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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 1996

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: 0-26436

REDWOOD TRUST, INC.

(Exact name of Registrant as specified in its Charter)

MARYLAND	68-0329422
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(415) 389-7373

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No -----

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock ($.01 par value) 8,783,601 as of August 7, 1996

REDWOOD TRUST, INC.
FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REDWOOD TRUST, INC.

BALANCE SHEETS
(In thousands, except share data)

<TABLE>
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<S>	June 30, 1996 <C>	December 31, 1995 <C>
ASSETS		
Cash and cash equivalents	$ 10,407	$ 4,825
Mortgage assets	1,007,480	432,244
Interest rate agreements	1,351	547
Accrued interest receivable	7,292	3,270
Other assets	1,800	671
	$1,028,330	$441,557
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Reverse repurchase agreements	$ 858,772	$346,335
Notes payable	37,442	23,981
Accrued interest payable	4,052	1,290
Accrued expenses and other liabilities	361	227
Dividends payable	3,408	1,434
	904,035	373,267
Commitments and contingencies (See Note 10)		
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share; Authorized 50,000,000 shares, issued and outstanding 8,520,116 and 5,517,299 shares	85	55
Additional paid-in capital	130,441	73,895
Net unrealized loss on assets available for sale	(4,553)	(5,476)
Undistributed income (deficit)	(1,678)	(184)
	124,295	68,290
	$1,028,330	$441,557

</TABLE>

The accompanying notes are an integral part of these financial statements

REDWOOD TRUST, INC.

STATEMENTS OF OPERATIONS
(In thousands, except share data)

<TABLE>
<CAPTION>

Three Months Ended Six Months Ended

	June 30, 1996	June 30, 1995	June 30, 1996	June 30, 1995
INTEREST INCOME				
Mortgage assets	$ 12,699	$ 2,941	$ 21,613	$ 5,095
Cash and investments	202	20	419	36
	12,901	2,961	22,032	5,131
INTEREST EXPENSE	9,075	2,191	15,277	3,724
INTEREST RATE AGREEMENTS				
Interest rate agreement expense	255	82	407	98
NET INTEREST INCOME	3,571	688	6,348	1,309
Provision for credit losses	477	40	808	59
Net interest income after provision for credit losses	3,094	648	5,540	1,250
General and administrative expenses	594	198	1,086	399
NET INCOME	$ 2,500	$ 450	$ 4,454	$ 851
NET INCOME PER SHARE				
Primary	$ 0.29	$ 0.22	$ 0.60	$ 0.41
Fully diluted	$ 0.28	$ 0.22	$ 0.58	$ 0.41
Weighted average shares of common stock and common stock equivalents:				
Primary	8,600,232	2,063,094	7,453,969	2,061,148
Fully diluted	8,789,968	2,063,094	7,643,586	2,061,148
Dividends declared per Class A preferred share	$ --	$ 0.30	$ --	$ 0.50
Dividends declared per common share	$ 0.40	$ --	$ 0.86	$ --

</TABLE>

The accompanying notes are an integral part of these financial statements

REDWOOD TRUST, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 1996
(In thousands, except share data)

<TABLE>
<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Net Unrealized Loss on Assets Available for Sale	Undistributed Income (Deficit)	Total
Balance, December 31, 1995	5,517,299	$55	$ 73,895	$(5,476)	$ (184)	$ 68,290
Shares issued pursuant to dividend reinvestment plan	4,077	--	79	--	--	$ 79
Offering costs	--	--	(48)	--	--	$ (48)
Net income	--	--	--	--	1,954	$ 1,954
Common stock dividends declared	--	--	--	--	(2,540)	$ (2,540)
Fair value adjustment on assets available for sale	--	--	--	411	--	$ 411
Balance, March 31, 1996	5,521,376	$55	$ 73,926	$(5,065)	$ (770)	$ 68,146
Shares issued pursuant to dividend reinvestment plan	22,569	--	448	--	--	$ 448
April 19, 1996 public offering issuance of new shares	2,875,000	29	54,855	--	--	$ 54,884

Conversion of stock warrants	101,171	1	1,516	--	--	$ 1,517
Offering costs	--	--	(304)	--	--	$ (304)
Net income	--	--	--	--	2,500	$ 2,500
Common stock dividends declared	--	--	--	--	(3,408)	$ (3,408)
Fair value adjustment on assets available for sale	--	--	--	512	--	$ 512
Balance, June 30, 1996	8,520,116	$85	$130,441	$(4,553)	$(1,678)	$124,295

</TABLE>

The accompanying notes are an integral part of these financial statements

REDWOOD TRUST, INC.

STATEMENTS OF CASH FLOWS
(In thousands, except share data)

<TABLE>
<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 2,500	$ 450	$ 4,454	$ 851
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of mortgage asset premium and discount, net	1,023	(202)	1,554	(418)
Depreciation and amortization	18	13	35	25
Provision for credit losses on mortgage assets	477	40	808	59
Amortization of interest rate cap agreements	189	82	340	98
(Increase) in accrued interest receivable	(2,796)	(401)	(4,022)	(512)
(Increase) in other assets	(1,098)	(52)	(1,164)	(15)
Increase (decrease) in accrued interest payable	2,436	(347)	2,762	(358)
Increase (decrease) in accrued expenses and other	71	(3)	134	60
Net cash provided by (used in) operating activities	2,820	(420)	4,901	(210)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of mortgage assets	(496,184)	(35,355)	(663,036)	(59,471)
Principal payments on mortgage assets	53,058	2,934	85,872	5,608
Purchase of interest rate cap agreements	(489)	(37)	(654)	(331)
Net cash used in investing activities	(443,615)	(32,458)	(577,818)	(54,194)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings from reverse repurchase agreements	387,400	29,246	512,437	44,898
Net borrowings from notes payable	93	4,637	13,461	10,607
Private placement issuance costs	--	(5)	--	(8)
Proceeds from stock issued pursuant to dividend reinvestment plan	448	--	527	--

Proceeds from common stock issued	56,400	--	56,400	--
Stock issuance costs	(304)	--	(352)	--
Dividends paid	(2,540)	(333)	(3,974)	(500)
	---------	--------	---------	--------
Net cash provided by financing activities	441,497	33,545	578,499	54,997
Net increase in cash and cash equivalents	702	667	5,582	593
Cash and cash equivalents at beginning of period	9,705	953	4,825	1,027
	---------	--------	---------	--------
Cash and cash equivalents at end of period	$ 10,407	$ 1,620	$ 10,407	$ 1,620
	=========	========	=========	========
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 6,639	$ 2,538	$ 12,515	$ 4,082
	=========	========	=========	========

</TABLE>

The accompanying notes are an integral part of these financial statements

REDWOOD TRUST, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1996

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Redwood Trust, Inc. (the "Company") was incorporated in Maryland on April 11, 1994. At incorporation 208,332 shares of the Company's common stock, par value $.01 per share ("Common Stock") were issued to various officers and employees of the Company.

On August 19, 1994, upon receipt of the net proceeds from the first closing of its private placement of Units, the Company commenced its operations of acquiring and managing mortgage assets. Each Unit consisted of one share of Class A Convertible Preferred Stock, par value $.01 per share ("Preferred Stock") and one Stock Purchase Warrant ("Warrant"). In this first closing, the Company issued 1,226,465 Units at a price of $15 per Unit. The Company received proceeds of $17 million, net of an underwriting discount of $1.05 per share and other offering costs.

In October 1994, the Company completed a second closing of its private placement of Units. The Company issued an additional 439,598 Units at a price of $15 per Unit. The Company received proceeds of $6 million, net of an underwriting discount of $1.05 per share and other offering costs.

On August 9, 1995, the Company completed its initial public offering of 3,593,750 shares of common stock at $15.50 per share (the "Initial Public Offering"). The Company received proceeds of $51 million, net of an underwriting discount of $1.085 per share and other offering costs. Concurrent with the completion of the Initial Public Offering, all 1,666,063 outstanding shares of Class A Convertible Preferred Stock converted into 1,667,134 shares of Common Stock.

On April 19, 1996, the Company completed its second public offering of 2,875,000 shares of common stock at $20.25 per share. The Company received proceeds of $55 million, net of an underwriting discount of $1.164 per share and other offering costs.

The Company's primary source of revenue is from the acquisition and management of real estate mortgage loans and mortgage securities (together "Mortgage Assets"). The Company acquires Mortgage Assets that are secured by single-family, multifamily and commercial real estate properties throughout the Untied States, with a special emphasis on properties located in the State of California.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates

and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

A summary of the Company's significant accounting policies follows:

Cash and cash equivalents

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

Mortgage Assets

The Company's mortgage assets ("Mortgage Assets") may consist of mortgage loans, mortgage loans which have been securitized by the Company following acquisition, mortgage loans which have been securitized by others prior to acquisition by the Company and interest only strips ("IO Strips").

Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"), requires the Company to classify its investments as either trading investments, available-for-sale investments or held-to-maturity investments. Although the Company generally intends to hold most of its Mortgage Assets until maturity, it may, from time to time, sell any of its Mortgage Assets as part of its overall management of its balance sheet. Accordingly, this flexibility requires the Company to classify all of its Mortgage Assets as available-for-sale. All assets classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

Unrealized losses on Mortgage Assets that are considered other-than-temporary, as measured by the amount of decline in fair value attributable to factors other than temporary, are recognized in income and the cost basis of the Mortgage Asset is adjusted. Other-than-temporary unrealized losses are based on management's assessment of various factors affecting the Mortgage Assets; primarily, a deterioration of the credit quality of the underlying mortgages, or a deterioration of the credit protection available related to the mortgage loan pool.

Interest income is accrued based on the outstanding principal amount of the Mortgage Assets and their contractual terms. Discounts and premiums relating to Mortgage Assets are amortized into interest income over the lives of the Mortgage Assets using methods that approximate the effective yield method. Gains or losses on the sale of Mortgage Assets are based on the specific identification method.

IO Strips are accounted for under the prospective method. Under this method, income is amortized over the asset's estimated life based on a method which provides a constant yield. At the end of each quarter, the yield over the remaining life of the asset is recalculated based on expected future cash flows. This new yield is then used to calculate the subsequent quarter's financial statement income.

Under certain extended high interest rate periods, or in the event of extremely high prepayment rates on the collateral, the return on the Company's investment in an IO Strip could be zero or negative. In the event that the projected return on an investment in an IO Strip falls below a risk free rate, the Company would record a write down of such investment to its fair value.

Interest Rate Agreements

The rate the Company pays on its short-term and variable borrowings will rise and fall without limit as short-term market interest rates fluctuate. The rate the Company earns on its adjustable rate assets, however, is limited by periodic and lifetime caps.

Under the Company's hedging policy the Company does not hedge specific assets or liabilities, but rather the Company hedges the risk of overall limitations to its interest income. To utilize hedge accounting, the policy requires risk reduction and that there be at least a 50% correlation between changes in the estimated fair value of the assets or liabilities hedged and the hedge instruments. Interest Rate Agreements, which include interest rate cap agreements (the "Cap

Agreements") and interest rate swap agreements (the "Swap Agreements"), entered into by the Company are intended to provide income throughout their effective period to offset potential reduced net interest income under certain rising interest rate scenarios. The Company periodically evaluates the effectiveness of these hedges under various interest rate scenarios.

The Company accounts for the Interest Rate Agreements as hedges. Because the Mortgage Assets are carried at fair value, the Company's Interest Rate Agreements are carried at fair value, with unrealized gains and losses reported as a separate component of equity.

The cost of each Cap Agreement is amortized over the effective period of that Cap Agreement using the effective interest method. The income and expense related to each Swap Agreement is recognized on an accrual basis. Gains and losses on early termination of Interest Rate Agreements are amortized as a component of net interest income over the remaining term of the original Interest Rate Agreement, or, if shorter, over the remaining term of associated Mortgage Assets as adjusted for estimated future principal prepayments.

Unrealized losses on Interest Rate Agreements that are considered other than temporary are recognized in income and the cost basis of the Interest Rate Agreement is adjusted. The other than temporary decline is measured as the amount of the decline in fair value attributable to factors that are other than temporary. Other than temporary unrealized losses are based on management's assessment of various factors affecting the Interest Rate Agreements; primarily, a deterioration of the ability of the counterparty to perform under the terms of the Interest Rate Agreement.

Premises, Furniture and Equipment

Leasehold improvements are stated at cost and are amortized on a straight-line basis over the life of the lease. Furniture and equipment is stated at cost and depreciated on an accelerated basis over its estimated useful life. Expenditures for repairs and maintenance are charged to expense when incurred. Premises and equipment totaled $175,932 at June 30, 1996 and $113,515 at December 31, 1995. Depreciation expense and leasehold improvements amortization for the three and six months ended June 30, 1996 totaled $9,657 and $18,552, respectively. Depreciation expense and leasehold improvements amortization for the three and six months ended June 30, 1995 totaled $4,059 and $8,118, respectively. Accumulated depreciation and leasehold improvement amortization totaled $49,919 at June 30, 1996 and $31,367 at December 31, 1995.

Income Taxes

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") and intends to comply with the REIT provisions of the Internal Revenue Code (the "Code") and the corresponding provisions of State law. Accordingly, the Company will not be subject to Federal or state income tax to the extent of its distributions to stockholders. In order to maintain its status as a REIT, the Company is required, among other requirements, to distribute at least 95% of its taxable income.

Earnings per Share

Earnings per share are based on the weighted average shares of common stock outstanding plus common equivalent shares arising from the effect of convertible preferred stock, using the if-converted method, and dilutive stock options and warrants, using the treasury stock method. The treasury stock method calculation assumes all dilutive stock options and warrants are exercised and the funds generated by the exercise are used to buy back outstanding common stock at the average market price during the reporting period, for primary earnings per share, or at the end of period market price if higher, for fully diluted earnings per share.

Credit Risk

Most of the Company's Mortgage Assets have protection from some degree of credit loss either through subordination, insurance, third party guarantees, or other means. Many of the Company's privately issued Mortgage Assets have received

ratings from one or more of the four nationally recognized credit rating agencies. Based on these ratings, and on credit criteria similar to those used by rating agencies, the Company assigns a "rating equivalent" to each Mortgage Asset. For purposes of assigning a rating equivalent to unrated pools of whole loans or unrated securitized pools of mortgage loans, the Company assigns a series of ratings to different portions of the pool according to the Company's estimation of how the pool would currently be structured and rated if it were newly securitized. At June 30, 1996, the privately issued Mortgage Assets held by the Company had rating equivalents ranging from AAA to unrated, with a weighted average of AA; the weighted average rating equivalent of all the Company's Mortgage Assets was AA+. At December 31, 1995, the privately issued Mortgage Assets held by the Company had rating equivalents ranging from AAA to unrated, with a weighted average of A+; the weighted average rating equivalent of all the Company's Mortgage Assets was AA+.

An allowance for credit losses is maintained at a level deemed appropriate by management to provide for known losses as well as unidentified potential losses in its Mortgage Asset portfolio. The allowance is based upon management's assessment of various factors affecting its privately issued Mortgage Assets, including current and projected economic conditions, delinquency status and credit protection. In determining the allowance for credit losses, the Company's credit exposure is considered based on its credit risk position in the mortgage pool. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The allowance is increased by provisions charged to operations. When a loan or portions of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance. During the three and six months ended June 30, 1996 the Company provided for $476,669 and $808,185 in credit losses, respectively. During the three and six months ended June 30, 1995 the Company provided for $40,599 and $59,035 in credit losses, respectively. During the three and six months ended June 30, 1996 and June 30, 1995 the Company incurred no charge-offs. The reserve balance at June 30, 1996 and December 31, 1995 was $1,297,899 and $489,713, respectively.

NOTE 2. MORTGAGE ASSETS

Mortgage Assets Excluding IO Strip

At June 30, 1996, Mortgage Assets, excluding IO Strips, consisted of the following:

<TABLE>
<CAPTION>

(IN THOUSANDS)	FEDERAL HOME LOAN MORTGAGE CORPORATION	FEDERAL NATIONAL MORTGAGE ASSOCIATION	PRIVATELY ISSUED MORTGAGE ASSETS	TOTAL
<S>	<C>	<C>	<C>	<C>
Mortgage Assets, Gross	$219,124	$385,592	$401,049	$1,005,765
Unamortized Discount	0	(266)	(16,342)	(16,608)
Unamortized Premium	5,561	9,209	4,957	19,727
Amortized Cost	224,685	394,535	389,664	1,008,884
Allowance for Credit Losses	0	0	(1,298)	(1,298)
Gross Unrealized Gains	299	1,088	1,928	3,315
Gross Unrealized Losses	(494)	(834)	(4,094)	(5,422)
Estimated Fair Value	$224,490	$394,789	$386,200	$1,005,479

</TABLE>

At December 31, 1995, Mortgage Assets, excluding IO Strips, consisted of the following:

<TABLE>
<CAPTION>

(IN THOUSANDS)	FEDERAL HOME LOAN MORTGAGE CORPORATION	FEDERAL NATIONAL MORTGAGE ASSOCIATION	PRIVATELY ISSUED MORTGAGE ASSETS	TOTAL
<S>	<C>	<C>	<C>	<C>
Mortgage Assets, Gross	$46,160	$190,061	$207,404	$443,625
Unamortized Discount	0	(313)	(16,719)	(17,032)
Unamortized Premium	907	3,608	1,535	6,050

Amortized Cost	47,067	193,356	192,220	432,643
Allowance for Credit Losses	0	0	(490)	(490)
Gross Unrealized Gains	334	1,033	874	2,241
Gross Unrealized Losses	(110)	(458)	(4,345)	(4,913)
Estimated Fair Value	$47,291	$193,931	$188,259	$429,481

</TABLE>

At June 30, 1996 and December 31, 1995, all investments in Mortgage Assets consisted of interests in adjustable rate mortgages on residential properties. A majority of such properties are located in the State of California. The securitized interests in pools of adjustable rate mortgages from the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association are guaranteed as to principal and interest by those US government agencies. The original maturity of the vast majority of the Mortgage Assets is over a period of thirty years; the actual maturity is subject to change based on the prepayments of the underlying mortgage loans.

At June 30, 1996, the average annualized effective yield was 6.92% based on the amortized cost of the assets and 6.98% based on the fair value of the assets. At December 31, 1995, the average annualized effective yield on the Mortgage Assets was 7.66% based on the amortized cost of the assets and 7.74% based on the fair value of the assets.

Most of the adjustable rate mortgage securities and loans are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months) and lifetime caps. At June 30, 1996 and December 31, 1995 the weighted average lifetime cap was 11.71% and 11.54%, respectively.

IO Strips

The amortized cost and fair value of the Company's IO Strips are summarized as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1996	DECEMBER 31, 1995
<S>	<C>	<C>
Amortized Cost	$2,963	$3,593
Gross Unrealized Gains	0	0
Gross Unrealized Losses	(962)	(830)
Estimated Fair Value	$2,001	$2,763

</TABLE>

The average annualized effective yield at June 30, 1996 on the IO Strips was 7.84% based on the amortized cost of the assets and 12.12% based on the fair value of the assets. The average annualized effective yield at December 31, 1995 on the IO Strips was 9.99% based on the amortized cost of the assets and 13.61% based on the fair value of the assets.

NOTE 3. INTEREST RATE AGREEMENTS

The amortized cost and fair value of the Company's Interest Rate Agreements are summarized as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1996	DECEMBER 31, 1995
<S>	<C>	<C>
Amortized Cost	$ 2,835	$ 2,521
Gross Unrealized Gains	108	0
Gross Unrealized Losses	(1,592)	(1,974)
Estimated Fair Value	$ 1,351	$ 547

</TABLE>

Cap Agreements

The Company had thirty-two outstanding Cap Agreements at June 30, 1996 and twenty-three outstanding Cap Agreements at December 31, 1995. Potential future earnings from each of these Cap Agreements are based on variations in the London Interbank Offered Rate ("LIBOR"). Three of the Cap Agreements at June 30, 1996 and December 31, 1995 had contractually stated notional amounts which vary over the life of the Cap Agreement. The sum of the notional amounts of the Company's Cap Agreements in effect was $464,000,000 and $302,000,000 at June 30, 1996 and December 31, 1995, respectively. The weighted average cap strike rate during the three and six months ended June 30, 1996 was 7.12% and 7.22%. The weighted average cap strike rate during the three and six months ended June 30, 1995 was 7.62% and 7.44%. Under these Cap Agreements the Company will receive cash payments should an agreed-upon

reference rate, either one-month or three-month LIBOR, increase above the strike rates of the Cap Agreements.

Cap Agreements outstanding at June 30, 1996 are as follows:

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS) YEAR	AVERAGE CAP NOTIONAL FACE AMOUNT	AVERAGE CAP STRIKE RATE	LOW CAP STRIKE RATE	HIGH CAP STRIKE RATE	EXPECTED CAP EXPENSE AMORTIZATION
1996 (last 6 months)	$432,446	7.25%	5.50%	12.00%	$ 385
1997	321,875	7.94%	5.50%	12.00%	613
1998	185,657	8.74%	6.94%	12.00%	533
1999	110,277	9.30%	6.94%	12.00%	372
2000	52,889	8.95%	7.50%	10.00%	255
2001	33,082	8.55%	7.50%	9.00%	220
2002	24,616	8.68%	8.00%	9.00%	157
2003	22,634	8.67%	8.00%	9.00%	145
2004	21,834	8.67%	8.00%	9.00%	135
2005	5,216	8.53%	8.50%	9.00%	20
Total					$2,835

</TABLE>

Swap Agreements

The Company had seven outstanding Swap Agreements at June 30, 1996 and one outstanding Swap Agreement at December 31, 1995. The Swap Agreements outstanding at June 30, 1996 and December 31, 1995 are as follows:

<TABLE>
<CAPTION>

EFFECTIVE PERIODS:	NOTIONAL FACE AMT (IN THOUSANDS)	INTEREST RATE COMPANY PAYS	INTEREST RATE COMPANY RECEIVES
April 1996 to April 1997 and	$10,000	6.97%	3 Month LIBOR
April 1997 to April 1998		7.18%	3 Month LIBOR
May 1996 to May 1997	$20,000	6.01%	3 Month LIBOR
May 1996 to May 1998	$20,000	6.40%	3 Month LIBOR
June 1996 to June 1997	$20,000	6.06%	3 Month LIBOR
October 1996 to October 1997	$15,000	6.49%	3 Month LIBOR
June 1996 to June 1998	$30,000	3 mo. T Bills + .44%	3 Month LIBOR
June 1996 to June 1999	$30,000	3 mo. T Bills + .46%	3 Month LIBOR

</TABLE>

The Company has incurred credit risk to the extent that the counter-parties to the Interest Rate Agreements do not perform their obligations under the Interest Rate Agreements. Potential credit write offs are limited to the amortized cost of the Cap Agreements. In addition, for both Cap and Swap Agreements, if one of the counter-parties does not perform, the Company would not receive the cash to which it would otherwise be entitled under the Interest Rate Agreement. In order to mitigate this risk, the Company has entered into Interest Rate Agreements only with counter-parties rated A or better and has entered into Interest Rate Agreements with eight different counter-parties in order to reduce the risk of credit exposure to any one counter-party.

There have been no terminations of Interest Rate Agreements as of June 30, 1996 or December 31, 1995.

NOTE 4. REVERSE REPURCHASE AGREEMENTS AND NOTES PAYABLE

The Company has entered into both reverse repurchase agreements and notes payable (together "Borrowings") to finance acquisitions of a portion of its Mortgage Assets. These Borrowings are collateralized by a portion of the Company's Mortgage Assets. At no time are more than 34% of the Borrowings with any one investment banking firm. At June 30, 1996, Mortgage Assets actually pledged had an estimated fair value of $947,321,364. At December 31, 1995, Mortgage Assets actually pledged had an estimated fair value of $386,321,449.

At June 30, 1996 the Company had $896,214,000 of Borrowings outstanding with a weighted average borrowing rate of 5.70% and a weighted average maturity of 72 days. At December 31, 1995, the Company had $370,316,047 of Borrowings outstanding with a weighted average borrowing rate of 6.01% and a weighted average remaining maturity of 74 days. At June 30, 1996 and December 31, 1995, the Borrowings had the following remaining maturities:

<TABLE>

(IN THOUSANDS)	JUNE 30, 1996	DECEMBER 31, 1995
Within 30 days	$340,496	$ 75,808
30 to 90 days	187,541	175,921
Over 90 days	368,177	118,587
Total Borrowings	$896,214	$370,316

For the three and six months ended June 30, 1996, the average balance of Borrowings was $651,643,000 and $543,811,000, respectively with a weighted average interest cost of 5.60% and 5.65%. For the three and six months ended June 30, 1995 the average balance of Borrowings was $139,978,725 and $121,571,884, respectively with a weighted average interest cost of 6.28% and 6.18%. The maximum balance outstanding during the six months ended June 30, 1996 was $897,271,000. The maximum balance outstanding during the year ended December 31, 1995 was $370,316,000.

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at June 30, 1996 and December 31, 1995 . FASB statement No. 107, Disclosures about Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale.

	JUNE 30, 1996		DECEMBER 31, 1995	
(IN THOUSANDS)	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets				
Mortgage Assets	$1,005,479	$1,005,479	$429,481	$429,481
IO Strips	2,001	2,001	2,763	2,763
Interest Rate Agreements	1,351	1,351	547	547

Management bases its fair value estimates primarily on third party bid price indications, such as bid indications provided by dealers who make markets in these assets and asset valuations made by collateralized lenders, when such indications are available. However, the fair value reported reflects estimates and may not necessarily be indicative of the amounts the Company could realize in a current market exchange. Cash and cash equivalents, interest receivable, reverse repurchase agreements and accrued liabilities are reflected in the financial statements at their amortized costs, which approximates their fair value because of the short-term nature of these instruments.

NOTE 6. CLASS A CONVERTIBLE PREFERRED STOCK

Prior to the Initial Public Offering the Company was authorized to issue up to 12,000,000 shares of Preferred Stock, $.01 par value, in one or more series and to fix the powers, designations, preferences and rights of each series. The Preferred Stock ranked senior to the Company's Common Stock as to dividends and liquidation rights. Following the closing of the Initial Public Offering, the Company filed Articles Supplementary to reclassify all authorized and unissued shares of Preferred Stock and all shares of Class A Preferred Stock received upon conversion of Class A Preferred Stock into Common Stock as authorized and unissued shares of Common Stock.

NOTE 7. STOCK PURCHASE WARRANTS

At June 30, 1996 and December 31, 1995 there were 1,563,957 and 1,665,063 Warrants outstanding, respectively. Each Warrant entitles the holder to purchase 1.000667 share of the Company's common stock at an exercise price of $15.00 per share. The Warrants remain exercisable until December 31, 1997.

NOTE 8. STOCK OPTION PLAN

The Company has adopted a Stock Option Plan for executive officers, key employees and non-employee directors (the "Stock Option Plan"). The Stock Option Plan authorizes the Board of Directors (or a committee appointed by the Board of Directors) to grant "incentive stock options" as defined under section 422 of the Code ("ISOs"), options not so qualified ("NQSOs"), deferred stock, restricted stock, performance shares, stock appreciation rights and limited stock appreciation rights ("Awards") and dividend equivalent rights ("DERs") to such eligible

recipients other than non-employee directors. Non-employee directors are automatically provided annual grants of NQSOs with DERs pursuant to a formula under the Stock Option Plan.

The number of shares of Common Stock available under the Stock Option Plan for options and Awards, subject to certain anti-dilution provisions, is 15% of the Company's total outstanding shares of Common Stock, provided that no more than 500,000 shares of Common Stock shall be cumulatively available for grant as ISOs. At June 30, 1996, there were 1,278,017 shares of Common Stock available for grant. The exercise price for ISOs granted under the Stock Option Plan may not be less than the fair market value of shares of Common Stock at the time the ISO is granted. In June, 1996 each of the four non-employee directors was automatically granted an additional 2,500 NQSOs at an exercise price of $24.63 per share. No options were granted to employees during the three

and six months ended June 30, 1996. During the year ended December 31, 1995 each of the four non-employee directors was automatically granted an additional 2,500 NQSOs at an exercise price of $7.18 per share and employees were granted 156,972 NQSOs at exercise prices ranging from $17.38 to $21.50 per share. On July 19, 1995, 47,083 options were exercised at prices ranging from $0.10 to $0.11 per share resulting in proceeds to the Company of $5,079. During the year ended December 31, 1994 the Company granted 40,000 options at an exercise price of $0.10 per share, 20,000 of which were NQSOs and 20,000 of which were ISOs, and 148,333 ISOs at an exercise price of $0.11 per share. All stock options granted under the Stock Option Plan vest no earlier than ratably over a four year period from the date of grant and expire within ten years after the date of grant.

The Company's Stock Option Plan permits NQSOs granted under the plan to accrue DERs. The first and second quarter 1996 dividends resulted in non-cash charges to general and administrative expenses of $84,919 and $79,405, respectively, for DERs accruing on NQSOs outstanding on the record date of the dividend. The 1995 dividends on common stock resulted in non-cash charges to general and administrative expenses of $54,513 for DERs accruing on NQSOs outstanding on the record date of the dividend. DERs represent shares of stock which are issuable to holders of NQSOs when the holders exercise the underlying NQSOs based on the price of the stock on the dividend payment date. A total of 9,508 shares have been granted as DERs as of June 30, 1996. At June 30, 1996 a total of 374,813 of the 1,278,017 available options had been granted as options or DERs (47,083 of which had been exercised) leaving 903,204 of the options available for grant.

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation." Under the provisions of SFAS No. 123, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. The Company is required to either recognize compensation expense under this method or to disclose the pro forma net income and earnings per share effects based on the SFAS No. 123 fair value methodology. SFAS No. 123 applies to financial statements for fiscal years beginning after December 15, 1995. The Company will implement the requirements of SFAS No. 123 in 1996 and will only adopt the disclosure provisions of this statement; accordingly, this statement will have no impact on the financial position and the results of operations when adopted.

NOTE 9. DIVIDENDS

On March 11, 1996 the Company declared a dividend of $2,539,833, or $0.46 per common share. This dividend was paid on April 19, 1996 to shareholders of record as of March 29, 1996. On June 14, 1996 the Company declared a dividend of $3,408,046, or $0.40 per common share. This dividend was paid on July 18, 1996 to shareholders of record as of June 28, 1996.

On March 17, 1995, the Company declared a dividend of $333,213, or $0.20 per preferred share. This dividend was paid on April 21, 1995 to preferred shareholders of record as of March 31, 1995. On June 19, 1995, the Company declared a dividend of $499,819, or $0.30 per preferred share. This dividend was paid on July 21, 1995 to preferred shareholders of record as of June 30, 1995. On September 15, 1995, the Company declared a dividend of $1,103,264, or $0.20 per common share. This dividend was paid on October 20, 1995 to common shareholders of record as of September 29, 1995. On December 13, 1995, the Company declared a dividend of $1,434,500, or $0.26 per common share. This fourth quarter 1995 dividend was paid on January 19, 1996 to common shareholders of record as of December 29, 1995

Under the Internal Revenue Code of 1986, a dividend declared by a REIT in December of a calendar year, payable to shareholders of record as of a specified date in December, will be deemed to have been paid by the Company and received by the shareholders on that record date if the dividend is actually paid before February 1st of the following calendar year. Therefore, the dividend declared in December 1995 which was paid in January 1996 is considered taxable income to shareholders in the

year declared. The Company's dividends are not eligible for the dividends received deduction for corporations.

NOTE 10. COMMITMENTS AND CONTINGENCIES

As of June 30, 1996 the Company had entered into a commitment to purchase a Federal National Mortgage Association Asset for approximately $2,300,000. At June 30, 1996 and December 31, 1995, the Company had no other outstanding commitments to purchase or sell Mortgage Assets or to purchase, sell or terminate Interest Rate Agreements. The Company also had no commitments to enter into additional reverse repurchase agreements or other borrowings.

Rental expense for office properties under operating leases for the three and six months ended June 30, 1996 was $26,399 and $50,461, respectively. Rental expense for office properties under operating leases for the three and six months ended June 30, 1995 was $16,098 and $31,822, respectively. Future minimum rental commitments as of June 30, 1996 under noncancelable operating leases with initial or remaining terms of more than one year, are as follows:

YEAR ENDING DECEMBER 31,	MINIMUM RENTAL COMMITMENT AS OF JUNE 30, 1996 (IN THOUSANDS)
1996	60
1997	121
1998	121
1999	121
2000	121
2001	40
Total	$584

Because the lease is in the Company's name, the above amounts represent 100% of the minimum future rental commitments. However, the Company shares certain office expenses, such as lease payments and utilities, on a pro rata basis with GB Capital. GB Capital is owned by certain officers of the Company. This arrangement is covered by an Administrative Services and Facilities Sharing Agreement. For the three and six months ended June 30, 1996, the Company was bearing 95% of the lease expenses and GB Capital was bearing 5%. For the three and six months ended June 30, 1995, the Company was bearing 70% of the lease expenses and GB Capital was bearing 30%.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Redwood Trust, Inc. (the "Company") is a mortgage finance company which acquires and holds mortgage assets using its equity and borrowed funds. The Company's source of earnings is net interest income, or the interest income earned on mortgages less the interest expense paid on borrowed funds. The Company's primary competitors are other financial institutions, such as banks and savings and loan institutions, which seek to earn spread income from owning mortgage assets. Compared to most of its competitors, the Company believes it benefits from a lower cost of operations and from its status as a Real Estate Investment Trust ("REIT"). As a REIT, the Company does not pay Federal taxes so long as the Company pays out as dividends an amount equal to at least 95% of its taxable income.

The Company's strategy is to focus solely on being a highly efficient spread lender. Instead of maintaining an in-house mortgage origination staff, the Company acquires mortgage assets from mortgage origination companies and from the secondary mortgage market. The Company out-sources mortgage servicing functions. Rather than build a retail branch banking system, the Company accesses borrowed funds in the capital markets. In the second quarter of 1996, the Company's operating expenses to assets ratio was 0.31% and its ratio of operating expenses to net interest income was 17%.

As of June 30, 1996, all of the Company's mortgage assets were adjustable-rate, first-lien mortgages on single-family properties. In the future, the Company may acquire fixed-rate single-family mortgage loans as well as mortgage loans on multi-family or commercial properties.

The Company acquires individual whole mortgage loans (7% of total mortgage assets as of June 30, 1996), pools of mortgage loans which have been fully insured against credit losses by one of the Federal government mortgage agencies (61%), pools of mortgage loans which have been securitized and which have partial private-sector credit-enhancement through insurance, subordination, or other means sufficient to warrant an investment-grade credit rating from one of the nationally-recognized credit rating firms (29%), and securitized mortgage interests which are subordinated and have higher levels of credit risk such that they have received a rating below BBB (3%). The average credit rating equivalent of the Company's mortgage assets is AA+.

The Company is an "A" quality mortgage lending company: the Company does not own mortgages originated to "B", "C", or "D" quality origination or documentation standards except in limited circumstances when the Company has a degree of credit protection sufficient to eliminate most of the potential credit risk from such loans.

In general, the Company seeks to acquire "A" quality single-family mortgage assets consisting of mortgages with loan balances between $207,000 and $500,000, with a target average loan balance of $250,000 to $300,000. Because of their size, these "jumbo" loans are not eligible to be acquired or guaranteed by the Federal government mortgage agencies (FNMA, FHLMC). The Company also acquires FNMA and FHLMC mortgage securities.

As of June 30, 1996, over two-thirds of the non-FNMA, non-FHLMC mortgage assets owned by the Company were secured by single-family residential properties located in California. Management believes that the economy and the trend of residential housing values in California was generally stable to improving during the second quarter of 1996. The Company believes that a majority of the jumbo adjustable-rate mortgages in the United States are secured by California properties.

The rate the Company earns on its mortgage assets increases or falls in conjunction with short-term interest rates, as does the rate the Company pays on its borrowings. The coupon rate on each mortgage generally adjusts on a one, six or twelve month cycle; the average term-to-next-adjustment for all of the Company's mortgage assets was 4 months as of June 30, 1996. Borrowings have maturities ranging from one to twelve months; the average term-to-next-adjustment for borrowings was 2.4 months as of June 30, 1996. Coupon rate adjustments on the Company's mortgages are limited by periodic and lifetime caps; the Company's hedging program seeks to mitigate the negative

effects such coupon caps may have on spread income should short-term interest rates increase rapidly. Because the Company's adjustable-rate earning assets exceed its liabilities, the Company believes that rising short-term interest rates may lead to higher net earnings after a lag period, all other factors being equal. Similarly, falling short-term interest rates may lead to reduced net earnings after a lag period.

The Company seeks to generate secular growth in earnings and dividends per share in a variety of ways, including through (i) issuing new equity and increasing the size of the balance sheet when opportunities in the mortgage market are likely to allow growth in earnings per share, (ii) seeking to improve productivity by increasing the size of the balance sheet at a rate faster than operating expenses increase, (iii) changing the mix of mortgage asset types on the balance sheet in an effort to improve risk-adjusted returns, (iv) seeking to benefit by an increased market value of assets and lower borrowing costs should mortgage asset quality improve with seasoning, mortgage principal repayments, and improvements in real estate markets and the general economy, and (v) increasing the efficiency with which the Company utilizes its equity capital over time by increasing the Company's use of debt when prudent and by issuing subordinated debt, preferred stock or other forms of debt and equity.

To date, the Company has grown rapidly by issuing new capital and acquiring new mortgage assets. While the Company believes such growth has significantly increased its long-term earnings per share potential, the near-term effect has been a reduction in reported earnings per share as compared to what earnings likely would have been otherwise. The Company intends to continue to pursue growth when management believes that such growth is likely to be additive to earnings per share potential.

RESULTS OF OPERATIONS: THREE MONTHS ENDING JUNE 30, 1996 VERSUS THREE MONTHS ENDING JUNE 30, 1995 AND FIRST SIX MONTHS OF 1996 VERSUS FIRST SIX MONTHS OF 1995

REPORTING PERIODS

The 1994 fiscal year ("fiscal 1994") commenced with the start of Company operations on August 19, 1994 and finished December 31, 1994. All subsequent reporting periods correspond to their calendar

equivalents.

NET INCOME SUMMARY

Net earnings for the second quarter of 1996 were $2.5 million. These earnings were five times the $0.5 million the Company earned in the second quarter of 1995. The primary reason total earnings increased was that average assets increased by 369%. For similar reasons, net earnings in the first half of 1996 of $4.5 million represent an increase of 423% over net earnings of $0.9 million in the first half of 1995.

TABLE 1
NET INCOME

<TABLE>
<CAPTION>

	INTEREST INCOME	INTEREST EXPENSE	INTEREST RATE AGREEMENT EXPENSE	NET INTEREST INCOME	CREDIT PROVISION EXPENSE	OPERATING EXPENSES	NET INCOME
			(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 5,131	$ 3,724	$ 98	$1,309	$ 59	$ 399	$ 851
1996, 1st Half	22,032	15,277	407	6,348	808	1,086	4,454
Fiscal 1994	$ 1,296	$ 760	$ 8	$ 528	$ 0	$ 146	$ 382
1995, Quarter 1	2,170	1,533	16	621	19	201	401
1995, Quarter 2	2,961	2,191	82	688	40	198	450
1995, Quarter 3	3,985	2,432	112	1,441	84	364	993
1995, Quarter 4	6,610	4,452	129	2,029	350	368	1,311
1996, Quarter 1	9,131	6,202	152	2,777	331	492	1,954
1996, Quarter 2	12,901	9,075	255	3,571	477	594	2,500

</TABLE>

Earnings per share in the second quarter of 1996 were $0.29, representing an increase of 33% over the $0.22 per share earned in the second quarter of 1995. Earnings per share increased both due to an increase in return on equity from 8.00% to 8.93% and an increase in the equity per share the Company had available with which to generate earnings. Equity capital (book value) per share increased from $12.02 to $14.59 due to accretive stock offerings at prices in excess of book value in August 1995 and April 1996. The increase in return on equity of 12% and the increase in book value per share of 21% led directly to an earnings per share increase of 33%.

Second quarter 1996 earnings per share were lower than the $0.32 reported in the first quarter of 1996. Although book value per share on a subsequent quarter basis increased from $12.34 to $14.59 due to the Company's April 1996 stock offering, return on equity dropped from 11.43% to 8.93%. The stock offering had two temporary dilutive effects on return on equity and earnings per share: the Company was under-invested in mortgage assets relative to its equity base on average in the second quarter (the Company's capital was 74% employed in the second quarter versus 87% in the first quarter) and the new mortgage assets acquired in the second quarter had lower initial coupons than the average mortgage in portfolio. By the end of the second quarter, however, 89% of the Company's capital was employed in earning assets. In addition, the lower initial coupons on newly acquired mortgages should adjust upwards towards their full potential rates over time, with most of the adjustment available to the Company within six months.

For the first half of 1996, earnings per share were $0.60, an increase of 45% versus the comparable period in 1995. Return on equity increased from 7.73% to 9.88% and book value per share increased from $12.02 to $14.59.

Reported earnings per share is based on primary shares. The number of primary shares equals the average number of shares outstanding during the quarter plus shares added due to the potential dilutive effects of future warrant and option exercises.

TABLE 2
EARNINGS PER SHARE, BOOK VALUE PER SHARE
AND RETURN ON EQUITY

<TABLE>
<CAPTION>

	AVERAGE NUMBER OF SHARES OUTSTANDING	POTENTIAL DILUTION DUE TO WARRANTS AND OPTIONS	TOTAL PRIMARY SHARES	BOOK VALUE PER SHARE OUTSTANDING AT END OF PERIOD	RETURN ON AVERAGE EQUITY	EARNINGS PER PRIMARY SHARE (EPS)
<S>	<C>	<C>	<C>	<C>	<C>	<C>

1995, 1st Half	1,874,395	186,753	2,061,148	$12.02	7.73%	$0.41
1996, 1st Half	6,667,675	786,294	7,453,969	14.59	9.88%	0.60
Fiscal 1994	1,676,080	240,766	1,916,846	$10.82	5.35%	$0.20
1995, Quarter 1	1,874,395	240,766	2,115,161	11.93	7.46%	0.19
1995, Quarter 2	1,874,395	188,699	2,063,094	12.02	8.00%	0.22
1995, Quarter 3	3,944,129	239,009	4,183,138	13.14	7.59%	0.23
1995, Quarter 4	5,516,310	563,197	6,079,507	12.38	7.22%	0.22
1996, Quarter 1	5,521,376	608,211	6,129,587	12.34	11.43%	0.32
1996, Quarter 2	7,813,974	786,258	8,600,232	14.59	8.93%	0.29

</TABLE>

DIVIDEND SUMMARY

Dividends in the second quarter of 1996 were $0.40 per share, an increase of 33% over the $0.30 dividend paid in the same quarter one year earlier. Total dividends paid for the second quarter of 1996 were $3.4 million versus $0.5 million paid for the same time period one year earlier. Dividends in the first half of 1996 were $0.86 per share, an increase of 72% over the $0.50 per share dividend paid in the first half of 1995. Total dividends paid for the first half of 1996 were $5.9 million; total dividends paid for the same period the prior

year were $0.8 million. The Company was able to increase its total dividends and dividend per share over these periods due to the increase in earnings discussed above.

The Company's policy is to pay out over time as dividends 100% of its earnings as calculated for tax purposes. To date, taxable income has exceeded dividends paid by $0.2 million; this excess taxable income will be distributed as part of the Company's regular quarterly dividend in the future.

Taxable income currently exceeds income as calculated according to generally accepted accounting principles (GAAP income) because (i) taxable income credit expense equals actual credit losses rather than credit provisions, and actual credit losses have been minor, (ii) amortization methods differ for discount that has been created when mortgages have been acquired at a price below principal value, (iii) dividend equivalent rights which accrue on stock options are deducted from GAAP income as an operating expense but are not deducted from taxable income, and (iv) operating expenses differ in certain other aspects. Taxable income is a closer approximation of current cash flow generation than is GAAP income.

Dividends per share has exceeded earnings per share because taxable income has exceeded GAAP income and because the number of shares eligible at quarter end to receive a dividend has generally been smaller than the number of primary shares used to calculate earnings per share.

TABLE 3
TAXABLE INCOME AND DIVIDENDS

<TABLE>
<CAPTION>

	NET INCOME	TAXABLE CREDIT EXPENSE DIFFERENCES	TAXABLE OPERATING EXPENSES AND MORTGAGE AMORTIZATION DIFFERENCES	TAXABLE INCOME	TAXABLE INCOME RETURN ON EQUITY	SHARES OUTSTANDING EARNING DIVIDEND	DIVIDEND DECLARED	TOTAL DIVIDEND
				(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 851	$ 59	26	$ 936	8.51%	1,666,064	$0.50	$ 833
1996, 1st Half	4,454	808	429	5,691	12.62%	6,916,139	0.86	5,948
Fiscal 1994	$ 382	$ 0	(28)	$ 354	4.95%	1,401,904	$0.25	$ 350
1995, Quarter 1	401	19	(12)	408	7.58%	1,666,063	0.20	333
1995, Quarter 2	450	40	38	528	9.40%	1,666,063	0.30	500
1995, Quarter 3	993	84	5	1,082	8.27%	5,516,313	0.20	1,103
1995, Quarter 4	1,311	347	156	1,814	9.99%	5,517,299	0.26	1,435
1996, Quarter 1	1,954	331	264	2,549	14.92%	5,521,376	0.46	2,540
1996, Quarter 2	2,500	477	165	3,142	11.23%	8,520,116	0.40	3,408

</TABLE>

COUPON INCOME ON MORTGAGE ASSETS

The average coupon on the Company's mortgage assets was 7.37% during the second quarter of 1996, a decrease from the 7.64% earned in the first quarter of 1996. The coupon rate in the second quarter was lower because (i) the short-term interest rate indices which determine coupons on mortgage assets had declined (as approximated in the table below by the decline in the six month average of six-month LIBOR) and (ii) the Company acquired a substantial volume of new mortgage assets during the quarter which had lower-than-fully-indexed initial coupon

rates. On average, coupons were 0.37% below their fully-indexed rates during the quarter. Coupons were 0.51% below their fully-indexed rates at the end of the quarter due to interest rate increases in June 1996. This suggests that coupons on existing mortgage assets should be increasing in the third and fourth quarters of 1996, given stable interest rates and all other factors being equal.

In the second quarter of 1995, the coupon rate was 6.79%, or 1.71% lower than the fully-indexed rate at the time. This gap between the coupon rate and the fully-indexed rate was due primarily to the acquisition of mortgages in late 1994 and early 1995 that had low initial coupon rates. Since many of these mortgage

acquisitions were made at a discount price, the yield on the mortgages was higher than the low coupons would suggest due to discount amortization.

TABLE 4
COUPON INCOME ON MORTGAGE ASSETS

<TABLE>
<CAPTION>

	COUPON INCOME	AVERAGE PRINCIPAL VALUE OF MORTGAGES	AVERAGE COUPON RATE DURING PERIOD	SIX MONTH AVERAGE OF SIX-MONTH LIBOR	COUPON VERSUS SIX MONTH AVERAGE OF SIX-MONTH LIBOR	AVERAGE FULLY-INDEXED RATE DURING PERIOD	AVERAGE COUPON VERSUS FULLY INDEXED RATE	AVERAGE BOOK PRICE	AVERAGE COUPON YIELD
					(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 4,678	$143,252	6.58%	6.36%	0.22%	8.71%	(2.13%)	99.01%	6.65%
1996, 1st Half	23,167	623,124	7.48%	5.56%	1.92%	7.59%	(0.11%)	99.52%	7.51%
Fiscal 1994	$ 1,102	$ 50,306	6.01%	5.07%	0.94%	8.35%	(2.34%)	100.02%	6.01%
1995, Quarter 1	1,940	124,673	6.31%	6.25%	0.06%	8.93%	(2.62%)	99.61%	6.33%
1995, Quarter 2	2,738	161,628	6.79%	6.48%	0.31%	8.50%	(1.71%)	98.54%	6.90%
1995, Quarter 3	3,779	210,051	7.14%	6.10%	1.04%	8.10%	(0.96%)	98.73%	7.23%
1995, Quarter 4	6,682	359,693	7.37%	5.82%	1.55%	7.92%	(0.55%)	99.28%	7.42%
1996, Quarter 1	9,445	497,227	7.64%	5.62%	2.02%	7.43%	0.21%	98.87%	7.73%
1996, Quarter 2	13,722	749,021	7.37%	5.49%	1.88%	7.74%	(0.37%)	99.95%	7.37%

</TABLE>

AMORTIZATION OF PREMIUM AND DISCOUNT AND EFFECT OF CHANGES IN PRINCIPAL REPAYMENT RATES

In calculating its interest income for the second quarter of 1996, the Company added $0.25 million in discount amortization to its coupon income and then deducted $1.27 million in premium amortization. As shown in Table 6, the net effect was a reduction in mortgage yield of 0.50%. Although the average total balance of discount and premium on the Company's books was approximately equal during the quarter, the rate at which the Company wrote off its premium balance during the quarter (31% annual rate) was far higher than the rate at which the Company took discount amortization into income (6% annual rate).

The Company writes off premium at a rate equal to the mortgage principal repayment rate of the associated mortgage assets. The rate of principal repayment for these assets was 31% in the second quarter of 1996 versus 12% in the same quarter a year earlier. The increased rate of principal repayment was caused by lower long-term interest rates, a narrowed spread between short and long-term interest rates and other factors. The faster rate of principal repayment decreased earnings in the quarter relative to what they otherwise would have been.

When the Company is able to acquire high-credit-quality mortgage assets at a discount due to very low initial coupon rates, the Company amortizes the associated discount into income in the short-term to offset the effect of the low coupon. As a result, in early 1995 the Company took its discount balances into income at a rapid rate. Virtually all of this type of discount had been taken into income by the end of the third quarter of 1995.

When the Company acquires mortgage assets that have some credit risk at a discount, the Company uses what management believes to be conservative assumptions regarding the future cash flows of such mortgages to determine a discount amortization schedule for that asset. The result is that such discount is amortized into income at a relatively slow rate, regardless of the actual rate of mortgage principal repayment experienced. As shown in the table below, the discount amortization rate in the first half of 1996 was 5% per year. The Company anticipates that the rate of discount amortization on these mortgage assets will increase as the mortgages season, thus potentially benefiting net income in the future.

As the rate of mortgage principal repayment increases, the Company's earnings are decreased in the short-term because the rate of premium

write-off is highly sensitive to such changes while the rate of discount amortization is not. This earnings sensitivity to changes in the mortgage principal repayment rate has been increasing as the Company acquires more mortgage assets at premium prices. With an unamortized premium balance of $22.7

million as of June 30, 1996, the sensitivity of earnings to a 5 percentage point change in the mortgage principal repayment rate was estimated to be $0.03 per share per quarter.

TABLE 5
AMORTIZATION ON MORTGAGE ASSETS

<TABLE>
<CAPTION>

	AVERAGE DISCOUNT BALANCE	DISCOUNT AMORTIZATION	ANNUAL RATE OF DISCOUNT AMORTIZATION	AVERAGE PREMIUM BALANCE	PREMIUM AMORTIZATION	ANNUAL RATE OF PREMIUM AMORTIZATION	NET AVERAGE PREMIUM/ (DISCOUNT) BALANCE	NET AMORTIZATION INCOME/ (EXPENSE)
	(DOLLARS IN THOUSANDS)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 2,489	$471	38%	$ 1,067	$ 53	10%	$(1,422)	$ 418
1996, 1st Half	16,840	422	5%	13,850	1,975	29%	(2,990)	(1,553)
Fiscal 1994	$ 440	$101	63%	$ 450	$ 19	11%	$ 10	$ 82
1995, Quarter 1	1,440	234	66%	960	19	8%	(480)	215
1995, Quarter 2	3,528	237	27%	1,175	34	12%	(2,353)	203
1995, Quarter 3	6,017	280	19%	3,351	123	15%	(2,666)	157
1995, Quarter 4	10,889	210	8%	8,314	429	21%	2,575)	(219)
1996, Quarter 1	16,941	177	4%	11,299	707	25%	(5,642)	(530)
1996, Quarter 2	6,739	245	6%	16,402	1,268	31%	(337)	(1,023)

</TABLE>

EARNING ASSET YIELD

The Company's earning assets consist of its mortgage assets and its cash balances. The mortgage asset yield is a function of coupon income and amortization of premium and discount. The cash yield is a function of short-term interest rates and other factors. The earning asset yield in the second quarter of 1996 was 6.84%, or 1.35% over the six month average of six-month LIBOR. This was lower than the 7.32% yield in the first quarter of 1996 and the 7.37% yield in the second quarter of 1995 for reasons discussed above.

TABLE 6
EARNING ASSET YIELD

<TABLE>
<CAPTION>

	COUPON YIELD	EFFECT OF NET DISCOUNT/ (PREMIUM) AMORTIZATION	MORTGAGE YIELD	CASH YIELD	EARNING ASSET YIELD	SIX-MONTH AVERAGE OF SIX-MONTH LIBOR	YIELD VS. SIX-MONTH AVERAGE OF SIX-MONTH LIBOR
			(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	6.65%	0.64%	7.29%	5.34%	7.27%	6.36%	0.91%
1996, 1st Half	7.51%	(0.45%)	7.06%	5.80%	7.03%	5.56%	1.47%
Fiscal 1994	6.01%	0.52%	6.53%	4.68%	6.31%	5.07%	1.24%
1995, Quarter 1	6.33%	0.83%	7.16%	5.03%	7.14%	6.25%	0.89%
1995, Quarter 2	6.90%	0.49%	7.39%	5.59%	7.37%	6.48%	0.89%
1995, Quarter 3	7.23%	0.29%	7.52%	5.49%	7.48%	6.10%	1.38%
1995, Quarter 4	7.42%	(0.23%)	7.19%	5.43%	7.14%	5.82%	1.32%
1996, Quarter 1	7.73%	(0.37%)	7.36%	5.96%	7.32%	5.62%	1.70%
1996, Quarter 2	7.37%	(0.50%)	6.87%	5.64%	6.84%	5.49%	1.35%

</TABLE>

COST OF BORROWED FUNDS AND HEDGING AND THE INTEREST RATE SPREAD

The cost of borrowed funds in the second quarter of 1996 was 5.60%, which was a decrease of 0.12% from the prior quarter. The Company's financing efficiency and asset/liability strategy can be evaluated, in part, by comparing the Company's cost of funds to the six month average of six-month LIBOR. Throughout the first half of 1996, the Company's cost of funds approximated 9 to 11 basis points over this average.

In the second quarter of 1995 the cost of funds was 6.28%, or 20 basis points lower than the six month average of six-month LIBOR. In the first half of 1995 the cost of funds averaged 6.36%, or 18 basis points lower than average LIBOR. The cost of funds was relatively lower in the first half of 1995 as compared to average LIBOR than it was in the first half of 1996 because (i) the Company extended liabilities in late 1994 prior to and during a period of rapidly rising interest rates and (ii) starting in mid-1995 the Company started acquiring whole mortgage loans and lower-rated mortgage securities which, when pledged to secure borrowings, result in a higher cost of borrowing relative to LIBOR.

Hedging costs, or interest rate agreement expenses, consist of the amortization of premium paid for interest rate cap agreements, net of any income received, plus the net on-going expense or income from interest rate swaps. In an interest rate cap agreement, the Company pays an up-front premium to a counter-party; the counter-party will make payments to the Company if LIBOR rises above a certain level. In an interest rate swap agreement, the Company typically does not make an up-front payment. The Company agrees to pay a fixed rate of interest to a counter-party on a certain notional amount; the counter-party in turn pays to the Company a floating rate of interest on the same notional amount. In addition, the Company has entered into Treasury versus LIBOR "basis" swaps to reduce potential risks arising from Treasury-based mortgage assets funded with LIBOR-based borrowings. These basis swaps will provide increased income to the Company should short-term LIBOR rates increase relative to short-term Treasury rates and but will increase hedging expense for the Company should that spread narrow. See Footnote 3 to the Financial Statements for further details.

In the second quarter of 1996, hedging costs added 0.16% to the Company's cost of funds, or, alternatively, reduced the yield of the Company's assets which were funded with borrowings by the same amount. Hedging costs in the second quarter of 1996 were relatively lower than in the second quarter of 1995 due to a flatter yield curve and lower levels of interest rate volatility in 1996. In addition, the Company reduced its hedging activities somewhat in the second quarter of 1996 in conjunction with an extension of the maturities of its borrowings. Relative to the size of the balance sheet, hedging costs in the first half of 1996 were approximately equal to hedging costs in the first half of 1995.

The interest rate spread is the difference between the earning asset yield and the cost of funds and hedging; it measures the profitability of that portion of the balance sheet wherein earning assets are funded with borrowings. The interest rate spread for the second quarter of 1996 was 1.08%. This was lower than the 1.46% earned in the first quarter of 1996 due primarily to the relative decline in coupon income and increased premium amortization discussed above.

The second quarter of 1996 spread of 1.08% was higher than the 0.86% earned in the second quarter of 1995. Although the cost of funds was higher (relative to prevailing LIBOR rates) in the second quarter of 1996, the earning asset yield was significantly higher and the cost of hedging was lower. For similar reasons, the spread in the first half of 1996 of 1.23% was wider than the spread in the first half of 1995 of 0.93%.

TABLE 7
COST OF BORROWED FUNDS

<TABLE>
<CAPTION>

	COST OF FUNDS	SIX-MONTH AVERAGE OF SIX-MONTH LIBOR	COST OF FUNDS VS. SIX-MONTH AVERAGE OF SIX-MONTH LIBOR	COST OF HEDGING	COST OF FUNDS AND HEDGING	EARNING ASSET YIELD	INTEREST RATE SPREAD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	6.18%	6.36%	(0.18%)	0.16%	6.34%	7.27%	0.93%
1996, 1st Half	5.65%	5.56%	0.09%	0.15%	5.80%	7.03%	1.23%
Fiscal 1994	5.50%	5.07%	0.43%	0.06%	5.56%	6.31%	0.92%
1995, Quarter 1	6.04%	6.25%	(0.21%)	0.06%	6.10%	7.14%	1.04%
1995, Quarter 2	6.28%	6.48%	(0.20%)	0.23%	6.51%	7.37%	0.86%
1995, Quarter 3	6.04%	6.10%	(0.06%)	0.28%	6.32%	7.48%	1.16%
1995, Quarter 4	5.99%	5.82%	0.17%	0.17%	6.16%	7.14%	0.98%
1996, Quarter 1	5.72%	5.62%	0.10%	0.14%	5.86%	7.32%	1.46%
1996, Quarter 2	5.60%	5.49%	0.11%	0.16%	5.76%	6.84%	1.08%

</TABLE>

CREDIT PROVISIONS

Credit provisions for the second quarter of 1996 were $0.48 million, or 0.25% of average assets and 1.70% of average equity during the quarter. Credit provisions were significantly lower in the second quarter of 1995 ($0.04 million, 0.10% of assets, 0.72% of equity) as the Company had not yet acquired its whole loans or most of the mortgage securities rated below BBB which it currently owns. These credit expenses represent provisions only; there were no actual credit losses in either of these periods.

For the first half of 1996, credit provisions were $0.81 million, or 0.26% of average assets and 1.79% of average equity. Due to smaller balances of mortgages with credit risk in the first half of 1995, credit provisions were lower: $0.06 million, or 0.08% of assets and 0.54% of equity. There were no actual credit losses in either of these periods.

The Company takes on-going quarterly credit provisions to build a credit reserve for possible future losses from its mortgage securities, particularly for the 3% of the portfolio which was rated below BBB. Such credit provisions were taken at a rate of approximately $112,000 per month during the second quarter of 1996. In addition, each quarter the Company takes a provision of 0.30% of the balance of whole loans acquired during that quarter, net of whole loan principal repayments. The rate at which the Company takes credit provisions may be adjusted based on the Company's review of the performance of the Company's mortgage assets.

The table below summarizes the Company's credit provisions and actual credit losses. Please also see "Financial Condition -- Credit Reserves" below.

TABLE 8
CREDIT PROVISIONS AND ACTUAL CREDIT LOSSES

<TABLE>
<CAPTION>

	CREDIT PROVISIONS ON WHOLE LOANS	CREDIT PROVISIONS ON SECURITIZED ASSETS	TOTAL CREDIT PROVISIONS	ACTUAL CREDIT LOSSES ON WHOLE LOANS	ACTUAL CREDIT LOSSES ON SECURITIZED ASSETS	TOTAL ACTUAL CREDIT LOSSES	ANNUALIZED CREDIT PROVISIONS TO AVERAGE ASSETS	ANNUALIZED CREDIT PROVISIONS TO AVERAGE EQUITY
	(DOLLARS IN THOUSANDS)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 0	$ 59	$ 59	$0	$0	$0	0.08%	0.54%
1996, 1st Half	135	673	808	0	0	0	0.26%	1.79%
Fiscal 1994	$ 0	$ 0	$ 0	$0	$0	$0	0.00%	0.00%
1995, Quarter 1	0	19	19	0	0	0	0.06%	0.34%
1995, Quarter 2	0	40	40	0	0	0	0.10%	0.72%
1995, Quarter 3	0	84	84	0	0	0	0.16%	0.64%
1995, Quarter 4	79	271	350	0	4	4	0.37%	1.93%
1996, Quarter 1	(5)	336	331	0	0	0	0.26%	1.94%
1996, Quarter 2	140	337	477	0	0	0	0.25%	1.70%

</TABLE>

OPERATING EXPENSES

Operating expenses (or general and administrative expenses) were $0.59 million in the second quarter of 1996. This was an increase over the $0.20 million of operating expenses from the same quarter in 1995. Nevertheless, the Company was significantly more productive in 1996, as measured by the operating expenses to net interest income ratio dropping from 29% to 17%, the operating expenses to average assets ratio dropping from 0.49% to 0.31% and the operating expenses to average equity ratio dropping from 3.52% to 2.12%. Average assets per employee increased from $33 million to $84 million over this time period.

Operating expenses also increased from $0.40 million to $1.09 million from the first half of 1995 to the first half of 1996. Nevertheless, measures of operating expense productivity improved over that time period as well.

The salaries of the Company's officers have increased over the life of the Company as the equity base has increased. When the Company's equity base reached $100 million in April of 1996, however, all officer's salaries became capped under the terms of their employment agreements. Under the current compensation system, future salary increases for officers are anticipated to be limited to adjustments in the Consumer Price Index.

TABLE 9
OPERATING EXPENSES

<TABLE>
<CAPTION>

	CASH COMP AND BENEFITS EXPENSE	STOCK OPTION AND DER EXPENSE	OTHER OPERATING EXPENSE	TOTAL OPERATING EXPENSE	OPERATING EXPENSE/ NET INTEREST INCOME	OPERATING EXPENSE/ AVERAGE ASSETS	OPERATING EXPENSE/ AVERAGE EQUITY	AVE. AVERAGE ASSETS PER # OF EMPLOYEES ($MM)
	(DOLLARS IN THOUSANDS)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$162	$ 0	$237	$ 399	30%	0.56%	3.63%	$29
1996, 1st Half	538	164	384	1,086	17%	0.34%	2.41%	77
Fiscal 1994	$ 63	$ 0	$ 83	$ 146	28%	0.69%	2.05%	$12
1995, Quarter 1	81	0	120	201	32%	0.65%	3.74%	25
1995, Quarter 2	81	0	117	198	29%	0.49%	3.52%	33
1995, Quarter 3	197	7	160	364	25%	0.67%	2.79%	39
1995, Quarter 4	103	47	218	368	18%	0.39%	2.03%	53
1996, Quarter 1	233	85	174	492	18%	0.39%	2.88%	69
1996, Quarter 2	305	79	210	594	17%	0.31%	2.12%	84

</TABLE>

COMPONENTS OF RETURN ON EQUITY

Table 10 shows elements of the Company's income statement expressed as a percentage of average equity.

The spread times the debt/equity ratio equals the contribution of spread lending to the Company's return on equity (ROE). The wider the spread, and the more spread lending undertaken by the Company relative to the size of its equity base, the greater the ROE from this sector of the balance sheet. Spread lending ROE in the second quarter of 1996 was reduced from the first quarter of 1996 (6.28% versus 9.25%) as the spread was smaller and the Company has employed less of its capital on average during the second quarter. As compared to the second quarter of 1995, when the contribution to ROE from spread lending was 5.32%, the Company had a wider spread but utilized less leverage in the second quarter of 1996. For the first half of 1996 the spread lending ROE was 7.41%, which was greater than the 5.12% earned in the first half of 1995 due to both a wider spread and increased use of leverage.

Given the Company's target equity-to-assets ratio (see "Capital Adequacy/Risk-Adjusted Capital Policy" below), the target debt-to-equity ratio for the Company was 8.29 as of June 30, 1996 versus an average debt-to-equity during the second quarter of 5.78. The Company intends to increase the size of its balance sheet relative to its equity base in the third and fourth quarter of 1996 while seeking to maintain an attractive spread.

The second component of return on equity is the net interest income generated from the equity-funded portion of the Company's balance sheet. Equity is used to fund earning assets plus a small amount of fixed assets and net working capital. There is no cost of funds for this section of the balance sheet. At 6.47%, the contribution of equity-funded lending to ROE in the second quarter of 1996 was greater than that of spread lending. The equity-funded ROE of 6.47% represents the earning asset yield during the quarter of 6.84% adjusted for the fact that less than 100% of equity was invested in earning assets. The equity-funded lending ROE was lower in the second quarter of 1996 versus the second quarter of 1995 (and was lower in the first half of 1996 versus the first half of 1995) as the earning asset yield was

lower.

Combining spread lending and equity-funded lending, the net interest income ROE in the second quarter of 1996 was 12.75%. After credit provisions of 1.70% of equity and operating expenses of 2.12% of equity, the net ROE for the Company was 8.93%. Compared to the second quarter of 1995 when return on equity was 8.00%, net interest income ROE was higher, credit provisions were higher and operating expenses were lower in the second quarter of 1996. The net ROE in the first half of 1996 of 9.88% was higher than the net ROE in the first half of 1995 of 7.73% for similar reasons.

TABLE 10
COMPONENTS OF RETURN ON EQUITY
(EQUITY-BASED METHOD)

<TABLE>
<CAPTION>

	SPREAD	DEBT/ EQUITY RATIO	SPREAD LENDING RETURN ON EQUITY	EQUITY-FUNDED LENDING RETURN ON EQUITY	NET INTEREST INCOME RETURN ON EQUITY	CREDIT PROVISIONS/ AVERAGE EQUITY	OPERATING EXPENSE/ AVERAGE EQUITY	NET RETURN ON EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	0.93%	5.48x	5.12%	6.78%	11.90%	0.54%	3.63%	7.73%
1996, 1st Half	1.23%	6.00x	7.41%	6.67%	14.08%	1.79%	2.41%	9.88%
Fiscal 1994	0.92%	1.94x	1.78%	5.62%	7.40%	0.00%	2.05%	5.35%
1995, Quarter 1	1.04%	4.72x	4.92%	6.62%	11.54%	0.34%	3.74%	7.46%
1995, Quarter 2	0.86%	6.20x	5.32%	6.92%	12.24%	0.72%	3.52%	8.00%
1995, Quarter 3	1.16%	3.08x	3.59%	7.43%	11.02%	0.64%	2.79%	7.59%
1995, Quarter 4	0.98%	4.10x	4.01%	7.17%	11.18%	1.93%	2.03%	7.22%
1996, Quarter 1	1.46%	6.34x	9.25%	7.00%	16.25%	1.94%	2.88%	11.43%
1996, Quarter 2	1.08%	5.78x	6.28%	6.47%	12.75%	1.70%	2.12%	8.93%

</TABLE>

Table 11 shows the components of the Company's income statement expressed as a percentage of assets. Return on assets of 1.31% in the second quarter of 1996 consisted of the net interest margin of 1.87% less the credit expenses to assets ratio of 0.25% and the operating expenses to assets ratio of 0.31%. Return on assets times a leverage ratio (assets/equity) yields return on equity. As of June 30, 1996, the Company's target leverage ratio expressed in this manner was 9.28, which was higher than the average assets-to-equity ratio in the second quarter of 6.81.

TABLE 11
COMPONENTS OF RETURN ON EQUITY
(ASSET-BASED METHOD)

<TABLE>
<CAPTION>

	INTEREST INCOME/ AVERAGE ASSETS	COST OF FUNDS AND HEDGING EXPENSE/ AVERAGE ASSETS	NET INTEREST MARGIN	CREDIT PROVISION/ AVERAGE ASSETS	G&A EXP./ AVERAGE ASSETS	RETURN ON AVERAGE ASSETS	AVERAGE ASSETS TO EQUITY	RETURN ON EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	7.15%	5.33%	1.82%	0.07%	0.56%	1.19%	6.52x	7.73%
1996, 1st Half	6.96%	4.96%	2.00%	0.25%	0.34%	1.41%	7.02x	9.88%
Fiscal 1994	6.15%	3.64%	2.51%	0.00%	0.69%	1.82%	2.95x	5.35%
1995, Quarter 1	7.00%	5.00%	2.00%	0.05%	0.65%	1.30%	5.76x	7.46%
1995, Quarter 2	7.26%	5.57%	1.69%	0.10%	0.49%	1.10%	7.25x	8.00%
1995, Quarter 3	7.38%	4.71%	2.67%	0.16%	0.67%	1.84%	4.13x	7.59%
1995, Quarter 4	7.05%	4.89%	2.16%	0.37%	0.39%	1.40%	5.16x	7.22%
1996, Quarter 1	7.24%	5.04%	2.20%	0.26%	0.39%	1.55%	7.38x	11.43%
1996, Quarter 2	6.77%	4.90%	1.87%	0.25%	0.31%	1.31%	6.81x	8.93%

</TABLE>

FINANCIAL CONDITION

SUMMARY

Management believes the Company is well capitalized for the level of

risk undertaken. The Company's assets are single-family mortgages. A substantial majority of these assets are further credit-enhanced beyond the inherent value of a mortgage secured by a first lien on a residential property. The liquidity of a substantial majority of the Company's assets has been enhanced through the securitization and credit rating process. The interest rate risks of the Company's assets and liabilities are closely matched; all of the mortgages are adjustable-rate mortgages financed with equity and variable-rate borrowings. Interest rate risks which remain on the balance sheet after this matching program are mitigated through the Company's interest rate hedging program. The Company has uncommitted borrowing facilities in excess of its needs and, based on the quality of its assets, believes it will continue to be able to access borrowed funds without difficulty. The Company takes credit provisions to reserve for potential future credit losses. The Company has low operating expenses and a high percentage of its equity invested in earning assets. The Company's capital base is tangible capital: all of the Company's earning assets and interest rate agreements are marked-to-market at liquidation value. The Company has no intangible assets or goodwill. Nevertheless, the Company maintains an equity-to-assets ratio that is higher than that of many banks, savings and loans, insurance companies, and REITs that act as mortgage portfolio lenders.

END OF PERIOD BALANCE SHEET

The table below shows the principal components of the Company's balance sheet over time.

TABLE 12
END OF PERIOD BALANCE SHEET

<TABLE>
<CAPTION>

END OF PERIOD	CASH	MORTGAGE ASSETS	INTEREST RATE AGREEMENTS	RECEIVABLES AND OTHER ASSETS	TOTAL ASSETS	BORROWINGS	PAYABLES	STOCKHOLDERS' EQUITY
				(DOLLARS IN THOUSANDS)				
1995, 1st Half	$ 1,620	$ 175,242	$ 825	$1,634	$ 179,321	$155,881	$ 907	$ 22,533
1996, 1st Half	10,407	1,007,480	1,351	9,092	1,028,330	896,214	7,821	124,295
Fiscal 1994	$ 1,027	$ 117,477	$1,892	$1,132	$ 121,528	$100,376	$ 871	$ 20,281
1995, Quarter 1	953	141,860	1,434	1,193	145,440	121,998	1,090	22,352
1995, Quarter 2	1,620	175,242	825	1,634	179,321	155,881	907	22,533
1995, Quarter 3	1,150	298,785	809	2,650	303,394	228,826	2,095	72,473
1995, Quarter 4	4,825	432,244	547	3,941	441,557	370,316	2,951	68,290
1996, Quarter 1	9,705	565,159	1,233	5,216	581,313	508,721	4,447	68,145
1996, Quarter 2	10,407	1,007,480	1,351	9,092	1,028,330	896,214	7,821	124,295

</TABLE>

AVERAGE DAILY BALANCE SHEET

The table below shows the estimated average daily balance during each period of the principal components of the Company's balance sheet.

TABLE 13
AVERAGE DAILY BALANCE SHEET

<TABLE>
<CAPTION>

	CASH	MORTGAGE ASSETS	INTEREST RATE AGREEMENTS	RECEIVABLES AND OTHER ASSETS	TOTAL ASSETS	BORROWINGS	PAYABLES	STOCKHOLDERS' EQUITY
				(DOLLARS IN THOUSANDS)				
1995, 1st Half	$ 1,342	$140,943	$1,209	$1,282	$144,776	$121,572	$1,012	$ 22,192
1996, 1st Half	14,520	615,463	1,162	5,762	636,907	543,811	2,398	90,698
Fiscal 1994	$ 6,627	$ 49,734	$ 790	$ 711	$ 57,862	$ 37,910	$ 368	$ 19,584
1995, Quarter 1	1,217	121,979	1,399	1,096	125,691	102,961	910	21,820
1995, Quarter 2	1,466	159,697	1,020	1,468	163,651	139,979	1,111	22,561
1995, Quarter 3	3,597	207,712	831	2,107	214,247	159,794	2,585	51,868

1995, Quarter 4	10,709	356,739	730	3,556	371,734	295,089	4,653	71,991
1996, Quarter 1	14,639	487,110	667	4,630	507,046	435,979	2,324	68,743
1996, Quarter 2	14,402	743,816	1,658	6,892	766,768	651,643	2,472	112,653

</TABLE>

MORTGAGE ASSET ACQUISITIONS

The two principal criteria the Company uses when acquiring mortgage assets are (i) the mortgages must be "A" quality and (ii) the risk-adjusted returns on equity the Company anticipates earning on such assets across a variety of economic scenarios must be attractive relative to the Company's cost of capital and relative to other available mortgage assets.

During the second quarter of 1996 the Company acquired mortgage assets of $496 million, thereby increasing the Company's total mortgage balance by 78%. Whole mortgage loans represented 10% of the acquisitions in the second quarter of 1996. FHLMC and FNMA guaranteed mortgages represented 71% and private-label mortgage securities represented 19% of the quarter's acquisitions. The average price paid for mortgage assets acquired during the quarter was 102.36% of principal value. The premium pricing for these assets as compared to past acquisitions reflects, on average, the higher credit ratings, higher net margins, and higher life caps of these recently acquired assets. The average initial coupon of the acquired mortgages was 7.30%; this was lower than the fully-indexed coupon rate toward which these coupons will adjust over time. The table below summarizes the characteristics of the Company's mortgage asset acquisitions.

TABLE 14
MORTGAGE ASSET ACQUISITIONS

<TABLE>
<CAPTION>

	ASSET ACQUISITIONS AT COST	AVERAGE PRICE VERSUS PRINCIPAL VALUE	AVERAGE INITIAL COUPON	"A" QUALITY WHOLE LOANS	FHLMC & FNMA GUARANTEED MORTGAGES	AAA &AA RATED MORTGAGE SECURITIES	A & BBB RATED MORTGAGE SECURITIES	BELOW BBB RATED MORTGAGE SECURITIES
	----	-----	------	-----	---------	----------	----------	----------
				(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 59,471	93.79%	6.57%	0.0%	45.2%	27.7%	10.4%	16.7%
1996, 1st Half	663,036	102.42%	7.38%	7.4%	65.5%	27.1%	0.0%	0.0%
Fiscal 1994	$121,297	99.53%	5.87%	0.0%	64.8%	28.1%	4.3%	2.8%
1995, Quarter 1	24,116	94.80%	6.78%	0.0%	15.1%	49.1%	25.6%	10.2%
1995, Quarter 2	35,355	93.11%	6.42%	0.0%	65.8%	13.1%	0.0%	21.1%
1995, Quarter 3	132,640	103.14%	7.40%	0.0%	59.0%	32.3%	3.8%	4.9%
1995, Quarter 4	162,461	95.78%	7.39%	16.5%	52.4%	20.1%	5.5%	5.5%
1996, Quarter 1	166,852	102.60%	7.60%	0.0%	47.6%	52.4%	0.0%	0.0%
1996, Quarter 2	496,184	102.36%	7.30%	9.9%	71.5%	18.6%	0.0%	0.0%

</TABLE>

SUMMARY OF MORTGAGE ASSET CHARACTERISTICS

As of June 30, 1996 all the Company's mortgage assets were single-family, adjustable-rate, first-lien mortgages or securitized interests in pools of such loans. The average historical amortized cost of these assets was 100.60% of principal value at that time. The estimated bid-side market value of these assets (which the Company uses as the carrying value of mortgages on its balance sheet) was 100.17% of principal value. The average credit rating equivalent at June 30, 1996 was AA+. For all the mortgage assets owned by the Company, 51% of the underlying properties were located in California. Excluding the FHLMC and FNMA guaranteed mortgages, 67% of the properties underlying the Company's whole loans and private-label securities were located in California. The table below summarizes the Company's mortgage asset balances.

TABLE 15
MORTGAGE ASSET SUMMARY

<TABLE>
<CAPTION>

END OF PERIOD	MORTGAGE PRINCIPAL VALUE	AMORTIZED COST	AMORTIZED COST TO PRINCIPAL VALUE	ESTIMATED BID-SIDE MARKET VALUE	ESTIMATED BID-SIDE MARKET VALUE TO PRINCIPAL VALUE	AVERAGE CREDIT RATING EQUIV.	PERCENT IN CALIFORNIA	PERCENT IN CALIFORNIA EXCLUDING FHLMC & FNMA MORTGAGES

(DOLLARS IN THOUSANDS)

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 178,429	$ 174,415	97.75%	$ 175,242	98.21%	AA+	72%	80%
1996, 1st Half	1,005,765	1,011,847	100.60%	1,007,480	100.17%	AA+	51%	67%
Fiscal 1994	$ 120,627	$ 120,135	99.59%	$ 117,477	97.39%	AA+	72%	82%
1995, Quarter 1	143,393	141,792	98.88%	141,860	98.93%	AA+	73%	80%
1995, Quarter 2	178,429	174,415	97.75%	175,242	98.21%	AA+	72%	80%
1995, Quarter 3	298,718	298,894	100.06%	298,785	100.02%	AA+	65%	77%
1995, Quarter 4	443,625	436,236	98.33%	432,244	97.43%	AA+	65%	71%
1996, Quarter 1	573,807	569,744	99.29%	565,159	98.49%	AA+	64%	69%
1996, Quarter 2	1,005,765	1,011,847	100.60%	1,007,480	100.17%	AA+	51%	67%

</TABLE>

The following table shows the average characteristics of the Company's mortgage assets at the end of each reporting period. The index level is the weighted average rate of the various short-term interest rate indices which determine coupon adjustments. Unless limited by periodic or lifetime caps, the mortgage coupons adjust by the end of each adjustment period to the level of the index plus the net margin. The fully-indexed rate is the current index plus the net margin: this is the maximum level to which the coupon could adjust should interest rates remain unchanged. The rate of adjustment of the current coupon to the fully-indexed rate is determined by the adjustment

periods and the periodic caps of the mortgage loans. As of June 30, 1996, assuming no changes in the balance sheet or the underlying indices, the coupon rates on the Company's mortgages would increase from 7.42% to 7.93% over time, with most of the adjustment taking place over the next six months.

TABLE 16
AVERAGE MORTGAGE ASSET CHARACTERISTICS

<TABLE>
<CAPTION>

END OF PERIOD	MORTGAGE COUPON RATE	INTEREST RATE INDEX LEVEL	MORTGAGE NET MARGIN	MORTGAGE FULLY-INDEXED RATE	COUPON RATE VS. FULLY-INDEXED RATE	AVERAGE NUMBER OF MONTHS TO NEXT ADJSTMNT	LIFETIME CAP	MORTGAGE ASSET YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	6.94%	5.99%	2.21%	8.20%	(1.26%)	3	11.54%	7.74%
1996, 1st Half	7.42%	5.72%	2.21%	7.93%	(0.51%)	4	11.71%	6.98%
Fiscal 1994	6.00%	6.94%	2.25%	9.19%	(3.19%)	3	11.48%	6.60%
1995, Quarter 1	6.53%	6.47%	2.24%	8.71%	(2.18%)	3	11.57%	7.23%
1995, Quarter 2	6.94%	5.99%	2.21%	8.20%	(1.26%)	3	11.54%	7.74%
1995, Quarter 3	7.35%	5.86%	2.20%	8.06%	(0.71%)	4	11.56%	7.81%
1995, Quarter 4	7.50%	5.44%	2.08%	7.52%	(0.02%)	3	11.54%	7.74%
1996, Quarter 1	7.59%	5.47%	2.11%	7.58%	0.01%	3	11.53%	7.67%
1996, Quarter 2	7.42%	5.72%	2.21%	7.93%	(0.51%)	4	11.71%	6.98%

</TABLE>

The table below segments the Company's mortgage assets by adjustment index, coupon adjustment frequency and periodic cap adjustment. As of the end of the second quarter of 1996, 60% of the Company's mortgage assets had coupon rates which adjusted as a function of changes in the wholesale cost of funds of money-center banks (the LIBOR and CD indices), 38% adjusted as a function of short-term U.S. Treasury interest rates, and 2% adjusted off other indices. The coupon adjustment cycle is every six months for 62% of total mortgages, every twelve months for 33% of the total and monthly for 3% of the total; approximately 2% of mortgages have other re-pricing terms. The periodic caps for 95% of the mortgage assets were either 1% per six months or 2% per year; 3% of the mortgages had no periodic caps and 2% had other cap structures.

TABLE 17
MORTGAGE ASSETS BY INDEX

<TABLE>
<CAPTION>

	SIX-MONTH LIBOR INDEX	ONE-MONTH LIBOR INDEX	SIX-MONTH BANK CD INDEX	ONE-YEAR TREASURY INDEX	SIX-MONTH TREASURY INDEX	SIX-MONTH AVERAGE DISCOUNT RATE	OTHER
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Adjustment Frequency/Loan	6 months	1 month	6 months	12 months	6 months	6 months	various
Average Adjustment/Pool	3 months	1 month	3 months	6 months	3 months	3 months	various
Annualized Periodic Cap	2%	none	2%	2%	2%	2%	various
<CAPTION>			% OF TOTAL MORTGAGE ASSETS AT PERIOD END				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	83.0%	2.5%	13.8%	0.7%	0.0%	0.0%	0.0%
1996, 1st Half	54.1%	3.2%	3.4%	33.3%	1.9%	2.5%	1.6%

Fiscal 1994	78.2%	3.9%	17.9%	0.0%	0.0%	0.0%	0.0%
1995, Quarter 1	78.7%	3.1%	17.3%	0.9%	0.0%	0.0%	0.0%
1995, Quarter 2	83.0%	2.5%	13.8%	0.7%	0.0%	0.0%	0.0%
1995, Quarter 3	66.8%	1.4%	11.6%	11.5%	7.6%	0.0%	1.1%
1995, Quarter 4	59.7%	7.7%	12.8%	12.5%	5.0%	0.0%	2.3%
1996, Quarter 1	63.1%	6.5%	8.9%	14.9%	3.6%	0.0%	3.0%
1996, Quarter 2	54.1%	3.2%	3.4%	33.3%	1.9%	2.5%	1.6%

</TABLE>

The average credit rating equivalent of the Company's mortgage assets at the end of the second quarter of 1996 was AA+. Whole mortgage loans were $69.7 million, or 6.9% of total mortgage assets. Due to the "A" quality underwriting and documentation standards the Company requires for these loans, management believes that over 90% of the balance of these loans would receive a credit rating of AAA or AA should the Company securitize these loans and seek a credit rating from the credit rating agencies in the future. Securitized loans with a credit rating equivalent of BBB or better were $912.7 million, or 90.6% of the Company's total mortgage assets. Securitized loans with a credit rating equivalent of below BBB represented 2.5% of the total as of June 30, 1996. The table below shows the balance of the Company's whole mortgage loans and the Company's securitized mortgage assets segregated by credit rating. Unrated securitized assets have been assigned a credit rating equivalent by management.

TABLE 18
MORTGAGE ASSETS BY CREDIT RATING EQUIVALENT

<TABLE>
<CAPTION>

END OF PERIOD	WHOLE MORTGAGE LOAN CARRYING VALUE	AAA/ AA RATING EQUIV. CARRYING VALUE	A/ BBB RATING EQUIV. CARRYING VALUE	BB/ OTHER RATING EQUIV. CARRYING VALUE	WHOLE LOAN PERCENT OF TOTAL	AAA/ AA RATING EQUIV. PERCENT OF TOTAL	A/ BBB RATING EQUIV. PERCENT OF TOTAL	BB/ OTHER RATING EQUIV. PERCENT OF TOTAL
				(DOLLARS IN THOUSANDS)				
1995, 1st Half	$ 0	$150,846	$11,306	$13,092	0.0%	86.0%	6.5%	7.5%
1996, 1st Half	69,666	886,990	25,753	25,070	6.9%	88.0%	2.6%	2.5%
Fiscal 1994	$ 0	$109,548	$ 4,761	$ 3,168	0.0%	93.2%	4.1%	2.7%
1995, Quarter 1	0	125,237	10,988	5,635	0.0%	88.3%	7.7%	4.0%
1995, Quarter 2	0	150,846	11,306	13,092	0.0%	86.0%	6.5%	7.5%
1995, Quarter 3	0	263,344	16,338	19,103	0.0%	88.1%	5.5%	6.4%
1995, Quarter 4	26,450	355,784	25,171	24,839	6.1%	82.4%	5.8%	5.7%
1996, Quarter 1	24,861	490,189	25,838	24,272	4.4%	86.8%	4.6%	4.2%
1996, Quarter 2	69,666	886,990	25,753	25,070	6.9%	88.0%	2.6%	2.5%

</TABLE>

WHOLE MORTGAGE LOANS

As of June 30, 1996, the Company owned 257 whole loans with a total loan balance of $69.2 million. All of these loans are adjustable-rate, single-family loans underwritten to "A" quality standards. The average loan size was $269,080. California loans represent 73% of the total outstanding balance. Loans with original loan-to-value ratios in excess of 80% represent 23% of the total outstanding balance; each of these loans is credit-enhanced with primary mortgage insurance which serves to bring the effective loan-to-value ratio to 75% or less. After giving effect to this mortgage insurance, the average original loan-to-value ratio of the Company's whole loans was 73%.

TABLE 19
WHOLE MORTGAGE LOAN SUMMARY

<TABLE>
<CAPTION>

(ALL RATIOS BASED ON % OF TOTAL LOAN PORTFOLIO BALANCES UNLESS NOTED)	AT JUNE 30, 1996	AT DECEMBER 31, 1995
Face Value	$69,153,598	$26,411,412
Amortized Cost	69,666,163	26,450,045
Adjustable-Rate	100%	100%
Single-Family	100%	100%
"A" Quality Underwriting	100%	100%
First Lien	100%	100%
Owner-Occupied	100%	100%
Property Located in Northern California	30%	30%
Property Located in Southern California	43%	44%
Number of Loans	257	109
Average Loan Size	$ 269,080	$ 242,307
Original Loan Balance in Excess of $500,000	13%	25%

Average Original Loan to Value Ratio (LTV)	76%	76%
Original LTV greater than 80%	23%	26%
Percent of Original LTV greater than 80% with Mortgage Insurance	100%	100%
Effective Original LTV including Primary Mortgage Insurance	73%	73%
1993 Origination	1%	0%
1994 Origination	2%	2%
1995 Origination	63%	98%
1996 Origination	34%	0%
Non-Performing Assets (90+ days delinquent)	$ 278,637	$ 0
Number of Non-Performing Loans (90+ days delinquent)	2	0
Non-Performing Assets as % of Total Loan Balances	0.4%	0.0%

</TABLE>

The Company defines non-performing assets ("NPAs") as whole loans which are delinquent more than 90 days. As of June 30, 1996, the Company's NPAs were $278,637, reflecting two loans in foreclosure. At December 31, 1995 the Company had no non-performing assets. The Company has experienced no actual whole loan credit losses to date.

SECURITIZED MORTGAGES RATED AAA TO BBB

At June 30, 1996, 91% of the Company's mortgage assets were securitized interests in pools of single-family mortgage loans which had an investment-grade credit rating of AAA through BBB from one or more of the nationally-recognized rating agencies, or, if not rated, had equivalent credit quality in the view of management. At December 31, 1995, these types of mortgage securities represented 88% of the Company's mortgage assets.

Each of these securitized interests in mortgage pools has credit-enhancement from a third-party which provides the Company with partial protection from credit losses in addition to the protection afforded by the value of the properties underlying the individual mortgages and any primary mortgage insurance on individual loans. Given the quality of the mortgage loans in these pools and the levels of additional credit-enhancement, management believes the level of credit risk for this 91% portion of the Company's mortgage assets is low. In the event, however, that credit losses in these pools exhaust the credit-enhancement or in the event of default of FNMA, FHLMC or another third party guarantor, credit losses to the Company could result. The Company has experienced no actual credit losses from these mortgage assets.

SECURITIZED MORTGAGES RATED BELOW BBB

The Company acquires limited amounts of securitized mortgage assets with a credit rating equivalent of less than BBB when management believes that the cash flow and return on equity, net of expected credit losses, over the life of the asset will be attractive. Such assets had a bid-side market value at June 30, 1996 of $25.1 million, or 2.5%

of the Company's total mortgage assets. At December 31, 1995, the balance of such assets was $24.8 million. These assets have high potential yields but also have higher levels of credit risk, are costly to finance and require a large allocation of capital under the Company's risk-adjusted capital system.

These assets may be highly beneficial to the Company over their life, although any such benefits are likely to be realized chiefly in later years. Future benefits may include possible credit rating upgrades and market value improvements as the mortgage interests senior to the Company's position prepay (this would lead to lower borrowing costs, an expanded equity base for the Company and a lower internal risk-adjusted capital allocation) and the eventual return of principal (net of credit losses) which was purchased at a discount (thus increasing the rate at which the Company's amortizes its discount balance into income).

The bulk of the Company's securitized assets with a credit rating equivalent below BBB are credit-enhanced, although to a lesser degree than higher-rated assets. Credit losses will not be incurred by the Company on these assets until total credit losses in the related mortgage pool exhaust the credit-enhancement. At that point, however, the rate of loss to the Company's interest may be significant as these interests are subordinated to and provide credit-enhancement for other, more senior, interests issued from the same mortgage pool.

For several of these interests owned by the Company, the underlying pools currently have levels of mortgage delinquencies in excess of management's original expectations. Mortgage servicing issues rather than poor mortgage credit may be responsible for some of the increase in reported delinquencies. The Company is monitoring the efforts of the mortgage servicing companies responsible for these pools. Delinquency rates in these pools appeared to stabilize in the second quarter of 1996.

For all the Company's securitized mortgage assets rated below BBB that have credit-enhancement, actual pool credit losses (which would serve to reduce the credit-enhancement protection to the Company's interests) have been minimal to date. The Company has experienced no credit losses from these assets.

At June 30, 1996 and December 31, 1995, the Company also owned $0.2 million of "first loss" assets. These are subordinated interests with no credit-enhancement. All credit losses in the related pools of mortgages will

reduce the principal value of the Company's "first loss" asset and will be recognized as an actual credit loss by the Company. The limit of the Company's potential credit losses on these assets is equal to the amortized cost of $0.2 million. As the Company's cost basis in "first loss" assets is low relative to the mortgage principal value, the Company's realized credit loss will equal only 10-15% of the principal value of any mortgage credit losses in the pools. Total credit losses realized by the Company to date on first loss assets have been $3,997.

CREDIT RESERVES

Through its quarterly credit provisions, the Company is building a credit reserve for credit losses which could occur in the future, particularly in its portfolio of whole mortgage loans and securitized mortgage interests with ratings below BBB. As of June 30, 1996, the historical amortized cost of such "higher-risk" mortgage assets was $98.5 million, or 9.7% of total mortgage assets. Assets which have an immediate potential threat of credit loss were the Company's first loss assets and its non-performing whole loans. The historical amortized cost of such assets at June 30, 1996 was $0.5 million. The credit reserve at June 30, 1996 was $1.3 million.

TABLE 20
CREDIT RESERVES

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS)

END OF PERIOD	AMORTIZED COST OF WHOLE LOANS	AMORTIZED COST OF SECURITIZED ASSETS RATED BELOW BBB	AMORTIZED COST OF TOTAL HIGHER-RISK ASSETS	HIGHER-RISK ASSETS TO TOTAL MORTGAGE ASSETS	CREDIT RESERVES	CREDIT RESERVE/ HIGHER-RISK ASSETS	FIRST LOSS ASSETS AND NON-PERFORMING LOANS	CREDIT RESERVES/ FIRST LOSS ASSETS AND NON-PERFORMING LOANS
1995, 1st Half	$ 0	$13,351	$13,351	7.7%	$ 59	0.44%	$ 0	n/a
1996, 1st Half	69,680	28,858	98,538	9.7%	1,298	1.32%	514	252%
Fiscal 1994	$ 0	$ 3,377	$ 3,377	2.8%	$ 0	0.00%	$ 0	n/a
1995, Quarter 1	0	5,836	5,836	4.1%	19	0.32%	0	n/a
1995, Quarter 2	0	13,351	13,351	7.7%	59	0.44%	0	n/a
1995, Quarter 3	0	19,964	19,964	6.7%	143	0.72%	0	n/a
1995, Quarter 4	26,449	28,857	55,306	12.7%	490	0.89%	228	215%
1996, Quarter 1	24,851	28,051	52,902	9.3%	821	1.55%	422	194%
1996, Quarter 2	69,680	28,858	98,538	9.7%	1,298	1.32%	514	252%

</TABLE>

As one step in determining the adequacy of its level of credit reserves, the Company reviews the level of 90+ day delinquencies in its whole loan portfolio and in the pools underlying all its securitized mortgage interests. The Company estimates the likely percentage of such delinquencies that may result in a default and then estimates the likely aggregate loss severity (percentage of principal loss per defaulted loan). After taking into consideration the benefit of any third-party credit enhancements and the level of the Company's historical amortized cost for the asset, the Company makes an estimate of possible future realized credit losses based on current delinquencies. In order to complete the evaluation of the adequacy of its reserve levels, the Company then considers additional credit losses that may arise from future delinquencies.

The table below shows the Company's historical loss severity experience. The table shows the cumulative percentage principal loss (loss severity) for loans that both defaulted and resulted in a loss as estimated by the Company for the loans in the mortgage pools underlying the Company's securities. These defaults have generally not resulted in credit losses to the Company due to credit-enhancement protection.

The table below also shows the estimated future credit losses that would be incurred by the Company if 100% of the 90+ day delinquent loans which are in the pools underlying its securitized mortgage interests or are owned directly by the Company defaulted and resulted in a loss. Estimated losses for a variety of loss severities are shown. This gives one measure of the adequacy of the Company's credit reserve based on current delinquencies, although the table most likely over-estimates potential future losses as the Company does not expect 100% of such delinquent loans to default or nor does the Company expect all defaults to result in a loss. Any such defaults may take up to a year or longer to occur; continued quarterly credit provisions will add to the reserve over this time. This table addresses the risk arising from current delinquencies only; it does not purport to reflect potential losses that may occur over the life of these assets.

TABLE 21
POTENTIAL FUTURE CREDIT LOSSES ESTIMATED BASED ON
CURRENT 90+ DAY DELINQUENCIES ONLY

<TABLE>
<CAPTION>

END OF PERIOD	CREDIT LOSS RESERVE	CUMULATIVE ESTIMATED ACTUAL REALIZED LOSS SEVERITY	POTENTIAL FUTURE LOSSES ASSUMING LOSS SEVERITY OF 10%	POTENTIAL FUTURE LOSSES ASSUMING LOSS SEVERITY OF 15%	POTENTIAL FUTURE LOSSES ASSUMING LOSS SEVERITY OF 20%	POTENTIAL FUTURE LOSSES ASSUMING LOSS SEVERITY OF 25%	POTENTIAL FUTURE LOSSES ASSUMING LOSS SEVERITY OF 30%	POTENTIAL FUTURE LOSSES ASSUMING LOSS SEVERITY OF 35%
			(DOLLARS IN THOUSANDS)					
1995, 1st Half	$ 59	0%	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
1996, 1st Half	1,298	18%	68	102	147	715	1,449	2,215
Fiscal 1994	$ 0	0%	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
1995, Quarter 1	19	0%	0	0	0	0	0	0
1995, Quarter 2	59	0%	0	0	0	0	0	0
1995, Quarter 3	143	0%	0	0	0	0	0	0
1995, Quarter 4	490	9%	15	22	29	37	103	435
1996, Quarter 1	821	10%	39	58	78	227	655	1,280
1996, Quarter 2	1,298	18%	68	102	147	715	1,449	2,215

</TABLE>

INTEREST RATE AGREEMENTS

The Company's interest rate agreements are assets carried on the balance sheet at estimated liquidation value. There is a risk that the counter-parties to the interest rate agreements will not be able to perform under these contracts. All of the counter-parties to the Company's interest rate agreements have a credit rating of at least "A". Potential accounting income losses from counter-party risk are limited to the Company's amortized cost basis in these agreements, which was $2.8 million at June 30, 1996 and $2.5 million at December 31, 1995. The Company has experienced no credit losses on interest rate agreements.

BORROWINGS

To date, the Company's debt has consisted entirely of borrowings collateralized by a pledge of the Company's mortgage assets. These borrowings appear on the balance sheet as reverse repurchase agreements and notes payable. The size of the market for borrowings of this type is measured in the trillions of dollars; institutions with high-quality pledgable assets such as banks, savings and loans, brokerage firms, federal agencies and the Federal Reserve Bank are the largest U.S. borrowers in this market. The Company has established uncommitted borrowing facilities in this market in amounts in excess of its current requirements.

All of the Company's mortgage assets are currently accepted as collateral for such borrowings. On average, the Company could borrow 94% to 96% of the market value of its mortgage assets. The Company, however, limits its borrowings, and thus its potential asset growth, in order to maintain unused borrowing capacity and thus increase the liquidity and strength of its balance sheet.

The term-to-maturity of the Company's borrowings have ranged from one day to one year. For some borrowings, the interest rate has adjusted to market levels on a regular schedule during the term of the borrowing, so the term-to-next-rate-adjustment may be shorter than the term-to-maturity. The weighted average term-to-maturity and weighted average term-to-next-rate-adjustment were both 72 days at June 30, 1996. At December 31, 1995 the average term-to-maturity was 74 days and the average term-to-next-rate-adjustment was 26 days. The Company lengthened the term-to-next-rate-adjustment for its borrowings in the second quarter of 1996 and correspondingly reduced its level of short-term interest rate hedging. These longer-term borrowings better match the adjustment frequency of the Company's assets. As long as the Company maintains this

strategy, the Company believes the result, as compared to using shorter-term borrowings, is likely to be reduced short-term earnings volatility but also reduced long-term total earnings.

TABLE 22
BORROWING SUMMARY

<TABLE>
<CAPTION>

END OF PERIOD	MARKET VALUE OF PLEDGABLE MORTGAGE ASSETS	ESTIMATED BORROWING CAPACITY AS A % OF PLEDGABLE ASSETS	ESTIMATED BORROWING CAPACITY	TOTAL BORROWINGS	AVERAGE TERM TO MATURITY	AVERAGE TERM TO RATE ADJUSTMENT	RATE ON BORROWINGS OUTSTANDING AT PERIOD-END
				(DOLLARS IN THOUSANDS)			

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 175,242	95.4%	$167,192	$155,881	64 days	28 days	6.23%
1996, 1st Half	1,007,480	95.9%	965,735	896,214	72 days	72 days	5.70%
Fiscal 1994	$ 117,477	95.6%	$112,283	$100,376	112 days	70 days	5.80%
1995, Quarter 1	141,860	94.3%	133,719	121,998	97 days	27 days	6.25%
1995, Quarter 2	175,242	95.4%	167,192	155,881	64 days	28 days	6.23%
1995, Quarter 3	298,785	94.5%	282,432	228,826	38 days	31 days	5.95%
1995, Quarter 4	432,244	94.6%	408,998	370,316	74 days	26 days	6.01%
1996, Quarter 1	565,159	95.2%	537,783	508,721	48 days	19 days	5.62%
1996, Quarter 2	1,007,480	95.9%	965,735	896,214	72 days	72 days	5.70%

</TABLE>

LIQUIDITY

A financial institution has ample liquidity when it is able to meet the demands made upon it for cash payments with its cash reserves, operating cash flow, borrowing capacity, proceeds from asset sales, or other sources of cash. Liquidity allows the Company to purchase additional mortgage assets and allows the Company to pledge additional assets to secure existing borrowings should the value of pledged assets decline. Potential immediate sources of liquidity for the Company include cash balances and unused borrowing capacity. Unused borrowing capacity will vary over time as the market value of the Company's mortgage assets fluctuate and due to other factors. Potential immediate sources of liquidity as a percent of total borrowings equaled 9% at June 30, 1996 and 12% at December 31, 1995. The maintenance of liquidity is one of the goals of the Company's risk-adjusted capital policy; under this policy, asset growth is limited in order to preserve unused borrowing capacity for liquidity management purposes.

The Company's balance sheet generates liquidity on an on-going basis through mortgage principal repayments and net earnings held prior to payment as dividends. Should the Company's needs ever exceed these on-going sources of liquidity plus the immediate sources of liquidity discussed above, management believes that the Company's mortgage assets and interest rate agreements could be sold in most circumstances to raise cash. The table below shows the potential immediate sources of liquidity available to the Company.

TABLE 23
POTENTIAL IMMEDIATE SOURCES OF LIQUIDITY

<TABLE>
<CAPTION>

END OF PERIOD	CASH BALANCE	ESTIMATED UNUSED BORROWING CAPACITY	POTENTIAL IMMEDIATE SOURCES OF LIQUIDITY (CASH + EST. UNUSED BORROWING CAPACITY)	POTENTIAL IMMEDIATE SOURCES OF LIQUIDITY AS % OF BORROWINGS
		(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 1,620	$11,311	$12,931	8%
1996, 1st Half	10,407	69,521	79,928	9%
Fiscal 1994	$ 1,027	$11,907	$12,934	13%
1995, Quarter 1	953	11,721	12,674	10%
1995, Quarter 2	1,620	11,311	12,931	8%
1995, Quarter 3	1,150	53,606	54,756	24%
1995, Quarter 4	4,825	38,682	43,507	12%
1996, Quarter 1	9,705	29,062	38,767	8%
1996, Quarter 2	10,407	69,521	79,928	9%

</TABLE>

STOCKHOLDERS' EQUITY

During the first half of 1996 the Company's equity base grew from $68.3 million to $124.3 million as a result of the Company's April 1996 stock offering, a positive mark-to-market adjustment on the Company's assets, proceeds from the exercise of warrants, and stock sold pursuant to the Company's Dividend Reinvestment Plan.

Book value per share grew 18% in the first half of 1996, from $12.38 to $14.59. This increase was due primarily to the accretive nature of the Company's April 1996 offering of stock, which was completed at a price of $20.25 per share. Management believes that book value per share growth is one important indicator of potential future earnings per share growth; as book value per share rises, the Company has more equity capital per share to invest in its business.

For balance sheet purposes the Company values all of its mortgage assets and interest rate agreements at their estimated bid-side liquidation market value. As a result, the Company's equity base and book value per share will fluctuate. The difference between market value and historical amortized cost, or "Net Unrealized Loss on Assets Available for Sale", was $4.6 million, or 0.4% of assets, as of June 30, 1996. The net unrealized loss at December 31, 1995 was

$5.5 million, or 1.2% of assets. Net unrealized loss includes both mark-downs on assets taken immediately upon acquisition (as liquidation values are generally estimated to be lower than acquisition prices) and the effect of subsequent market value fluctuations.

TABLE 24
STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

END OF PERIOD	NET UNREALIZED LOSSES ON MORTGAGE ASSETS	NET UNREALIZED LOSSES ON INTEREST RATE AGREEMENTS	TOTAL NET UNREALIZED LOSSES	NET UNREALIZED LOSSES AS % OF TOTAL ASSETS	HISTORICAL AMORTIZED COST EQUITY BASE	GAAP REPORTED EQUITY BASE	HISTORICAL AMORTIZED COST EQUITY PER SHARE	GAAP REPORTED EQUITY PER SHARE
				(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 886	$(1,200)	$ (314)	(0.2%)	$ 22,847	$ 22,533	$12.19	$12.02
1996, 1st Half	(3,068)	(1,485)	(4,553)	(0.4%)	128,847	124,295	15.12	14.59
Fiscal 1994	$(2,657)	$ 101	$(2,556)	(2.1%)	$ 22,837	$ 20,280	$12.18	$10.82
1995, Quarter 1	86	(635)	(549)	(0.4%)	22,901	22,352	12.22	11.93
1995, Quarter 2	886	(1,200)	(314)	(0.2%)	22,847	22,533	12.19	12.02
1995, Quarter 3	34	(1,585)	(1,551)	(0.5%)	74,024	72,473	13.42	13.14
1995, Quarter 4	(3,502)	(1,974)	(5,476)	(1.2%)	73,766	68,290	13.37	12.38
1996, Quarter 1	(3,763)	(1,302)	(5,065)	(0.9%)	73,211	68,146	13.26	12.34
1996, Quarter 2	(3,068)	(1,485)	(4,553)	(0.4%)	128,847	124,295	15.12	14.59

</TABLE>

CAPITAL ADEQUACY/RISK-ADJUSTED CAPITAL POLICY

Stockholders' equity as a percent of total assets was 12.1% at June 30, 1996 and 15.5% at December 31, 1995. The Company's target equity-to-assets ratio at June 30, 1996 was 10.8%. This level of equity capitalization is higher than that of many banks, savings and loans, Federal government mortgage agencies, insurance companies, and REITs that act as mortgage portfolio lenders.

The Company's target equity-to-assets ratio varies over time as a function of the Company's asset mix, the Company's liquidity position, the level of unused borrowing capacity, and the over-collateralization levels required by lenders when the Company pledges assets to secure borrowings. The Company currently seeks to maintain an equity-to-assets ratio of 7% to 10% for assets which have low credit risk, relatively low interest rate risk, good liquidity, and low lender over-collateralization requirements. For less liquid assets with credit risk, the Company currently seeks to maintain an equity-to-assets ratio of 40% to 100%. Thus the overall target equity-to-assets ratio will vary over time as a function of the asset mix and other factors. As shown in the table below, the target equity-to-assets ratio has been declining since mid-1995 due primarily to a change in asset mix. In aggregate, the Company's per-asset capital requirements have not changed significantly over the life of the Company.

The target equity-to-assets ratio is determined through a Board-level process called for in the Company's Risk-Adjusted Capital ("RAC") Policy. Should the actual equity-to-assets ratio of the Company fall below the target level due to asset acquisitions and/or asset market value fluctuations, management will cease the acquisition of new assets. Management will, at that time, present a plan to the Board to bring the Company back to its target equity-to-assets ratio; in many circumstances, this would be accomplished over time by waiting for the balance of mortgage assets to reduce through principal repayments.

The table below shows the Company's actual and target equity-to-assets ratios and the Company's actual asset size as compared to its full potential asset size given its equity capital base and the guidelines of the Company's RAC Policy. Management anticipates that the target equity-to-assets ratio may continue to drop in the future as the Company shifts its asset mix with an increased emphasis on high-quality whole mortgage loans and securitized mortgage assets rated AAA and AA.

With excess capital of $13.6 million as compared to its risk-adjusted capital guideline at June 30, 1996, the Company had asset growth potential of approximately $126 million assuming acquired mortgage assets have the same mix as existing mortgage assets. The Company employed approximately 74% of its capital base on average during the second quarter of 1996.

TABLE 25
EXCESS CAPITAL AND ASSET GROWTH POTENTIAL

<TABLE>
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	TARGET	ACTUAL	POTENTIAL ASSET SIZE	ASSET GROWTH POTENTIAL	ESTIMATED PERCENT OF

END OF PERIOD	EQUITY CAPITAL	EQUITY TO ASSETS RATIO	EQUITY TO ASSETS RATIO	EXCESS CAPITAL	WITH SAME ASSET MIX	ACTUAL ASSET SIZE	WITH SAME ASSET MIX	CAPITAL EMPLOYED DURING PERIOD
				(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	$ 22,533	12.95%	12.57%	$ (1,069)	$ 173,989	$ 179,321	$ (5,332)	82%
1996, 1st Half	124,295	10.77%	12.09%	13,566	1,154,303	1,028,330	125,973	79%
Fiscal 1994	$ 20,280	10.84%	16.69%	$ 6,716	$ 187,048	$ 121,528	$ 65,520	30%
1995, Quarter 1	22,352	12.41%	15.37%	3,970	180,173	145,440	34,733	70%
1995, Quarter 2	22,533	12.95%	12.57%	(1,069)	173,989	179,321	(5,332)	94%
1995, Quarter 3	72,473	13.08%	23.89%	32,155	554,183	303,394	250,789	55%
1995, Quarter 4	68,290	12.59%	15.47%	12,028	542,431	441,557	100,874	69%
1996, Quarter 1	68,146	11.72%	11.72%	26	581,540	581,313	227	87%
1996, Quarter 2	124,295	10.77%	12.09%	13,566	1,154,303	1,028,330	125,973	74%

</TABLE>

WARRANTS

At June 30, 1996 the Company had 1,563,957 warrants outstanding; at December 31, 1995 the Company had 1,665,063 warrants outstanding. In the first six months of 1996, 101,106 warrants were exercised. These warrants currently trade on NASDAQ under the symbol RWTIW. Each warrant gives the holder the right until December 31, 1997 to buy 1.000667 shares of common stock at a price per share of $15.00. If the Company's common stock continues to trade at a price above $15.00 per share, the remaining warrants are likely to be exercised sometime on or prior to December 31, 1997. If all these warrants are exercised, the Company will receive new equity capital of approximately $23.5 million.

ASSET/LIABILITY MANAGEMENT AND EFFECT OF CHANGES IN INTEREST RATES

Management continually reviews the Company's asset/liability strategy with respect to interest rate risk, mortgage principal repayment risk, credit risk and the related issues of capital adequacy and liquidity. The Company seeks attractive risk-adjusted shareholder returns while seeking to maintain a strong balance sheet and pattern of net income which is stable and growing over time relative to its competitors in the banking and savings and loan industries.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate liabilities and by hedging through the use of interest rate agreements to mitigate the potential impact on net income of periodic and lifetime caps (coupon adjustment restrictions) in the assets.

Another goal of the Company's asset/liability strategy is to preserve liquidity by managing the volatility of the net market value of the Company's balance sheet as shown in the stockholders' equity account. In the event of an increase in short-term interest rates, the market value of the Company's mortgage assets would likely fall, particularly in the short-term. The Company anticipates that the market value of its interest rate agreements would likely rise and partially offset decreases in mortgage values. See "Equity Duration" below.

Changes in interest rates also may have an effect on the rate of mortgage principal repayment; the Company seeks to mitigate the effect of changes in the mortgage principal repayment rate from an economic point of view by balancing assets purchased at a premium with assets purchased at a discount. However, due to the Company's GAAP accounting practices, changes in the rate of mortgage principal repayment have differing

effects on premium and discount amortization schedules. When the rate of mortgage principal repayments has increased above expected levels, the Company records premium amortization at a faster rate than discount amortization. This accounting practice leads to a lower level of GAAP accounting income, compared to what it otherwise would have been, during periods of rapid mortgage principal repayments. See "Amortization of Premium and Discount and Effect of Changes in Principal Repayment Rates" above.

Although the net effects of changes in interest rates, mortgage prepayment rates, and other factors cannot be determined in advance, management believes that some of the following effects may occur in an environment of rising short-interest rates: (i) earnings on that portion of the balance sheet funded with equity may rise over time as the coupons on adjustable rate mortgages adjust upwards, (ii) earnings on that portion of the balance sheet funded with borrowings (spread lending) may be initially reduced as borrowing costs rise more quickly than the coupons on adjustable rate mortgages, although most or all of the spread might be restored over time as the mortgage coupons fully adjust to the rate change, (iii) the Company may have reduced hedging expenses on existing interest rate agreements or may have positive hedging income due to the rate increases, (iv) premium amortization expenses may be reduced if the rate of mortgage principal repayment diminishes. All other factors being equal, the net effect of an increase in short-term interest rates may be an initial drop in earnings followed by increased earnings after a lag period. The length of any such lag period would likely be determined by the speed and extent of the change in interest rates. Management believes each of these effects would likely be reversed in an environment of falling short-term interest rates. All other factors being equal, therefore, the net effect of falling short-term interest rates could be an initial increase in earnings followed by decreased earnings

after a lag period.

In general, the Company's goal is to stabilize spread lending income over longer periods of time and allow income from equity-funded lending to rise as short-term interest rates rise and fall as short-term interest rates fall. If the Company achieves this goal, the Company's return on equity, earnings and dividends would maintain a constant or widening spread to the level of short-term interest rates over time.

INTEREST RATE SENSITIVITY GAP

The table below shows the Company's cumulative interest rate sensitivity gap, or maturity gap, for periods of one month to one year as a percentage of total assets. The interest rate sensitivity gap is a tool used by financial institutions such as banks and savings and loans to analyze the possible effects of interest rate changes on net income over time. The gap measures the amount of assets that mature or have a coupon adjustment in a particular period as compared to the amount of liabilities similarly adjusting during that time. A negative gap implies that rising interest rates will lead to lower earnings during that particular time frame, while a positive gap implies that rising interest rates will lead to higher earnings. Lower interest rates would have the opposite effect.

As applied to the Company, this gap analysis ignores the effect of the Company's hedging activities (interest rate agreements), the effect of the periodic and lifetime caps in the Company's assets, the effect of changes in mortgage principal repayment rates and other factors. Nevertheless, the gap analysis can provide some useful information on the Company's interest rate risk profile.

The table below shows that the Company's two-month cumulative gap as a percentage of total assets was negative 10% at June 30, 1996. This suggests that the initial impact on the Company's earnings of rising interest rates would be negative. Falling interest rates would have the opposite effect.

The Company had a cumulative nine-month gap of positive 5% at June 30, 1996. This implies that the impact on net interest income of increasing interest rates may be positive within nine months even though the initial impact may have been negative. Falling interest rates would have the opposite effect.

Although the Company's balance sheet does have these characteristics, since a variety of factors (such as interest rate agreements) have not been taken into account in the gap analysis, it is not possible to assess solely on this

basis what the actual impact of such interest rate changes on the Company's net income would be, especially over shorter time periods.

Since virtually all of the Company's assets and liabilities have income or expense rates which adjust to market conditions within one year, the Company's cumulative twelve-month interest rate sensitivity gap, which was positive 12% at June 30, 1996, applies to time periods longer than one year as well. The Company has a positive twelve-month interest rate sensitivity gap even though virtually all assets and liabilities adjust within one year because the Company has more earning assets than interest-bearing liabilities.

The negative short-term interest rate sensitivity gap was much reduced at June 30, 1996 compared to earlier periods because the Company extended the maturity of its liabilities during the second quarter.

TABLE 26

INTEREST RATE SENSITIVITY GAP EXCLUDING INTEREST RATE AGREEMENTS

END OF PERIOD	CUMULATIVE 1-MONTH GAP AS A % OF TOTAL ASSETS	CUMULATIVE 2-MONTH GAP AS A % OF TOTAL ASSETS	CUMULATIVE 3-MONTH GAP AS A % OF TOTAL ASSETS	CUMULATIVE 4-MONTH GAP AS A % OF TOTAL ASSETS	CUMULATIVE 5-MONTH GAP AS A % OF TOTAL ASSETS	CUMULATIVE 6-MONTH GAP AS A % OF TOTAL ASSETS	CUMULATIVE 9-MONTH GAP AS A % OF TOTAL ASSETS	CUMULATIVE 12-MONTH GAP AS A % OF TOTAL ASSETS
1995, 1st Half	(39%)	(49%)	(33%)	(17%)	(3%)	11%	12%	12%
1996, 1st Half	(13%)	(10%)	(3%)	(6%)	(6%)	(2%)	5%	12%
Fiscal 1994	(3%)	(0%)	5%	(1%)	1%	15%	15%	15%
1995, Quarter 1	(46%)	(41%)	(27%)	(12%)	0%	14%	14%	14%
1995, Quarter 2	(39%)	(49%)	(33%)	(17%)	(3%)	11%	12%	12%
1995, Quarter 3	(51%)	(34%)	(19%)	(6%)	4%	18%	20%	23%
1995, Quarter 4	(48%)	(36%)	(26%)	(16%)	(3%)	9%	12%	15%
1996, Quarter 1	(62%)	(47%)	(34%)	(21%)	(8%)	4%	8%	11%
1996, Quarter 2	(13%)	(10%)	(3%)	(6%)	(6%)	(2%)	5%	12%

INTEREST RATE AGREEMENTS

The Company's interest rate agreements alter the interest rate risk profile suggested by the interest rate sensitivity gap analysis. See "Cost of Borrowed

Funds and Hedging and the Interest Rate Spread" above and Footnote 3 of the Financial Statements.

The interest rate agreements are designed to produce income for the Company as short-term interest rates rise. These agreements can be thought of as serving to limit potential increases in the costs of the Company's borrowings or, alternatively, as serving to remove some of the periodic and lifetime caps imbedded in the Company's assets. The table below shows that, as of June 30, 1996, 59% of the Company's borrowings (or 59% of its assets that are funded with borrowings) were protected with interest rate agreements. This is a lower amount than in previous periods; the Company had a reduced need for hedging because it extended the maturities of its borrowings in the second quarter. In addition, as of June 30, 1996, the Company had entered into a variety of interest rate cap and swap agreements which would only become effective after that date and therefore were not shown in this table.

TABLE 27
NOTIONAL AMOUNT OF INTEREST RATE AGREEMENTS EFFECTIVE AS A % OF TOTAL BORROWINGS
(OR OF ASSETS FUNDED WITH BORROWINGS)
ASSUMING AN IMMEDIATE SHIFT IN INTEREST RATES

<TABLE>
<CAPTION>

			IMMEDIATE INCREASE IN ONE-MONTH OR THREE-MONTH LIBOR OF:							
END OF PERIOD	0BPS	50BPS	100BPS	150BPS	200BPS	300BPS	400BPS	500BPS	600BPS	700BPS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1995, 1st Half	0%	0%	44%	47%	47%	60%	66%	66%	73%	73%
1996, 1st Half	8%	22%	35%	39%	42%	52%	55%	58%	58%	59%
Fiscal 1994	0%	0%	5%	5%	5%	5%	5%	5%	5%	5%
1995, Quarter 1	0%	30%	30%	34%	34%	34%	34%	34%	34%	34%
1995, Quarter 2	0%	0%	44%	47%	47%	60%	66%	66%	73%	73%
1995, Quarter 3	0%	0%	0%	47%	49%	57%	60%	64%	64%	68%
1995, Quarter 4	0%	24%	24%	40%	59%	70%	70%	78%	78%	81%
1996, Quarter 1	0%	19%	35%	43%	48%	66%	70%	76%	76%	78%
1996, Quarter 2	8%	22%	35%	39%	42%	52%	55%	58%	58%	59%

</TABLE>

INTEREST RATE FUTURES AND OPTIONS

In the second half of 1996, the Company intends to commence the limited use of interest rate futures and listed options on interest rate futures as part of its on-going interest rate risk management process. These instruments are in some ways similar to the interest rate agreements currently in use by the Company; the Company intends to use them in a similar manner and for hedging purposes only. The Company currently plans to limit the aggregate amount of funds that the Company will deposit as original margin on futures plus premiums on listed options to less than 1% of the Company's total assets, after taking into account unrealized gains and unrealized losses on any such contracts. Unless federal legislation changing REIT hedging restrictions with respect to futures and options is enacted, the Company currently plans to limit its use of futures and listed options so that its net profits from such instruments will be limited to 5% or less of the Company's gross taxable income on an annual basis.

EQUITY DURATION

The Company uses "equity duration" to measure the stability of the market value of its assets with respect to the size of its equity base as interest rates fluctuate. Equity duration is a theoretical calculation of the projected percentage change in the reported equity base of the Company that would occur if short-term and long-term interest rates moved up or down by 1% overnight. The Company's goal is to maintain an equity duration of less than 15%. In practice, the Company believes it has maintained an equity duration of less than 10%. Should interest rates increase by more than 1%, the Company believes its equity duration would increase.

INFLATION

Virtually all of the Company's assets and liabilities are financial in nature. As a result, interest rates and other factors drive the Company's performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. The Company's financial statements are prepared in accordance with generally accepted accounting principals (GAAP) and the Company's dividends are determined by the Company's net income as calculated for tax purposes; in each case, the Company's activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

At June 30, 1996, there were no pending legal proceedings to which the Company as a party or of which any of its property was subject.

Item 2. Changes in Securities
Not applicable

Item 3. Defaults Upon Senior Securities
Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Annual Meeting of Shareholders of the Company was held on June 14, 1996.

(b) The following matters were voted on at the Annual Meeting:

(1) Election of Directors

<TABLE>
<CAPTION>

<S> Nominee	Votes For <C>	Votes Against <C>	Votes Abstain <C>
Douglas B. Hansen	4,011,336	300	0
Thomas F. Farb	4,011,336	300	0
Charles J. Toeniskoetter	4,011,336	300	0

</TABLE>

The following Directors' terms of office continue after the meeting:

George E. Bull
Nello Gonfiantini
Dan A. Emmett
Frederick H. Borden

(2) Ratification of Coopers & Lybrand as the Company's independent public accountants for the fiscal year ending December 31, 1996.

<TABLE>
<CAPTION>

<S>	Votes For	Votes Against <C>	Votes Abstain <C>
	3,999,516	7,220	4,900

</TABLE>

(3) Ratification of the amendments to the Stock Option Plan.

<TABLE>
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<S>	Votes For	Votes Against <C>	Votes Abstain <C>
	2,510,240	542,456	24,800

</TABLE>

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 11 to Part I - Computation of Earnings Per Share for the three and six months ended June 30, 1996 and June 30, 1995.

Exhibit 27 - Financial Data Schedule

(b) Reports
None

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SIGNATURES

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

REDWOOD TRUST, INC.

Dated: August 7, 1996 By:/s/ Douglas B. Hansen

Douglas B. Hansen
President and Chief Financial Officer
(authorized officer of registrant)

Dated: August 7, 1996 By:/s/ Vickie L. Rath

Vickie L. Rath
Vice President, Treasurer and Controller
(principal accounting officer)

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REDWOOD TRUST, INC.
INDEX TO EXHIBIT

<TABLE>
<CAPTION>

Exhibit Number		Sequentially Numbered Page
<S>		<C>
11	Computation of Earnings per Share.........	48
27	Financial Data Schedule...................	50

</TABLE>

EXHIBIT 11.1

REDWOOD TRUST, INC.
STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

	Three Months Ended June 30, 1996	Six Months Ended June 30, 1996
PRIMARY:		
Average common shares outstanding	7,813,974	6,667,675
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method....	182,832	182,865
Net effect of dilutive stock warrants outstanding during the period -- based on the treasury stock method....	603,425	603,428
Total	8,600,232	7,453,969
Net Income	$2,499,891	$4,454,079
Per Share Amount	$ 0.29	$ 0.60
FULLY DILUTED:		
Average common shares outstanding	7,813,974	6,667,675
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method....	202,936	202,850
Net effect of dilutive stock warrants outstanding during the period -- based on the treasury stock method....	773,057	773,061
Total	8,789,968	7,643,586
Net Income	$2,499,891	$4,454,079
Per Share Amount	$ 0.28	$ 0.58

EXHIBIT 11.1

REDWOOD TRUST, INC.
STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

	Three Months Ended June 30, 1995	Six Months Ended June 30, 1995
PRIMARY:		
Average common shares outstanding	208,332	208,332
Average preferred shares outstanding (A)	1,666,063	1,666,063
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method....	188,699	186,753
Total	2,063,094	2,061,148
Net Income	$ 449,642	$ 851,319
Per Share Amount	$ 0.22	$ 0.41
FULLY DILUTED:		
Average common shares outstanding	208,332	208,332

Average preferred shares outstanding (A)	1,666,063	1,666,063
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method....	188,699	186,753
Total	2,063,094	2,061,148
Net Income	$ 449,642	$ 851,319
Per Share Amount	$ 0.22	$ 0.41

</TABLE>

(A) Preferred shares considered common stock equivalents for all periods as there is no stated yield and there is an automatic conversion feature to convert the preferred to common with no additional proceeds to the company.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM JUNE 30, 1996 QUARTERLY REPORT ON FORM 10Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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