95 %	11/2021	334
Total Short-Term Debt		$ 522,609				

(1) Borrowings under our facilities are generally charged interest based on a specified margin over the one-month LIBOR interest rate. At March 31, 2021 and December 31, 2020, 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 March 31, 2021. 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 at March 31, 2021 and December 31, 2020.

Table 13.2 – Collateral for Short-Term Debt

(In Thousands)	**March 31, 2021**	**December 31, 2020**
Collateral Type		
Held-for-sale residential loans	$ 926,076	$ 156,355
Business purpose loans	164,829	127,029
Real estate securities		
On balance sheet	16,611	23,193
Sequoia Choice securitizations (1)	63,194	63,105
Freddie Mac K-Series securitization (1)	28,979	28,255
Total real estate securities owned	108,784	114,553
Restricted cash and other assets	17,381	315
Total Collateral for Short-Term Debt Facilities	1,217,070	398,252
Cash	10,698	9,978
Restricted cash	29,518	23,220
Servicer advances	192,852	217,656
Total Collateral for Servicer Advance Financing	233,068	250,854
Total Collateral for Short-Term Debt	$ 1,450,138	$ 649,106

(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 months ended March 31, 2021 and 2020, the average balances of our short-term debt facilities were $988 million and $1.74 billion, respectively. At both March 31, 2021 and December 31, 2020, accrued interest payable on our short-term debt facilities was $1 million.

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 March 31, 2021, the accrued interest payable balance on this financing was $0.1 million and the unamortized capitalized commitment costs were $1 million.

We also maintain a $10 million committed line of credit with a financial institution that is secured by certain mortgage-backed securities with a fair market value of $2 million at March 31, 2021. At both March 31, 2021 and December 31, 2020, we had no outstanding borrowings on this facility.

ote 13. Short-Term Debt - (continued)

Remaining Maturities of Short-Term Debt

The following table presents the remaining maturities of our secured short-term debt by the type of collateral securing the debt at March 31, 2021.

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

	March 31, 2021			
(In Thousands)	**Within 30 days**	**31 to 90 days**	**Over 90 days**	**Total**
Collateral Type				
Held-for-sale residential loans	$ —	$ —	$ 839,224	$ 839,224
Business purpose loans	—	—	140,916	140,916
Real estate securities	44,391	37,279	—	81,670
Total Secured Short-Term Debt	44,391	37,279	980,140	1,061,810
Servicer advance financing	—	—	192,072	192,072
Total Short-Term Debt	$ 44,391	$ 37,279	$ 1,172,212	$ 1,253,882

Note 14. Asset-Backed Securities Issued

The carrying values of ABS issued by our consolidated securitization entities at March 31, 2021 and December 31, 2020, along with other selected information, are summarized in the following table.

Table 14.1 – Asset-Backed Securities Issued

March 31, 2021 (Dollars in Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST (1)**	**Freddie Mac K-Series**	**CAFL**	**Total**
Certificates with principal balance	$ 309,916	$ 1,024,081	$ 1,800,808	$ 424,393	$ 2,728,355	$ 6,287,553
Interest-only certificates	819	2,274	22,962	12,326	153,420	191,801
Market valuation adjustments	(38,820)	27,650	97,670	23,846	81,977	192,323
ABS Issued, Net	$ 271,915	$ 1,054,005	$ 1,921,440	$ 460,565	$ 2,963,752	$ 6,671,677
Range of weighted average interest rates, by series	0.32% to 1.47%	2.28% to 5.06%	3.50% to 4.75%	3.41 %	2.63% to 5.56%	
Stated maturities	2024 - 2036	2047 - 2050	2028 - 2059	2025	2022 - 2052	
Number of series	20	10	3	1	14	

December 31, 2020 (Dollars in Thousands)	**Legacy Sequoia**	**Sequoia Choice**	**Freddie Mac SLST (1)**	**Freddie Mac K-Series**	**CAFL**	**Total**
Certificates with principal balance	$ 329,039	$ 1,309,957	$ 1,866,145	$ 416,339	$ 2,716,425	$ 6,637,905
Interest-only certificates	1,092	4,591	23,335	13,026	162,934	204,978
Market valuation adjustments	(47,805)	32,809	104,439	34,601	133,734	257,778
ABS Issued, Net	$ 282,326	$ 1,347,357	$ 1,993,919	$ 463,966	$ 3,013,093	$ 7,100,661
Range of weighted average interest rates, by series	0.35% to 1.55%	2.25% to 5.04%	3.50% to 4.75%	3.39 %	2.68% to 5.42%	
Stated maturities	2024 - 2036	2047 - 2050	2028 - 2059	2025	2022 - 2052	
Number of series	20	10	3	1	14	

(1) Includes $200 million and $205 million (principal balance) of ABS issued by a re-securitization trust sponsored by Redwood and accounted for at amortized cost at March 31, 2021 and December 31, 2020, respectively.

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

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 March 31, 2021, the principal balance of the ABS issued was $200 million, and the debt discount and deferred issuance costs were $4 million, for a carrying value of $196 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 March 31, 2021, 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 March 31, 2021 and December 31, 2020. Interest due on consolidated ABS issued is payable monthly.

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

(In Thousands)	March 31, 2021	December 31, 2020
Legacy Sequoia	$ 128	$ 141
Sequoia Choice	3,658	4,697
Freddie Mac SLST (1)	5,461	5,656
Freddie Mac K-Series	1,208	1,177
CAFL	10,256	10,122
Total Accrued Interest Payable on ABS Issued	$ 20,711	$ 21,793

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

Note 15. Long-Term Debt

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

Table 15.1 – Long-Term Debt

	March 31, 2021					
(Dollars in Thousands)	**Borrowings**	**Unamortized Deferred Issuance Costs / Discount**	**Net Carrying Value**	**Limit**	**Weighted Average Interest Rate [(1)]**	**Final Maturity**
Facilities						
Recourse Subordinate Securities Financing						
Sequoia	$ 172,805	$ (624)	$ 172,181	N/A	4.21 %	9/2024
CAFL	102,426	(581)	101,845	N/A	4.21 %	2/2025
Non-Recourse BPL Financing						
Facility A	241,549	(1,119)	240,430	316,543	L + 7.50%	6/2022
Facility B	84,017	(555)	83,462	84,017	L + 3.85%	7/2022
Recourse BPL Financing						
Facility C	75,109	(368)	74,741	250,000	L + 3.00%	3/2022
Facility D	114,386	(176)	114,210	250,000	L + 3.00%	9/2023
Total Long-Term Debt Facilities	790,292	(3,423)	786,869			
FHLBC borrowings	1,000	—	1,000	1,000	0.33 %	1/2026
Convertible notes						
4.75% convertible senior notes	198,629	(2,610)	196,019	N/A	4.75 %	8/2023
5.625% convertible senior notes	150,200	(2,634)	147,566	N/A	5.625 %	7/2024
5.75% exchangeable senior notes	172,092	(3,970)	168,122	N/A	5.75 %	10/2025
Trust preferred securities and subordinated notes	139,500	(814)	138,686	N/A	L + 2.25%	7/2037
Total Long-Term Debt	$ 1,451,713	$ (13,451)	$ 1,438,262			

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

ote 15. Long-Term Debt - (continued)

The following table below presents the value of loans, securities, and other assets pledged as collateral under our long-term debt at March 31, 2021 and December 31, 2020.

Table 15.2 – Collateral for Long-Term Debt

(In Thousands)	March 31, 2021	December 31, 2020
Collateral Type		
Bridge loans	$ 522,050	$ 544,151
Single-family rental loans	228,125	154,774
Real estate securities		
Sequoia Choice securitizations (1)	256,554	249,446
CAFL securitizations (1)	112,451	114,044
Total real estate securities owned	369,005	363,490
Other BPL investments	19,358	21,414
Restricted cash	1,100	1,100
Total Collateral for Long-Term Debt	$ 1,139,638	$ 1,084,929

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

The following table summarizes the accrued interest payable on long-term debt at March 31, 2021 and December 31, 2020.

Table 15.3 – Accrued Interest Payable on Long-Term Debt

(In Thousands)	March 31, 2021	December 31, 2020
Long-term debt facilities	$ 1,642	$ 1,799
Convertible notes		
4.75% convertible senior notes	1,206	3,564
5.625% convertible senior notes	1,784	3,896
5.75% exchangeable senior notes	4,948	2,474
Trust preferred securities and subordinated notes	580	669
Total Accrued Interest Payable on Long-Term Debt	$ 10,160	$ 12,402

Refer to our Annual Report on Form 10-K for the year ended December 31, 2020 for a full description of our long-term debt

Note 16. Commitments and Contingencies

Lease Commitments

At March 31, 2021, we were obligated underseven non-cancelable operating leases with expiration dates through 2031 for $19 million of cumulative lease payments. Our operating lease expense was $1 million for both three-month periods ended March 31, 2021 and 2020.

ote 16. Commitments and Contingencies - (continued)

The following table presents our future lease commitments at March 31, 2021.

Table 16.1 – Future Lease Commitments by Year

(In Thousands)	March 31, 2021
2021 (9 months)	$ 2,498
2022	3,301
2023	2,813
2024	2,231
2025	1,983
2026 and thereafter	6,128
Total Lease Commitments	18,954
Less: Imputed interest	(3,069)
Operating Lease Liabilities	$ 15,885

During the three months ended March 31, 2021, we did not enter into any office leases. At March 31, 2021, our operating lease liabilities were $16 million, which were a component of Accrued expenses and other liabilities, and our operating lease right-of-use assets were $14 million, which were a component of Other assets.

We determined that none of our leases contained an implicit interest rate and used a discount rate equal to our incremental borrowing rate on a collateralized basis to determine the present value of our total lease payments. As such, we determined the applicable discount rate for each of our leases using a swap rate plus an applicable spread for borrowing arrangements secured by our real estate loans and securities for a length of time equal to the remaining lease term on the date of adoption. At March 31, 2021, the weighted-average remaining lease term and weighted-average discount rate for our leases was 7 years and 4.9%, respectively.

Commitment to Fund Bridge Loans

As of March 31, 2021, we had commitments to fund up to $283 million of additional advances on existing 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 March 31, 2021, we recorded a $2 million contingent liability related to these commitments to fund construction advances. 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 $2 million at March 31, 2021.

Commitment to Fund Partnerships

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

Loss Contingencies — Risk-Sharing

During 2015 and 2016, we sold conforming loans to the Agencies with an original unpaid principal balance of $3.19 billion, subject to our risk-sharing arrangements with the Agencies. At March 31, 2021, 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 March 31, 2021, we had not incurred any losses under these arrangements. For the three months ended March 31, 2021 and 2020, other income related to these arrangements was $1 million for both periods, and net market valuation losses related to these investments were less than $0.1 million and $0.5 million, respectively.

ote 16. Commitments and Contingencies - (continued)

All of the loans in the reference pools subject to these risk-sharing arrangements were originated in 2014 and 2015, and at March 31, 2021, the loans had an unpaid principal balance of $806 million and a weighted average FICO score of 757 (at origination) and LTV ratio of 75% (at origination). At March 31, 2021, $33 million of the loans were 90 days or more delinquent, of which one of these loans with an unpaid principal balance of $0.2 million was in foreclosure. At March 31, 2021, the carrying value of our guarantee obligation was $9 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 March 31, 2021 and December 31, 2020, assets of such SPEs totaled $46 million at both dates, and liabilities of such SPEs totaled $9 million and $10 million, respectively.

Loss Contingencies — Residential Repurchase Reserve

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

At both March 31, 2021 and December 31, 2020, our repurchase reserve associated with our residential loans and MSRs was $9 million and was recorded in Accrued expenses and other liabilities on our consolidated balance sheets.

We received zero and three repurchase requests during the three months ended March 31, 2021 and 2020, respectively, and did not repurchase any loans during either of these periods. During the three months ended March 31, 2021 and 2020, we recorded repurchase provisions of $0.1 million and $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, 2020 under the heading "Loss Contingencies - Litigation." At March 31, 2021, 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, 2020 was $2 million. At March 31, 2021, the aggregate amount of our accrual for estimated costs associated with the "Residential Loan Seller Demands" described in our Annual Report on Form 10-K for the year ended December 31, 2020 was $2 million, a portion of which is contingent on the successful completion of future residential loan purchase and sale transactions with certain counterparties. We believe we have either resolved or adequately accrued for any unresolved Residential Loan Seller Demands and that there are no other Residential Loan Seller Demands that are reasonably possible to result in a material loss.

Note 17. Equity

The following table provides a summary of changes to accumulated other comprehensive income by component for the three months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
(In Thousands)	**Available-for-Sale Securities**	**Interest Rate Agreements Accounted for as Cash Flow Hedges**	**Available-for-Sale Securities**	**Interest Rate Agreements Accounted for as Cash Flow Hedges**
Balance at beginning of period	$ 76,336	$ (80,557)	$ 92,452	$ (50,939)
Other comprehensive income (loss) before reclassifications	10,986	—	(80,519)	(32,806)
Amounts reclassified from other accumulated comprehensive income (loss)	(2,795)	1,018	(13,798)	79
Net current-period other comprehensive income (loss)	8,191	1,018	(94,317)	(32,727)
Balance at End of Period	$ 84,527	$ (79,539)	$ (1,865)	$ (83,666)

The following table provides a summary of reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2021 and 2020.

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

		Amount Reclassified From Accumulated Other Comprehensive Income	
	Affected Line Item in the	**Three Months Ended March 31,**	
(In Thousands)	**Income Statement**	**2021**	**2020**
Net Realized (Gain) Loss on AFS Securities			
Credit loss expense on AFS securities	Investment fair value changes, net	$ (374)	$ 1,525
Gain on sale of AFS securities	Realized gains, net	(2,421)	(15,323)
		$ (2,795)	$ (13,798)
Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges			
Amortization of deferred loss	Interest expense	$ 1,018	$ 79
		$ 1,018	$ 79

Issuance of Common Stock

We have an established program to sell up to an aggregate of $175 million of common stock from time to time in at-the-market ("ATM") offerings, with $110 million of remaining capacity available at March 31, 2021. During the three months ended March 31, 2021, we did not issue any shares under this program.

ote 17. Equity - (continued)

Direct Stock Purchase and Dividend Reinvestment Plan

During both the three months ended March 31, 2021 and 2020, we didnot issue any shares of common stock through our Direct Stock Purchase and Dividend Reinvestment Plan.

Earnings (Loss) per Common Share

The following table provides the basic and diluted earnings (loss) per common share computations for the three months ended March 31, 2021 and 2020.

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

	Three Months Ended March 31,	
(In Thousands, except Share Data)	**2021**	**2020**
Basic Earnings (Loss) per Common Share:		
Net income (loss) attributable to Redwood	$ 97,257	$ (943,398)
Less: Dividends and undistributed earnings allocated to participating securities	(3,294)	(1,209)
Net income (loss) allocated to common shareholders	$ 93,963	$ (944,607)
Basic weighted average common shares outstanding	112,276,842	114,076,568
Basic Earnings (Loss) per Common Share	$ 0.84	$ (8.28)
Diluted Earnings (Loss) per Common Share:		
Net income (loss) attributable to Redwood	$ 97,257	$ (943,398)
Less: Dividends and undistributed earnings allocated to participating securities	(2,951)	(1,209)
Add back: Interest expense on convertible notes for the period, net of tax	7,007	—
Net income (loss) allocated to common shareholders	$ 101,313	$ (944,607)
Weighted average common shares outstanding	112,276,842	114,076,568
Net effect of dilutive equity awards	195,568	—
Net effect of assumed convertible notes conversion to common shares	28,566,875	—
Diluted weighted average common shares outstanding	141,039,285	114,076,568
Diluted Earnings (Loss) per Common Share	$ 0.72	$ (8.28)

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

During the three months ended March 31, 2021, certain of our convertible notes were determined to be dilutive and were included in the calculation of diluted EPS under the "if-converted" method. Under this method, the periodic interest expense (net of applicable taxes) for dilutive notes is added back to the numerator and the weighted average number of shares that the notes are entitled to (if converted, regardless of whether they are in or out of the money) are included in the denominator.

For the three months ended March 31, 2020,35.4 million 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 months ended March 31, 2021 and 2020, the number of outstanding equity awards that were antidilutive totaled 15,460 and 21,249, respectively.

ote 17. Equity - (continued)

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 March 31, 2021, we did not repurchase any shares. At March 31, 2021, $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 March 31, 2021 and December 31, 2020, 7,540,310 and 7,957,891 shares of common stock, respectively, were available for grant under our Incentive Plan.The unamortized compensation cost of awards issued under the Incentive Plan, which are settled by delivery of shares of common stock and purchases under the Employee Stock Purchase Plan, totaled $29 million at March 31, 2021, as shown in the following table.

Table 18.1 – Activities of Equity Compensation Costs by Award Type

	Three Months Ended March 31, 2021					
(In Thousands)	**Restricted Stock Awards**	**Restricted Stock Units**	**Deferred Stock Units**	**Performance Stock Units**	**Employee Stock Purchase Plan**	**Total**
Unrecognized compensation cost at beginning of period	$ 564	$ 3,540	$ 17,766	$ 5,794	$ —	$ 27,664
Equity grants	—	2,370	2,641	—	259	5,270
Equity grant forfeitures	(2)	(591)	(550)	—	—	(1,143)
Equity compensation expense	(167)	(307)	(1,761)	(586)	(65)	(2,886)
Unrecognized Compensation Cost at End of Period	$ 395	$ 5,012	$ 18,096	$ 5,208	$ 194	$ 28,905

At March 31, 2021, the weighted average amortization period remaining for all of our equity awards wasone year.

Restricted Stock Awards ("RSAs")

At March 31, 2021 and December 31, 2020, there were30,119 and 78,998 shares, respectively, of RSAs outstanding. Restrictions on these shares lapse through 2022. During the three months ended March 31, 2021, there were no RSAs granted, restrictions on48,879 RSAs lapsed and those shares were distributed, andno RSAs were forfeited.

Restricted Stock Units ("RSUs")

At March 31, 2021 and December 31, 2020, there were458,554 and 282,424 shares, respectively, of RSUs outstanding. Restrictions on these shares lapse through 2025. During the three months ended March 31, 2021, there were 272,261 RSUs granted, 58,899 RSUs distributed, and 37,232 RSUs forfeited.

Deferred Stock Units ("DSUs")

At March 31, 2021 and December 31, 2020, there were2,963,453 and 2,805,144 DSUs, respectively, outstanding of which 1,248,084 and 1,206,125, respectively, had vested. During the three months ended March 31, 2021, there were 312,045 DSUs granted, 122,575 DSUs distributed, and 31,161 DSUs forfeited. Unvested DSUs at March 31, 2021 vest through 2025.

ote 18. Equity Compensation Plans - (continued)

Performance Stock Units (“PSUs”)

At both March 31, 2021 and December 31, 2020, the target number of PSUs that were unvested was978,735. During the three months ended March 31, 2021,no 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, 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 March 31, 2021 and December 31, 2020,505,346 and 489,886 shares had been purchased, respectively, and there remained a negligible amount of uninvested employee contributions in the ESPP at March 31, 2021.

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 months ended March 31, 2021 and 2020.

Table 19.1 – Mortgage Banking Activities

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
Residential Mortgage Banking Activities, Net		
Changes in fair value of:		
Residential loans, at fair value [1]	$ (29,273)	$ 7,955
Trading securities [2]	721	—
Risk management derivatives [3]	88,964	(31,294)
Other income (expense), net [4]	1,023	258
Total residential mortgage banking activities, net	61,435	(23,081)
Business Purpose Mortgage Banking Activities, Net:		
Changes in fair value of:		
Single-family rental loans, at fair value [1]	10,248	11,808
Risk management derivatives [3]	3,858	(21,538)
Bridge loans, at fair value	1,044	(3,934)
Other income, net [5]	6,022	7,843
Total business purpose mortgage banking activities, net	21,172	(5,821)
Mortgage Banking Activities, Net	$ 82,607	$ (28,902)

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

(2) Represents fair value changes on trading securities that are being used as hedges to manage the mark-to-market risks associated with our residential mortgage banking operations.

(3) Represents market valuation changes of derivatives that were used to manage risks associated with our mortgage banking operations.

(4) Amounts in this line item include other fee income from loan acquisitions and provisions for repurchase expense, presented net.

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

Note 20. Other Income

The following table presents the components of Other income recorded in our consolidated statements of income (loss) for the three months ended March 31, 2021 and 2020.

Table 20.1 – Other Income

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
MSR income (loss), net	$ 697	$ (1,809)
Risk share income	882	765
FHLBC capital stock dividend	25	547
Equity investment income	—	848
Loan extension fees	421	—
Other	1,818	2,577
Other Income	$ 3,843	$ 2,928

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

Components of our general and administrative expenses, loan acquisition costs, and other expenses for the three months ended March 31, 2021 and 2020 are presented in the following table.

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

	Three Months Ended March 31,	
(In Thousands)	**2021**	**2020**
General and Administrative Expenses		
Fixed compensation expense	$ 11,805	$ 14,684
Annual variable compensation	18,669	11
Long-term incentive award expense (1)	4,169	1,995
Acquisition-related equity compensation expense (2)	1,212	1,212
Systems and consulting	2,977	3,212
Office costs	1,808	2,108
Accounting and legal	714	2,216
Corporate costs	691	671
Other	1,506	2,573
Total General and Administrative Expenses	43,551	28,682
Loan Acquisition Costs		
Commissions	1,263	1,788
Underwriting costs	1,685	1,662
Transfer and holding costs	611	536
Total Loan Acquisition Costs	3,559	3,986
Other Expenses		
Goodwill impairment expense	—	88,675
Amortization of purchase-related intangible assets	3,873	4,309
Other	223	(1,569)
Total Other Expenses	4,096	91,415
Total General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses	$ 51,206	$ 124,083

(1) For the three months ended March 31, 2021, long-term incentive award expense includes $3 million of expense for awards settleable in shares of our common stock and $1 million of expense for awards settleable in cash.

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

Note 22. Taxes

For the three months ended March 31, 2021 and 2020, we recognized a provision for income taxes of $12 million and a benefit from income taxes of $22 million, respectively. The following is a reconciliation of the statutory federal and state tax rates to our effective tax rate at March 31, 2021 and 2020.

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

	March 31, 2021	March 31, 2020
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	(12.5)%	(25.9)%
Change in valuation allowance	(3.7)%	(2.5)%
Dividends paid deduction	(2.8)%	1.1 %
Effective Tax Rate	10.6 %	2.3 %

We assessed our tax positions for all open tax years (i.e., Federal, 2017 to 2021, and State, 2016 to 2021) at March 31, 2021 and December 31, 2020, and concluded that we had no uncertain tax positions that resulted in material unrecognized tax benefits.

Note 23. Segment Information

Redwood operates in three segments: Residential Lending, Business Purpose Lending, and Third-Party Investments. For a full description of our segments, see *Part I, Item 1—Business* in our Annual Report on Form 10-K for the year ended December 31, 2020.

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

Note 23. Segment Information - (continued)

The following tables present financial information by segment for the three months ended March 31, 2021 and 2020.

Table 23.1 – Business Segment Financial Information

	Three Months Ended March 31, 2021				
(In Thousands)	**Residential Lending**	**Business Purpose Lending**	**Third-Party Investments**	**Corporate/ Other**	**Total**
Interest income	$ 27,548	$ 64,405	$ 34,990	$ 1,362	$ 128,305
Interest expense	(19,037)	(50,075)	(23,179)	(10,261)	(102,552)
Net interest income	8,511	14,330	11,811	(8,899)	25,753
Non-interest income					
Mortgage banking activities, net	61,435	21,172	—	—	82,607
Investment fair value changes, net	2,746	3,299	39,716	(674)	45,087
Other income, net	2,853	843	—	147	3,843
Realized gains, net	2,408	108	200	—	2,716
Total non-interest income (loss), net	69,442	25,422	39,916	(527)	134,253
General and administrative expenses	(13,757)	(11,159)	(1,131)	(17,504)	(43,551)
Loan acquisition costs	(1,416)	(2,052)	(87)	(4)	(3,559)
Other expenses	(6)	(3,777)	(330)	17	(4,096)
Provision for income taxes	(9,979)	(1,321)	(243)	—	(11,543)
Segment Contribution	$ 52,795	$ 21,443	$ 49,936	$ (26,917)	
Net Income					$ 97,257
Non-cash amortization (expense) income, net	$ 1,666	$ (5,857)	$ (144)	$ (1,895)	$ (6,230)

	Three Months Ended March 31, 2020				
(In Thousands)	**Residential Lending**	**Business Purpose Lending**	**Third-Party Investments**	**Corporate/ Other**	**Total**
Interest income	$ 60,631	$ 53,060	$ 81,196	$ 3,194	$ 198,081
Interest expense	(37,562)	(32,353)	(62,501)	(14,255)	(146,671)
Net interest income	23,069	20,707	18,695	(11,061)	51,410
Non-interest income					
Mortgage banking activities, net	(23,081)	(5,821)	—	—	(28,902)
Investment fair value changes, net	(196,635)	(142,130)	(531,558)	(509)	(870,832)
Other income, net	(497)	2,184	1,241	—	2,928
Realized gains, net	1,796	—	2,056	—	3,852
Total non-interest income, net	(218,417)	(145,767)	(528,261)	(509)	(892,954)
General and administrative expenses	(4,599)	(11,640)	(1,535)	(10,908)	(28,682)
Loan acquisition costs	(1,033)	(2,693)	(253)	(7)	(3,986)
Other expenses	—	(92,985)	1,882	(312)	(91,415)
Benefit from income taxes	5,330	6,582	10,317	—	22,229
Segment Contribution	$ (195,650)	$ (225,796)	$ (499,155)	$ (22,797)	
Net Loss					$ (943,398)
Non-cash amortization income (expense), net	$ 367	$ (5,363)	$ 866	$ (367)	$ (4,497)
Other significant non-cash expense: goodwill impairment	$ —	$ (88,675)	$ —	$ —	$ (88,675)

Note 23. Segment Information - (continued)

The following table presents the components of Corporate/Other for the three months ended March 31, 2021 and 2020.

Table 23.2 – Components of Corporate/Other

	Three Months Ended March 31,					
	2021			2020		
(In Thousands)	**Legacy Consolidated VIEs (1)**	**Other**	**Total**	**Legacy Consolidated VIEs (1)**	**Other**	**Total**
Interest income	$ 1,348	$ 14	$ 1,362	$ 3,194	$ —	$ 3,194
Interest expense	(875)	(9,386)	(10,261)	(2,522)	(11,733)	(14,255)
Net interest income	473	(9,372)	(8,899)	672	(11,733)	(11,061)
Non-interest income						
Investment fair value changes, net	(699)	25	(674)	(391)	(118)	(509)
Other income	—	147	147	—	—	—
Total non-interest income, net	(699)	172	(527)	(391)	(118)	(509)
General and administrative expenses	—	(17,504)	(17,504)	—	(10,908)	(10,908)
Loan acquisition costs	—	(4)	(4)	—	(7)	(7)
Other expenses	—	17	17	—	(312)	(312)
Total	$ (226)	$ (26,691)	$ (26,917)	$ 281	$ (23,078)	$ (22,797)

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

The following table presents supplemental information by segment at March 31, 2021 and December 31, 2020.

Table 23.3 – Supplemental Segment Information

(In Thousands)	**Residential Lending**	**Business Purpose Lending**	**Third-Party Investments**	**Corporate/ Other**	**Total**
March 31, 2021					
Residential loans	$ 2,272,624	$ —	$ 2,154,351	$ 274,861	$ 4,701,836
Business purpose loans	—	4,172,120	—	—	4,172,120
Multifamily loans	—	—	489,545	—	489,545
Real estate securities	167,040	—	197,280	—	364,320
Other investments	7,945	19,405	293,776	1,453	322,579
Intangible assets	—	52,992	—	—	52,992
Total assets	2,601,672	4,359,491	3,155,645	780,040	10,896,848
December 31, 2020					
Residential loans	$ 1,741,963	$ —	$ 2,221,153	$ 285,935	$ 4,249,051
Business purpose loans	—	4,136,353	—	—	4,136,353
Multifamily loans	—	—	492,221	—	492,221
Real estate securities	160,780	—	183,345	—	344,125
Other investments	8,815	21,627	317,282	451	348,175
Intangible assets	—	56,865	—	—	56,865
Total assets	1,989,802	4,323,040	3,232,415	809,809	10,355,066

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

INTRODUCTION

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

- Overview
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements and Contractual Obligations
- Critical Accounting Policies and Estimates
- New Accounting Standards

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

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

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

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

Our Business

Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on several distinct areas of housing credit. Our goal is to provide attractive returns to shareholders through a stable and growing stream of earnings and dividends, capital appreciation, and a commitment to technological innovation that facilitates risk-minded scale. We operate our business in three segments: Residential Lending, Business Purpose Lending, and Third-Party Investments. For a full description of our segments, see *Part 1, Item 1—Business* in our Annual Report on Form 10-K for the year ended December 31, 2020.

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, 2020, 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 2021; (iii) statements related to regulatory changes in Washington, D.C., including expediting the migration of GSE eligible mortgages to the private sector of the market, and expectations that such regulatory changes will result in an opportunity for the private sector; (iv) statements related to our residential and business purpose lending platforms, including that we expect to grow and diversify CoreVest's sourcing channels and deepen our market penetration in products we believe will remain in high demand; (v) statements related to our venture investing platform, RWT Horizons, including that we expect to increase its capital allocation over time; (vi) statements related to our investment portfolio, including that callable transactions could provide an opportunity to acquire in excess of a total of $600 million of residential jumbo and business purpose mortgage loans in 2021, and the potential earnings upside from realized gains associated with such transactions; (vii) statements relating to our estimate of our available capital (including that we estimate our available capital at March 31, 2021 was approximately $225 million); (viii) statements relating to acquiring residential mortgage loans in the future that we have identified for purchase or plan to purchase, including the amount of such loans that we identified for purchase during the first quarter of 2021 and at March 31, 2021, and expected fallout and the corresponding volume of residential mortgage loans expected to be available for purchase; (ix) statements we make regarding future dividends, including with respect to our regular quarterly dividends in 2021; and (x) statements regarding our expectations and estimates relating to the characterization for income tax purposes of our dividend distributions, our expectations and estimates relating to tax accounting, tax liabilities and tax savings, and GAAP tax provisions, and our estimates of REIT taxable income and TRS taxable income.

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

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

- the impact of the COVID-19 pandemic;
- general economic trends and the performance of the housing, real estate, mortgage finance, and broader financial markets;
- federal and state legislative and regulatory developments and the actions of governmental authorities and entities;
- changing benchmark interest rates, and the Federal Reserve’s actions and statements regarding monetary policy;
- our ability to compete successfully;

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

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

OVERVIEW

Business Update

The new year at Redwood is off to a fast start and we are pleased with our trajectory thus far in 2021. Highlighted by strong operational progress and continued improvement in portfolio valuations, Redwood's GAAP earnings were $0.72 per diluted share for the first quarter, as compared to $0.42 per diluted share for the fourth quarter of 2020. Our GAAP book value per share increased almost 9% to $10.76 at March 31, 2021, as compared to $9.91 at December 31, 2020, with GAAP earnings finishing well in excess of our $0.16 per share first quarter dividend.

The first quarter of 2021 introduced our latest strategic evolution through the launch of RWT Horizons, a venture investing strategy focused on early and mid-stage companies driving innovation in financial and real estate technology, and digital infrastructure. But the focus of our business has not changed. Our mission is to make quality housing accessible to all American households, whether rented or owned. We target loans to borrowers whose needs are not well served by government loan programs, as well as loans to borrowers who are simply not eligible for them. We believe our role in housing finance has never been more important, as the second half of 2020 saw significant increases home price appreciation and greater affordability challenges. In our view, addressing access to housing entails a combination of consumer loan and rental solutions.

Through our role as a private securitization issuer outside of the government sponsored enterprises ("GSEs"), we have turned much of our focus to finding innovative ways to expedite the migration of more GSE-eligible mortgages to the private sector of the market. This requires more than low-cost capital, which seems to be plentiful in our industry. It requires the speed, automation, and ease of execution necessary to facilitate sustainably high loan acquisition volumes. These traits have not been commonplace in the non-agency mortgage sector.

Recent federal regulatory changes highlight the need for a new way of thinking, and present an opportunity for the private sector. For example, changes to the CFPB's Qualified Mortgage ("QM") rules are likely to simplify many underwriting processes and meaningfully reduce the number of loans that require additional capital to securitize. Additionally, changes to the Preferred Stock Purchase Agreement ("PSPA") between the U.S. Department of Treasury and the GSEs now limit the acquisition of certain types of mortgages by the GSEs, including loans on non-owner-occupied homes and those with certain combinations of credit features, including higher LTVs and debt-to-income ratios, and lower credit scores. We believe this will result in an opportunity for the private sector, particularly for those who can transition to largely automated underwriting programs that will facilitate larger volumes of these loans moving away from the GSEs. We are focused on addressing this need, and we are working towards this goal in a number of innovative ways.

Residential Lending

For our residential lending business, strong operating progress in the first quarter was complemented meaningfully by continued progress on technology initiatives. We announced a new mobile application called "Redwood Live" in the first quarter for use by our network of loan sellers. Now available on Apple's App Store, Redwood Live allows authorized sellers to log in and access dashboards that contain various tracking metrics and reports for the loan pipelines they have locked with Redwood. We also launched our "Rapid Funding+" purchase program in the first quarter, with several enhancements to the original program rolled out last year, including more customized funding schedules and other solutions for qualifying loan sellers. Finally, we onboarded the majority of our active Sequoia securitizations onto "dv01," a third-party software tool for accessing, reporting and analyzing standardized loan-level data for non-agency transactions.

Business Purpose Lending ("BPL")

Within CoreVest, origination volumes normalized after a seasonally strong fourth quarter of 2020, but a 33% increase in bridge loan fundings during the first quarter of 2021 compared to the fourth quarter of 2020 reflected strong demand for our core products as we work to expand our BPL platform. In April 2021, we announced a strategic investment in Churchill Finance, which we expect will help us grow and diversify CoreVest's sourcing channels, with a particular emphasis on smaller-balance single-family rental ("SFR") and bridge loans that complement our core product offerings. CoreVest's primary business remains focused on larger SFR loans, cross-collateralized bridge lines of credit, build-for-rent, and workforce housing products specifically targeted towards boosting the size and quality of housing stock. Partnerships with companies like Churchill Finance will deepen our market penetration in products we believe will remain in high demand by housing investors. We also made significant progress on several key technology initiatives, including a revamped client portal (expected to be completed later in 2021); enhancements to our data warehouse; and more automation into certain capital markets processes that will enhance our speed-to-market.

RWT Horizons

The first quarter of 2021 also marked the introduction of RWT Horizons, our internal venture-investing platform focused on early-stage technology companies with business plans focused on disruptive innovations applicable to the mortgage finance sector. The RWT Horizons fund initially has a capital allocation of $25 million and, to date, we have completed three “venture capital” style investments. Our most recent investment was in a company that provides infrastructure to digitize loans, track documentation, facilitate payments, and record additional information on blockchain over the life of a loan. As an initial use case, we are working with various industry partners to explore the feasibility of leveraging blockchain to facilitate more timely loan remittance data for RMBS investors, an improvement that we believe can enhance market liquidity.

Investment Portfolio

Redwood’s $2.1 billion total investment portfolio continued to perform well in the first quarter as broad credit performance strengthened, credit spreads tightened, and total book value grew. Delinquencies in our portfolio have fallen continuously since last summer, and new forbearance requests have remained low over the last several quarters. And while we are monitoring the status and impact of foreclosure and eviction moratoria, we continue to believe that consumers have become more focused on managing their household balance sheets and credit scores. As a result, our loan quality has improved even while our credit guidelines have begun to expand to more closely resemble our pre-pandemic guidelines.

Higher residential jumbo prepayment speeds led us to exercise Sequoia call options for the first time in several years. We completed optional redemptions, or "calls," of three Sequoia transactions through the first four months of 2021, and plan to acquire additional loans when several other securitization transactions become callable in the coming quarters. Inclusive of CoreVest-sponsored securitizations, callable transactions could provide an opportunity to acquire in excess of a total of $600 million of residential jumbo and business purpose mortgage loans in 2021. The potential realized gains from these transactions represent potential earnings upside we have not been in a position to realize in recent years.

In conclusion, with significant momentum on technology, an engaged and talented workforce, regulatory shifts, and strong competitive positioning, it’s exciting to envision the role Redwood can play in the evolution of housing finance. We believe in the long-term durability of our earnings and our ability to deliver value to shareholders. As always, we balance this optimism against the economic forces that affect our quarterly production volumes, including recent interest rate volatility. In so doing, we will continue to equip our businesses with the tools to lead Redwood through the next phases of growth and change.

First Quarter Overview

The following table presents key financial metrics for the three months ended March 31, 2021.

Table 1 – Key Financial Metrics

(In Thousands, except per Share Data)	Three Months Ended March 31, 2021
Net income per diluted common share	$ 0.72
Annualized GAAP return on equity	34.0 %
Dividends per share	$ 0.16
Book value per share	$ 10.76
Economic return on book value (1)	10.2 %

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

- Our first quarter 2021 results benefited from continued strength in our operating platforms, most notably increased residential mortgage banking revenues on higher volume and strong margins. Additionally, the value of our securities portfolio increased 5%, supported by further spread tightening and continued improved credit performance. These results contributed to a 10% economic return on book value during the quarter.

- In March 2021, we announced a 14% increase in our quarterly dividend to $0.16 per share for the first quarter of 2021.

- Our book value increased $0.85 per share to $10.76 per share during the first quarter of 2021, as basic earnings per share and comprehensive income from investments significantly exceeded our first quarter dividend of $0.16 per share.

- Residential jumbo loan purchase commitments were $3.51 billion, and we purchased $3.13 billion of residential jumbo loans during the first quarter of 2021. At March 31, 2021, our pipeline of residential jumbo loans identified for purchase was $3.30 billion. Additionally, at March 31, 2021, we had entered into forward sale agreements for $735 million of residential jumbo loans.

- During the first quarter of 2021, we distributed $1.44 billion of residential jumbo loans through whole loan sales, and completed two Select securitizations for a total of $876 million.

- During the first quarter of 2021, we initiated the exercise of call options on three Sequoia securitizations, purchasing $19 million of residential jumbo loans in March and $56 million in April.

- Our business purpose lending platform originated $386 million of business purpose mortgage loans in the first quarter, including $253 million of single-family rental loans and $133 million of residential bridge loans. Additionally, during the first quarter we completed the funding of our $200 million single-family rental single-investor securitization, transferring $158 million of SFR loans in the quarter.

- During the first quarter of 2021, we retained $22 million of securities from CoreVest securitizations and $8 million of securities from Sequoia securitizations, purchased $16 million of other third-party securities, and sold $34 million of securities.

RESULTS OF OPERATIONS

Within this *Results of Operations* section, we provide commentary that compares results year-over-year for 2021 and 2020. Most tables include a "change" column that shows the amount by which the results from 2021 are greater or less than the results from the respective period in 2020. Unless otherwise specified, references in this section to increases or decreases during the "three-month periods" refer to the change in results for the first quarter of 2021, compared to the first quarter of 2020.

Consolidated Results of Operations

The following table presents the components of our net income for the three months ended March 31, 2021 and 2020.

Table 2 – Net Income (Loss)

	Three Months Ended March 31,		
(In Thousands, except per Share Data)	**2021**	**2020**	**Change**
Net Interest Income	$ 25,753	$ 51,410	$ (25,657)
Non-interest Income			
Mortgage banking activities, net	82,607	(28,902)	111,509
Investment fair value changes, net	45,087	(870,832)	915,919
Other income	3,843	2,928	915
Realized gains, net	2,716	3,852	(1,136)
Total non-interest income (loss), net	134,253	(892,954)	1,027,207
General and administrative expenses	(43,551)	(28,682)	(14,869)
Loan acquisition costs	(3,559)	(3,986)	427
Other expenses	(4,096)	(91,415)	87,319
Net income (loss) before income taxes	108,800	(965,627)	1,074,427
(Provision for) benefit from income taxes	(11,543)	22,229	(33,772)
Net Income (Loss)	$ 97,257	$ (943,398)	$ 1,040,655
Diluted earnings (loss) per common share	$ 0.72	$ (8.28)	$ 9.00

Net Interest Income

The decrease in net interest income during the three-month periods was primarily due to lower average asset balances during the first quarter of 2021 resulting from portfolio repositioning in the first half of 2020 due to COVID-19 pandemic- and liquidity-related disruptions, and higher borrowing costs associated with non-marginable and non-recourse debt facilities we entered into in the second and third quarters of 2020.

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 higher margins in 2021, relative to 2020, at both our residential and business purpose mortgage banking operations, due to favorable securitization execution and a pipeline position that benefited from the relative move in mortgage rates versus benchmark interest rates during the quarter. Mortgage banking activities also benefited from higher volumes at our residential mortgage banking business year-over-year.

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 March 31, 2021, positive investment fair value changes reflected continuing improvement in credit performance and spread tightening across our investment portfolio. Additional detail on our investment fair value changes during 2021 is included in the "*Results of Operations by Segment*" section that follows. During the three months ended March 31, 2020, the negative investment fair value changes reflected significant declines in the value of our investments resulting from pandemic- and liquidity-related disruptions.

Other Income

The increase in other income for the three-month periods was primarily the result of an increase in income from our MSR investments, which generally benefited from a stabilization in prepayment speeds during the first quarter of 2021.

Realized Gains, Net

During the three months ended March 31, 2021, we realized gains of $3 million, primarily resulting from the sale of $2 million of AFS securities and the call of a seasoned Sequoia securitization. During the three months ended March 31, 2020, we realized gains of $4 million, primarily from the sale of $46 million of AFS securities.

General and Administrative Expenses

The increase in general and administrative expenses for the three-month periods primarily resulted from a $19 million variable compensation expense accrual in the first quarter of 2021, associated with the quarter's financial results, compared to essentially no variable compensation accrual in the first quarter of 2020 as a result of portfolio losses incurred during that period. This increase was partially offset by a decrease in fixed compensation costs, legal and other costs as a result of cost savings measures implemented during 2020.

Other Expenses

The decrease in other expenses for the three-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 that was taken as a result of the onset of pandemic- and liquidity-related disruptions.

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 positive GAAP income earned at our TRS in the current year versus a significant loss in the prior year. 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 months ended March 31, 2021 and 2020.

Table 3 – Net Interest Income

	Three Months Ended March 31,					
	2021			2020		
(Dollars in Thousands)	Interest Income/ (Expense)	Average Balance (1)	Yield	Interest Income/ (Expense)	Average Balance (1)	Yield
Interest Income						
Residential loans, held-for-sale	$ 6,665	$ 933,910	2.9 %	$ 8,250	$ 980,531	3.4 %
Residential loans - HFI at Redwood(2)	—	—	— %	20,924	1,987,245	4.2 %
Residential loans - HFI at Legacy Sequoia(2)	1,348	273,770	2.0 %	3,193	392,610	3.3 %
Residential loans - HFI at Sequoia Choice(2)	15,483	1,373,438	4.5 %	25,083	2,135,466	4.7 %
Residential loans - HFI at Freddie Mac SLST(2)	20,159	2,177,399	3.7 %	21,986	2,342,420	3.8 %
Business purpose loans	15,315	896,767	6.8 %	22,644	1,469,952	6.2 %
Single-family rental loans - HFI at CAFL	48,873	3,254,858	6.0 %	30,010	2,187,934	5.5 %
Multifamily loans - HFI at Freddie Mac K-Series	4,786	493,878	3.9 %	40,172	4,186,159	3.8 %
Trading securities	5,896	132,515	17.8 %	13,662	742,198	7.4 %
Available-for-sale securities	3,767	137,283	11.0 %	4,647	154,072	12.1 %
Other interest income	6,013	775,483	3.1 %	7,510	582,726	5.2 %
Total interest income	128,305	10,449,301	4.9 %	198,081	17,161,313	4.6 %
Interest Expense						
Short-term debt facilities	(6,487)	987,570	(2.6)%	(21,490)	2,650,883	(3.2)%
Short-term debt - servicer advance financing	(1,286)	186,539	(2.8)%	(1,577)	148,141	(4.3)%
ABS issued - Legacy Sequoia(2)	(875)	270,202	(1.3)%	(2,522)	387,220	(2.6)%
ABS issued - Sequoia Choice(2)	(12,106)	1,154,565	(4.2)%	(21,511)	1,892,043	(4.5)%
ABS issued - Freddie Mac SLST(2)	(17,371)	1,949,873	(3.6)%	(16,177)	1,888,815	(3.4)%
ABS issued - Freddie Mac K-Series	(4,356)	466,688	(3.7)%	(38,349)	3,943,053	(3.9)%
ABS issued - CAFL	(37,853)	3,003,606	(5.0)%	(21,939)	2,016,139	(4.4)%
Long-term debt facilities	(12,831)	776,070	(6.6)%	(2,598)	233,797	(4.4)%
Long-term debt - FHLBC	(1)	1,000	(0.4)%	(8,775)	1,986,538	(1.8)%
Long-term debt - corporate	(9,386)	650,185	(5.8)%	(11,733)	770,249	(6.1)%
Total interest expense	(102,552)	9,446,298	(4.3)%	(146,671)	15,916,878	(3.7)%
Net Interest Income	$ 25,753			$ 51,410		

(1) Average balances for residential loans held-for-sale, residential loans held-for-investment, business purpose loans, multifamily loans held-for-investment, and trading securities are calculated based upon carrying values, which represent estimated fair values. Average balances for available-for-sale securities and debt are calculated based upon amortized historical cost, except for 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 months ended March 31, 2021 and 2020.

Table 4 – Net Interest Income by Segment

	Three Months Ended March 31,		
(In Thousands)	**2021**	**2020**	**Change**
Net Interest Income by Segment			
Residential Lending	$ 8,511	$ 23,069	$ (14,558)
Business Purpose Lending	14,330	20,707	(6,377)
Third-Party Investments	11,811	18,695	(6,884)
Corporate/Other	(8,899)	(11,061)	2,162
Net Interest Income	$ 25,753	$ 51,410	$ (25,657)

The Corporate/Other line item in the table above includes net interest income from consolidated Legacy Sequoia entities and interest expense on our convertible debt and trust-preferred securities. The $2 million increase in net interest income from Corporate/Other during 2021 was primarily due to a lower average balance of long-term debt as compared to 2020, as we repurchased $125 million of convertible debt during the second quarter of 2020.

Results of Operations by Segment

We report on our business using three distinct segments: Residential Lending, Business Purpose Lending, and Third-Party Investments. For additional information on our segments, refer to *Note 23* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q. The following table presents the segment contribution from our three segments reconciled to our consolidated net income for the three months ended March 31, 2021 and 2020.

Table 5 – Segment Results Summary

	Three Months Ended March 31,		
(In Thousands)	**2021**	**2020**	**Change**
Segment Contribution from:			
Residential Lending	$ 52,795	$ (195,650)	$ 248,445
Business Purpose Lending	21,443	(225,796)	247,239
Third-Party Investments	49,936	(499,155)	549,091
Corporate/Other	(26,917)	(22,797)	(4,120)
Net Income (Loss)	$ 97,257	$ (943,398)	$ 1,040,655

The following sections provide a discussion of the results of operations at each of our three business segments for the three months ended March 31, 2021.

The increase in net expense from Corporate/Other for the three-month periods was primarily due to an $8 million increase in compensation expense, driven mostly by higher variable compensation commensurate with improved results in 2021, partially offset by lower interest expense, as discussed above.

Residential Lending Segment

Overview

Our Residential Lending segment generated $53 million of net income during the first quarter of 2021, driven primarily by $64 million of mortgage banking income and $6 million of net interest income from investments. Mortgage banking income increased significantly during the quarter, as loan purchase commitments increased 41% from the fourth quarter of 2020 to $3.51 billion, and gross margins nearly doubled. Since the end of the first quarter, we have seen gross margins begin to normalize and looking forward we expect margins to continue to trend back towards levels realized in the third and fourth quarters of 2020.

Mortgage Banking

The following table provides the activity of residential loans held in inventory for sale at our mortgage banking business during the three months ended March 31, 2021.

Table 6 – Loan Inventory for Residential Mortgage Banking Operations — Activity

(In Thousands)		**Three Months Ended March 31, 2021**
Balance at beginning of period	$	176,641
Acquisitions		3,127,944
Sales		(2,348,126)
Principal repayments		(2,114)
Changes in fair value, net		23,112
Balance at End of Period	$	977,457

The following table presents our mortgage banking income and loan purchase commitments during the three months ended March 31, 2021.

Table 7 – Mortgage Banking Income and Residential Loan Purchase Commitments

(In Thousands)		**Three Months Ended March 31, 2021**
Mortgage banking income	$	64,267
Loan purchase commitments entered into	$	3,510,292

Mortgage banking income is comprised of net interest income from loans held-for-sale in inventory and mortgage banking activities. 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 1 of this Quarterly Report on Form 10-Q for further detail).

During the three months ended March 31, 2021, our residential mortgage loan conduit locked $4.63 billion of loans ($3.51 billion adjusted for expected pipeline fallout - i.e, loan purchase commitments), including $4.38 billion of Select loans and $0.24 billion of Choice loans, and purchased $3.13 billion of loans. Approximately 38% of loans locked in the first quarter were purchase-money loans and 62% were refinancings. During the three months ended March 31, 2021, we distributed $1.44 billion of loans through whole loan sales, and completed two securitizations for a total of $876 million.

At March 31, 2021, we had $997 million of loans in inventory on our balance sheet, our loan pipeline included $3.30 billion of loans identified for purchase (locked loans, unadjusted for fallout), and we had entered into forward sale agreements for $735 million of loans.

Our gross margin (mortgage banking income earned in the period divided by loan purchase commitments entered into during the period) for the three months ended March 31, 2021 nearly doubled from the fourth quarter of 2020 to 183 basis points, due to favorable securitization execution and a pipeline position that benefited from the relative move in mortgage rates versus benchmark interest rates during the quarter.

We utilize a combination of capital and our residential loan warehouse facilities to manage our inventory of residential loans held-for-sale. At March 31, 2021, we had residential warehouse facilities outstanding with five different counterparties, with $1.60 billion of total capacity and $761 million of available capacity. These included non-marginable (i.e., not subject to margin calls based on the market value of the underlying collateral that is non-delinquent) facilities with $800 million of total capacity and marginable facilities with $800 million of total capacity.

Investment Portfolio

The following table presents details of our Residential Lending investment portfolio at March 31, 2021 and December 31, 2020.

Table 8 – Residential Lending Investments

(In Thousands)	**March 31, 2021**	**December 31, 2020**
Residential loans at Redwood [1]	$ 19,054	$ —
Residential securities at Redwood [2]	161,039	155,501
Residential securities at consolidated Sequoia Choice entities [3]	222,107	217,965
Other investments	7,945	8,815
Total Segment Investments	$ 410,145	$ 382,281

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

(2) Excludes $6 million of trading securities that are designated as hedges for our mortgage banking operations and are not considered part of our investment portfolio.

(3) Represents our retained economic investment in the consolidated Sequoia Choice securitization VIEs. For GAAP purposes, we consolidated $1.28 billion of loans and $1.05 billion of ABS issued associated with these investments at March 31, 2021.

During the first quarter of 2021, we sold $4 million of securities from our residential lending investment portfolio and retained $8 million of securities from two Sequoia securitizations we completed during the quarter. See the *"Investments"* section that follows for additional details on our investments and their associated borrowings.

During the three months ended March 31, 2021, net interest income from our residential lending investment portfolio was $6 million, consistent with the fourt quarter of 2020, and other income was $3 million, which increased $5 million from the fourth quarter of 2020. The increase in other income was primarily due to higher income from our mortgage servicing investments, which benefited from a stabilization in prepayment speeds during the first quarter of 2021.

The following table presents the components of investment fair value changes for our Residential Lending segment by investment type for the three months ended March 31, 2021.

Table 9 – Investment Fair Value Changes, Net from Residential Lending

(In Thousands)	**Three Months Ended March 31, 2021**
Investment Fair Value Changes, Net	
Changes in fair value of:	
Residential loans at Redwood	$ 317
Trading securities	(2,478)
Net investments in Sequoia Choice entities [1]	4,898
Risk-sharing and other investments	(24)
Recoveries (impairments) on AFS securities	33
Investment Fair Value Changes, Net	$ 2,746

(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.

Strengthening credit performance helped drive spreads tighter during the first quarter of 2021 for most of our subordinate securities, which resulted in net positive fair value changes for our residential lending investments. Additionally, during the first quarter of 2021, most of our investment securities experienced elevated prepayments, which generally benefited our subordinate securities, but negatively impacted our interest-only and certificated servicing securities, causing a net negative fair value change for our trading securities.

Business Purpose Lending Segment

Overview

Our Business Purpose Lending segment generated $21 million of net income during the first quarter of 2021, driven primarily by $22 million of mortgage banking income and $13 million of net interest income from investments. Business purpose mortgage banking income normalized in the first quarter of 2021, relative to the third and fourth quarters of 2020, as more modest spread tightening on securitization execution during the quarter had a reduced impact to the valuation of our loans held in inventory at the beginning of the quarter. Net interest income from BPL investments increased from the fourth quarter of 2020 due to higher yield maintenance income on our SFR securities resulting from faster prepayments, and reduced debt costs on our bridge loan portfolio resulting from a decrease in leverage on these assets.

Mortgage Banking

The following table provides the business purpose loans origination activity at Redwood during the three months ended March 31, 2021.

Table 10 – Business Purpose Loans — Origination Activity

	Three Months Ended March 31, 2021		
(In Thousands)	**Single-Family Rental**	**Bridge (1)**	**Total**
Fair value at beginning of period	$ 245,394	$ —	$ 245,394
Originations	253,098	133,229	386,327
Sales	—	(1,877)	(1,877)
Transfers between portfolios (2)	(169,404)	(131,894)	(301,298)
Principal repayments	(7,064)	—	(7,064)
Changes in fair value, net	11,086	542	11,628
Fair Value at End of Period	$ 333,110	$ —	$ 333,110

(1) Our 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 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 bridge loans, represents the transfer of loans from our TRS to our REIT as described in preceding footnote.

During the three months ended March 31, 2021, we funded $253 million of single-family rental loans and $133 million of bridge loans. Bridge loan originations increased 33% relative to the fourth quarter of 2020, while SFR loan originations declined 28% from seasonally high fourth quarter volumes, which also included refinances of certain underlying loans from a CoreVest-sponsored securitization that was called in October 2020. Additionally, during the three months ended March 31, 2021, we completed the ramp-up of our $200 million SFR single-investor securitization, transferring $158 million of SFR loans in the quarter.

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 March 31, 2021, we had business purpose warehouse facilities outstanding with four different counterparties, with $1.00 billion of total capacity (used for both SFR and bridge loans) and $670 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 that is non-delinquent).

Investment Portfolio

The following table presents details of our Business Purpose Lending investment portfolio at March 31, 2021 and December 31, 2020.

Table 11 – Business Purpose Lending Investments

(In Thousands)	March 31, 2021	December 31, 2020
Bridge loans at Redwood	$ 626,484	$ 641,765
Single-family rental securities at consolidated CAFL entities (1)	260,663	238,630
Other investments	19,405	21,627
Total Segment Investments	$ 906,552	$ 902,022

(1) Represents our economic investment in securities issued by consolidated CAFL securitization VIEs. For GAAP purposes, we consolidated $3.21 billion of loans and $2.96 billion of ABS issued associated with these investments at March 31, 2021.

During the third quarter of 2021, we funded $133 million of business purpose bridge loans and received principal payments of $142 million. In addition, we retained $22 million of securities from a $200 million (principal balance) single-family rental loan securitization we completed during the first quarter. See the "*Investments"* sections that follow for additional details on our investments 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 months ended March 31, 2021.

Table 12 – Investment Fair Value Changes, Net from Business Purpose Lending

(In Thousands)	Three Months Ended March 31, 2021
Investment Fair Value Changes, Net	
Changes in fair value of:	
Bridge loans held-for-investment	$ 3,304
REO	281
Net investments in CAFL entities (1)	(286)
Investment Fair Value Changes, Net	$ 3,299

(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 tightened during the first quarter of 2021 for our BPL investments, which resulted in positive fair value changes for bridge loans and subordinate CAFL securities. We also had positive resolutions on several previously delinquent bridge loans during the first quarter of 2021, resulting in over $2 million of positive fair value changes for recoveries in excess of our prior quarter-end carrying values. Positive fair value changes for our CAFL subordinate securities were mostly offset by a decline in the value of our CAFL interest-only securities from a reduction in their basis through the receipt of regular cash flows.

<u>Third-Party Investments Segment</u>

Overview

Our Third-Party Investments segment generated $50 million of net income during the first quarter of 2021, driven primarily by $40 million of positive investment fair value changes and $12 million of net interest income. Positive investment fair value changes in the first quarter of 2021 reflected continuing improvement in credit performance and spread tightening, particularly for our re-performing loan ("RPL") and multifamily securities.

Investment Portfolio

The following table presents details of the investments in our Third-Party Investments segment at March 31, 2021 and December 31, 2020.

Table 13 – Third-Party Investments

(In Thousands)	**March 31, 2021**	**December 31, 2020**
Residential securities at Redwood	$ 149,196	$ 134,090
Residential securities at consolidated Freddie Mac SLST entities (1)	430,976	428,179
Multifamily securities at Redwood	48,084	49,255
Multifamily securities at consolidated Freddie Mac K-Series entity (2)	28,980	28,255
Other investments (3)	132,942	135,590
Total Segment Investments	$ 790,178	$ 775,369

(1) Represents our economic investment in securities issued by consolidated Freddie Mac SLST securitization entities. For GAAP purposes, we consolidated $2.15 billion of loans and $1.73 billion of ABS issued associated with these investments at March 31, 2021.

(2) Represents our economic investment in securities issued by a consolidated Freddie Mac K-Series securitization entity. For GAAP purposes, we consolidated $490 million of loans and $461 million of ABS issued associated with this investment at March 31, 2021.

(3) Other investments includes our servicer advance investments, which for purposes of this table are presented net of $192 million of non-recourse short-term securitization debt, secured by servicing advances and other servicing-related assets at March 31, 2021.

During the first quarter, we purchased $16 million of CRT and third-party investments, and sold $34 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 months ended March 31, 2021.

Table 14 – Investment Fair Value Changes, Net from Third-Party Investments

(In Thousands)	**Three Months Ended March 31, 2021**
Investment Fair Value Changes, Net	
Changes in fair value of:	
Trading securities	$ 23,106
Net investments in Freddie Mac SLST entities (1)	4,117
Net investment in Freddie Mac K-Series entity (1)	8,921
Servicer advance investments	(160)
Excess MSRs	(1,953)
Shared home appreciation options	5,315
Other	29
Recoveries (impairments) on AFS securities	341
Investment Fair Value Changes, Net	$ 39,716

(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.

Investments

This section presents additional details on our investment assets and their activity during the three months ended March 31, 2021.

Real Estate Securities Portfolio

The following table sets forth our real estate securities activity by collateral type for the three months ended March 31, 2021.

Table 15 – Real Estate Securities Activity by Collateral Type

Three Months Ended March 31, 2021	**Residential**			**Multifamily**	
(In Thousands)	**Senior**	**Mezzanine**	**Subordinate**	**Mezzanine**	**Total**
Beginning fair value	$ 28,464	$ 5,663	$ 260,743	$ 49,255	$ 344,125
Acquisitions					
Sequoia securities	6,549	—	1,078	—	7,627
Third-party securities	—	—	10,950	4,930	15,880
Sales					
Sequoia securities	—	(3,664)	—	—	(3,664)
Third-party securities	—	(2,060)	(20,022)	—	(22,082)
Gains on sales and calls, net	—	60	2,548	—	2,608
Effect of principal payments (1)	—	(26)	(5,111)	(5,976)	(11,113)
Change in fair value, net	(3,433)	27	34,470	(125)	30,939
Ending Fair Value (2)	$ 31,580	$ —	$ 284,656	$ 48,084	$ 364,320

(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 March 31, 2021, excludes $222 million and $261 million of securities retained from our consolidated Sequoia Choice and CAFL securitizations, respectively, as well as $431 million and $29 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 March 31, 2021, we sold $26 million of securities. At March 31, 2021, our securities consisted of fixed-rate assets (85%), adjustable-rate assets (13%), and hybrid assets that reset within the next year (2%).

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 March 31, 2021.

Table 16 – Real Estate Securities Financed with Repurchase Debt

March 31, 2021 **(Dollars in Thousands, except Weighted Average Price)**	**Real Estate Securities (1)**	**Repurchase Debt**	**Allocated Capital**	**Weighted Average Price (2)**	**Financing Haircut (3)**
Residential Securities (4)	$ 63,194	$ (52,738)	$ 10,456	$ 103	17 %
Multifamily Securities (5)	45,590	(28,932)	16,658	85	37 %
Total Securities	$ 108,784	$ (81,670)	$ 27,114		

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

(2) GAAP fair value per $100 of principal. Weighted average price excludes IO securities.

(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 $29 million of securities we owned that were issued by a consolidated Freddie Mac K-Series securitization, which we consolidate in accordance with GAAP.

At March 31, 2021, we had short-term debt incurred through repurchase facilities of $82 million with three different counterparties, which was secured by $109 million of real estate securities (including securities owned in consolidated securitization entities).

At March 31, 2021, real estate securities with a fair value of $369 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 March 31, 2021, we had $431 million of re-performing loan securities financed with $200 million of non-recourse securitization debt. The remaining $398 million of our securities, including certain securities we own that were issued by consolidated securitization entities, were financed with capital.

Bridge Loans Held-for-Investment at Redwood Portfolio

The following table provides the activity of bridge loans held-for-investment at Redwood during the three months ended March 31, 2021.

Table 17 – Bridge Loans Held-for-Investment at Redwood - Activity

(In Thousands)	**Three Months Ended March 31, 2021**
Fair value at beginning of period	$ 641,765
Sales	(7,000)
Transfers between portfolios (1)	131,894
Transfers to REO	(1,483)
Principal repayments	(141,978)
Changes in fair value, net	3,286
Fair Value at End of Period	$ 626,484

(1) All of our 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 $626 million of bridge loans held-for-investment at March 31, 2021 were comprised of first-lien, interest-only loans with a weighted average coupon of 7.93% and original maturities of six to 24 months. At origination, the weighted average FICO score of borrowers backing these loans was 745 and the weighted average LTV ratio of these loans was 65%. At March 31, 2021, of the 2,097 loans in this portfolio, 57 of these loans with an aggregate fair value of $17 million and an aggregate unpaid principal balance of $20 million were in foreclosure, of which 31 loans with an aggregate fair value of $15 million and an unpaid principal balance of $18 million were greater than 90 days delinquent.

Taxable Income and Tax Provision

Taxable Income

The following table summarizes our taxable income and distributions to shareholders for the three months ended March 31, 2021 and 2020.

Table 18 – Taxable Income

	Three Months Ended March 31,	
(In Thousands, except per Share Data)	**2021 est. (1)**	**2020 est. (1)**
REIT taxable income	$ 10,282	$ 37,527
Taxable REIT subsidiary income	53,061	11,411
Total Taxable Income	$ 63,343	$ 48,938
REIT taxable income per share	$ 0.09	$ 0.33
Total taxable income per share	$ 0.56	$ 0.43
Distributions to shareholders	$ 18,077	$ 36,741
Distributions to shareholders per share	$ 0.16	$ 0.32

(1) Our tax results for the three months ended March 31, 2021 and 2020 are estimates until we file tax returns for these years.

In accordance with Internal Revenue Code rules applicable to disaster losses, TRS taxable income for the three months ended March 31, 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 $36 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.

While the exact amount is uncertain at this time, we currently expect a significant portion of our 2021 dividend distributions to be taxable as ordinary income for federal income tax purposes. Any remaining amount is currently expected to be characterized as a return of capital, which in general is nontaxable (provided it does not exceed a shareholder's tax basis in Redwood shares) and reduces a shareholder's basis in Redwood shares (but not below zero). To the extent such distributions exceed a shareholder's basis in Redwood shares, such excess amount would be taxable as capital gain. Under the federal income tax rules applicable to REITs, none of Redwood’s 2021 dividend distributions are currently expected to be characterized as long-term capital gain dividends.

Tax Provision under GAAP

For the three months ended March 31, 2021 and 2020, we recorded a tax provision of $12 million and a tax benefit of $22 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 provision for income taxes from a benefit from income taxes year-over-year was primarily the result of GAAP income being recorded at our TRS in 2021 versus TRS GAAP losses in 2020. Our TRS effective tax rate in 2021 is expected to be slightly higher than the federal statutory corporate tax rate, due to a federal 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 2021 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, 2020, we reported net federal ordinary and capital DTAs, with a full valuation allowance recorded against our net federal ordinary DTAs based on our analysis, as we determined their realization was not assured. 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.

We forecast that we will report net federal ordinary DTAs at December 31, 2021 and, consequently, a valuation allowance remains recorded against our net federal ordinary DTAs. 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 March 31, 2021, our total capital was $1.87 billion and included $1.22 billion of equity capital and $650 million of convertible notes and long-term debt on our consolidated balance sheet, including $199 million of convertible debt due in 2023, $150 million of convertible debt due in 2024, $172 million of exchangeable debt due in 2025, and $140 million of trust-preferred securities due in 2037.

As of March 31, 2021, our unrestricted cash was $426 million, and we estimate we had approximately $225 million of capital available for investment. While we believe our available cash is sufficient to fund our operations, we may raise equity or debt capital from time to time to increase our unrestricted cash and liquidity, to repay existing debt, to make long-term portfolio investments, to fund strategic acquisitions and investments, or for other purposes. To the extent we seek to raise additional capital, our approach will continue to be based on what we believe to be in the best interests of the company.

In the discussion that follows and throughout this document, we distinguish between marginable and non-marginable debt. When we refer to non-marginable debt and marginable debt, we are referring to whether or not such debt is subject to market value-based margin calls on underlying collateral that is non-delinquent. If a mortgage loan is financed under a marginable warehouse facility, to the extent the market value of the loan declines (which market value is generally determined by the counterparty under the facility), we will be subject to a margin call, meaning we will be required to either immediately reacquire the loan or meet a margin requirement to pledge additional collateral, such as cash or additional residential loans, in an amount at least equal to the decline in value. Non-marginable debt may be subject to a margin call due to delinquency of the mortgage or security being financed, or a decline in the value of the underlying asset securing the collateral. For example, we could be subject to a margin call on non-marginable debt if an appraisal or broker price opinion indicates a decline in the value of the property securing the mortgage loan that is financed by us under a loan warehouse facility.

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

We are subject to risks relating to our liquidity and capital resources, including risks relating to incurring debt under 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 Three Months Ended March 31, 2021

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.

Cash Flows from Operating Activities

Cash flows from operating activities were negative $966 million during the three months ended March 31, 2021. 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 $90 million and negative $49 million during the first three months of 2021 and 2020, respectively.

Cash Flows from Investing Activities

During the three months ended March 31, 2021, our net cash provided by investing activities was $583 million and primarily resulted from proceeds from principal payments on loans held-for-investment. 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 three months ended March 31, 2021, we transferred loans between held-for-sale and held-for-investment classification and retained securities from securitizations we sponsored, which represent significant non-cash transactions that were not included in cash flows from investing activities.

Cash Flows from Financing Activities

During the three months ended March 31, 2021, our net cash provided by financing activities was $361 million. This primarily resulted from $731 million of proceeds from net short-term debt borrowings used to finance higher levels of loan inventory for our mortgage banking businesses, particularly for residential loans held-for-sale, as that business has seen a sustained increase in acquisition volumes. These cash inflows were partially offset by $360 million of net repayments of ABS issued.

During the three months ended March 31, 2021, we declared dividends of $0.16 per common share. On March 10, 2021, the Board of Directors declared a regular dividend of $0.16 per share for the first quarter of 2021, which was paid on March 31, 2021 to shareholders of record on March 24, 2021.

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

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 March 31, 2021, we did not repurchase any shares. At March 31, 2021, $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 March 31, 2021, we had residential warehouse facilities outstanding with five different counterparties, with $1.60 billion of total capacity and $761 million of available capacity. These included non-marginable facilities with $800 million of total capacity and marginable facilities with $800 million of total capacity. At March 31, 2021, we had business purpose warehouse facilities outstanding with four different counterparties, with $1.00 billion of total capacity and $670 million of available capacity. All $1.00 billion 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 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 March 31, 2021, we had $1.25 billion of short-term debt outstanding. During the first three months of 2021, the highest balance of our short-term debt outstanding was $1.66 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

There was no significant activity related to our long-term debt during the first quarter of 2021. 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.

Asset-Backed Securities Issued

During the three months ended March 31, 2021, we issued $147 million of CAFL ABS through our consolidated securitization entities. 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, which supplements the disclosures included in *Note 16* to the Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2020.

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

As described above under the heading "*Results of Operations*," in the ordinary course of our business, we use debt financing obtained through several different types of borrowing facilities to, among other things, finance the acquisition and origination of residential and business purpose mortgage loans (including those we acquire and originate in anticipation of sale or securitization), and finance investments in securities and other investments. We may also use short- and long-term borrowings to fund other aspects of our business and operations, including the repurchase of shares of our common stock. Recourse debt incurred under these facilities is generally either the direct obligation of Redwood Trust, Inc., or the direct obligation of subsidiaries of Redwood Trust, Inc. and guaranteed by Redwood Trust, Inc. Risks relating to debt incurred under these facilities are described in Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2020, 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 I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020. Many of the risks described above materialized during the first quarter of 2020 as a result of pandemic- and liquidity-related disruptions and their impacts 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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

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 March 31, 2021, $1 million of advances remained outstanding. Subsequent to March 31, 2021, we repaid the remaining $1 million of outstanding advances under our borrowing facility with the FHLBC. Under federal regulations applicable to the FHLBC, we can no longer borrow advances from the FHLBC.

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 March 31, 2021, only our short-term securities repurchase facilities (with $82 million of borrowings outstanding at March 31, 2021), and two of our residential mortgage loan warehouse facilities (with $350 million of borrowings outstanding at March 31, 2021) 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, 2020 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, 2020 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, 2020 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, 2020 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, 2020 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, 2020 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 March 31, 2021, and through the date of this Quarterly Report on Form 10-Q, we were in compliance with the financial covenants associated with our short-term debt and other debt financing facilities. In particular, with respect to: (i) financial covenants that require us to maintain a minimum dollar amount of stockholders' equity or tangible net worth at Redwood, at March 31, 2021 our level of stockholders' equity and tangible net worth resulted in our being in compliance with these covenants by more than $200 million; and (ii) financial covenants that require us to maintain recourse indebtedness below a specified ratio at Redwood, at March 31, 2021 our level of recourse indebtedness resulted in our being in compliance with these covenants at a level such that we could incur at least $600 million in additional recourse indebtedness.

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, 2020.

For additional information on our commitments and contingencies as of March 31, 2021, 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, 2020. 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, 2020.

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, 2020.

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, 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, 2020, 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, 2020.

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 first quarter of 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information on our legal proceedings, see *Note 16* to the Financial Statements within this Quarterly Report on Form 10-Q under the heading "Loss Contingencies - Litigation, Claims and Demands," which supplements the disclosures included in *Note 16* to the Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2020 under the heading “Loss Contingencies - Litigation, Claims and Demands.”

Item 1A. Risk Factors

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

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

During the three months ended March 31, 2021, 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 March 31, 2021, we did not repurchase any shares. At March 31, 2021, $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 March 31, 2021.

(In Thousands, except per Share Data)	Total Number of Shares Purchased or Acquired	Average Price per Share Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased under the Plans or Programs
January 1, 2021 - January 31, 2021	—	$ —	—	$ —
February 1, 2021 - February 28, 2021	8	$ 9.72	—	$ —
March 1, 2021 - March 31, 2021	9	$ 9.84	—	$ 78,369
Total	17	$ 9.78	—	$ 78,369

Item 3. Defaults Upon Senior Securities

None.

Item 4. Not Applicable

Item 5. Other Information

On May 7, 2021, Redwood Trust, Inc. (the “Company”) announced that Brooke E. Carillo will join the Company to serve as its Chief Financial Officer. Ms. Carillo will also act as the Company’s principal financial officer. Ms. Carillo is expected to start in her role at the Company in May 2021 and will report to the Company’s Chief Executive Officer.

Collin Cochrane, the Company’s current Chief Financial Officer, will continue as the Company’s Chief Financial Officer and principal financial officer until Ms. Carillo’s employment commences, at which time he will assume the role of the Company’s Chief Accounting Officer, while continuing to act as the Company’s principal accounting officer.

In connection with her appointment, the following compensation terms for Ms. Carillo were approved by the Compensation Committee of the Board of Directors, effective upon the commencement of her employment with the Company: (i) Ms. Carillo's base salary will be $675,000 per annum; (ii) Ms. Carillo's 2021 target annual bonus will be 165% of actual base salary paid for the period of her employment with the Company during 2021 (subject to the attainment of company financial performance and personal performance metrics), provided that Ms. Carillo's year-end cash bonus for 2021 will be not less than $1,000,000; and (iii) Ms. Carillo will receive a 2021 year-end long-term equity award with a grant date value of $1,500,000. Ms. Carillo's 2021 year-end long-term equity award is expected to be granted 25% in the form of an award of deferred stock units that will vest over a four-year period on a pro rata basis subject to continued service, 25% in the form of an award of cash-settled deferred stock units that will vest over a four-year period on a pro rata basis subject to continued service, and 50% in the form of performance stock units that will vest, if at all, over a three-year performance vesting period based on the achievement of book value total stockholder return and relative total stockholder return (or other financial performance metric) targets over the three-year performance vesting period and subject to continued service. Ms. Carillo's 2021 year-end long-term equity award of deferred stock units, cash settled deferred stock units, and performance stock units are expected to be made pursuant to the Company's 2014 Incentive Award Plan (a copy of which is filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 23, 2014) and pursuant to: a deferred stock unit award agreement substantially in the form filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 18, 2020; a cash-settled deferred stock unit award agreement substantially in the form filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 18, 2020; and a performance stock unit award agreement substantially in the form filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 18, 2020.

In addition, and also in connection with her appointment, the following sign-on compensation terms for Ms. Carillo were approved by the Compensation Committee of the Board of Directors, which sign-on compensation will be paid or granted, as applicable, to Ms. Carillo upon the commencement of her employment with the Company: (i) a $500,000 cash sign-on bonus, (ii) a relocation payment of $250,000 in connection with Ms. Carillo's relocation from New York to the San Francisco Bay Area in California, and (iii) a sign-on equity award (made pursuant to the Company's 2014 Incentive Award Plan) with a grant date value of $1,000,000 to be granted 50% in the form of deferred stock units and 50% in the form of cash-settled deferred stock units, which award will be subject to a one-year vesting period. This sign-on award of deferred stock units and cash-settled deferred stock units to Ms. Carillo will be made pursuant to the Company's 2014 Incentive Award Plan and a deferred stock unit award agreement and a cash-settled deferred stock unit award agreement, each substantially in the applicable form referenced above.

In connection with the appointment of Ms. Carillo, the Company and Ms. Carillo have entered into an employment agreement, a copy of which is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q. Ms. Carillos's employment agreement includes, among other things: (i) terms related to her base salary and target annual bonus that are described above, (ii) terms that provide for severance payments, vesting of equity-related and other long-term awards, and continuation of certain fringe benefits, including medical coverage for up to one year following termination, in each case, in the event the Company terminates her employment without "cause" or she terminates her employment for "good reason" (each as defined in her employment agreement), (iii) terms that provide for certain payments and vesting of equity-related and other long-term awards in the event of her death or disability, and (iv) other terms substantially similar to the Third Amended and Restated Employment Agreement between the Company and the Company's President, Dashiell I. Robinson, a copy of which Third Amended and Restated Employment Agreement is filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on February 26, 2021.

In particular, the severance terms of Ms. Carillo's employment agreement include provisions for her to receive cash severance payments in the event the Company terminates her employment without "cause" or she resigns for "good reason". If terminated without "cause" or for "good reason" and such termination is not a change-in-control related termination (i.e., not a "CIC termination", as defined in her employment agreement), then the aggregate amount of these cash severance payments would equal the sum of (x) an amount equal to the sum of (i) Ms. Carillo's annual base salary as in effect immediately prior to her termination and (ii) Ms. Carillo's target annual bonus in effect immediately prior to her termination and (y) an amount equal to Ms. Carillo's target annual bonus in effect immediately prior to her termination pro-rated for the number of days of employment completed during the year in which her employment is terminated. If such termination is a "CIC termination" (as defined in her employment agreement), then instead of the payments described in the preceding sentence, the aggregate amount of these cash severance payments would equal to the sum of (x) Ms. Carillo's target annual bonus in effect immediately prior to her termination, prorated for the number of days of employment completed during the year in which her employment terminated; (y) 1.25 times Ms. Carillo's annual base salary as in effect immediately prior to her termination; and (z) 1.25 times Ms. Carillo's target annual bonus in effect immediately prior to her termination; provided, that the maximum aggregate amount that the Company shall pay to Ms. Carillo in connection with a CIC Termination is $3,750,000.

A portion of this severance would be paid in a lump sum six months following termination and the remaining 25% would be paid in equal monthly installments over the succeeding six months. In addition, upon either such type of termination, all outstanding equity-related or other long-term awards with time-based vesting would vest in full, and outstanding equity-related or other long-term awards with performance-based vesting would remain outstanding and continue to be eligible to vest based on the relevant performance goals and a reduced number of target shares adjusted on a pro-rata basis to reflect the number of days of employment completed during the vesting period in which termination occurs. Under her employment agreement, receipt of severance payments and benefits are contingent on Ms. Carillo agreeing to execute an agreement releasing all claims against the Company, and compliance with non-solicitation restrictions for a year following a termination for which severance is paid.

Ms. Carillo's employment agreement does not permit for the provision of excise tax gross-ups with respect to excise taxes that may be imposed on change-in-control severance payments. Instead, to the extent that any payment or benefit received in connection with a change in control under the agreement would be subject to an excise tax under Section 4999 of the Internal Revenue Code, such payments and/or benefits will be subject to a "best pay cap" reduction if such reduction would result in a greater net after-tax benefit to Ms. Carillo than receiving the full amount of such payments.

In addition, and also in connection with the appointment of Ms. Carillo, the Company and Ms. Carillo have entered into a letter agreement, which documents, among other things, certain of the above-described compensation terms for Ms. Carillo, including, among other things, Ms. Carillo's: (i) relocation payment, (ii) cash sign-on bonus, (iii) sign-on award of deferred stock units and cash-settled deferred stock units, (iv) minimum year-end cash bonus for 2021, and (v) minimum grant date value of 2021 year-end long-term equity award. A copy of this letter agreement is filed as Exhibit 10.3 to this Quarterly Report on Form 10-Q.

Ms. Carillo, age 34, was employed at Annaly Capital Management from 2010 to April 2021, most recently serving as the Head of Corporate Development and Strategy. Prior to her employment with Annaly Capital Management, Ms. Carillo worked in investment banking within the Financial Institutions Group at Bank of America Merrill Lynch. Ms. Carillo holds a B.S. in Economics from Duke University.

In connection with the commencement of Ms. Carillo's employment as Chief Financial Officer, the Company and Ms. Carillo will enter into an indemnification agreement, which generally requires the Company to indemnify and to advance expenses to Ms. Carillo to the maximum extent permitted by Maryland law. A copy of this form of indemnification agreement is filed as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on November 16, 2009.

Item 6. Exhibits

Exhibit Number	Exhibit
3.1	Articles of Amendment and Restatement of the Registrant, effective July 6, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1, filed on August 6, 2008)
3.1.1	Articles Supplementary of the Registrant, effective August 10, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.1, filed on August 6, 2008)
3.1.2	Articles Supplementary of the Registrant, effective August 11, 1995 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.2, filed on August 6, 2008)
3.1.3	Articles Supplementary of the Registrant, effective August 9, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.3, filed on August 6, 2008)
3.1.4	Certificate of Amendment of the Registrant, effective June 30, 1998 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.4, filed on August 6, 2008)
3.1.5	Articles Supplementary of the Registrant, effective April 7, 2003 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.5, filed on August 6, 2008)
3.1.6	Articles of Amendment of the Registrant, effective June 12, 2008 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.6, filed on August 6, 2008)
3.1.7	Articles of Amendment of the Registrant, effective May 19, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2009)
3.1.8	Articles of Amendment of the Registrant, effective May 24, 2011 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 20, 2011)
3.1.9	Articles of Amendment of the Registrant, effective May 18, 2012 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2012)
3.1.10	Articles of Amendment of the Registrant, effective May 16, 2013 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2013)
3.1.11	Articles of Amendment of the Registrant, effective May 16, 2019 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 17, 2019)
3.1.12	Articles of Amendment of the Registrant, effective June 15, 2020 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on June 15, 2020)
3.2.1	Amended and Restated Bylaws of the Registrant, as adopted on March 5, 2008 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.2.1, filed on August 8, 2018)
3.2.2	First Amendment to Amended and Restated Bylaws of the Registrant, as adopted on May 17, 2012 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.2.2, filed on August 8, 2018)
3.2.3	Second Amendment to Amended and Restated Bylaws of the Registrant, as adopted on May 22, 2018 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.2.3, filed on August 8, 2018)
10.1*	Form of Deferred Stock Unit Award Agreement under 2014 Incentive Plan (2021 Form of Award Agreement for Director Grants) (filed herewith)
10.2*	Employment Agreement, dated as of April 20, 2021, by and between Brooke Carillo and the Registrant (filed herewith)
10.3*	Side Letter Agreement, dated as of April 20, 2021, by and between Brooke Carillo and the Registrant (filed herewith)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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 March 31, 2021, is filed in inline XBRL-formatted interactive data files: (i) Consolidated Balance Sheets at March 31, 2021 and December 31, 2020; (ii) Consolidated Statements of Income (Loss) for the three months ended March 31, 2021 and 2020; (iii) Statements of Consolidated Comprehensive Income (Loss) for the three months ended March 31, 2021 and 2020; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2021 and 2020; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2021 and 2020; 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)

* 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:	May 7, 2021	By:	/s/ Christopher J. Abate
			Christopher J. Abate
			Chief Executive Officer
			(Principal Executive Officer)
Date:	May 7, 2021	By:	/s/ Collin L. Cochrane
			Collin L. Cochrane
			Chief Financial Officer
			(Principal Financial and Accounting Officer)

Exhibit 10.1

REDWOOD TRUST, INC.

DEFERRED STOCK UNIT AWARD AGREEMENT

DEFERRED STOCK UNIT AWARD AGREEMENT dated as of the [***Date***] day of [***Month***] [***Year***] (the "Award Agreement"), by and between Redwood Trust, Inc., a Maryland corporation (the "Company"), and [***First Name***] [***Last Name***], an employee, consultant or non-employee director of the Company (the "Participant").

Pursuant to the Redwood Trust, Inc. Amended and Restated 2014 Incentive Award Plan (as may be amended from time to time, the "Plan"), the Compensation Committee (the "Committee") of the Board of Directors of the Company has determined that the Participant is to be granted an award of Deferred Stock Units for shares of the Company's common stock, par value $0.01 per share ("Common Stock"), on the terms and conditions set forth herein (the "Award"), and the Company hereby grants such Award. This Award is being made in connection with a deferral of compensation by the Participant pursuant to the Redwood Trust, Inc. Executive Deferred Compensation Plan, as amended to date (the "Deferred Compensation Plan"), and the executed Deferral Election attached hereto as Exhibit A (the "Deferral Election"). Any capitalized terms not defined herein shall have the meaning set forth in the Plan or the Deferred Compensation Plan, as applicable.

1. Number of Shares Awarded; Deferral Election. This Award entitles the Participant to receive [***Number of shares*** (_____)] shares of Common Stock (the "Award Shares"), in connection with the expiration of the Restricted Period described below.

2. Dividends. In accordance with Section 10.4 of the Plan, the number of Award Shares set forth in Section 1 shall not be adjusted to reflect the payment of regular cash dividends declared on Common Stock during the Restricted Period. The Participant will instead be entitled to a Dividend Equivalent (each, a "DER") for each Award Share pursuant to which the Participant will be entitled to receive, pursuant to the Plan and the Deferred Compensation Plan and in accordance with the applicable Deferral Election, an amount equal to the aggregate regular cash dividends with a record date after the Grant Date (as defined below) and prior to the date the Award Share is settled or forfeited that would have been payable to the Participant with respect to the share of Common Stock underlying the Award Share had it been outstanding on the applicable record date. DERs shall remain outstanding from the Grant Date until the earlier of the payment or forfeiture of the underlying Award Share, at which point, the corresponding DER will be forfeited. Subject to an applicable Deferral Election, any amounts that may become payable in respect of this Section 2 shall be paid as and when the dividends in respect of which such DER payments arise are paid to holders of Common Stock, without regard to the vested status of the underlying Award Share. Any amounts that may become payable in respect of this Section 2 shall be treated separately from the Award Shares and the rights arising in connection therewith for purposes of Section 409A of the Code.

3. Vesting and Restricted Periods.

(a) The Award Shares shall be fully vested on the Grant Date (the "Vested Award Shares"). Award Shares shall be delivered to the Participant at the time or times provided in the Deferral Election and the Deferred Compensation Plan (or any re-deferral election made in accordance with Section 409A of the Code and the terms of the Deferred Compensation Plan). Vested Award Shares shall not be forfeited in the event of the Participant's Termination of Service but rather delivery of such Vested Award Shares shall continue to be governed by the terms of the Deferral Election and the Deferred Compensation Plan (or any re-deferral election made in accordance with Section 409A of the Code and the terms of the Deferred Compensation Plan).

(b) For purposes of this Agreement, the following terms have the meanings set forth below:

(i) "Grant Date" means the date first written above in this Agreement.

(ii) "Restricted Period" means the period from the date of this Award to the applicable date or dates specified for delivery of such shares.

4. **Service Relationship Unchanged by Award**. This Award Agreement is not an employment or service contract and nothing in this Award Agreement shall be deemed to create in any way whatsoever any obligation of the Participant to continue as an Employee, Consultant or Director of the Company or on the part of the Company to continue the employment or other service relationship of the Participant with the Company.

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

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

7. **[Reserved].**

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

9. **Incorporation of Plan.** The Plan incorporated by reference and made a part of this Award Agreement, and this Award Agreement is subject to all terms and conditions of the Plan and the Deferred Compensation Plan as in effect from time to time.

10. **Amendments**. This Award Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto. Notwithstanding the foregoing, the Deferral Election shall be irrevocable and the date(s) specified for distribution of Vested Award Shares may not be modified after the date hereof except as otherwise permitted under Section 409A of the Code.

11. **Withholding**. The Company shall withhold, or cause to be withheld, Award Shares or other compensation otherwise vesting or issuable under this Award in satisfaction of any applicable withholding tax obligations. The number of Award Shares which may be so withheld or surrendered shall be limited to the number of Award Shares which have a fair market value on the date of withholding no greater than the aggregate amount of such liabilities based on the maximum individual statutory withholding rates in the Participant's applicable jurisdictions for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such taxable income.

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

[*Signature page follows*]

IN WITNESS WHEREOF, the parties have executed this Award Agreement on the day and year first above written.

REDWOOD TRUST, INC.

By: ______________________________

[Andrew P. Stone]
[Chief Legal Officer & Secretary]
One Belvedere Place, Suite 300
Mill Valley, CA 94941

The undersigned hereby accepts and agrees to all the terms and provisions of this Award Agreement and to all the terms and provisions of the Plan herein incorporated by reference.

____

[***First Name***] [***Last Name***]
c/o Redwood Trust, Inc.
One Belvedere Place, Suite 300
Mill Valley, CA 94941

EXHIBIT A

Deferral Election

[*see attached*]

EMPLOYMENT AGREEMENT

This Employment Agreement (“Agreement”), dated as of April 20, 2021, is entered into by and between Brooke Carillo (the “Executive”) and **Redwood Trust, Inc.,** a Maryland corporation (the “Company”). This Agreement shall become effective on the date on which the Executive commences employment with the Company (the “Effective Date”), provided such employment commencement date is on or before June 28, 2021.

As of the Effective Date, the Company desires to establish its right to the services of the Executive, in the capacity, on the terms and conditions, and subject to the rights of termination hereinafter set forth, and, as of the Effective Date, the Executive is willing to accept such 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, as of the Effective Date, 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 Financial Officer (and principal financial officer) 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 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 prior 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 her rights under Section 6(e)(i) hereof only with her express prior 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 her 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 her 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, 2021; provided, however, that (i) on January 1, 2022 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 her services to the Company a base salary (the “Base Salary”) at the rate of not less than $675,000 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 165% of her 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 and the Executive shall be eligible for consideration for such awards in the same manner as other senior executive officers of the Company. 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 of substantially equivalent value, 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 her duties and responsibilities, the timely accomplishment of existing performance objectives, her 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 officers, and the Executive shall be entitled to receive such other fringe benefits as may be granted to her 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 senior executive officers 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 officers.

(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 senior executive officers 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, her 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 her death. Executive's beneficiaries or her 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 (but in no event for a period of less than one year or through the expiration date of the stock option, whichever is earlier). 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 (but in no event for a period of less than one year or through the expiration date of the stock option, whichever is earlier). 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 her duties with the Company for six (6) consecutive months, and, within thirty (30) days after written notice is provided to her by the Company, she shall not have returned to the full-time performance of her 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 her duties with the Company due to Disability, the Company shall continue to pay the Executive her Base Salary at the rate in effect at the commencement of such period of Disability and any earned but unpaid annual bonus from a prior service year. 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 her employment terminated. The Executive, the Executive's beneficiaries or her 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 (but in no event for a period of less than one year or through the expiration date of the stock option, whichever is earlier). 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 (but in no event for a period of less than one year or through the expiration date of the stock option, whichever is earlier). 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 her 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 her duties hereunder, her fiduciary obligations or otherwise relating to the business of the Company; (iii) the habitual or repeated neglect of her 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 financial 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 financial officer of the top-tier parent entity of the Company (or its successor); provided that, for the avoidance of doubt, the appointment of Executive to a top-tier parent entity that is not publicly traded does not eliminate Executive's rights under sub-clause (A) above;

(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 by the Company 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 her 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 (1.0) times the sum of (i) Executive's Annual Base Salary as in effect immediately prior to her termination and (ii) Executive's Target Bonus in effect immediately prior to her termination and (y) an amount equal to the Executive's Target Bonus in effect immediately prior to her termination pro-rated for the number of days of employment completed by the Executive during the year in which her 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 her termination, prorated for the number of days of employment completed by the Executive during the year in which her employment terminated; (y) one-and-one-quarter (1.25) times the Executive's Annual Base Salary as in effect immediately prior to her termination; and (z) one-and-one-quarter (1.25) times the Executive's Target Bonus in effect immediately prior to her 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 $3,750,000.

(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 (but in no event for a period of less than two years or through the expiration date of the stock option, whichever is earlier). 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 (but in no event for a period of less than two years or through the expiration date of the stock option, whichever is earlier). 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 (but in no event for a period of less than two years or through the expiration date of the stock option, whichever is earlier). 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 twelve (12) month (or, in the event of a CIC Termination, fifteen (15) 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 her 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, her 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 her employment hereunder, she 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 her 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 she 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 she 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 her 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 she is not a party to any other agreement that will interfere with her 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 her 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: Brooke Carillo
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. 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, together with the Side Letter, 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, 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. In the event that the Executive's employment with the Company does not commence on or before June 28, 2021, this Agreement and the Side Letter shall have no force or effect after such date. 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. During the Term and for a term of six years thereafter, the Company shall purchase and maintain, at its own expense, directors and officers liability insurance providing coverage for Executive in respect of acts and omissions of the Executive in her capacity as such and occurring during Executive's employment.

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/ Brooke Carillo

Brooke Carillo

EXHIBIT A
RELEASE AGREEMENT

Except as otherwise set forth in this Release Agreement or in Sections 7 and 18 of the Employment Agreement between Brooke Carillo and Redwood Trust, Inc., Brooke Carillo ("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 her 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 (i) the Company from (x) its obligation to indemnify Executive pursuant to agreement, the Company's bylaws or binding resolutions, or applicable law or (y) the Company's payment obligations under Section (7) of the Employment Agreement, (ii) coverage under any applicable D&O policies, (iii) claims to vested benefits that Executive is entitled to receive under any other plan or agreement covering Executive) or (iv) Executive's vested equity awards.

Executive acknowledges that she is knowingly and voluntarily waiving and releasing any rights she may have under the ADEA, and that the consideration given under her Employment Agreement with the Company for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which she was already entitled. Executive further acknowledges that she 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 she 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 her or her fiduciary duties, or (iv) made by the Board of Directors in connection with a termination of the Executive for Cause.

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: ____
Brooke Carillo

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 Brooke Carillo and Redwood Trust, Inc., Brooke Carillo ("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 her 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 (i) the Company from (x) its obligation to indemnify Executive pursuant to agreement, the Company's bylaws or binding resolutions, or applicable law or (y) the Company's payment obligations under Section (7) of the Employment Agreement, (ii) coverage under any applicable D&O policies, (iii) claims to vested benefits that Executive is entitled to receive under any other plan or agreement covering Executive) or (iv) Executive's vested equity awards.

Executive acknowledges that she is knowingly and voluntarily waiving and releasing any rights she may have under the ADEA, and that the consideration given under her Employment Agreement with the Company for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which she was already entitled. Executive further acknowledges that she 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 forty-five (45) days to consider this Release Agreement (although she may choose voluntarily to sign this Release Agreement earlier); (D) Executive has seven (7) days following the date that she 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 her or her fiduciary duties, or (iv) made by the Board of Directors in connection with a termination of the Executive for Cause.

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: ______________________________
Brooke Carillo

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"

"'Change of Control' refers to the occurrence of any of the following:

(a) 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

(b) 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

(c) 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:

(i) 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

(ii) 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."

Exhibit 10.3

[Letterhead of Redwood Trust, Inc.]

April 20, 2021

Brooke Carillo
New York, NY

Re: Additional Employment Terms

Dear Ms. Carillo,

On behalf of Redwood Trust, Inc. (the "Company"), we look forward to having you join the Company as Chief Financial Officer on or prior to June 28, 2021 (with the date you actually commence employment with the Company being referred to herein as the "Hire Date"). This letter agreement sets out certain terms of your employment with the Company, and are in addition to those set forth in the Employment Agreement entered into between you and the Company on the date hereof (the "Employment Agreement"). Capitalized terms used but not defined in this letter agreement will have the meanings set forth in the Employment Agreement. This letter agreement shall become effective on the Hire Date, when you commence employment with the Company, provided such employment commencement date is on or before June 28, 2021.

1. Relocation Allowance. The Company will assist you with the cost related to the relocation of your primary residence to the San Francisco Bay Area by providing you with a cash payment of $250,000.00 (the "Relocation Allowance"). The Relocation Allowance will be paid to you within 15 business days following the Hire Date (and will be reported as ordinary income to you for income tax purposes), and is intended to cover all of your house hunting trips, moving expenses, and any other travel to the San Francisco Bay Area or other expense relating to your move or your preparation for your role as Chief Financial Officer. However, you will not be required to document use of the Relocation Allowance and the Relocation Allowance will be retained by you even if your actual relocation expenses are less than the Relocation Allowance. You and the Company acknowledge and agree that the Relocation Allowance will not be earned unless you are continuously employed by the Company through the first anniversary of the Hire Date as follows:

(i) if your employment is terminated by the Company for "Cause" or by you for any reason other than "Good Reason" (each as defined in the Employment Agreement), at any time prior to the later of (A) the six-month anniversary of the Hire Date and (B) the date you relocate your primary residence to the San Francisco Bay Area (with such later date being referred to herein as the "Relocation Allowance Reference Date"), you will not be entitled to retain any portion of the Relocation Allowance and you hereby agree to repay to the Company the Relocation Allowance, in full (but net of income tax actually incurred in respect of the Relocation Allowance based on your most recent full calendar year combined federal, state and local effective income tax rate), on or promptly following the date of termination (and in any event with thirty (30) days following the date of termination); and

(ii) if your employment is terminated by the Company for "Cause" or by you for any reason other than "Good Reason" (each as defined in the Employment Agreement), at any time after the Relocation Allowance Reference Date but prior to the first (1st) anniversary of the Hire Date, you will not be entitled to retain a portion of the Relocation Allowance equal to the product of (x) $685.00, multiplied by (y) the difference (not less than zero) of (I) 182 (or, if less, the number of days between the Relocation Allowance Reference Date and the first (1st) anniversary of the Hire Date), minus (II) the number of days between the Relocation Allowance Reference Date and the date of your termination (the "Relocation Allowance Partial Repayment Amount") and you hereby agree to repay to the Company the full Relocation Allowance Partial Repayment Amount (but net of income tax actually incurred in respect of the Relocation Allowance based on your most recent full calendar year combined federal, state and local effective income tax rate), on or promptly following the date of termination (and in any event with thirty (30) days following the date of termination).

2. Counsel Fees. Following the Hire Date, the Company will pay legal fees incurred with the law firm of Proskauer Rose LLP ("Proskauer") in connection with the negotiation of the Employment Agreement and this letter agreement, up to a maximum of $15,000.00 (the "Counsel Fees"), with such payment to be made directly by Company to Proskauer as compensation for the benefit provided to the Company by the drafting and analysis undertaken by Proskauer and with such payment to be made within 15 business days following the later of the Hire Date and presentation to the Company of an invoice therefor accompanied by an IRS Form W-9 from Proskauer. The Company will treat the payment of Counsel Fees as a business expense of the Company.

3. Minimum 2021 Year-End Cash Bonus. As described in the Employment Agreement, you will be eligible to receive an annual bonus while you are employed by the Company, which will be pro-rated for your period of service during 2021. Notwithstanding anything to the contrary contained in the Employment Agreement, you and the Company agree that your 2021 year-end annual bonus will be no less than $1,000,000.00 in cash (the "2021 Year-End Cash Bonus"), provided that payment will be subject to your continued employment with the Company through the designated distribution date (currently anticipated to be on or about March 1, 2022). Notwithstanding the foregoing, the immediately following clauses (i) and (ii) apply to the 2021 Year-End Cash Bonus:

(i) Paid in Event of Termination Without Cause or Quit For Good Reason. For the avoidance of doubt, if your employment terminates prior to the designated distribution date for the 2021 Year-End Cash Bonus due to a termination by the Company without "Cause" or by you for "Good Reason" (each as defined in the Employment Agreement) you will, nonetheless, be paid the 2021 Year-End Cash Bonus subject to your timely execution and non-revocation of a general release of claims against the Company substantially in the applicable form attached to the Employment Agreement (the "Release"). In such an event, the 2021 Year-End Cash Bonus will be paid on the date on which annual bonuses are paid to the Company's executive officers generally for 2021, but in no event later than March 15, 2022.

(ii) Guaranteed in Event of Death/Disability. For the avoidance of doubt, if your employment terminates prior to the designated distribution date for the 2021 Year-End Cash Bonus due to death or Disability (as defined in the Employment Agreement) you will, nonetheless, be paid the 2021 Year-End Cash Bonus. In such an event, the 2021 Year-End Cash

Bonus will be paid on the date on which annual bonuses are paid to the Company's executive officers generally for 2021, but in no event later than March 15, 2022.

4. 2021 Year-End Equity Awards. As described in the Employment Agreement, you will be eligible to receive one or more equity awards as part of the year-end 2021 compensation process (the "2021 Year-End Equity Awards"). Notwithstanding anything to the contrary contained in the Employment Agreement, but subject to your continued employment with the Company through the grant date (currently anticipated to be on or about December 14, 2021), you and the Company agree that your 2021 Year-End Equity Awards will have an aggregate grant date fair value of $1,500,000.00. In addition, notwithstanding the foregoing, the immediately following clauses (i) - (iv) apply to the 2021 Year-End Equity Awards:

(i) Form and Terms of 2021 Year-End Equity Awards. The terms of the 2021 Year-End Equity Awards are subject to approval by the Board of Directors of the Company (or a committee thereof), but will be consistent with 2021 year-end equity awards granted to other senior executive officers of the Company. The Company currently anticipates that: 50% of your 2021 Year-End Equity Awards (by grant date value) will be granted in the form of deferred stock units (and/or cash-settled deferred stock units) that vest in substantially equal annual installments on or about the first four anniversaries of the grant date; and the remaining 50% will be granted in the form of performance stock units that vest over a three-year performance period based on the achievement of applicable book value total shareholder return goals and/or other Company performance metric(s) goals (with vesting also subject to continued employment through the applicable vesting date).

(ii) To Be Granted in Event of Termination Without Cause or Quit For Good Reason. For the avoidance of doubt, if your employment terminates prior to the grant date for the 2021 Year-End Equity Awards due to a termination by the Company without "Cause" or by you for "Good Reason" (each as defined in the Employment Agreement) you will, nonetheless, be granted the 2021 Year-End Equity Awards immediately prior to such termination, subject to your timely execution and non-revocation of a Release. In any such event, it is expected that the 2021 Year-End Equity Awards will be granted to you immediately prior to such termination but no later than December 31, 2021.

(iii) To Be Granted in Event of Death/Disability. For the avoidance of doubt, if your employment terminates prior to the designated grant date for the 2021 Year-End Equity Awards due to death or Disability (as defined in the Employment Agreement) you will, nonetheless, be granted the 2021 Year-End Equity Awards. In any such event, it is expected that the 2021 Year-End Equity Awards will be granted immediately prior to such termination but no later than December 31, 2021.

(iv) Once Granted, Subject to Applicable Terms and Conditions. Once granted, your 2021 Year-End Equity Awards will be subject to the terms and conditions of the applicable Company equity plan and related award agreements, as well as to the terms and conditions of the Employment Agreement.

5. Sign-On Bonus. In connection with the commencement of your employment, you will receive a cash payment in the aggregate amount of $500,000.00 (the "Sign-On Bonus"), which will be paid in full

within 15 business days following the Hire Date. Notwithstanding the foregoing, the immediately following clauses (i) and (ii) apply to the Sign-On Bonus:

(i) Repayment Required Upon Termination For Cause or Quit Without Good Reason Within One Year. You and the Company acknowledge and agree that the Sign-On Bonus will not be earned unless you are continuously employed by the Company through the first anniversary of the Hire Date as follows: if your employment is terminated by the Company for "Cause" or by you for any reason other than "Good Reason" (each as defined in the Employment Agreement), at any time prior to or on the first anniversary of the Hire Date, you will not be entitled to retain any portion of the Sign-On Bonus and you hereby agree to repay to the Company the Sign-On Bonus, in full (but net of income tax actually incurred in respect of the Sign-On Bonus based on your most recent full calendar year combined federal, state and local effective income tax rate), on the date of termination.

(ii) Retained in Event of Death/Disability or Termination without Cause or Quit for Good Reason. For the avoidance of doubt, if your employment terminates prior to the first anniversary of the Hire Date due to death or Disability or termination by the Company without Cause or by you for Good Reason (each as defined in the Employment Agreement) you will be entitled to retain all of the Sign-On Bonus.

6. Sign-On Equity Award. In addition to your 2021 Year-End Equity Awards, in connection with the commencement of your employment, the Company will grant you an equity award on the Hire Date, with an aggregate grant date fair value equal to $1,000,000.00 (the "Sign-On Equity Award"). The Sign-On Equity Award will be granted in the form of deferred stock units (and/or cash-settled deferred stock units) and will be governed in all respects by the terms and conditions of the Employment Agreement, the applicable Company equity plan and the related award agreement (the "New Hire Equity Award Agreement"). Notwithstanding the foregoing, the immediately following clauses (i), (ii) and (iii) apply to the Sign-On Equity Award:

(i) Forfeitable Only Upon Termination For Cause or Quit Without Good Reason Within One Year. The New Hire Equity Award Agreement will provide that the Sign-On Equity Award will fully vest on the first anniversary of the Hire Date and be subject to forfeiture only in the event that your employment is terminated by the Company for Cause or by you without Good Reason prior to the first anniversary of the Hire Date, in which case 100% of the Sign-On Equity Award will be forfeited automatically.

(ii) Retained in Event of Death/Disability or Termination without Cause or Quit for Good Reason. For the avoidance of doubt, if your employment terminates prior to the first anniversary of the Hire Date due to death or Disability or termination by the Company without Cause or by you for Good Reason (each as defined in the Employment Agreement) you will be entitled to retain all of the Sign-On Equity Award.

(iii) Once Awarded, Subject to Applicable Terms and Conditions. Once awarded, your Sign-On Equity Award will be subject to the terms and conditions of the applicable Company equity plan and related award agreements, as well as to the terms and conditions of the Employment Agreement.

7. Termination in Connection With Failure to Relocate. Notwithstanding anything to the contrary contained herein or in the Employment Agreement (or in any other equity award agreement or other agreement between the Company and you, or in any policy or plan of the Company), in the event that you fail to relocate your primary residence to the San Francisco Bay Area prior to December 31, 2021, then: (i) you and the Company agree that the Company may terminate your employment for such failure at any time on or after December 31, 2021, but prior to February 1, 2022 (a "Relocation-Related Termination"), and (ii) that for purposes of this letter agreement and the Employment Agreement (and for purposes of any other equity award agreement and other agreement between the Company and you, and for purposes of any policy or plan of the Company), you and the Company agree that any such Relocation-Related Termination will be treated as a termination by you of your employment without Good Reason and will not be treated as a termination of your employment by the Company without Cause.

8. Treatment of Termination under Equity Awards. The Company acknowledges and agrees that Section 3(d) of the New Hire Equity Award Agreement will specify that "Upon the Participant's Termination of Service prior to the expiration of the vesting period in Section 3(a), any Award Shares not vested at the time of such termination (after taking into account any vesting that occurs in connection with such Termination of Service pursuant to the terms of this Award Agreement and any employment agreement and/or related side letter between the Participant and the Company), shall be forfeited. In the event of a conflict between the terms of this Award Agreement and the terms of an employment agreement and/or related side letter between the Participant and the Company, the terms of such employment agreement and/or related side letter shall control." The Company also acknowledges and agrees that the award agreements for the 2021 Year-End Equity Awards will include the same language, or language of the same effect.

9. Outside Activities. The Company hereby consents to your continued service on the board of directors of the not-for-profit organization Embers International Inc. during the term of your employment with the Company, and acknowledges and agrees that such continued service will not constitute a breach of the Employment Agreement (including, without limitation, Section 1 of the Employment Agreement) or this letter agreement.

10. Duly Authorized. The Employment Agreement and this letter agreement have been duly authorized, executed and delivered by the Company, and constitute the valid and legally binding obligations of the Company.

* * *

The Company may withhold from any amounts payable under this letter agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation. The provisions contained in Section 19 of the Employment Agreement are hereby incorporated by reference herein.

Attached to this letter agreement are Appendices A-D, which Appendices are hereby incorporated herein and made a part hereof. This letter agreement (including the Appendices incorporated herein) contain information that is additive to the subject matter contained in the Employment Agreement, and to such extent constitutes a modification of the Employment Agreement and is neither superseded by, nor does the subject matter hereof supersede, the Employment Agreement. The terms of this letter agreement and the Employment Agreement constitute an irrevocable offer of the Company which shall remain outstanding through to the close of business on April 23, 2021 (the "Acceptance Deadline"). You may indicate your acceptance of the terms of this letter agreement and the Employment Agreement by signing below. If you fail to accept by the Acceptance Deadline, the offer shall be withdrawn and be of no further force or effect.

* * *

[Signature page follows…]

Brooke, we all look forward to working with you. Please sign and date this letter agreement in the space provided below to acknowledge your acceptance of the terms of this letter agreement.

Sincerely,

Redwood Trust, Inc.

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

Attachments

I agree and accept the terms of this letter agreement and the Employment Agreement with Redwood Trust, Inc.

/s/ Brooke Carillo
Brooke Carillo

EXHIBIT 31.1

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

I, Christopher J. Abate, certify that:

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

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

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

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

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

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

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

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

Date: May 7, 2021

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

EXHIBIT 31.2

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

I, Collin L. Cochrane, certify that:

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

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

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

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

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

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

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

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

Date: May 7, 2021	/s/ Collin L. Cochrane
	Collin L. Cochrane
	Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Redwood Trust, Inc. (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the three months ended March 31, 2021 (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: May 7, 2021	/s/ Christopher J. Abate
	Christopher J. Abate
	Chief Executive Officer

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

EXHIBIT 32.2

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Redwood Trust, Inc. (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the three months ended March 31, 2021 (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: May 7, 2021

/s/ Collin L. Cochrane
Collin L. Cochrane

Chief Financial Officer

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