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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, 1998

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 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 stock, as of the last practicable date.

Class B Preferred Stock ($.01 par value)	909,518 as of August 10, 1998
Common Stock ($.01 par value)	13,768,056 as of August 10, 1998

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REDWOOD TRUST, INC.
FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

<TABLE>
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	June 30, 1998	December 31, 1997
ASSETS	(Unaudited)	
<S>	<C>	<C>
Mortgage assets:		
Mortgage loans, net	$ 2,223,348	$ 1,551,826
Mortgage securities, net	1,570,842	1,814,796
	3,794,190	3,366,622
Cash and cash equivalents:		
Unrestricted	11,354	24,892
Restricted	21,560	24,657
	32,914	49,549
Accrued interest receivable	21,554	23,119
Interest rate agreements	2,418	2,100
Investment in RWT Holdings, Inc.	9,319	--
Due from RWT Holdings, Inc.	831	--
Other assets	5,701	2,807
	$ 3,866,927	$ 3,444,197
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt	$ 1,936,158	$ 1,914,525
Long-term debt, net	1,593,344	1,172,801
Accrued interest payable	13,675	14,476
Accrued expenses and other liabilities	2,192	2,172
Dividends payable	687	5,686
	3,546,056	3,109,660
Commitments and contingencies (See Note 12)		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.01 per share; Class B 9.74% Cumulative Convertible 909,518 shares authorized, issued and outstanding ($28,882 aggregate liquidation preference)	26,736	26,736
Common stock, par value $0.01 per share; 49,090,482 shares authorized; 14,078,933 and 14,284,657 issued and outstanding	141	143
Additional paid-in capital	320,687	324,555
Accumulated other comprehensive income	(18,017)	(10,071)
Dividends in excess of net income	(8,676)	(6,826)
	320,871	334,537
	$ 3,866,927	$ 3,444,197

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
<S>	<C>	<C>	<C>	<C>
INTEREST INCOME				
Mortgage loans	$ 29,905	$ 13,020	$ 55,715	$ 22,875
Mortgage securities	23,423	36,223	51,090	64,774
Cash and investments	455	266	839	428
	53,783	49,509	107,644	88,077
INTEREST EXPENSE				
Short-term debt	33,282	38,958	61,285	67,858
Long-term debt	16,887	--	34,981	--
	50,169	38,958	96,266	67,858
Net interest rate agreements expense	1,624	839	3,002	1,434
NET INTEREST INCOME	1,990	9,712	8,376	18,785
Provision for credit losses	763	776	1,364	1,471
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	1,227	8,936	7,012	17,314
Equity in earnings of RWT Holdings, Inc.	(581)	--	(581)	--
Write-down of mortgage securities	--	--	(729)	--
Net gain on sale transactions	--	--	6	--
Other income	139	--	139	--
NET REVENUES	785	8,936	5,847	17,314
Operating expenses	589	1,215	2,514	2,382
NET INCOME	196	7,721	3,333	14,932
Less cash dividends on Class B preferred stock	687	687	1,374	1,442
NET INCOME(LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (491)	$ 7,034	$ 1,959	$ 13,490
NET INCOME(LOSS) PER SHARE				
Basic	$ (0.03)	$ 0.54	$ 0.14	$ 1.10
Diluted	$ (0.03)	$ 0.52	$ 0.14	$ 1.05
Weighted average shares of common stock and common stock equivalents:				
Basic	14,106,828	12,997,566	14,115,342	12,305,215
Diluted	14,255,858	13,470,930	14,368,616	12,800,960

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

<TABLE>
<CAPTION>

	Class B Preferred stock Shares	Class B Preferred stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated other comprehensive income	Dividends in excess of net income	Total
Balance, December 31, 1997	909,518	$26,736	14,284,657	$ 143	$ 324,555	$(10,071)	$(6,826)	$ 334,537
Comprehensive income:								
Net income	--	--	--	--	--	--	3,137	3,137
Net unrealized loss on assets available-for-sale	--	--	--	--	--	(3,014)	--	(3,014)
Total comprehensive income	--	--	--	--	--	--	--	123
Repurchase of common stock	--	--	(214,100)	(2)	(4,273)	--	--	(4,275)
Dividends declared:								
Class B preferred	--	--	--	--	--	--	(687)	(687)
Common	--	--	--	--	--	--	--	0
Balance, March 31, 1998	909,518	$26,736	14,070,557	$ 141	$ 320,282	$(13,085)	$(4,376)	$ 329,698
Comprehensive income:								
Net income	--	--	--	--	--	--	196	196
Net unrealized loss on assets available-for-sale	--	--	--	--	--	(4,932)	--	(4,932)
Total comprehensive income	--	--	--	--	--	--	--	(4,736)
Issuance of common stock	--	--	68,676	1	1,587	--	--	1,588
Repurchase of common stock	--	--	(60,300)	(1)	(1,182)	--	--	(1,183)
Dividends declared:								
Class B preferred	--	--	--	--	--	--	(687)	(687)
Common	--	--	--	--	--	--	(3,809)	(3,809)
Balance, June 30, 1998	909,518	$26,736	14,078,933	$ 141	$ 320,687	$(18,017)	$(8,676)	$ 320,871

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)
<TABLE>
<CAPTION>

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 196	$ 7,721	$ 3,333	$ 14,932
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of mortgage asset premium and discount, net	11,020	5,109	19,178	8,927
Amortization of deferred bond issuance costs	523	--	925	--
Amortization of long-term debt premium	(413)	--	(657)	--
Depreciation and amortization	60	29	112	55
Amortization of interest rate agreements	1,525	756	2,867	1,067
Provision for credit losses on mortgage assets	763	776	1,364	1,471
Equity in earnings of RWT Holdings, Inc.	581	--	581	--
Write-down of mortgage securities	--	--	729	--
Net gain on sale transactions	--	--	(6)	--
(Increase) decrease in accrued interest receivable	2,332	(6,567)	1,565	(10,281)
(Increase) decrease in other assets	(2,235)	(930)	(3,006)	266
Increase (decrease) in accrued interest payable	1,463	3,191	(801)	4,093
Increase in accrued expenses and other liabilities	395	481	20	982
Net cash provided by operating activities	16,210	10,566	26,204	21,512
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net increase in restricted cash	4,174	--	3,097	--
Investment in RWT Holdings, Inc., net of dividends received	--	--	(9,900)	--
Advances to RWT Holdings, Inc., net of cash payments	(831)	--	(831)	--
Purchases of mortgage loans	(525,510)	(470,474)	(967,472)	(721,339)
Purchases of mortgage securities	(69,326)	(492,416)	(231,167)	(868,626)
Proceeds from sales of mortgage securities	--	--	9,296	--
Principal payments on mortgage loans	169,766	64,283	288,472	109,529
Principal payments on mortgage securities	255,526	135,662	442,931	263,778
Purchases of interest rate agreements	(1,127)	(5,110)	(2,024)	(7,101)
Net cash used in investing activities	(167,328)	(768,055)	(467,598)	(1,223,759)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds from (repayments on) short-term debt	(351,860)	729,505	21,633	1,149,681
Proceeds from issuance of long-term debt	635,193	--	635,193	--
Repayments on long-term debt	(123,238)	--	(214,918)	--
Net proceeds from issuance of common stock	1,588	52,323	1,588	84,090
Repurchases of common stock	(1,183)	--	(5,458)	--

Dividends paid	(4,496)	(7,899)	(10,182)	(13,167)
Net cash provided by financing activities	156,004	773,929	427,856	1,220,604
Net increase (decrease) in cash and cash equivalents	4,886	16,440	(13,538)	18,357
Cash and cash equivalents at beginning of period	6,468	12,985	24,892	11,068
Cash and cash equivalents at end of period	$ 11,354	$ 29,425	$ 11,354	$ 29,425
Supplemental disclosure of cash flow information:				
Cash paid for interest expense	$ 48,818	$ 35,923	$ 97,237	$ 63,991

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1998
(UNAUDITED)

NOTE 1. THE COMPANY

Redwood Trust, Inc. ("Redwood Trust") was incorporated in Maryland on April 11, 1994 and commenced operations on August 19, 1994. During 1997, Redwood Trust formed Sequoia Mortgage Funding Corporation ("Sequoia"), a special-purpose finance subsidiary. Redwood Trust acquired an equity interest in RWT Holdings, Inc. ("RWT Holdings"), a non-REIT, taxable affiliate of Redwood Trust, during the first quarter of 1998. For financial reporting purposes, references to the "Company" mean Redwood Trust, Sequoia and the equity interest in RWT Holdings. The Company acquires and manages real estate mortgage assets ("Mortgage Assets") which may be acquired as whole loans ("Mortgage Loans") or as mortgage securities representing interests in or obligations backed by pools of mortgage loans ("Mortgage Securities"). The Company currently acquires Mortgage Assets that are secured by single-family real estate properties throughout the United States. The Company utilizes both debt and equity to finance its acquisitions. The Company may also use other securitization techniques to enhance the value and liquidity of the Company's Mortgage Assets and may sell Mortgage Assets from time to time.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

Certain amounts for prior periods have been reclassified to conform with the 1998 presentation.

INCOME TAXES

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

MORTGAGE ASSETS

The Company's Mortgage Assets consist of Mortgage Securities and Mortgage Loans. 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.

Mortgage Loans
Mortgage Loans are carried at their unpaid principal balance, net of unamortized discount or premium and specific credit reserves established for such assets.

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

Unrealized losses on Mortgage Securities 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 carrying value of the Mortgage Security is adjusted. Other-than-temporary unrealized losses are based on management's assessment of various factors affecting the expected cash flow from the Mortgage Securities, including an other-than-temporary deterioration of the credit quality of the underlying mortgages and/or the credit protection available to the related mortgage pool and a significant change in the prepayment characteristics of the underlying collateral.

CASH AND CASH EQUIVALENTS

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

INTEREST RATE AGREEMENTS

The Company utilizes various types of Interest Rate Agreements to hedge the interest rate and liquidity risks inherent in its investment and financing strategies.

SFAS No. 119, Disclosure about Derivative Financial Instruments, requires the Company to provide certain disclosures concerning its derivative instruments according to a set of prescribed guidelines. The nature of the Company's investment and financing strategies exposes the Company to interest rate risk. As part of its asset/liability management activities, the Company uses interest rate options, interest rate swaps and interest rate futures (collectively "Interest Rate Agreements") to hedge exposures or modify the interest rate characteristics of related balance sheet items. Currently, the Company enters into all Interest Rate Agreements as hedges. Under the Company's hedging policy, a specific portfolio of assets and liabilities with similar economic characteristics such as a low life strike, variable interest rate based on a market-sensitive index, similar expected prepayment rate behavior and similar periodic caps, is identified. The hedge instruments are chosen as the ones probable of substantially reducing the interest rate risk being hedged, and a high degree of correlation is maintained on an on-going basis. These hedge instruments are intended to reduce the interest rate risk being hedged by providing income to offset potential reduced net interest income or by protecting against market value fluctuations on the hedged assets or liabilities under certain interest rate scenarios. The Company periodically evaluates the effectiveness of these hedges under various interest rate scenarios.

Interest Rate Agreements that are hedging available-for-sale Mortgage Securities are carried at fair value with unrealized gains and losses reported as a component of Accumulated Other Comprehensive Income in stockholders' equity, consistent with the reporting of unrealized gains and losses on the related securities. Similarly, Interest Rate Agreements that are used to hedge Mortgage Loans, Short-Term Debt or Long-Term Debt are carried at amortized cost.

Net premiums on interest rate option agreements are amortized as a component of net interest income over the effective period of the interest rate option using the effective interest method. The income and/or expense related to interest rate option and swap agreements is recognized on an accrual basis. Realized gains and losses from the settlement or early termination of Interest Rate Agreements are deferred and amortized into net interest income over the remaining term of the original Interest Rate Agreement, or, if shorter, over the remaining term of the associated hedged asset or liability, as adjusted for estimated future principal repayments. In the event that a hedged asset or liability is sold or extinguished, any related hedging gains or losses would be recognized as an adjustment to the gain or loss on the disposition of the related asset or liability.

Unrealized losses on Interest Rate Agreements that are considered other-than-temporary are recognized in income and the carrying value 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, for example, a serious deterioration of the ability of the counterparty to perform under the terms of the Interest Rate Agreement.

DEBT

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

NET INCOME PER SHARE

Net income per share for the three and six months ended June 30, 1998 and 1997 is shown in accordance with SFAS No. 128, Earnings Per Share, which was effective for fiscal years ended after December 15, 1997 and requires restatement of prior period earnings per share ("EPS"). Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the diluted net income available to common stockholders by the weighted average number of common shares and common equivalent shares outstanding during the period. The common equivalent shares are calculated using the treasury stock method, which assumes that all dilutive common stock equivalents are exercised and the funds generated by the exercise are used to buy back outstanding common stock at the average market price during the reporting period.

The following tables provide reconciliations of the numerators and denominators of the basic and diluted net income per share computations for the three and six months ended June 30, 1998 and 1997.

<TABLE>
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(IN THOUSANDS, EXCEPT SHARE DATA)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
NUMERATOR:				
Numerator for basic and diluted earnings per share--				
Net income	$ 196	$ 7,721	$ 3,333	$ 14,932
Cash dividends on Class B preferred stock	(687)	(687)	(1,374)	(1,442)

Basic and Diluted EPS - Income available to common stockholders	(491)	7,034	1,959	13,490
DENOMINATOR:				
Denominator for basic earnings per share--				
Weighted average number of common shares outstanding during the period	14,106,828	12,997,566	14,115,342	12,305,215
Net effect of dilutive stock options	149,030	291,228	253,274	274,793
Net effect of dilutive stock warrants(a)	0	182,137	0	220,952
Denominator for diluted earnings per share--	14,255,858	13,470,930	14,368,616	12,800,960
Net earnings per share--basic	$ (0.03)	$ 0.54	$ 0.14	$ 1.10
Net earnings per share--diluted	$ (0.03)	$ 0.52	$ 0.14	$ 1.05

</TABLE>

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

COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income, requires the Company to classify items of "other comprehensive income", such as unrealized gains and losses on assets available-for-sale, by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. In accordance with SFAS No. 130, current period unrealized gains and losses on assets available-for-sale are reported as a component of Comprehensive Income on the Statement of Stockholders' Equity with cumulative unrealized gains and losses classified as Accumulated Other Comprehensive Income in stockholders' equity. As of June 30, 1998 and December 31, 1997, the only component of Accumulated Other Comprehensive Income was unrealized gains and losses on assets available-for-sale.

USE OF ESTIMATES

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

Fair Value. The Company uses estimates in establishing fair value for its assets available-for-sale. 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. Estimates of fair value for all remaining assets available-for-sale are based primarily on management's judgment. 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. The fair value of all on- and off-balance sheet financial instruments is presented in Notes 3, 6 and 10.

Allowance for Credit Losses. An allowance for credit losses is maintained at a level deemed appropriate by management to provide for known, future losses as well as unidentified potential losses in its Mortgage Asset portfolio. The allowance is based upon management's assessment of various factors affecting its Mortgage

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

RECENT ACCOUNTING PRONOUNCEMENTS

On June 15, 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes a new model for accounting for derivatives and hedging activities, superseding and amending a number of existing standards. SFAS No. 133 standardizes the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities measured at fair value. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. The impact on the Company of adopting SFAS No. 133 has not yet been determined.

NOTE 3. MORTGAGE ASSETS

At June 30, 1998, Mortgage Assets consisted of the following:

<TABLE>
<CAPTION>

	MORTGAGE SECURITIES			
(IN THOUSANDS)	AGENCY	NON-AGENCY	MORTGAGE LOANS	TOTAL
<S>	<C>	<C>	<C>	<C>
Mortgage Assets, Gross	$ 765,424	$ 788,772	$ 2,191,767	$ 3,745,963
Unamortized Discount	(155)	(10,495)	0	(10,650)
Unamortized Premium	26,293	13,205	35,660	75,158
Amortized Cost	791,562	791,482	2,227,427	3,810,471
Allowance for Credit Losses	0	(1,705)	(4,079)	(5,784)
Gross Unrealized Gains	711	1,118	0	1,829
Gross Unrealized Losses	(8,552)	(3,774)	0	(12,326)
Carrying Value	$ 783,721	$ 787,121	$ 2,223,348	$ 3,794,190

</TABLE>

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

<TABLE>
<CAPTION>

	MORTGAGE SECURITIES			
(IN THOUSANDS)	AGENCY	NON-AGENCY	MORTGAGE LOANS	TOTAL
<S>	<C>	<C>	<C>	<C>
Mortgage Assets, Gross	$ 953,937	$ 825,438	$ 1,519,837	$ 3,299,212
Unamortized Discount	(174)	(12,268)	0	(12,442)
Unamortized Premium	32,722	18,606	34,844	86,172
Amortized Cost	986,485	831,776	1,554,681	3,372,942
Allowance for Credit Losses	0	(2,076)	(2,855)	(4,931)
Gross Unrealized Gains	2,598	3,984	0	6,582
Gross Unrealized Losses	(4,286)	(3,685)	0	(7,971)
Carrying Value	$ 984,797	$ 829,999	$ 1,551,826	$ 3,366,622

</TABLE>

At June 30, 1998 and December 31, 1997, all investments in Mortgage Assets consisted of interests in adjustable-rate mortgages or hybrid mortgages on residential properties. The hybrid mortgages have an initial fixed coupon rate of five to seven years followed by annual adjustments. Agency Mortgage Securities ("Agency Securities") represent securitized interests in pools of adjustable-rate mortgages from the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. The Agency Securities are guaranteed as to principal and interest by these United States government-sponsored entities. The original maturity of the majority of the Mortgage Assets is thirty years; the actual maturity is subject to change based on the prepayments of the underlying mortgage loans.

At June 30, 1998 and December 31, 1997, the average annualized effective yield after taking into account the amortization expense due to prepayments on the

Mortgage Assets was 6.35% and 6.86%, respectively, based on the amortized cost of the assets. The coupons on 69% of the adjustable-rate mortgage securities and loans owned by the Company are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months or 2% every year) with the other 31% not limited by such periodic caps. Most of the coupons on the adjustable-rate mortgage securities and loans owned by the Company are limited by lifetime caps. At June 30, 1998 and December 31, 1997, the weighted average lifetime cap was 12.10% and 12.08%, respectively.

During the first quarter of 1998, the Company sold Mortgage Securities with a carrying value of $9.3 million. Proceeds and realized gains and losses on the sales of Mortgage Securities for the three and six months ended June 30, 1998 are presented below. No such sales occurred for the three and six months ended June 30, 1997.

(IN THOUSANDS)	THREE MONTHS ENDED JUNE 30, 1998	SIX MONTHS ENDED JUNE 30, 1998
Proceeds from sales of available-for-sale securities	$0	$9,295
Available-for-sale securities gains	$0	$ 6
Available-for-sale securities losses	0	0
Net gain on sales of available-for-sale securities	$0	$ 6

NOTE 4. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes Allowance for Credit Losses activity for the three and six months ended June 30:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
(IN THOUSANDS)	1998	1997	1998	1997
Balance at beginning of period	$ 5,484	$ 2,833	$ 4,931	$ 2,180
Provision for credit losses	763	776	1,364	1,471
Charge-offs	(463)	(29)	(511)	(71)
Balance at end of period	$ 5,784	$ 3,580	$ 5,784	$ 3,580

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

NOTE 5. COLLATERAL FOR LONG-TERM DEBT

The Company has pledged collateral in order to secure the Long-Term Debt issued in the form of collateralized mortgage bonds ("Bond Collateral"). This Bond Collateral consists primarily of adjustable-rate and hybrid, conventional, 30-year mortgage loans secured by first liens on one- to four-family residential properties. All Bond Collateral is pledged to secure repayment of the related Long-Term Debt obligation. All principal and

interest (less servicing and related fees) on the Bond Collateral is remitted to a trustee and is available for payment on the Long-Term Debt obligation. The Company's exposure to loss on the Bond Collateral is limited to its net investment, as the Long-Term Debt is non-recourse to the Company. The Company may also be exposed to losses from prepayments of the underlying loans to the extent that the unamortized net premium on the loans exceeds the net unamortized premium on the Long-Term Debt net of deferred bond issuance costs related to the issuance of the Long-Term Debt.

The components of the Bond Collateral at June 30, 1998 and December 31, 1997 are summarized as follows:

(IN THOUSANDS)	JUNE 30, 1998	DECEMBER 31, 1997
Mortgage loans	$1,620,655	$1,191,487
Restricted cash and cash equivalents	21,560	24,657

Accrued interest receivable	6,612	7,401
	----------	----------
	$1,648,827	$1,223,545
	==========	==========

</TABLE>

For presentation purposes, the various components of the Bond Collateral summarized above are reflected in their corresponding line items on the Consolidated Balance Sheets.

NOTE 6. INTEREST RATE AGREEMENTS

The amortized cost and carrying value of the Company's Interest Rate Agreements at June 30, 1998 and December 31, 1997 are summarized as follows:

<TABLE>

(IN THOUSANDS)	JUNE 30, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Amortized Cost	$ 9,938	$ 10,781
Gross Unrealized Gains	568	650
Gross Unrealized Losses	(8,088)	(9,331)
	-------	--------
Carrying Value	$ 2,418	$ 2,100
	=======	========

</TABLE>

The following table summarizes the aggregate notional amounts of all of the Company's Interest Rate Agreements as well as the credit exposure related to these instruments at June 30, 1998 and December 31, 1997.

<TABLE>
<CAPTION>

	NOTIONAL AMOUNTS		CREDIT EXPOSURE (A)	
(IN THOUSANDS)	JUNE 30, 1998	DECEMBER 31, 1997	JUNE 30, 1998	DECEMBER 31, 1997
<S>	<C>	<C>	<C>	<C>
Interest Rate Options	$4,742,700	$4,862,200	$ 0	$ 0
Interest Rate Swaps	535,000	473,000	10,134	12,392
Interest Rate Futures	482,600	58,000	3,519	46
	----------	----------	-------	-------
Total	$5,760,300	$5,393,200	$13,653	$12,438
	==========	==========	=======	=======

</TABLE>

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

Interest Rate Options, which include caps, floors, corridors, options on futures and swaption collars (collectively, "Options"), are agreements which transfer, modify or reduce interest rate risk in exchange for the payment of a premium when the contract is initiated. Interest rate cap agreements provide cash flows to the Company to the extent that a specific interest rate index exceeds a fixed rate. Conversely, interest rate floor agreements produce cash flows to the Company to the extent that the referenced interest rate index falls below the agreed upon fixed rate. Corridors will cause the Company to incur a gain (loss) to the extent that the yield of the specified index is below (above) the strike rate at the time of the option expiration. The maximum gain or loss on a corridor is established at the time of the transaction by establishing minimum and maximum index rates. The Company will

receive cash on the options on futures if the futures price exceeds (is below) the call (put) option strike price at the expiration of the option. Swaption collars will cause the Company to incur a gain (loss) should the index rate be below (above) the strike rate as of the expiration date. The Company's credit risk on the Options is limited to the amortized cost of the Options agreements.

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

Interest Rate Futures ("Futures") are contracts for the delivery of securities or cash in which the seller agrees to deliver on a specified future date, a specified instrument (or the cash equivalent), at a specified price or yield. Under these agreements, if the Company has sold (bought) the futures, the Company will generally receive additional cash flows if interest rates rise (fall). Conversely, the Company will generally pay additional cash flows if interest rates fall (rise).

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

NOTE 7. INVESTMENT IN RWT HOLDINGS, INC.

The Company is entitled to 99% of the earnings or losses of RWT Holdings through its ownership of all of the non-voting preferred stock of RWT Holdings. As such, the Company records its investment in RWT Holdings using the equity method. Under this method, original equity investments in RWT Holdings are recorded at cost and adjusted by the Company's share of earnings or losses and decreased by dividends received.

The Company incurs some of the operating expenses of RWT Holdings, including personnel and related expenses, subject to full reimbursement by RWT Holdings. As of June 30, 1998, amounts due to the Company from RWT Holdings for operating expenses totaled $691,618.

RWT Holdings is a co-borrower under some of the Company's Short-Term Debt agreements subject to the Company continuing to remain jointly and severally liable for repayment. Accordingly, RWT Holdings pays the Company credit support fees on borrowings subject to this arrangement. At June 30, 1998, amounts due to the Company from RWT Holdings for credit support fees totaled $138,966.

Under a revolving credit facility arrangement, the Company may advance funds to RWT Holdings in order to finance Mortgage Loan acquisitions. Such advances bear interest at a rate of 3.5% over the London Interbank Offered Rate ("LIBOR"). At June 30, 1998, there were no outstanding advances to RWT Holdings.

Summarized financial information for RWT Holdings is presented below.

(IN THOUSANDS) BALANCE SHEET

<TABLE>
<CAPTION>

<S>	JUNE 30, 1998 <C>
ASSETS	
Cash and cash equivalents	$ 10,216
Accrued interest receivable	16
Other assets	53
	$ 10,285
LIABILITIES	
Due to Redwood Trust, Inc.	$ 831
Accrued expenses and other liabilities	41
	872
STOCKHOLDERS' EQUITY	
Preferred stock	9,900
Common stock	--
Additional paid-in capital	100
Retained earnings	(587)
	9,413
	$ 10,285

</TABLE>

(IN THOUSANDS) STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

<S>	THREE MONTHS ENDED JUNE 30, 1998 <C>
INTEREST INCOME:	

Mortgage loans	$ 2,779
Cash and investments	57
	2,836
INTEREST EXPENSE:	
Short-term debt	2,503
Credit support fees	139
Advances from Redwood Trust, Inc.	15
	2,657
NET INTEREST INCOME	179
Net gain on sale transactions	22
NET REVENUES	201
Operating expenses	788
NET INCOME (LOSS)	$ (587)

</TABLE>

NOTE 8. SHORT-TERM DEBT

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

At June 30, 1998, the Company had $1.9 billion of Short-Term Debt outstanding with a weighted average borrowing rate of 5.88% and a weighted average remaining maturity of 52 days. This debt was collateralized with $2.0 billion of Mortgage Assets. At December 31, 1997, the Company had $1.9 billion of Short-Term Debt outstanding with a weighted average borrowing rate of 6.00% and a weighted average remaining maturity of 64 days. This debt was collateralized with $2.0 billion of Mortgage Assets.

At June 30, 1998 and December 31, 1997, the Short-Term Debt had the following remaining maturities:

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Within 30 days	$1,241,991	$ 823,545
30 to 90 days	403,931	533,543
Over 90 days	290,236	557,437
Total Short-Term Debt	$1,936,158	$1,914,525

</TABLE>

For the three and six months ended June 30, 1998, the average balance of Short-Term Debt was $2.3 billion and $2.1 billion with a weighted average interest cost of 5.88% and 5.83%, respectively. For the three and six months ended June 30, 1997, the average balance of Short-Term Debt was $2.7 billion and $2.4 billion with a weighted average interest cost of 5.86% and 5.75%, respectively. The maximum balance outstanding during the six months ended June 30, 1998 and 1997 was $2.5 billion and $3.1 billion, respectively.

NOTE 9. LONG-TERM DEBT

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

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

The components of the Long-Term Debt at June 30, 1998 and December 31, 1997 along with selected other information are summarized below:

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Long-Term Debt	$ 1,591,079	$ 1,170,709
Unamortized premium on Long-Term Debt	6,970	5,795
Deferred bond issuance costs	(4,705)	(3,703)
Total Long-Term Debt	$ 1,593,344	$ 1,172,801
Range of weighted-average interest rates, by series	6.04% to 6.61%	6.06% to 6.50%
Stated maturities	2017 - 2029	2024 - 2029
Number of series	3	2

</TABLE>

For the three and six months ended June 30, 1998, the average effective interest cost for Long-Term Debt, as adjusted for the amortization of bond premium, deferred bond issuance costs and other related expenses, was 6.45% and 6.44%, respectively. At June 30, 1998 and December 31, 1997, interest payable on Long-Term Debt was $5.4 million and $2.6 million, respectively, and is reflected as a component of Accrued Interest Payable on the Consolidated Balance Sheets. No such Long-Term Debt was outstanding during the three and six months ended June 30, 1997.

NOTE 10. 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, 1998 and December 31, 1997. SFAS 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.

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1998		DECEMBER 31, 1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Assets				
Mortgage Loans	$2,223,348	$2,219,772	$1,551,826	$1,552,585
Mortgage Securities	$1,570,842	$1,570,842	$1,814,796	$1,814,796
Interest Rate Agreements	$2,418	($123)	$2,100	$1,522
Liabilities				
Long-Term Debt	$1,593,344	$1,591,961	$1,172,801	$1,172,938

</TABLE>

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

NOTE 11. STOCKHOLDERS' EQUITY

CLASS B 9.74% CUMULATIVE CONVERTIBLE PREFERRED STOCK
On August 8, 1996, the Company issued 1,006,250 shares of Class B Preferred Stock ("Preferred Stock"). Each share of the Preferred Stock is convertible at the option of the holder at any time into one share of Common Stock. After September 30, 1999, the Company can either redeem or, under certain circumstances, cause a conversion of the Preferred Stock. The Preferred Stock pays a dividend equal to the greater of (i) $0.755 per quarter or (ii) an amount equal to the quarterly dividend declared on the number of shares of the Common Stock into which the Preferred Stock is convertible. The Preferred Stock ranks senior to the Company's Common Stock as to the payment of dividends and liquidation rights. The liquidation preference entitles the holders of the Preferred Stock to receive $31.00 per share plus any accrued dividends before any distribution is made on the Common Stock.

As of June 30, 1998 and December 31, 1997, 96,732 shares of the Preferred Stock have been converted into 96,732 shares of the Company's Common Stock. At June 30, 1998 and December 31, 1997, there were 909,518 shares of the Preferred Stock outstanding.

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

automatically provided annual grants of NQSOs with DERs pursuant to a formula under the Plan.

The number of shares of Common Stock available under the Plan for options and Awards, subject to certain anti-dilution provisions, is 15% of the Company's total outstanding shares of Common Stock. At June 30, 1998 and December 31, 1997, 846,781 and 1,158,404 shares of Common Stock, respectively, were available for grant. Of the shares of Common Stock available for grant, no more than 500,000 shares of Common Stock shall be cumulatively available for grant as ISOs. At June 30, 1998 and December 31, 1997, 369,315 and 354,265 ISOs had been granted, respectively. The exercise price for ISOs granted under the Plan may not be less than the fair market value of shares of Common Stock at the time the ISO is granted. All stock options granted under the Plan

vest no earlier than ratably over a four year period from the date of grant and expire within ten years after the date of grant.

The Company's Plan permits certain stock options granted under the plan to accrue stock DERs. For the three and six months ended June 30, 1998, the stock DERs accrued on NQSOs that had a stock DER feature resulted in charges to operating expenses of $1,994 and $55,222, respectively. For the three and six months ended June 30, 1997, the stock DERs accrued on NQSOs that had a stock DER feature resulted in charges to operating expenses of $122,944 and $246,803, respectively. Stock DERs represent shares of stock which are issuable to holders of stock options when the holders exercise the underlying stock options. The number of stock DER shares accrued is based on the level of the Company's dividends and on the price of the stock on the related dividend payment date.

A summary of the status of the Company's Plan for the three and six months ended June 30 is presented below.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30, 1998		SIX MONTHS ENDED JUNE 30, 1998	
(IN THOUSANDS, EXCEPT SHARE DATA)	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>
Outstanding options at beginning of period	1,127,345	$ 27.31	840,644	$ 29.79
Options granted	68,670	$ 22.20	352,952	$ 20.59
Options exercised	--	--	--	--
DERs earned	25	0	2,444	0
Outstanding options at end of period	1,196,040	$ 27.01	1,196,040	$ 27.01

</TABLE>

STOCK PURCHASE WARRANTS
The Warrants expired on December 31, 1997. Each Warrant entitled the holder to purchase 1.000667 shares of the Company's Common Stock at an exercise price of $15.00 per share.

STOCK REPURCHASES
During 1997, the Company's Board of Directors approved the repurchase of up to 1,455,000 shares of the the Company's Common Stock. Pursuant to this repurchase program, the Company repurchased 60,300 and 274,400 shares of its Common Stock for $1.2 million and $5.4 million during the three and six months ended June 30, 1998, respectively. The repurchased shares have been returned to the Company's authorized but unissued shares of Common Stock. At June 30, 1998, 340,600 shares of Common Stock were available for repurchase.

DIVIDENDS
As of June 30, 1998, the Company had declared the following dividends:

<TABLE>
<CAPTION>

				DIVIDENDS PER SHARE	
DECLARATION DATE	RECORD DATE	PAYABLE DATE	TOTAL DIVIDENDS (IN THOUSANDS)	CLASS B PREFERRED STOCK	COMMON STOCK
<S>	<C>	<C>	<C>	<C>	<C>
6/4/98	6/30/98	7/21/98	$687	$0.755	-
4/27/98	5/7/98	5/21/98	$3,809	-	$0.270
3/11/98	3/31/98	4/21/98	$687	$0.755	-
12/12/97	12/31/97	1/21/98	$5,686	$0.755	$0.350
9/8/97	9/30/97	10/21/97	$9,433	$0.755	$0.600
6/12/97	6/30/97	7/21/97	$8,638	$0.755	$0.600
3/5/97	3/31/97	4/21/97	$7,899	$0.755	$0.600

</TABLE>

Under the Internal Revenue Code of 1986, a dividend declared by a REIT in October, November or December of a calendar year and payable to shareholders of record as of a specified date in such month, will be deemed to have

been paid by the Company and received by the shareholders on the last day of that calendar year, provided the dividend is actually paid before February 1st of the following calendar year. Therefore, the dividend declared in December 1997 which was paid in January 1998 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 12. COMMITMENTS AND CONTINGENCIES

At June 30, 1998, the Company had entered into commitments to purchase $529.4 million of Mortgage Assets and $156,750 of Interest Rate Agreements for settlement in July 1998.

At June 30, 1998, the Company is obligated under non-cancelable operating leases with expiration dates through 2001. The future minimum lease payments under these non-cancelable leases are as follows: 1998 - $99,416; 1999 through 2000 - $198,832; 2001 - $66,277.

NOTE 13. SUBSEQUENT EVENTS

On July 27, 1998, the Company declared a $0.01 cash dividend per common share for the second quarter of 1998 payable on August 21, 1998 to common shareholders of record on August 6, 1998.

On August 6, 1998, the Company declared a $0.755 cash dividend per preferred share for the third quarter of 1998 payable on October 21, 1998 to preferred shareholders of record on September 30, 1998.

During July 1998, pursuant to its stock repurchase program (see Note 11), the Company repurchased 340,600 shares of the Company's Common Stock for $5.9 million. On August 6, 1998, the Company's Board of Directors authorized the repurchase of additional shares of its Common Stock pursuant to its stock repurchase program. The maximum number of additional shares authorized for repurchase under this new program is 2,000,000. On August 10, 1998, the Company entered into a commitment to repurchase 800,000 shares of the Company's Common Stock for $12 million with a settlement date of August 13, 1998.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes.

SAFE HARBOR STATEMENT

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this discussion regarding Redwood Trust, Inc. (the "Company") and its business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" commencing on Page 27 of the Company's 1997 Annual Report.

COMPANY OVERVIEW

The Company is a mortgage finance company providing capital market funding to the high quality segments of the mortgage market.

The Company consists of a real estate investment trust and consolidated subsidiaries ("Redwood REIT") and a preferred stock equity interest in RWT Holdings, Inc. ("Holdings"), a non-consolidated affiliate.

Redwood REIT, through its portfolio operations, is primarily engaged in mortgage spread lending. Portfolio operations earn net income to the extent that the interest earned from the mortgage portfolio exceeds the cost of borrowed funds, hedging, credit loss expenses and operating expenses. Under Federal tax elections, Redwood REIT pays no corporate income tax provided it distributes at least 95% of its taxable income as dividends over time and meets certain other federal REIT qualifying conditions.

Redwood REIT owns both mortgage loans and mortgage securities. The loans are high-quality single family residential mortgage loans. The mortgage securities represent interests in securitized pools of residential mortgage loans. Most of the mortgage securities in the Redwood REIT's portfolio have substantial forms of protection from credit risk and are rated "AAA" or "AA". Redwood REIT funds its portfolio with its equity and with debt. Redwood REIT's borrowings consist of both short-term recourse debt and long-term non-recourse debt.

Holdings acquires and accumulates mortgage loans for sale to Redwood REIT, to other investors, or into mortgage securitizations. Holdings' operations earn net income to the extent that gains on loans sold, fee income generated, and net interest income earned on loans held for sale exceed operating expenses and taxes.

Due to the start-up nature of its activities, Holdings is expected to report a significant loss for 1998. Holdings started operations on March 31, 1998 when Redwood REIT transferred certain of its mortgage acquisition operations to the new entity. Holdings plans to expand these operations while starting related new businesses. Redwood Financial Services ("RFS"), a unit of Holdings, started operations on July 1, 1998. RFS acquires, accumulates and securitizes seasoned mortgage loans. RFS is expected to have over 20 employees by year-end 1998.

The Company, through its acquisition of Holdings' non-voting preferred stock, currently owns a 99% economic interest in Holdings. Thus 99% of any income or loss at Holdings will increase or reduce the Company's reported net income. Generally, Holdings' earnings or losses will not change the Company's taxable income, or the amount the Company pays in dividends to its shareholders, except to the extent that Holdings pays a dividend to the Company.

RESULTS OF OPERATIONS

Mortgage Portfolio Operations
- -----------------------------

In the second quarter of 1998, the net increase in the amortized cost of Redwood REIT's mortgage asset portfolio was $158.1 million, or 4.3%. The mortgage asset portfolio grew from $3.65 billion to $3.81 billion. This growth was the net result of $594.8 million of acquisitions, $425.3 million of principal repayments, $11.0 million of net premium amortization, and $0.5 million of realized credit losses.

In the second quarter of 1998, Redwood REIT acquired $594.8 million of mortgage assets, including $525.5 million of mortgage loans and $69.3 million of mortgage securities. Hybrid mortgage loans ("Hybrids") represented $524.1 million of the mortgage assets acquired and adjustable-rate mortgages ("ARMs") represented the other $70.7 million. Hybrids have a fixed-rate coupon for three to ten years and an adjustable-rate coupon thereafter. ARMS have an adjustable-rate coupon that adjusts to market conditions at least once per year.

In the second quarter of 1998, Redwood REIT received $425.3 million of mortgage principal repayments. Principal repayments on mortgage loans consist of scheduled principal payments and unscheduled principal prepayments. Scheduled principal repayments are the payments calculated to fully amortize a loan at its scheduled maturity date. Unscheduled principal prepayments typically occur when a homeowner pays off their loan either because they sell their home or they refinance their mortgage at a lower rate. Some mortgage securities owned by Redwood REIT are subject to call provisions and some receive a greater than pro-rata share of principal repayments generated by the underlying mortgage pool. Thus, for securities, the total amount of mortgage principal repayment each month can exceed the level of prepayments and scheduled repayments on the underlying loans.

One common measure of principal prepayments is the conditional prepayment rate ("CPR"). The CPR measures how much principal prepaid in a period, expressed as a percentage of the remaining, unamortized principal balance at the beginning of that period. This percentage is stated as an annualized number. The average CPR for Redwood REIT's mortgage loans and the mortgage pools underlying its mortgage securities was 34% in the second quarter of 1998.

In line with industry trends, prepayments reached record levels in April and May, then declined slightly in June. The average CPRs were 35% in April, 34% in May and 32% in June. Based on preliminary results, Redwood REIT believes that July 1998 average CPRs were near June levels. Higher levels of prepayments tend to reduce Redwood REIT's earnings due to increased purchase premium amortization expense.

In the second quarter of 1997, the net increase in the amortized cost of Redwood REIT's mortgage asset portfolio was $757.8 million, or 29.1%. The mortgage asset portfolio grew from $2.61 billion to $3.36 billion. This growth was the net result of $962.9 million of acquisitions, $199.9 million of principal repayments, $5.1 million of net premium amortization, and less than $0.1 million of realized credit losses.

In the second quarter of 1997, Redwood REIT acquired $962.9 million of mortgage assets, including $470.5 million of mortgage loans and $492.4 million of mortgage securities. All mortgage assets acquired were ARMs. Second quarter 1997 CPRs were 23%.

In the first half of 1998, the amortized cost of Redwood REIT's mortgage asset portfolio increased $0.44 billion, or 13.0%, from $3.37 billion to $3.81 billion. During this period, Redwood REIT acquired $1.20 billion of mortgage assets, received $731.4 million of mortgage principal repayments, amortized $19.2 million of net premium, and sold $9.3 million of mortgage assets. Redwood REIT also took a $0.7 million write-down on mortgage securities and realized credit losses of $0.5 million.

In the first half of 1998, or mortgage assets acquired, mortgage loans totaled $0.97 billion and mortgage securities totaled $0.23 billion. Hybrids represented $0.82 billion of mortgage assets acquired and ARMs represented the other $0.38 billion. First half 1998 CPRs were 30%.

In the first half of 1997, the amortized cost of Redwood REIT's mortgage asset portfolio increased $1.21 billion, or 56.0% from $2.16 billion to $3.36 billion. During this period Redwood REIT acquired $1.59 billion of mortgage assets, received $373.3 million of mortgage principal repayments, and amortized $8.9 million of net premium. Redwood REIT also realized credit losses of less than $0.1 million.

In the first half of 1997, mortgage loans totaled $0.72 billion and mortgage securities totaled $0.87 billion of total mortgage assets acquired. ARMs represented $1.52 billion of mortgage assets acquired and Hybrids represented the other $0.07 billion. First half 1997 CPRs were 23%.

In the third quarter of 1998, through August 10, 1998, Redwood REIT had acquired or committed to acquire $660.8 million of mortgage assets, including $584.3 million of Hybrid loans and $76.5 million of adjustable-rate mortgage securities.

Interest Income

Total interest income is the sum of mortgage coupon income, premium amortization expense, discount amortization income, and interest earned on cash balances.

Second quarter 1998 total interest income equaled $53.8 million, an 8.6% increase from the $49.5 million earned in the second quarter of 1997. The net increase of $4.3 million was the result of a $10.0 million increase in coupon interest income, $0.2 million increase in interest income on cash balances, and a $5.9 million increase in net premium amortization expense. Earning asset yield decreased to 6.10% in second quarter of 1998 from 6.86% in the second quarter of 1997.

Second quarter 1998 coupon interest income of $64.3 million increased 18.4% from the second quarter of 1997 primarily because the average earning asset balance increased 22.0%. The average mortgage coupon rate decreased from 7.74% to 7.52%. The average mortgage coupon rate was lower because the mortgage index levels were lower in the 1998 period than in the 1997 period and because the mix of assets changed (i.e. assets with higher coupons prepaid and were replaced with lower coupon mortgage assets, such as Hybrids).

Second quarter 1998 net premium amortization expense of $11.0 million increased by 115.7% compared to the second quarter 1997 expense because mortgage asset principal prepayment rates were faster in the second quarter of 1998. Mortgage asset prepayments, as measured by CPRs, increased from 23% to 34% from the second quarter of 1997 to the second quarter of 1998. Prepayments reduced mortgage coupon yield by 1.26% in the second quarter of 1998 and 0.71% in the second quarter of 1997.

First half 1998 total interest income equaled $107.6 million, a 22.2% increase from the $88.1 million earned in the first half of 1997. The net increase of $19.5 million was the result of a $29.4 million increase in coupon interest income, a $10.2 million increase in premium amortization expense, a $0.1 million decrease in discount amortization income and a $0.4 million increase in interest income on cash balances. Earning asset yield declined from 6.86% in the first half of 1997 to 6.29% in the first half of 1998.

First half 1998 coupon interest income of $126.0 million increased 30.4% from the first half of 1997 primarily because the average earning asset balance increased 33.2%. The average mortgage coupon rate decreased from 7.72% to 7.58% because the mortgage index levels were lower and because the mix of assets changed toward lower coupon assets.

First half 1998 net premium amortization expense of $19.2 million increased by 114.8% compared to the first half 1997 expense because mortgage loan prepayment rates were faster in the first half of 1998. Redwood REIT's Mortgage asset prepayments, as measured by CPRs, increased from 23% to 30% from the first half of 1997 to the first half of 1998. Prepayments reduced mortgage coupon yield by

1.13% in the first half of 1998 and 0.70% in the first half of 1997.

Interest Expense

Interest expense is the cash expense paid on short-term and long-term debt plus the amortization expense of deferred bond issuance costs and other related expenses. In addition, when Redwood REIT sells a debt obligation at a price greater or less than the principal value of the debt, the debt issuance premium or discount is amortized into income as the debt principal balance amortizes over time. The amortization of debt issuance premium reduces interest expense (increases earnings) and the amortization of debt issuance discount increases interest expense (reduces earnings).

Second quarter 1998 interest expense of $50.2 million was $11.2 million, or 28.8%, greater than the $39.0 million expense in the second quarter of 1997. Average borrowings increased $0.65 billion, or 24.5%, from $2.66 billion to $3.31 billion.

The total cost of borrowings increased from 5.86% to 6.06% due to the issuance of long-term debt in the second half of 1997. Second quarter 1998 average short-term borrowings decreased to $2.26 billion from $2.66 billion in the second quarter of 1997. The cost of funds on this debt increased slightly, from 5.86% to 5.88% in the period to period comparison, as short-term interest rates and the mix of assets pledged against these borrowings remained relatively unchanged. Average long-term borrowings increased from zero to $1.05 billion. The cost of funds on this long-term debt was 6.45% in the second quarter of 1998.

First half 1998 interest expense of $96.3 million was $28.4 million, or 41.9%, greater than the $67.9 million expense in the first half of 1997. Average borrowings increased $0.83 billion, or 35.2%, from $2.36 billion to $3.19 billion.

The total cost of borrowings increased from 5.75% to 6.04% from the first half of 1997 to the first half 1998. First half 19989 average short-term borrowings decreased to $2.10 billion from $2.36 billion in the first half of 1997. The cost of funds on this debt increased from 5.75% to 5.83% as more loans rather than securities were pledged against these borrowings and short-term interest rates increased slightly. Average long-term borrowings increased from zero to $1.09 billion in the first half of 1998. The cost of funds on long-term debt was 6.44% in the first half of 1998.

Interest Rate Agreements Expense

Second quarter 1998 net interest rate agreements expense was $1.6 million. Interest rate agreement expense was $0.8 million in the second quarter of 1997. The higher level of expense during the second quarter of 1998 as compared to second quarter of 1997 was due to an increase in the number effective interest rate agreements. On an annualized basis, net interest rate agreements expense was 0.19% and 0.13% of average borrowings in the second quarter of 1998 and second quarter of 1997, respectively.

In the first halves of 1998 and 1997, net interest rate agreements expense was $3.0 million and $1.4 million, respectively. The higher level of expense in the first half of 1998 was due to an increase in the number of effective interest rate agreements during that period. On an annualized basis, year to date net interest rate agreements expense was 0.19% and 0.12% of average borrowings in 1998 and 1997, respectively.

For additional detail, see "Note 6. Interest Rate Agreements" in the Notes to the Consolidated Financial Statements.

Net Interest Income

Net interest income is total interest income less interest expense and net interest rate agreement expense. Interest rate spread is the spread between the yield on earning assets and the cost of funds and hedging. Interest rate margin is annualized net interest income divided by the average daily balance of earning assets.

In the second quarter of 1998, net interest income was $2.0 million, 80% lower than the $9.7 million reported in the second quarter of 1997. As discussed above, interest income increased $4.3 million and interest expense increased $11.2 million. Interest rate agreements expense also increased $0.8 million.

In the second quarter of 1998, the net interest rate spread was negative 0.15% compared to 0.87% in the second quarter of 1997. The lower net interest rate spread was the combined result of accelerated mortgage prepayments and Redwood REIT's issuance of long-term debt. Second quarter 1998 net interest margin was 0.22% compared to 1.31% in the second quarter 1997.

Net interest income would have been higher if Redwood REIT had chosen to fully utilize its capital and if, as a result, it had acquired additional positive spread mortgage assets. Since mid-1997, Redwood REIT has generally limited the growth of its balance sheet due to unfavorable mortgage market pricing. The average capital utilization in the second quarter of 1998 was 79% versus 96% in the second quarter of 1997.

In the first half 1998, net interest income was $8.4 million, 55.4% lower than the $18.8 million reported in the first half of 1997. As discussed above, interest income increased $19.6 million and interest expense increased $28.4 million. Interest rate agreements expense also increased $1.6 million.

In the first half of 1998, the net interest rate spread was 0.06% compared to 0.99% in the first half of 1997. Lower net interest rate spread was the combined result of accelerated mortgage prepayments and Redwood REIT's issuance of long-term debt. First half 1998 net interest margin was 0.47% compared to 1.42% in the first half of 1997. The average capital utilization in the first half of 1998 was 78% versus 97% in the first half of 1997.

Please see "Interest Income" and "Interest Expense" and "Interest Rate Agreements" above for a discussion of the individual components of net interest income.

Credit Provision Expense

It is Redwood REIT's policy to set aside annual credit provisions for mortgage loans and lower-rated mortgage securities on an ongoing basis in order build a reserve for potential future credit losses. In the second quarter of 1997 and 1998, the annualized rate of provision was 0.16% of the average mortgage loan balance. Redwood REIT built up a credit reserve for its lower-rated mortgage securities by taking credit provisions through September 1997. Since that time, Redwood REIT has reduced the risk of loss on its mortgage securities by re-securitizing portions of that portfolio and has not added to its mortgage securities credit reserve.

The $0.8 million total credit provisions in the second quarter of 1998 were similar to the level of provisions taken in the second quarter of 1997. A $0.4 million higher provision taken for a higher average mortgage loan balance was offset by the reduction of the provision taken for mortgage securities from $0.4 million to zero.

Compared to the first half of 1997, credit provisions in the first half of 1998 decreased $0.1 million, from $1.5 million to $1.4 million. Credit provisions on mortgage loans were $0.9 million higher due to higher mortgage loan balances while credit provisions on mortgage securities went from $1.0 million to zero.

Write-down of Mortgage Securities

There were no write-downs of mortgage securities in the second quarter of 1998 or the first half of 1997.

Redwood REIT wrote-down all of its interest only mortgage securities ("IOs") to their estimated market value in the first quarter of 1998. This write-down reduced GAAP income $0.7 million but did not effect taxable income.

Gain or Loss on Sale Transactions

Redwood REIT did not sell mortgage assets or hedges in the second quarter of 1998 or in the first half of 1997.

Redwood REIT sold $9.3 million of mortgage securities during the first half of 1998 resulting in a gain on sale of $6,000.

Other Income

Beginning in the second quarter of 1998, Redwood REIT agreed to provide credit support to Holdings by acting as co-borrower on some of Holdings' short-term debt agreements. Accordingly, Holdings pays Redwood REIT credit support fees on borrowings subject to this arrangement. In the second quarter of 1998, Redwood REIT earned $0.1 million from Holdings in credit support fees. The maximum balance supported by Redwood REIT during the second quarter of 1998 was $367.1 million and the balance at June 30, 1998 was zero. No such fee was received prior to this quarter.

Operating Expenses

When compared to the second quarter of 1997, second quarter 1998 operating expenses at Redwood REIT decreased from $1.2 million to $0.6 million. This was primarily the result of the transfer of certain Redwood REIT operations (representing $0.7 million of expense in the second quarter of 1998) to Holdings.

After giving effect to this transfer, the number of employees at Redwood REIT still increased over the past year. Lower bonus and dividend-equivalent right

("DER") accruals offset the extra expense of these employees.

For similar reasons, first half 1998 operating expenses at Redwood REIT increased $0.1 million to $2.5 million from $2.4 million in the first half of 1997.

Net Income at Redwood REIT

In the second quarter of 1998, Redwood REIT net income was $0.8 million, $6.9 million less than the $7.7 million reported in the same quarter one year ago. As discussed above, faster prepayments, the issuance of long-term debt, and the effects of under-utilizing the balance sheet were the primary reasons for the decline.

For similar reasons, as discussed above, first half of 1998 Redwood REIT net income of $3.9 million was $11.0 million less than the $14.9 million reported in the same period one year ago.

Equity in Earnings of Holdings

The Company recognizes income from its investment in Holdings using the equity method of accounting. The Company's share of Holdings' net income appears as a single line item on the Company's income statement as "Equity in Earnings of RWT Holdings, Inc."

There were no operations for Holdings prior to the second quarter of 1998.

Holdings started and ended the second quarter of 1998 with no mortgage assets. During the second quarter of 1998, Holdings acquired $531.0 million of mortgage loans, had $5.6 million of principal repayments, and sold $525.4 million of mortgage loans. All of these loans were sold to Redwood REIT.

Holdings had $2.8 million of interest income, $2.5 million of interest expense, $0.1 million in credit support fees payable to Redwood REIT, and net interest income of $0.2 million. Gain on sale income was less than $0.1 million. Holdings had $0.8 million of operating expenses. Holdings' net loss was $0.6 million.

In the second quarter and for the first half of 1998, the Company recognized a net loss equal to $0.6 million, or 99% of Holdings' net loss.

The Company expects Holdings' operating expenses will grow significantly in the second half of 1998 as a result of its start-up operations. Holdings' net loss rate is expected to increase in the second half of 1998.

Please see "Investment in Holdings" in the Financial Condition section below and "Note 7: Investment in RWT Holdings, Inc." in the Notes to the Consolidated Financial Statements for additional information on Holdings.

Net Income before Preferred Dividends

Redwood REIT's net income of $0.8 million and the Company's $0.6 million share of the loss at Holdings resulted in total net income available to common and preferred shareholders of $0.2 million for the second quarter of 1998. This was 97.5% lower than the $7.7 million earned in the second quarter of 1997. As discussed above, the primary reasons were the faster rate of prepayments, the issuance of long-term debt, and an under-utilized balance sheet. As a result, return on total average equity dropped from 10.53% to 0.23% in the quarter to quarter comparison.

For similar reasons, first half of 1998 net income available to common and preferred shareholders was $3.3 million, 77.7% lower than the $14.9 million reported in the first half of 1997. The return on total average equity (common plus preferred) decreased from 11.26% to 1.95%.

Preferred Dividends

The Company's Class B 9.74% Cumulative Convertible Preferred Stock ("Preferred Stock") was issued in the third quarter of 1996. The quarterly preferred dividend equals the greater of the common stock dividend or $0.755 per share. Each share of Preferred Stock is convertible at the option of the holder at any time into one share of common stock. After September 1999, Redwood REIT has the option to: i) force the conversion of each share of Preferred Stock into one share of common stock if the price of the common stock exceeds $31.00, or ii) to redeem the Preferred Stock at $31.00 per share plus any accrued dividends.

There were 909,518 preferred shares outstanding at June 30, 1997 and at June 30, 1998 with a total book value of $26.7 million. Preferred dividends were $0.7 million in each of these periods.

Preferred dividends were $1.37 million in the first half of 1998 and $1.44 million in the first half of 1997. The first half 1998 preferred dividend was lower because preferred shareholders converted 96,732 shares of Preferred Stock into common stock in the first half of 1997.

Net Income Available to Common Shareholders

In the second quarter of 1998, net income available to common shareholders after the payment of preferred dividends decreased to negative $0.5 million from $7.0 million in the second quarter of 1997 for reasons discussed above. From the second quarter of 1997 to the second quarter of 1998, return on average common equity decreased from 10.65% to negative 0.62%.

In the first half of 1998, net income available to common shareholders decreased to $2.0 million, 85.5% less than the $13.5 million reported in the first half of 1997. Return on average common equity decreased from 11.43% to 1.24%

Diluted Earnings Per Share

Second quarter 1998 diluted earnings per share decreased to negative $0.03 per share from $0.52 per share in the second quarter of 1997. The average number of diluted common shares outstanding increased by 5.8%, from 13.5 million to 14.3 million, and net income available to common shareholders decreased from $7.0 million to negative $0.5 million.

First half 1998 diluted earnings per share decreased 86.7% to $0.14 from $1.05 reported in the first half of 1997. The average number of diluted common shares outstanding increased by 12.2%, from 12.8 million to 14.4 million, and net income available to common shareholders decreased from $13.5 million to $2.0 million.

Taxable Income

As a REIT, the Company is required to distribute dividends equal to at least 95% of its taxable income. To the extent that it pays dividends, such income is generally not taxed at the corporate level.

In any given period, taxable income can be greater or less than GAAP net income (a "GAAP/Tax Difference") because of differences in the GAAP and tax accounting rules. Important GAAP/Tax Differences arise for the Company when it accounts for: i) its investment and earnings in Holdings, ii) non-qualified stock options ("NQSOs") granted under its Stock Option Plan, iii) credit losses on mortgage assets, iv) amortization of mortgage acquisition premium or discount, v) write-down of mortgage securities, and vi) certain long-term financing arrangements. Other important GAAP/Tax differences exist as well.

For taxable income purposes, the Company recognizes no income or loss from its investment in Holdings unless Holdings pays a dividend to the Company. For GAAP accounting, however, the Company's pro-rata share of any after-tax profit or loss at Holdings is recognized as profit or loss at the Company, regardless of the level of dividend, if any, declared by Holdings. During the second quarter of 1998, the Company recognized $0.6 million of the loss at Holdings in its GAAP income statement, but recognized no taxable income or loss from Holdings as Holdings did not declare a dividend. There were no GAAP/Tax Differences from this source in prior periods as Holdings commenced operations in the second quarter of 1998. This GAAP/Tax Difference may increase in the second half of 1998 as the Company expects Holdings will report a substantial operating loss during this period. The Company does not expect Holdings to pay a dividend during this period.

The exercise of NQSOs creates a GAAP/Tax Difference in the Company's income. For taxable income purposes only, when NQSOs are exercised, the Company recognizes an expense equal to the difference between the fair market value of the stock at the time of exercise and the exercise price paid. Although this is a non-operating, non-cash expense, such expenses arising from the future exercise of options will lower the Company's taxable income, and thus its dividend, in the quarters when NQSOs are exercised. If all vested NQSOs were exercised as of June 30, 1998, the additional associated tax expense for the second quarter would have been $0.4 million. The potential taxable expense associated with NQSOs could increase significantly as more options vest or if the price of the Company's publicly-traded stock increases. Taxable expenses associated with the exercise of NQSOs were zero in the second quarter of 1998 and the first half of 1998. This expense was $0.2 million in the second quarter of 1997 and the first half of 1997. For additional detail on NQSOs, see "Note 11. Stockholders' Equity - - Stock Option Plan" in the Notes to the Consolidated Financial Statements.

When accounting for credit losses, Redwood REIT reduces GAAP net income based on potential future losses on its mortgage assets. Tax accounting, on the other hand, requires Redwood REIT to reduce taxable income only as actual credit losses are incurred. In any given period, actual credit losses could be significantly different than the GAAP credit loss provision. GAAP credit provisions exceeded actual credit losses deductible from taxable income by $0.3 million in the second quarter of 1998 and $0.8 million in the second quarter of 1997. In the first half of 1998 and 1997, GAAP credit provisions exceeded actual credit losses by $0.9 million and $1.4 million, respectively.

In the second quarter of 1998, taxable income before preferred dividends was $0.8 million. This exceeded GAAP income by $0.6 million due to the $0.6 million equity in the loss at Holdings, a $0.3 million credit expense difference, and negative $0.3 million of other expense differences.

In the second quarter of 1997, taxable income before preferred dividends of $8.3 million exceeded GAAP income by $0.6 million due to an $0.8 million credit expense difference and negative $0.2 million of other expense differences.

In the first half of 1998, taxable income before preferred dividends of $5.4 million exceeded GAAP income by $2.0 million due to a $0.9 million credit expense difference, a $0.7 million difference due to the write-down of

mortgage securities, the $0.6 million of equity in the loss at Holdings, and a negative $0.2 million of other expense differences.

In the first half of 1997, taxable income before preferred dividends of $16.2 million exceeded GAAP income by $1.3 million due to a $1.4 million credit expense difference and negative $0.1 million of other expense differences.

Common Share Dividends

On July 27, 1998, the Company declared a $0.01 per share second quarter common dividend that was equal to the taxable income per share entitled to a dividend earned by the Company in that period. This dividend is payable on August 21, 1998 to shareholders of record as of August 6, 1998. This dividend is less than the $0.60 dividend declared in the second quarter of 1997 due to a decline in taxable income earned.

Total dividends for the first half of 1998 of $0.28 were lower than the $1.20 per share dividend declared in the first half of 1997 due to a decline in taxable income earned.

Effective with the fourth quarter 1997 dividend, the Company's policy is to declare a common dividend for each quarter that is equal to that quarter's taxable income per common share entitled to a dividend. The first three quarters' dividends will be declared after taxable income has been determined for the quarter. The dividend declaration for the first, second and third quarter dividends is expected to occur in the last week of April, July and October, respectively. The fourth quarter's dividend will be declared in December based on estimated fourth quarter taxable income and any other adjustments necessary to comply with REIT dividend distribution rules. The record and payable dates for dividends will be announced at the time the dividends are declared.

The Company's common dividend is expected to vary from quarter to quarter, both due to fluctuations in the Company's operating results and due to changes in operating and non-operating items that impact taxable income.

FINANCIAL CONDITION

Mortgage Loans

From December 31, 1997 to June 30, 1998, Redwood REIT's mortgage loan portfolio grew $672.7 million, or 43.3%, from $1.55 billion to $2.23 billion. At December 31, 1997, 96% of mortgage loans were ARMS and the remaining 4% were Hybrids. At June 30, 1998, 62% of mortgage loans were ARMs and 38% were Hybrids.

At June 30, 1998, Redwood REIT owned 7,032 adjustable-rate, first-lien mortgage loans on single-family residential properties with a principal value of $2.19 billion and an amortized cost of 101.63% of principal value. Redwood REIT estimated that the bid-side market value of Redwood REIT's mortgage loan portfolio at June 30, 1998 was approximately $2.22 billion. The estimated unrealized market value loss in Redwood REIT's mortgage loan portfolio was $3.6 million after adjusting for the existing $4.1 million credit reserve.

As verified by its re-underwriting process, Redwood REIT believes that its mortgage loans owned as of June 30, 1998 were generally originated to "A", or "Prime" quality, underwriting standards. The average loan size was $312,000. Loans with current balances less than $227,150 (the FNMA/FHLMC 1998 conventional loan balance limit for most loans) made up 16% of the dollar balance of Redwood REIT's mortgage loan portfolio, while loans with current balances in excess of $500,000 made up 33%. Loans on owner-occupied houses made up 91% of the loan portfolio. Second homes and investment properties represented 7% and 2% of the portfolio, respectively. As of June 30, 1998, the average seasoning of the loan portfolio was 15 months.

The average original loan-to-value ratios ("OLTV") for Redwood REIT's loan portfolio was 76% as of June 30, 1998. At June 30, 1998, 31% of mortgage loans had an OLTV in excess of 80%. Of these, 97% had either primary mortgage insurance ("PMI") or additional collateral in the form of pledged accounts. After giving effect to PMI and additional collateral, the average effective OLTV was 67%.

At June 30, 1998, 35% of the mortgage loans owned by Redwood REIT were on properties located in California (18% in Northern California and 17%in Southern California). Loans in Florida were 7%, loans in New York were 6%, and loans in Georgia and Colorado were each 5% of the total. All other states were less than 5%.

At June 30, 1998, 21 mortgage loans were non-performing assets ("NPAs"), as they were over 90 days delinquent, in bankruptcy, in foreclosure, or had become Real Estate Owned ("REO"). The loan balance of these NPAs totaled $4.9 million, or 0.22% of the mortgage loan portfolio and 0.13% of total assets. Included in this NPA balance was REO of $0.3 million resulting from the default of two loans.

Cumulatively through June 30, 1998, Redwood REIT had liquidated nine defaulted mortgage loans: the average loss severity on those loans was 11%. In the second quarter of 1998, actual credit losses realized on the Company's mortgage loans were $0.1 million. On an annualized basis, credit losses in the second quarter of 1998 represented 0.03% of the average portfolio balance. Total cumulative losses on this portfolio have been $0.2 million through June 30, 1998.

Redwood REIT estimates its realized credit losses from all NPAs as of June 30, 1998 would be $0.5 million, $1.0 million, $1.5 million, or $2.0 million if all such NPAs were to default rather than cure and the loss severity on these loans was 10%, 20%, 30%, or 40%, respectively. The mortgage loan credit reserve as of June 30, 1998 was $4.1 million. This reserve was 0.18% of mortgage loans as of June 30, 1998. The analysis in this paragraph reviews the risk of loss from NPAs as of June 30, 1998 only; it does not purport to analyze or measure credit losses from additional NPAs that may arise after June 30, 1998.

At December 31, 1997, Redwood REIT owned 5,041 adjustable-rate, first-lien mortgage loans on single-family residential properties with a principal value of $1.52 billion and an amortized cost of $1.55 billion, or 102.29% of principal value. Redwood REIT estimates that the bid-side market value of Redwood REIT's mortgage loan portfolio at December 31, 1997 was approximately $1.55 billion. The estimated unrealized market value loss in Redwood REIT's mortgage loan portfolio was $2.0 million after adjusting for the existing $2.9 million credit reserve.

At December 31, 1997, the average loan size was $301,000. Loans with current balances less than $214,600 (the FNMA/FHLMC 1997 conventional loan balance limit for most loans) made up 18% of the dollar balance of Redwood REIT's mortgage loan portfolio while loans with current balances in excess of $500,000 made up 37%. Loans on owner-occupied houses made up 89% of the loan portfolio. Second homes represented 8% and investment properties 3% of the portfolio. As of December 31, 1997, the average seasoning of the loan portfolio was 18 months.

At December 31, 1997, 38% of loans had an OLTV in excess of 80%. Of these, 95% had either primary mortgage insurance ("PMI") or additional collateral in the form of pledged accounts. The average OLTV for Redwood REIT's loan portfolio was 78% as of December 31, 1997; after giving effect to PMI and additional collateral, the average effective OLTV was 66%.

At December 31, 1997, 29% of the mortgage loans owned by Redwood REIT were on properties located in California (11% in Northern California and 18% in Southern California). Loans in Florida were 9% loans in New York were 7% and loans in Georgia were 5% of the total. All other states were less than 5%.

At December 31, 1997, 17 mortgage loans were NPAs. The loan balance of these NPAs totaled $3.9 million, or 0.25% of the mortgage loan portfolio and 0.11% of total assets. Included in this NPA balance was REO of $0.7 million resulting from the default of four loans.

At December 31, 1997, Redwood REIT estimated its realized credit losses from NPAs at that time would be $0.4 million, $0.8 million, $1.2 million, or $1.6 million, if all of the NPAs defaulted rather than cured, and loss severity on these loans was 10%, 20%, 30%, or 40%, respectively. The mortgage loan credit reserve as of December 31, 1997 was $2.9 million. The analysis in this paragraph reviews the risk of loss from NPAs as of

December 31, 1997 only; it does not purport to analyze or measure credit losses from additional NPAs that may arise after December 31, 1997.

Mortgage Securities

From December 31, 1997 to June 30, 1998, Redwood REIT's mortgage securities portfolio decreased $235.2 million, or 12.9%, from $1.82 billion to $1.58 billion.

All of Redwood REIT's mortgage securities at December 31, 1997 and June 30, 1998 represented interests in pools of adjustable-rate mortgages on single-family residential properties.

At June 30, 1998, the principal value of Redwood REIT's mortgage securities was $1.55 billion and the amortized cost was $1.58 billion or 101.86% of principal value. Redwood REIT estimates that the bid-side market value of Redwood REIT's mortgage securities portfolio at June 30, 1998 was approximately $1.57 billion. The estimated unrealized market value loss after taking into account the existing credit reserve of $1.7 million was $10.5 million.

At June 30, 1998, 99.4% of Redwood REIT's mortgage securities had a credit rating equivalent of "AAA" or "AA." Securities guaranteed by Fannie Mae or Freddie Mac made up 50.0% of the mortgage securities portfolio. Non-agency mortgage securities structured with large amounts of subordination or other forms of third-party credit enhancement and rated "AAA" or "AA" made up 49.4% of the mortgage securities portfolio. The book value of all of Redwood REIT's interest only mortgage securities (all of which were rated "AAA") was $0.8 million at June 30, 1998. Based on information available as of June 30, 1998, Redwood REIT had no reason to suspect that it would be likely to incur credit losses in the foreseeable future from its mortgage securities rated "AAA" or "AA."

The remaining 0.6% of the mortgage securities portfolio represented mortgage equity interests created by Redwood REIT in its fourth quarter 1997 re-REMIC transaction. These securities are subordinated to other securities issued from the same pools and therefore are subject to leveraged credit risk with respect to the underlying mortgages. At June 30, 1998, the re-REMIC mortgage equity interests had a principal value of $19.3 million, an amortized cost before credit reserve of $9.1 million, a credit reserve of $1.7 million, an amortized cost after credit reserve of $6.4 million, and an estimated market value of $8.9 million. These securities are rated "B" or unrated.

Cumulatively, from the acquisition dates of these lower-rated mortgage securities through June 30, 1998, 351 defaulted mortgage loans in the underlying pools had been liquidated and the average loss severity on these loans was 21%. In the second quarter of 1998, actual credit losses realized on the Company's mortgage securities were $0.3 million. Total cumulative losses on Redwood REIT's mortgage securities portfolio have been $0.5 million through June 30, 1998.

Redwood REIT estimates that if all the loans underlying mortgage equity interests in the re-REMIC which were over 90 days delinquent, in foreclosure, in bankruptcy, or REO as of June 30, 1998 were to default and have a loss severity of 10%, 20%, 30%, or 40%, the realized credit losses for Redwood REIT would be $0.4 million, $0.7 million, $0.9 million, or $1.4 million, respectively. Redwood REIT's credit reserve for these assets at June 30, 1998 was $1.7 million. The analysis in this paragraph reviews the risk of loss from seriously delinquent loans underlying Redwood REIT's lower-rated mortgage securities as of June 30, 1998 only; it does not purport to analyze or measure credit losses from additional serious delinquencies that may arise after June 30, 1998.

At December 31, 1997, the principal value of all of Redwood REIT's mortgage securities was $1.78 billion and the amortized cost was $1.82 billion, or 102.19% of principal value. Redwood REIT estimated that the bid-side market value of Redwood REIT's mortgage securities portfolio at December 31, 1997 was approximately $1.81 billion. The estimated unrealized market value loss after taking into account the existing credit reserve of $2.1 million was $1.4 million.

At December 31, 1997, 99.5% of Redwood REIT's mortgage securities had a credit rating equivalent of "AAA" or "AA." Securities guaranteed by Fannie Mae or Freddie Mac made up 54.3%of the mortgage securities portfolio. Non-agency mortgage securities structured with large amounts of subordination or other forms of third-party credit enhancement and rated "AAA" or "AA" made up 45.2%of the mortgage securities portfolio. The book value of all of Redwood REIT's interest only mortgage securities was $1.8 million. Based on information available as of December 31, 1997, Redwood REIT had no reason to suspect that it would be likely to incur credit losses in the foreseeable future from its mortgage securities rated "AAA" or "AA".

The remaining 0.5% of the mortgage securities portfolio represented the retained mortgage equity interests in the re-REMIC discussed above. At December 31, 1997, the re-REMIC mortgage equity interest had a principal value of $21 million, an amortized cost before credit reserve of $9.1 million, a credit reserve of $2.1 million, and an estimated market value of $9.3 million. These securities were rated "B" or unrated.

Redwood REIT estimated at December 31, 1997 that if all the loans underlying mortgage equity interests in the re-REMIC which were over 90 days delinquent, in foreclosure, in bankruptcy, or REO at that time were to default and have a loss severity of 10%, 20%, 30%, or 40%, Redwood REIT's realized credit losses would have been $0.4 million, $0.9 million, $1.2 million, or $1.8 million, respectively. Redwood REIT's credit reserve for these assets at December 31, 1997, was $2.1 million. Cumulatively, from the acquisition dates of mortgage securities rated below investment grade through December 31, 1997, 256 defaulted mortgage loans in the underlying pools had been liquidated and the average loss severity on these loans was 21%. The analysis in this paragraph reviews the risk of loss from seriously delinquent loans underlying Redwood REIT's mortgage securities as of December 31, 1997 only; it does not purport to analyze or measure credit losses from additional serious delinquencies that may arise after December 31, 1997.

Total Mortgage Asset Portfolio Characteristics

At June 30, 1998, 77.4% of Redwood REIT's total mortgage asset portfolio were ARMs and 22.6% were Hybrids.

At June 30, 1998, 60.0% of the ARMs had coupon rate adjustments based on LIBOR or CD indices and 38.4% had coupon adjustments based on U.S. Treasury indices. ARMs with other indices were 1.6% of the total.

At June 30, 1998, the average term-to-next-coupon-adjustment was 56 months for Hybrids and 4 months for ARMs. For all mortgage assets, the average term-to-next-coupon adjustment was 15 months. For most mortgage assets, coupon rate adjustments are based on the index level 30 to 75 days prior to the start of a new coupon accrual period.

Potential coupon rate changes on ARMs can be limited by periodic and life caps. At June 30, 1998, all of the ARMs a had a life cap and the average maximum life cap rate was 12.09%. At June 30, 1998, periodic caps limited coupon changes to 2% annually for 60.6% of the ARMs and there were no periodic caps on 39.4% of these ARMs.

At December 31, 1997, 98.4% of Redwood REIT's total mortgage asset portfolio were and 1.6% were Hybrids.

At December 31, 1997, 56.0% of the ARMs had coupon rate adjustments based on LIBOR or CD indices and 42.5% were based on U.S. Treasury indices. ARMs with other indices made up 1.5% of the total.

At December 31, 1997, the average term-to-next-coupon-adjustment was 4 months for the ARMs and 21 months for Hybrids.

At December 31, 1997, all of the ARMs had a life cap and the average maximum life cap was 12.07%. At December 31, 1997, 66.7% of ARMs had periodic caps that limited coupon changes to 2% annually and 33.3% of ARMs had no periodic caps.

Interest Rate Agreements

At June 30, 1998, Redwood REIT owned $5.8 billion notional face of interest rate agreements. These interest rate agreements had various start dates, maturity dates, and interest rate protection features; see "Note 6, Interest Rate Agreements" and Note 10, "Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for additional detail.

These agreements are designed to reduce Redwood REIT's interest rate and market value fluctuation risk. They had a historical amortized cost basis of $9.9 million and an estimated bid-side market value of negative $0.1 million as of June 30, 1998. The carrying value of these interest rate agreements on Redwood REIT's balance sheet at June 30, 1998 was $2.4 million because some interest rate agreements are presented at their cost basis, not their market value.

Market values were lower than amortized cost due to: i) declines in asset hedge values (which generally have been offset by market value appreciation in the associated mortgage assets), ii) a drop in interest rate volatility assumptions in the marketplace for interest rate agreements, iii) a drop in interest rates, iv) the effect of taking bid-ask spread mark-downs on new agreements, and v) the timing mismatch of GAAP premium amortization methods for interest rate caps versus the rate of actual economic decay in their market values. There can be no assurance that the estimated market values could be realized in the event the hedges are sold.

There is a risk that the counter-parties to Redwood REIT's interest rate agreements will not be able to perform to the terms of these contracts. If this were to happen, Redwood REIT's total accounting credit loss exposure would be limited to its historical amortized cost basis in these assets (plus Redwood REIT's cash and collateral held by the counter-parties), although the true economic opportunity cost to Redwood REIT could be higher.

At December 31, 1997, Redwood REIT owned $5.3 billion notional face of interest rate agreements. These agreements had a historical amortized cost basis of $10.8 million and an estimated bid-side market value of $1.5 million as of December 31, 1997. Market values had declined relative to book values for the same reasons discussed above. The balance sheet carrying value of these interest rate agreements at December 31, 1997 was $2.1 million.

Under certain circumstances, Redwood REIT may sell or mark-to-market its interest rate agreements. Such circumstances may include a change in accounting standards, a change in hedging strategy, a sale or prepayment of hedged assets, a change in funding means or strategy, or other reasons. In this event, Redwood REIT could report significant gains or losses for GAAP or tax purposes. Redwood REIT may or may not be able to recognize any corresponding gains in the hedged assets or liabilities at that time. For GAAP purposes, at June 30, 1998, the estimated unrealized loss in Redwood REIT's interest rate agreements was $7.5 million.

Investment in Holdings

The Company carries its investment in Holdings at its original cost, plus its share of any net income or loss, less any dividends received. The Company's original investment in Holdings was $9.9 million. At June 30, 1998, its cumulative equity in earnings of Holdings was negative $0.6 million. No dividends have been received from Holdings. At June 30, 1998, the carrying value of the Company's investment in Holdings was $9.3 million.

See "Equity in Earnings of Holdings" in the Results of Operations section above and "Note 7: Investment in RWT Holdings, Inc." in the Notes to the Consolidated Financial Statements for additional information.

Due from Holdings

At June 30, 1998, the Company had a $0.8 million receivable from Holdings.

See "Note 7: Investment in RWT Holdings, Inc." in the Notes to the Consolidated Financial Statements for additional information.

Borrowings

From December 31, 1997 to June 30, 1998, Redwood REIT's total borrowings increased by $0.44 billion, or 14.3%, from $3.09 billion to $3.53 billion.

At June 30, 1998, Redwood REIT's borrowings consisted of $1.59 billion non-recourse, floating-rate, amortizing, callable, long-term debt. Redwood REIT pledged $1.62 billion of mortgage loans as collateral for this long-term debt. The stated maturity on Redwood REIT's long-term debt ranged from 26 to 31 years. The expected average life of the debt was three to six years, as the debt generally pays down as the underlying mortgages pay down. The debt is callable by Redwood REIT before its stated maturity date. At June 30, 1998, 7.2% of the long-term debt had an interest rate tied to the Fed Funds rate, 32.5% had an interest rate tied to the one-year Treasury rate, 20.5% had an interest rate tied to one-month LIBOR, and 39.8% had a fixed interest rate through December 2002. The debt is primarily "AAA" rated and has a lifetime interest rate cap of 10% or 11%.

At June 30, 1998, the remaining mortgage assets, which had an estimated market value of $2.17 billion, were available to collateralize Redwood REIT's short-term debt. At June 30, 1998, Redwood REIT's borrowings consisted of $1.94 billion of short-term collateralized borrowings such as reverse repurchase agreements, notes payable, and revolving lines of credit. At June 30, 1998, the average term-to-maturity of Redwood REIT's short-term debt was 52 days and the average term-to-next-rate-adjustment was 27 days. The term-to-next-rate-adjustment was shorter than the term-to-maturity as some of Redwood REIT's debt had a cost of funds that adjusted to market levels on a monthly basis during the term of the debt.

In general, the cost of borrowings has been able to reset more quickly to interest rate conditions than coupon rates on Redwood REIT's mortgages could adjust to those same changes. Through its hedging program, Redwood REIT seeks to mitigate the short-term impact that a large increase in interest rates could have on its cost of funds and spread earnings.

At December 31, 1997, Redwood REIT's borrowings consisted of $1.17 billion long-term debt. Redwood REIT pledged $1.19 billion of mortgage loans as collateral for this long-term debt. The stated maturity on Redwood REIT's long-term debt ranged from 26 to 31 years. At December 31, 1997, 13.9% of the long-term debt had an interest rate tied to the Fed Funds rate, 49.7% had an interest rate tied to the one-year Treasury rate, and 36.3% had an interest rate tied to one-month LIBOR. The debt was "AAA" rated and had a lifetime interest rate cap of 10%.

At December 31, 1997, the remaining mortgage assets, which had an estimated market value of $2.18 billion, were available to collateralize Redwood REIT's short-term debt. At December 31, 1997, Redwood REIT's short-term borrowings were $1.91 billion. At December 31, 1997 the average term-to-maturity of Redwood REIT's short-term debt was 64 days and the average term-to-next-rate-adjustment was 31 days.

Cash Balances and Liquidity

At June 30, 1998, Redwood REIT estimated it had additional borrowing capacity in excess of its then-current requirements of $145.3 million. In addition, Redwood REIT had $11.4 million of unrestricted cash. The monthly principal and interest payments received on the mortgages which serve as collateral to the long-term debt are held in trust for the benefit of the long-term debt holders until the bond payment date and are included in Redwood REIT's cash balances as "restricted cash."

At December 31, 1997, Redwood REIT estimated it had additional borrowing capacity in excess of its then-current requirements of $182.7 million. Redwood

REIT's unrestricted cash totaled $24.9 million.

Redwood REIT's liquidity status, borrowing capacity, and ability to roll over its short-term debt as it matures depend on the market value, liquidity and credit quality of its assets, the soundness and capitalization of its balance sheet, the state of the collateralized lending market and other factors. If Redwood REIT's liquidity or borrowing capacity were to become seriously diminished, Redwood REIT would most likely seek to sell its

mortgage assets (the sale of which, in such circumstances, might be difficult and most likely would be at a loss). In order to avoid such an occurrence, Redwood REIT seeks to maintain what it believes to be a prudent level of capital, i.e., Redwood REIT restricts its asset growth according to its Risk-Adjusted Capital Policy and thereby seeks to maintain adequate liquidity and unused borrowing capacity.

Stockholders' Equity

Amortized Historical Cost of Equity
From December 31, 1997 to June 30, 1998, Redwood REIT's equity (on an amortized, historical cost basis excluding unrealized market valuation adjustments included in accumulated comprehensive income) decreased $5.7 million, from $344.6 million to $338.9 million. This was the net effect of the Company's stock repurchases which reduced equity in the first half of 1998 by $5.5 million, issuance of stock through the Company's Dividend Reinvestment Program which increased equity by $1.6 million, and total preferred and common dividends paid in excess of GAAP earnings which reduced equity by $1.8 million.

In order to utilize excess capital and increase long-term shareholder value, the Company's Board of Directors authorized a common stock repurchase program in September 1997. In the second quarter of 1998, the Company repurchased 60,300 shares for $1.2 million. In the first half of 1998, the Company repurchased 274,400 shares for $5.5 million. The Company purchased 340,600 additional shares in July, 1998. Through July 1998, the Company repurchased 1,455,000 shares, equaling 9.8% of the common shares that were outstanding at the commencement of the stock repurchase program. At the August 6, 1998 Board of Directors meeting, the Company's management was authorized to repurchase up to 2,000,000 additional shares. Through August 10, 1998, an additional 800,000 shares were repurchased for $12.0 million.

Included in total equity is Preferred Stock of $26.7 million at both December 31, 1997 and June 30, 1998. Common equity totaled $317.9 million as of December 31, 1997 and decreased by the same $5.7 million as total equity to $312.2 million as of June 30, 1998.

Book value, or equity, per common share (on an amortized, historical cost basis excluding unrealized market valuation adjustments included in accumulated comprehensive income) decreased by 0.4% from $22.25 on December 31, 1997 to $22.17 on June 30, 1998.

Reported Book Value of Equity
For balance sheet purposes, Redwood REIT carries its mortgage securities and associated interest rate agreements at their estimated bid-side market value (historical amortized cost less market valuation account) while loans, liabilities and other interest rate agreements are carried at historical cost without such a market value adjustment. The market valuation account calculated in this manner (which is now reported in accumulated other comprehensive income) was negative $10.1 million on December 31, 1997 and negative $18.0 million on June 30, 1998. As a result of this accounting treatment, Redwood REIT's reported equity base may fluctuate due to market conditions and other factors.

"Other comprehensive income" for Redwood REIT represents unrealized gain or loss on mortgage securities and related interest rate agreements which are held by Redwood REIT as available for sale. This account would also be used to report such items as foreign currency translation adjustments and minimum pension liability adjustments, if applicable. Prior to 1998, Redwood REIT tracked unrealized gains and losses on certain assets in market valuation accounts and reported them on its balance sheet as "net unrealized loss on assets available for sale." Redwood REIT expects that the amount of accumulated other comprehensive income will vary significantly over time. Under certain circumstances, Redwood REIT may be required to realize through its income statement some or all of the unrealized gains or losses shown in "accumulated other comprehensive income" or the unrealized gains or losses on assets carried at historical amortized cost.

Total reported equity decreased by $13.7 million, from $334.6 million as of December 31, 1997 to $320.9 million as of June 30, 1998. The decline was due to the decrease in the historical cost of equity as explained above and a decrease in the reported market value of mortgage securities and associated hedges. As Preferred Stock did not change during this time period, reported common equity also decreased by $13.7 million, from $307.8 million to $294.1 million.

Reported common equity per common share decreased from $21.55 as of December 31, 1997 to $20.89 as of June 30, 1998, primarily as a result of the mark-to-market valuation adjustments. As of June 30, 1998, the reported mark-to-market valuation adjustments totaled $1.28 per common share outstanding.

Total Mark-to-Market Value of Equity
In order to provide more information to its shareholders, the Company has also calculated the "total mark-to-market value of equity." This generally represents the equity value that would be reported if all the Company's assets, liabilities and hedges were marked to market in a manner similar to the way in which mortgage securities and associated hedges were marked to market to calculate accumulated other comprehensive income. The total mark-to-market value of equity is not a proxy for liquidation value. An actual liquidation would include other costs not included in this estimate. Furthermore, there can be no assurances that estimated market values reflect actual realizable valuations under liquidation market conditions.

Incorporating bid-side market value estimates of all of its mortgage assets, interest rate agreements and liabilities, the Company estimates that the total mark-to-market value of its equity was $334.9 million as of December 31, 1997 and $316.5 million as of June 40, 1998. After adjusting for the redemption of Preferred Stock, the estimated total mark-to-market value of common equity was $306.8 million at December 31, 1997 and $288.3 million at June 30, 1998. The net total mark-to-market value for Redwood REIT's balance sheet was $11.1 million lower than amortized cost at December 31, 1997 and $23.8 million lower than amortized cost at June 30, 1998. Between December 31, 1997 and June 30, 1998, the estimated bid-side value of Redwood REIT's mortgage assets decreased due primarily to faster prepayments. Its interest rate agreements also decreased in value as discussed above.

The estimated total mark-to-market value per common share outstanding decreased from $21.47 as of December 31, 1997 to $20.48 as of June 30, 1998. The total estimated mark-to-market adjustment represented $1.69 per common share outstanding at June 30, 1998.

RISK MANAGEMENT

Redwood REIT seeks to manage the potential credit, interest rate, prepayment, liquidity, and other risks inherent in mortgage spread lending institutions in a prudent manner designed to insure the longevity of Redwood REIT. At the same time, Redwood REIT seeks to provide an opportunity for the Company's shareholders to realize attractive total rates of return through long-term stock ownership in the Company. While Redwood REIT does not seek to avoid risk, it does seek, to the best of its ability, to: i) assume risks that can be quantified from historical experience, ii) actively manage such risk, iii) earn sufficient compensation to justify taking of such risks, and iv) maintain capital levels consistent with the risks it does undertake.

Redwood REIT seeks to limit credit risk by maintaining what it believes to be high-quality mortgage loan underwriting standards for loans retained in its portfolio. Redwood REIT is a nationwide "A" (or "prime") quality lending company: it currently acquires and owns first mortgages on single-family residential properties which have been underwritten to the highest levels of underwriting standards generally in use for these types of loans. Credit losses from such mortgages tend to be cyclical. Redwood REIT expects that portfolio credit losses will increase as its loans season and should the U.S. economy deteriorate. Historically, however, the magnitude of credit loss incurred from high-quality single-family mortgages during credit cycles has been contained relative to credit losses arising from other forms of commercial, consumer and residential mortgage lending.

Redwood REIT seeks to manage liquidity risk and short-term borrowing roll-over risk (which could be caused by market value fluctuations of assets pledged as collateral for short-term borrowings or by changes in lending markets) through: i) maintaining what it believes to be a high-quality and liquid portfolio of mortgage assets, ii) maintaining a hedging program utilizing interest rate agreements designed to partially mitigate net changes in the market values of its assets, iii) maintaining what it believes to be a prudent level of capitalization (and therefore a

prudent level of unused borrowing capacity), and iv) replacing a portion of its short-term borrowings with long-term borrowings. Liquidity risks and short-term borrowing roll-over risks cannot be completely eliminated unless Redwood REIT can replace all of its short-term borrowings with long-term borrowings. At June 30, 1998, Redwood REIT remained exposed to such risk particularly in general market environments of rapidly rising interest rates, market dislocation or illiquidity.

Redwood REIT seeks to manage some of its interest rate risk through matching the interest rate characteristics of its mortgages, its borrowings, and its hedges to the degree that management believes is likely to be in the best interests of the shareholders in the long-term. Redwood REIT does not seek to be perfectly matched or to entirely eliminate interest rate risk.

Interest rate agreements are a form of interest rate insurance, or hedging, which Redwood REIT utilizes to reduce the effects that large changes in interest rates could have on its balance sheet and earnings. Redwood REIT seeks to hedge, in part, the market value and earnings risks arising from its ARMs and Hybrids, their associated liabilities, or both. Redwood REIT also may hedge the market value of acquired mortgage loans prior to securitization, the anticipated issuance of liabilities, or the premium amortization risk that may arise from falling interest rates. Redwood REIT may use interest rate agreements for other hedging purposes as well.

Through June 30, 1998, Redwood REIT generally has assumed some other types of asset/liability mismatches as well, including some risk that the short-end of the yield curve becomes "flatter" (i.e., the risk of six and twelve month interest rates falling relative to one and three month interest rates) and some "TED" spread risk (the risk of U.S. Treasury rates falling relative to LIBOR rates). Certain other types of interest rate risks remain partially unhedged as well. Management believes that the assumption of these risks, to the extent undertaken by Redwood REIT, is more likely than not to result in higher earnings for Redwood REIT in the long-term but also, from time to time, may cause earnings volatility and opportunity cost from foregone growth potential. Management believes that retained interest rate risks (to the extent they are separate from liquidity and market value fluctuation risk) are unlikely to cause a safety and soundness issue for Redwood REIT except in relatively extreme and unlikely scenarios.

While Redwood REIT's mortgage portfolio has in the past consisted primarily of ARMs, as of June 30, 1998 Hybrid loans had grown to 22.6% of the portfolio. Hybrid loans have an initial fixed-rate coupon period ranging from three to ten years. At that point, the Hybrid coupon will adjust to market conditions in a manner similar to ARMs. Due to the fixed-rate coupon period, the challenges of the managing the liquidity risk, short-term borrowing rollover risk, interest rate risk and other asset/liability type risks of Hybrids are different from those of ARMs. To date, Redwood REIT has sought to manage the risks of Hybrid loans through the issuance of matching long-term amortizing debt with a fixed-rate period similar to that of the coupons of Redwood REIT's Hybrids and through the use of five-year Treasury futures and options on five-year Treasury futures as hedges. Redwood REIT expects that its Hybrid hedging strategy will evolve over time. Redwood REIT does not seek to hedge all of the risk of its Hybrid loan portfolio, and there can be no assurance that Redwood REIT's efforts to hedge Hybrids and associated liabilities will be beneficial to Redwood REIT.

Changes in principal repayment rates may be a source of earnings volatility for Redwood REIT. If the rate of mortgage principal repayment of Redwood REIT's mortgage assets is faster than expected, the rate at which Redwood REIT amortizes its net premium balances as an expense will increase and earnings will be reduced relative to what they would have been otherwise. In addition, faster principal repayments may reduce Redwood REIT's net asset growth rate; net asset growth is generally an important component of future earnings growth. Higher-than-expected mortgage principal repayments may also reduce prospects for Redwood REIT if the potential return characteristics of assets then available for acquisition are less attractive than those of the existing assets held in portfolio. Prepayment rates for mortgage loans increased during the most recent quarters and prepayment rates may further increase in 1998. On the other hand, slowing rates of mortgage principal repayment could exacerbate certain liquidity, market value fluctuation, interest rate risks, and other risks, particularly in a rising interest rate environment.

While mortgage principal repayment rates are not highly predictable, management believes the strongest influencing factors in the past have been the shape of the yield curve and the absolute level of longer-term interest rates. As longer-term rates drop, mortgage principal repayments have tended to increase, particularly if longer-term rates drop relative to shorter-term interest rates. In addition, management believes mortgage principal repayments have been increasing on a secular trend basis due to structural and behavioral changes in the mortgage origination market. In the first half of 1998, Redwood REIT implemented some hedges which may tend to add to earnings during periods of rapidly falling long-term interest rates. In general, however, Redwood REIT has not sought to hedge mortgage principal repayment risk but rather has sought to analyze, based on individual mortgage characteristics, the propensity of each acquired mortgage or mortgage pool to experience accelerated principal repayment rates and to adjust its acquisition price bid accordingly based on the level of perceived downside (and upside) earnings risk. Redwood REIT has also been able to effectively reduce the prepayment risk on some of its assets though the issuance of amortizing long-term debt at a price above par.

At June 30, 1998, Redwood REIT's net unamortized effective premium was $9.4 million less than reported at December 31, 1997, primarily as a result of a net premium amortization expense during the first half of 1998. As a percent of common equity, net effective premium decreased from 22.5% to 19.9% over this period.

As of June 30, 1998, Redwood REIT's net unamortized effective premium balance of $62.2 million consisted of $75.2 million of purchase premium on mortgage assets, $4.7 million of unamortized Deferred Bond Issuance Cost on long-term debt, $10.7 million of unamortized purchased discount on mortgage assets, and $7.0 million of net unamortized premium on long-term debt (which, in effect, functions in a similar manner to mortgage asset discounts).

As of December 31, 1997, Redwood REIT's net unamortized effective premium balance of $71.6 million consisted of $86.2 million of purchase premium on mortgage assets, $3.7 million of unamortized Deferred Bond Issuance Costs, $12.4 million of purchase discount on mortgage assets and $5.8 million of unamortized premium on long-term debt.

The pricing of mortgage assets relative to the underlying risk in the assets, and relative to levels at which Redwood REIT can issue long-term debt, has a large effect on Redwood REIT's net asset growth and equity utilization, and therefore on Redwood REIT's earnings growth. Asset growth will likely slow when mortgage prices are high.

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

Since management believes that the bulk of the capital currently necessary to manage Redwood REIT prudently is needed due to the liquidity and market value fluctuation risks that arise from the utilization of short-term debt, the total guideline equity-to-assets ratio capital amount has declined as Redwood REIT has eliminated some of these short-term risks through the creation of mortgage equity interests by issuing long-term debt.

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

adjustments on ARMs may help to restore some of the lost market value). In this circumstance, or any other circumstance in which Redwood REIT's actual capital levels decreased below Redwood REIT's capital adequacy guideline amount, Redwood REIT would generally cease the acquisition of new mortgage assets until capital balance was restored. In certain cases prior to a planned equity offering or other circumstances, the Board of Directors has authorized management to acquire mortgage assets in a limited amount beyond the usual constraints of Redwood REIT's Risk-Adjusted Capital Policy.

As expressed as an equity-to-assets ratio, Redwood REIT's average Risk-Adjusted Capital Policy guideline capital amount decreased from 7.51% at December 31, 1997 to 6.48% at June 30, 1998 as a result of risk reduction stemming from the issuance of long-term debt.

The actual average equity-to-asset ratio for Redwood REIT declined from 10.1% in 1997 to 9.3% in the second quarter of 1998. Redwood REIT's Risk Adjusted Capital Policy's equity-to-asset ratio decreased from 9.1% in 1997 to 7.4% in the second quarter of 1998. Since actual average equity-to-asset ratios have been higher than the capital guideline ratios, Redwood REIT generally could have owned more mortgage assets and still met its capital guidelines. Balance sheet capacity utilization (the percentage of Redwood REIT's capital employed) is a key measure of capital efficiency for Redwood REIT. Average balance sheet capacity utilization has decreased since mid-1997 as Redwood REIT has generated excess capital by creating mortgage equity interests and by slowing its pace of mortgage acquisitions due to unfavorable mortgage acquisition pricing levels. Average capacity utilization decreased to 79% in the second quarter of 1998 from 90% in all of 1997.

Beginning in mid-1997, strong demand for mortgage assets in an environment of reduced supply led to increasing prices for mortgage loans and mortgage securities. These rising prices together with the potential for increased mortgage prepayment rates led Redwood REIT to reduce the rate at which it sought to acquire new mortgage assets. Although this decision resulted in Redwood REIT's balance sheet having excess capital in the latter part of 1997, and thus far in 1998, management believed that refraining from committing significant capital to the new mortgage acquisitions until mortgage prices adjusted downwards would maximize long-term shareholder value. Although Redwood REIT continued to avoid acquiring most types of adjustable-rate loans in the first half of 1998, Redwood REIT started a Hybrid acquisition program.

Virtually all of Redwood REIT's assets and liabilities are financial in nature. As a result, interest rates, changes in interest rates and other factors drive Redwood REIT's performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Redwood REIT's financial statements are prepared in accordance with Generally Accepted Accounting Principles and Redwood REIT's dividends are generally determined based on Redwood REIT's net income as calculated for tax purposes; in each case, Redwood REIT's activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

Year 2000 Issues

Certain computer programs and embedded logic devices that utilize two digits rather than four to define the applicable year may fail to properly recognize date sensitive information when the year changes to 2000 (the "Year 2000 Issue").

The Company is conducting a comprehensive review to determine if the Year 2000 Issue will affect its computer systems. The Company currently believes that it does not face "legacy" computer systems and software issues because it commenced operations within the past five years. Thus, the Company does not anticipate incurring internal Year 2000 Issue costs that would be material to its financial position, results of operations, or cash flows in future periods. There can be no assurance, however, that the Company's lenders, custodians, loan servicers, vendors, clients and other third party partners will resolve their own Year 2000 Issues in a timely manner, or that any failure by these other parties to resolve such issues would not have an adverse effect on the Company's operations and financial condition. The Company believes it is devoting the necessary resources to address all of the Year 2000 Issues over which it has control.

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 1

INCOME STATEMENT	FOR THREE MONTHS ENDING	
(ALL DOLLARS IN THOUSANDS)	JUN. 30, 1998	MAR. 31, 1998
Mortgage Loans:		
<S>	<C>	<C>
Coupon Income	$ 33,523	$ 28,306
Amortization of Discount Balances	1	0
Amortization of Premium Balances	(3,619)	(2,496)
Interest Income: Mortgage Loans	29,905	25,810
Mortgage Securities:		
Coupon Income	30,825	33,330
Amortization of Discount Balances	449	185
Amortization of Premium Balances	(7,851)	(5,848)
Interest Income: Mortgage Securities	23,423	27,667
Total Interest Income From Mortgage Assets	53,328	53,477
Interest Income: Cash Balances	455	384
Total Interest Income	53,783	53,861
Interest Expense on Short-Term Debt	(33,282)	(28,003)
Interest Expense on Long-Term Debt	(16,887)	(18,094)
Total Interest Expense	(50,169)	(46,097)
Interest Rate Agreement Expense	(1,652)	(1,426)
Interest Rate Agreement Income	28	48
Net Interest Rate Agreement Expense	(1,624)	(1,378)
Net Interest Income	1,991	6,386
Provision for Potential Credit Losses		
Mortgage Loans	(763)	(601)
Mortgage Securities	0	0
Total Credit Provision	(763)	(601)
Write-down of Mortgage Securities	0	(729)

Gain (Loss) on Sale Transactions	0	6
Operating Expenses		
Compensation and Benefits Expense	(145)	(1,048)
Dividend Equivalent Rights Expense	(6)	(195)
Other Operating Expenses	(438)	(682)
Total Operating Expenses	(589)	(1,925)
Other Income (Expenses)	139	0
Equity in earnings of RWT Holdings, Inc.	(581)	0
Corporate Income Tax Expense	0	0
Net Income Before Preferred Dividends	196	3,137
Preferred Dividends	(687)	(687)
Net Income to Common Shareholders	$ (491)	$ 2,450
Calculation of Taxable REIT Income		
GAAP Net Income Before Preferred Dividends	$ 196	$ 3,137
Mortgage Amortization Differences	(268)	43
Credit Provisions less Actual Losses	299	552
Gain (Loss) on Sale Differences	15	0
Write-down of Mortgage Securities Differences	0	729
Equity in earnings of RWT Holdings, Inc., net of dividends paid to Redwood REIT	581	0
Operating Expense Differences	15	67
Taxable Income Before Preferred Dividend	$ 838	$ 4,527

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 1 (CONTINUED)
INCOME STATEMENT

(ALL DOLLARS IN THOUSANDS)	FOR THREE MONTHS ENDING DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Mortgage Loans:				
Coupon Income	$ 24,911	$ 21,432	$ 14,474	$ 10,784
Amortization of Discount Balances	0	1	8	11
Amortization of Premium Balances	(2,088)	(1,803)	(1,462)	(940)
Interest Income: Mortgage Loans	22,823	19,630	13,020	9,855
Mortgage Securities:				
Coupon Income	36,595	41,124	39,879	31,440
Amortization of Discount Balances	258	375	409	261
Amortization of Premium Balances	(6,091)	(5,085)	(4,065)	(3,150)
Interest Income: Mortgage Securities	30,762	36,414	36,223	28,551
Total Interest Income From Mortgage Assets	53,585	56,044	49,243	38,406
Interest Income: Cash Balances	399	499	266	162
Total Interest Income	53,984	56,543	49,509	38,568
Interest Expense on Short-Term Debt	(31,964)	(40,318)	(38,958)	(28,900)
Interest Expense on Long-Term Debt	(14,567)	(5,570)	0	0

Total Interest Expense	(46,531)	(45,888)	(38,958)	(28,900)
Interest Rate Agreement Expense	(1,281)	(1,064)	(912)	(602)
Interest Rate Agreement Income	12	26	73	7
	--------	--------	--------	--------
Net Interest Rate Agreement Expense	(1,269)	(1,038)	(839)	(595)
Net Interest Income	6,184	9,617	9,712	9,073
Provision for Potential Credit Losses				
Mortgage Loans	(1,516)	(473)	(299)	(215)
Mortgage Securities	1,000	(470)	(477)	(480)
	--------	--------	--------	--------
Total Credit Provision	(516)	(943)	(776)	(695)
Write-down of Mortgage Securities	0	0	0	0
Gain (Loss) on Sale Transactions	543	20	0	0
Operating Expenses				
Compensation and Benefits Expense	(413)	(441)	(516)	(529)
Dividend Equivalent Rights Expense	(145)	(361)	(358)	(203)
Other Operating Expenses	(570)	(346)	(341)	(435)
	--------	--------	--------	--------
Total Operating Expenses	(1,128)	(1,148)	(1,215)	(1,167)
Other Income (Expenses)	0	0	0	0
Equity in earnings of RWT Holdings, Inc.	0	0	0	0
Corporate Income Tax Expense	0	0	0	0
	--------	--------	--------	--------
Net Income Before Preferred Dividends	5,083	7,546	7,721	7,211
Preferred Dividends	(686)	(687)	(687)	(755)
	--------	--------	--------	--------
Net Income to Common Shareholders	$ 4,397	$ 6,859	$ 7,034	$ 6,456
	========	========	========	========
Calculation of Taxable REIT Income				
GAAP Net Income Before Preferred Dividends	$ 5,083	$ 7,546	$ 7,721	$ 7,211
Mortgage Amortization Differences	105	(95)	(103)	(87)
Credit Provisions less Actual Losses	475	875	747	653
Gain (Loss) on Sale Differences	(190)	0	0	0
Write-down of Mortgage Securities Differences	0	0	0	0
Equity in earnings of RWT Holdings, Inc., net of dividends paid to Redwood REIT	0	0	0	0
Operating Expense Differences	113	(175)	(50)	135
	--------	--------	--------	--------
Taxable Income Before Preferred Dividend	$ 5,586	$ 8,151	$ 8,315	$ 7,912
	========	========	========	========

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>

<CAPTION>
TABLE 1 (CONTINUED)
INCOME STATEMENT

(ALL DOLLARS IN THOUSANDS)	FOR YEAR ENDING DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Mortgage Loans:				
Coupon Income	$ 71,601	$ 5,466	$ 379	$ 0
Amortization of Discount Balances	20	31	4	0
Amortization of Premium Balances	(6,293)	(313)	(4)	0
Interest Income: Mortgage Loans	65,328	5,184	379	0
Mortgage Securities:				
Coupon Income	149,038	66,131	14,759	1,102
Amortization of Discount Balances	1,303	879	915	101
Amortization of Premium Balances	(18,391)	(5,794)	(559)	(19)
Interest Income: Mortgage Securities	131,949	61,216	15,115	1,184
Total Interest Income From Mortgage Assets	197,277	66,400	15,494	1,184
Interest Income: Cash Balances	1,326	884	232	112
Total Interest Income	198,604	67,284	15,726	1,296
Interest Expense on Short-Term Debt	(140,140)	(49,191)	(10,608)	(760)
Interest Expense on Long-Term Debt	(20,137)	0	0	0
Total Interest Expense	(160,277)	(49,191)	(10,608)	(760)
Interest Rate Agreement Expense	(3,859)	(1,159)	(339)	(8)
Interest Rate Agreement Income	118	1	0	0
Net Interest Rate Agreement Expense	(3,741)	(1,158)	(339)	(8)
Net Interest Income	34,586	16,935	4,779	528
Provision for Potential Credit Losses				
Mortgage Loans	(2,503)	(348)	(79)	0
Mortgage Securities	(427)	(1,348)	(414)	0
Total Credit Provision	(2,930)	(1,696)	(493)	0
Write-down of Mortgage Securities	0	0	0	0
Gain (Loss) on Sale Transactions	563	0	0	0
Operating Expenses				
Compensation and Benefits Expense	(1,899)	(1,191)	(463)	(63)
Dividend Equivalent Rights Expense	(1,067)	(382)	(54)	0
Other Operating Expenses	(1,692)	(981)	(614)	(83)

Total Operating Expenses	(4,658)	(2,554)	(1,131)	(146)
Other Income (Expenses)	0	0	0	0
Equity in earnings of RWT Holdings, Inc.	0	0	0	0
Corporate Income Tax Expense	0	0	0	0
Net Income Before Preferred Dividends	27,561	12,685	3,155	382
Preferred Dividends	(2,815)	(1,148)	0	0
Net Income to Common Shareholders	$ 24,746	$ 11,537	$ 3,155	$ 382
Calculation of Taxable REIT Income				
GAAP Net Income Before Preferred Dividends	$ 27,561	$ 12,685	$ 3,155	$ 382
Mortgage Amortization Differences	(180)	449	175	(28)
Credit Provisions less Actual Losses	2,750	1,689	490	0
Gain (Loss) on Sale Differences	(190)	0	(0)	0
Write-down of Mortgage Securities Differences	0	0	(0)	0
Equity in earnings of RWT Holdings, Inc., net of dividends paid to Redwood REIT	0	0	0	0
Operating Expense Differences	23	345	12	0
Taxable Income Before Preferred Dividend	$ 29,964	$ 15,168	$ 3,832	$ 354

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 2	AT	
BALANCE SHEETS (ALL DOLLARS IN THOUSANDS)	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>
Unrestricted Cash	$ 11,354	$ 6,468
Restricted Cash	21,560	25,734
Total Cash and Cash Equivalents	32,914	32,202
Mortgage Loans:		
Principal Value	2,191,501	1,837,020
Unamortized Premium	35,660	37,943
Unamortized Discount	0	(27)
Real Estate Owned	266	497
Reserve For Credit Losses	(4,079)	(3,449)
Market Valuation Account	0	0
Total Mortgage Loans	2,223,348	1,871,984
Mortgage Securities:		
Principal Value	1,554,196	1,741,975
Unamortized Premium	39,498	47,105
Unamortized Discount	(10,650)	(12,104)
Reserve For Credit Losses	(1,705)	(2,035)
Market Valuation Account	(10,497)	(4,375)
Total Mortgage Securities	1,570,842	1,770,566
Total Mortgage Assets	3,794,190	3,642,550
Interest Rate Agreements	9,938	10,337
Market Valuation Account	(7,520)	(8,710)

Total Interest Rate Agreements	2,418	1,627
Accrued Interest Receivable	21,554	23,886
Investment in RWT Holdings, Inc.	9,319	9,900
Due from RWT Holdings, Inc.	831	0
Fixed Assets, Leasehold, Org. Costs	725	551
Prepaid Expenses and Other Receivables	4,976	2,975
Other Assets	37,405	37,312
Total Assets	$ 3,866,927	$ 3,713,691
Short-Term Borrowings	$ 1,936,158	$ 2,288,018
Long-Term Borrowings	1,593,344	1,081,279
Accrued Interest Payable	13,675	12,212
Accrued Expenses and Other Payables	2,192	1,797
Dividends Payable	687	687
Total Liabilities	3,546,056	3,383,993
Preferred Stock	26,736	26,736
Common Stock	141	141
Additional Paid-in Capital	320,687	320,282
Accumulated Other Comprehensive Income	(18,017)	(13,085)
Dividends in Excess of Net Income	(8,676)	(4,376)
Total Stockholders' Equity	320,871	329,698
Total Liabilities plus Stockholders' Equity	$ 3,866,927	$ 3,713,691

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 2 (CONTINUED)

BALANCE SHEETS (ALL DOLLARS IN THOUSANDS)	AT			
	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Unrestricted Cash	$ 24,892	$ 28,758	$ 29,425	$ 12,985
Restricted Cash	24,657	28,938	0	0
Total Cash and Cash Equivalents	49,549	57,696	29,425	12,985
Mortgage Loans:				
Principal Value	1,519,124	1,348,619	1,111,029	716,009
Unamortized Premium	34,844	30,852	25,442	15,951
Unamortized Discount	0	0	(123)	(131)
Real Estate Owned	713	220	346	128
Reserve For Credit Losses	(2,855)	(1,363)	(929)	(630)
Market Valuation Account	0	0	0	(1,291)
Total Mortgage Loans	1,551,826	1,378,328	1,135,765	730,035
Mortgage Securities:				
Principal Value	1,779,375	2,010,374	2,179,186	1,839,720
Unamortized Premium	51,329	56,082	62,219	49,156
Unamortized Discount	(12,442)	(14,387)	(14,968)	(15,510)
Reserve For Credit Losses	(2,076)	(3,093)	(2,651)	(2,203)
Market Valuation Account	(1,390)	10,619	3,603	3,516
Total Mortgage Securities	1,814,796	2,059,595	2,227,389	1,874,679
Total Mortgage Assets	3,366,622	3,437,923	3,363,154	2,604,714
Interest Rate Agreements	10,781	11,708	12,233	7,879
Market Valuation Account	(8,681)	(8,782)	(7,366)	(2,106)
Total Interest Rate Agreements	2,100	2,926	4,867	5,773
Accrued Interest Receivable	23,119	23,859	24,065	17,722
Investment in RWT Holdings, Inc.	0	0	0	0
Due from RWT Holdings, Inc.	0	0	0	0
Fixed Assets, Leasehold, Org. Costs	539	358	257	259
Prepaid Expenses and Other Receivables	2,268	2,490	2,738	1,611
Other Assets	25,926	26,707	27,060	19,592
Total Assets	$ 3,444,197	$ 3,525,252	$ 3,424,506	$ 2,643,064

Short-Term Borrowings	$ 1,914,525	$ 2,639,773	$ 3,102,784	$ 2,373,279
Long-Term Borrowings	1,172,801	497,367	0	0
Accrued Interest Payable	14,476	20,216	18,153	14,962
Accrued Expenses and Other Payables	2,172	2,129	1,743	1,262
Dividends Payable	5,686	9,433	8,638	7,899
Total Liabilities	3,109,660	3,168,918	3,131,318	2,397,402
Preferred Stock	26,736	26,733	26,733	29,383
Common Stock	143	146	133	119
Additional Paid-in Capital	324,555	333,841	274,420	219,461
Accumulated Other Comprehensive Income	(10,071)	1,837	(3,762)	118
Dividends in Excess of Net Income	(6,826)	(6,223)	(4,336)	(3,419)
Total Stockholders' Equity	334,537	356,334	293,188	245,662
Total Liabilities plus Stockholders' Equity	$ 3,444,197	$ 3,525,252	$ 3,424,506	$ 2,643,064

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 2 (CONTINUED)

BALANCE SHEETS (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Unrestricted Cash	$ 24,892	$ 11,068	$ 4,825	$ 1,027
Restricted Cash	24,657	0	0	0
Total Cash and Cash Equivalents	49,549	11,068	4,825	1,027
Mortgage Loans:				
Principal Value	1,519,124	514,837	26,411	0
Unamortized Premium	34,844	12,389	210	0
Unamortized Discount	0	(142)	(172)	0
Real Estate Owned	713	196	0	0
Reserve For Credit Losses	(2,855)	(428)	(79)	0
Market Valuation Account	0	(1,377)	80	0
Total Mortgage Loans	1,551,826	525,475	26,450	0
Mortgage Securities:				
Principal Value	1,779,375	1,602,212	417,214	120,627
Unamortized Premium	51,329	41,928	9,433	828
Unamortized Discount	(12,442)	(15,951)	(16,860)	(1,320)
Reserve For Credit Losses	(2,076)	(1,752)	(411)	0
Market Valuation Account	(1,390)	1,516	(3,582)	(2,658)
Total Mortgage Securities	1,814,796	1,627,953	405,794	117,477
Total Mortgage Assets	3,366,622	2,153,428	432,244	117,477
Interest Rate Agreements	10,781	6,200	2,521	1,791
Market Valuation Account	(8,681)	(3,599)	(1,974)	101
Total Interest Rate Agreements	2,100	2,601	547	1,892
Accrued Interest Receivable	23,119	14,134	3,270	743
Investment in RWT Holdings, Inc.	0	0	0	0
Due from RWT Holdings, Inc.	0	0	0	0
Fixed Assets, Leasehold, Org. Costs	539	257	206	201
Prepaid Expenses and Other Receivables	2,268	2,709	465	188
Other Assets	25,926	17,100	3,941	1,132
Total Assets	$ 3,444,197	$ 2,184,197	$ 441,557	$ 121,529
Short-Term Borrowings	$ 1,914,525	$ 1,953,103	$ 370,316	$ 100,376
Long-Term Borrowings	1,172,801	0	0	0
Accrued Interest Payable	14,476	14,060	1,290	676
Accrued Expenses and Other Payables	2,172	761	227	29
Dividends Payable	5,686	5,268	1,434	167
Total Liabilities	3,109,660	1,973,192	373,267	101,248
Preferred Stock	26,736	29,579	0	22,785

Common Stock	143	110	55	2
Additional Paid-in Capital	324,555	187,507	73,895	19
Accumulated Other Comprehensive Income	(10,071)	(3,460)	(5,476)	(2,557)
Dividends in Excess of Net Income	(6,826)	(2,731)	(184)	31
Total Stockholders' Equity	334,537	211,005	68,290	20,280
Total Liabilities plus Stockholders' Equity	$ 3,444,197	$ 2,184,197	$ 441,557	$ 121,528

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 3 MORTGAGE ASSET CHARACTERISTICS (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>
Average Characteristics of Loans and Securities (Mortgage Assets) at End of Period		
Single-Family Properties	100%	100%
Short-Term Adjustable Rate Mortgage Assets (Resets every 12 months or less)	77%	91%
Hybrid Loans (Fixed rate coupon for three to ten years)	23%	9%
First Lien	100%	100%
Average Credit Rating Equivalent	AA+	AA+
Amortized Cost as % of Principal Value	101.72%	102.04%
Coupon Rate	7.42%	7.59%
Months to Next Coupon Adjustment (Short-Term Adjustable Rate Mortgage Assets)	4	4
Months to Next Coupon Adjustment (Hybrid Loans)	56	52
Months to Next Coupon Adjustment (Total Mortgage Assets)	15	8
For Short-Term Adjustable Rate Mortgage Assets		
Coupon Rate	7.59%	7.67%
Level of Index	5.61%	5.61%
Net Margin	1.98%	2.02%
Fully Indexed Coupon Rate	7.59%	7.63%
Coupon Rate Versus Fully-Indexed Rate	0.00%	0.04%
Net Life Cap	12.09%	12.09%
Percentage of Mortgage Assets by Credit Type, by Amortized Cost		
Mortgage Loans	58.5%	51.3%
Mortgage Securities: AAA/AA	41.3%	48.4%
Mortgage Securities: A/BBB	0.0%	0.0%
Mortgage Securities: Below BBB	0.2%	0.3%
Total Mortgage Assets (%)	100.0%	100.0%
Total Mortgage Assets (Amortized Cost)	$ 3,810,471	$ 3,652,409
Percentage of Mortgage Assets by Index, Adjustment Frequency, and Annualized Periodic Cap, By Principal Value		

1 Month LIBOR, adjusts monthly, no periodic cap	18.8%	20.2%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	16.2%	20.0%
6 Month LIBOR, adjusts every 6 months, no periodic cap	10.4%	11.6%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	0.9%	1.0%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	0.4%	0.5%
6 Month Treasury, adjusts every 6 months, no periodic cap	0.4%	0.4%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	1.1%	1.3%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	21.5%	8.1%
12 Month Treasury, adjusts annually, 2% periodic cap	28.7%	35.2%
12 Month Treasury, adjusts annually, no periodic cap	0.3%	0.3%
Other	1.3%	1.4%
Total Mortgage Assets (%)	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$ 3,745,963	$ 3,579,492
Net Mortgage Asset Growth		
Mortgage Acquisitions	$ 594,836	$ 603,803
Mortgage Principal Repayments	(425,292)	(306,112)
Amortization	(11,020)	(8,158)
Writedowns	0	(729)
Credit Losses	(462)	(49)
Sales	0	(9,289)
Change in Mortgage Assets (Amortized Cost)	$ 158,062	$ 279,466

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 3 (CONTINUED)
MORTGAGE ASSET CHARACTERISTICS

(ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Average Characteristics of Loans and Securities (Mortgage Assets) at End of Period				
Single-Family Properties	100%	100%	100%	100%
Short-Term Adjustable Rate Mortgage Assets (Resets every 12 months or less)	98%	98%	98%	98%
Hybrid Loans (Fixed rate coupon for three to ten years)	2%	2%	2%	2%
First Lien	100%	100%	100%	100%
Average Credit Rating Equivalent	AA+	AA+	AA+	AA+
Amortized Cost as % of Principal Value	102.23%	102.16%	102.21%	101.94%
Coupon Rate	7.71%	7.75%	7.73%	7.70%
Months to Next Coupon Adjustment (Short-Term Adjustable Rate Mortgage Assets)	4	4	4	5

Months to Next Coupon Adjustment (Hybrid Loans)	21	24	27	30
Months to Next Coupon Adjustment (Total Mortgage Assets)	4	4	5	5
For Short-Term Adjustable Rate Mortgage Assets				
Coupon Rate	7.73%	7.77%	7.75%	7.71%
Level of Index	5.68%	5.65%	5.77%	5.98%
Net Margin	2.05%	2.10%	2.15%	2.20%
Fully Indexed Coupon Rate	7.73%	7.75%	7.92%	8.18%
Coupon Rate Versus Fully-Indexed Rate	0.00%	0.02%	-0.17%	-0.47%
Net Life Cap	12.07%	12.01%	11.99%	11.88%
Percentage of Mortgage Assets by Credit Type, by Amortized Cost				
Mortgage Loans	46.1%	40.2%	33.8%	28.1%
Mortgage Securities: AAA/AA	53.6%	58.2%	64.5%	69.8%
Mortgage Securities: A/BBB	0.0%	0.7%	0.8%	1.0%
Mortgage Securities: Below BBB	0.3%	0.9%	0.9%	1.1%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Amortized Cost)	$ 3,372,943	$3,431,760	$3,363,131	$2,605,323
Percentage of Mortgage Assets by Index, Adjustment Frequency, and Annualized Periodic Cap, By Principal Value				
1 Month LIBOR, adjusts monthly, no periodic cap	20.2%	12.4%	8.9%	2.6%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	21.5%	26.2%	27.5%	32.4%
6 Month LIBOR, adjusts every 6 months, no periodic cap	11.2%	11.4%	7.4%	1.9%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	1.2%	1.3%	1.5%	1.9%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	0.6%	0.6%	0.6%	0.8%
6 Month Treasury, adjusts every 6 months, no periodic cap	0.5%	0.5%	0.5%	0.7%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	1.6%	1.7%	1.8%	2.4%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	0.0%	0.0%	0.0%	0.0%
12 Month Treasury, adjusts annually, 2% periodic cap	41.6%	44.5%	50.3%	55.4%
12 Month Treasury, adjusts annually, no periodic cap	0.1%	0.1%	0.1%	0.1%
Other	1.5%	1.3%	1.4%	1.8%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$ 3,299,212	$3,359,213	$3,290,562	$2,555,857
Net Mortgage Asset Growth				
Mortgage Acquisitions	$ 342,283	$ 369,463	$ 962,890	$ 627,075
Mortgage Principal Repayments	(347,427)	(252,398)	(199,945)	(173,362)
Amortization	(7,921)	(6,512)	(5,109)	(3,818)
Writedowns	0	0	0	0
Credit Losses	(40)	(68)	(28)	(41)
Sales	(45,712)	(41,856)	0	0
Change in Mortgage Assets (Amortized Cost)	$ (58,817)	$ 68,629	$ 757,808	$ 449,854

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 3 (CONTINUED)
MORTGAGE ASSET CHARACTERISTICS

(ALL DOLLARS IN THOUSANDS)	AT OR FOR YEAR ENDING DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
Average Characteristics of Loans and Securities (Mortgage Assets) at End of Period				
Single-Family Properties	100%	100%	100%	100%
Short-Term Adjustable Rate Mortgage Assets (Resets every 12 months or less)	98%	100%	100%	100%
Hybrid Loans (Fixed rate coupon for three to ten years)	2%	0%	0%	0%
First Lien	100%	100%	100%	100%
Average Credit Rating Equivalent	AA+	AA+	AA+	AA+
Amortized Cost as % of Principal Value	102.23%	101.81%	98.33%	99.59%
Coupon Rate	7.71%	7.75%	7.50%	6.00%
Months to Next Coupon Adjustment (Short-Term Adjustable Rate Mortgage Assets)	4	5	3	3
Months to Next Coupon Adjustment (Hybrid Loans)	21	n/a	n/a	n/a
Months to Next Coupon Adjustment (Total Mortgage Assets)	4	5	3	3
For Short-Term Adjustable Rate Mortgage Assets				
Coupon Rate	7.73%	7.75%	7.50%	6.00%
Level of Index	5.68%	5.58%	5.44%	6.94%
Net Margin	2.05%	2.24%	2.08%	2.25%
Fully Indexed Coupon Rate	7.73%	7.82%	7.52%	9.19%
Coupon Rate Versus Fully-Indexed Rate	0.00%	-0.07%	-0.02%	-3.19%
Net Life Cap	12.07%	11.73%	11.54%	11.48%
Percentage of Mortgage Assets by Credit Type, by Amortized Cost				
Mortgage Loans	46.1%	24.5%	6.1%	0.0%
Mortgage Securities: AAA/AA	53.6%	73.0%	81.5%	92.9%
Mortgage Securities: A/BBB	0.0%	1.2%	5.8%	4.3%
Mortgage Securities: Below BBB	0.3%	1.3%	6.6%	2.8%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Amortized Cost)	$3,372,943	$2,155,469	$436,236	$120,135
Percentage of Mortgage Assets by Index, Adjustment Frequency, and Annualized Periodic Cap, By Principal Value				
1 Month LIBOR, adjusts monthly, no periodic cap	20.2%	1.4%	7.6%	3.9%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	21.5%	36.2%	60.3%	78.3%
6 Month LIBOR, adjusts every 6 months, no periodic cap	11.2%	0.0%	0.0%	0.0%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	1.2%	2.5%	12.2%	17.8%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	0.6%	1.1%	0.0%	0.0%

6 Month Treasury, adjusts every 6 months, no periodic cap	0.5%	0.9%	4.9%	0.0%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	1.6%	0.0%	0.0%	0.0%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	0.0%	0.0%	0.0%	0.0%
12 Month Treasury, adjusts annually, 2% periodic cap	41.6%	55.7%	12.3%	0.0%
12 Month Treasury, adjusts annually, no periodic cap	0.1%	0.0%	0.0%	0.0%
Other	1.5%	2.2%	2.7%	0.0%
	----------	----------	--------	--------
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$3,299,212	$2,117,244	$443,625	$120,627
Net Mortgage Asset Growth				
Mortgage Acquisitions	$2,301,711	$1,982,864	$354,572	$121,297
Mortgage Principal Repayments	(973,132)	(258,424)	(38,824)	(1,244)
Amortization	(23,361)	(5,200)	357	82
Writedowns	0	0	0	0
Credit Losses	(179)	(7)	(4)	(0)
Sales	(87,565)	0	0	0
	----------	----------	--------	--------
Change in Mortgage Assets (Amortized Cost)	$1,217,474	$1,719,233	$316,101	$120,135

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>

TABLE 4	AT	
MORTGAGE LOAN SUMMARY (ALL DOLLARS IN THOUSANDS)	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>
Number of Loans	7,032	5,939
Principal Value	$2,191,767	$1,837,518
Amortized Cost	2,227,427	1,875,433
Reported Value (Net of Credit Reserve)	2,223,348	1,871,984
Estimated Bid-Side Market Value	2,219,772	1,872,775
Short-Term Adjustable Rate Loans (First reset in 12 months or less)	62%	82%
Hybrid Loans (First reset in more than 12 months)	38%	18%
Single-Family	100%	100%
"A" Quality Underwriting	100%	100%
First Lien	100%	100%
Primary Residence (Owner-Occupied)	91%	89%
Second Home	7%	8%
Investor Property	2%	3%
Average Loan Size	$ 312	$ 309
Loan Balance (less than) Conventional Loan Balance Limit ($227,150 in 1998)	16%	19%
Loan Balance Greater Than $500,000	33%	36%
Original Loan-To-Value Ratio (LTV)	76%	77%
Original LTV (larger than) 80%	31%	35%
% of Original LTV (larger than) 80% with Primary Mortgage Insurance or Pledged Account Collateral	97%	97%
Effective Average Original LTV Including Primary Mortgage Insurance or Pledged Account Collateral	67%	67%
1990 and Prior Years' Origination	2%	3%
1991 Origination	*	*
1992	1%	1%
1993	2%	2%
1994	6%	10%
1995	*	1%
1996	6%	8%
1997	52%	64%
1998	31%	11%
Average Seasoning in Months	15	16

Northern California	18%	13%
Southern California	17%	17%
Florida	7%	9%
New York	6%	7%
Georgia	5%	5%
Colorado	5%	4%
New Jersey	4%	4%
Texas	4%	4%
Connecticut	3%	4%
Illinois	3%	3%
Michigan	2%	2%
Massachusetts	2%	3%
Maryland	2%	3%
Other States	22%	22%

</TABLE>

*: less than 0.5%

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 4 (CONTINUED)	AT			
MORTGAGE LOAN SUMMARY (ALL DOLLARS IN THOUSANDS)	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Number of Loans	5,041	4,651	3,983	2,795
Principal Value	$1,519,837	$1,348,839	$1,111,376	$716,137
Amortized Cost	1,554,681	1,379,691	1,136,694	731,957
Reported Value (Net of Credit Reserve)	1,551,826	1,378,328	1,135,765	730,035
Estimated Bid-Side Market Value	1,552,586	1,379,166	1,136,004	729,561
Short-Term Adjustable Rate Loans (First reset in 12 months or less)	96%	96%	95%	92%
Hybrid Loans (First reset in more than 12 months)	4%	4%	5%	8%
Single-Family	100%	100%	100%	100%
"A" Quality Underwriting	100%	100%	100%	100%
First Lien	100%	100%	100%	100%
Primary Residence (Owner-Occupied)	89%	91%	92%	94%
Second Home	8%	7%	6%	4%
Investor Property	3%	2%	2%	2%
Average Loan Size	$ 301	$ 290	$ 279	$ 256
Loan Balance (less than) Conventional Loan Balance Limit ($227,150 in 1998)	18%	19%	20%	20%
Loan Balance Greater Than $500,000	37%	33%	27%	14%
Original Loan-To-Value Ratio (LTV)	78%	77%	78%	74%
Original LTV (larger than) 80%	38%	35%	33%	24%
% of Original LTV (larger than) 80% with Primary Mortgage Insurance or Pledged Account Collateral	95%	96%	94%	94%
Effective Average Original LTV Including Primary Mortgage Insurance or Pledged Account Collateral	66%	66%	69%	68%
1990 and Prior Years' Origination	4%	4%	6%	9%
1991 Origination	*	*	1%	1%
1992	1%	1%	2%	3%
1993	4%	4%	6%	

				9%
1994	13%	17%	23%	41%
1995	1%	2%	2%	4%
1996	11%	14%	18%	30%
1997	66%	58%	42%	2%
1998	0%	0%	0%	0%
Average Seasoning in Months	18	19	22	33
Northern California	11%	13%	13%	17%
Southern California	18%	19%	21%	24%
Florida	9%	9%	8%	5%
New York	7%	6%	5%	4%
Georgia	5%	4%	3%	2%
Colorado	4%	3%	3%	2%
New Jersey	4%	4%	4%	3%
Texas	4%	4%	4%	3%
Connecticut	4%	4%	4%	3%
Illinois	3%	3%	3%	4%
Michigan	2%	2%	2%	2%
Massachusetts	2%	2%	2%	3%
Maryland	3%	3%	4%	6%
Other States	24%	24%	24%	22%

</TABLE>

*: less than 0.5%

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 4 (CONTINUED)

MORTGAGE LOAN SUMMARY (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
Number of Loans	5,041	2,172	109	0
Principal Value	$1,519,837	$515,033	$26,411	$ 0
Amortized Cost	1,554,681	527,280	26,449	0
Reported Value (Net of Credit Reserve)	1,551,826	525,475	26,450	0
Estimated Bid-Side Market Value	1,552,586	525,475	26,450	0
Short-Term Adjustable Rate Loans (First reset in 12 months or less)	96%	100%	100%	n/a
Hybrid Loans (First reset in more than 12 months)	4%	0%	0%	n/a
Single-Family	100%	100%	100%	n/a
"A" Quality Underwriting	100%	100%	100%	n/a
First Lien	100%	100%	100%	n/a
Primary Residence (Owner-Occupied)	89%	94%	100%	n/a
Second Home	8%	4%	0%	n/a
Investor Property	3%	2%	0%	n/a
Average Loan Size	$ 301	$ 237	$ 242	n/a
Loan Balance (less than) Conventional Loan Balance Limit ($227,150 in 1998)	18%	22%	11%	n/a
Loan Balance Greater Than $500,000	37%	8%	13%	n/a
Original Loan-To-Value Ratio (LTV)	78%	77%	76%	n/a
Original LTV (larger than) 80%	38%	25%	26%	n/a
% of Original LTV (larger than) 80% with Primary Mortgage Insurance or Pledged Account Collateral	95%	97%	100%	n/a
Effective Average Original LTV Including Primary Mortgage Insurance or Pledged Account Collateral	66%	73%	72%	n/a
1990 and Prior Years' Origination	4%	13%	0%	n/a
1991 Origination	*	2%	0%	n/a
1992	1%	4%	0%	n/a
1993	4%	14%	0%	n/a

1994	13%	52%	2%	n/a
1995	1%	7%	98%	n/a
1996	11%	8%	0%	n/a
1997	66%	0%	0%	n/a
1998	0%	0%	0%	n/a
Average Seasoning in Months	18	37	4	n/a
Northern California	11%	18%	30%	n/a
Southern California	18%	26%	44%	n/a
Florida	9%	4%	1%	n/a
New York	7%	3%	0%	n/a
Georgia	5%	2%	1%	n/a
Colorado	4%	1%	3%	n/a
New Jersey	4%	3%	1%	n/a
Texas	4%	2%	4%	n/a
Connecticut	4%	3%	1%	n/a
Illinois	3%	4%	0%	n/a
Michigan	2%	1%	0%	n/a
Massachusetts	2%	3%	2%	n/a
Maryland	3%	8%	2%	n/a
Other States	24%	22%	11%	n/a

</TABLE>

*: less than 0.5%

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 5

EARNING ASSET YIELD, INTEREST RATE SPREAD AND INTEREST RATE MARGIN	FOR THREE MONTHS ENDING JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>
Mortgage Coupon Rate (All Mortgage Assets)	7.52%	7.65%
Amortized Cost as % of Principal Value	101.98%	102.21%
Coupon Yield on Amortized Cost	7.37%	7.49%
Effect of Premium/Discount Amortization	-1.26%	-0.99%
Mortgage Yield	6.11%	6.50%
Cash Yield	5.23%	5.51%
Earning Asset Yield (Mortgages plus Cash)	6.10%	6.49%
Cost of Funds of Short-Term Borrowings	5.88%	5.77%
Cost of Funds of Long-Term Borrowings	6.45%	6.44%
Total Cost of Funds	6.06%	6.01%
Cost of Hedging (as % of Borrowings)	0.19%	0.18%
Interest Rate Spread	-0.15%	0.30%
Net Interest Margin (Net Interest Income/Assets)	0.22%	0.75%
Net Interest Income/Average Equity	2.33%	7.45%
SELECTED OPERATING RATIOS AND RETURN ON EQUITY		
Credit Provisions as a % of Assets	0.08%	0.07%
Credit Provisions as a % of Equity	0.89%	0.70%
Operating Expenses to Average Assets	0.06%	0.22%
Operating Expenses to Average Equity	0.69%	2.24%
Efficiency Ratio (Op. Exp./Net Int. Income)	29.65%	30.14%
Combined Entity includes Redwood REIT and RWT Holdings, Inc.		
Combined Entity Total Operating Expenses	$ 1,379	$ 1,925
Combined Entity Operating Expenses to Average Assets	0.14%	0.22%
Combined Entity Operating Expenses to Average Equity	1.62%	2.24%
Combined Entity Efficiency Ratio (Op. Exp./Net Int. Income)	59.71%	30.14%
GAAP Return on Total Equity	0.23%	3.66%
GAAP Return on Common Equity	-0.62%	3.10%
Taxable Income Return on Total Equity	0.98%	5.28%
Taxable Income Return on Common Equity	0.19%	4.86%
GAAP Return on Average Assets before Preferred Dividends	0.02%	0.37%
GAAP Return on Average Assets after Preferred Dividends	-0.05%	0.29%
PRINCIPAL PAYDOWN AND PREPAYMENT RATES		
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities and Mortgage Loan Pools	34%	26%
Annualized Principal Payment as % of Average Principal Balance of		

Mortgage Securities and Mortgage Loans	50%	38%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Loan Pools	28%	22%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Loans	37%	32%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools	40%	29%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities	64%	44%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 5 (CONTINUED)

EARNING ASSET YIELD, INTEREST RATE SPREAD AND INTEREST RATE MARGIN	FOR THREE MONTHS ENDING DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Mortgage Coupon Rate (All Mortgage Assets)	7.70%	7.77%	7.74%	7.70%
Amortized Cost as % of Principal Value	102.20%	102.22%	102.15%	101.84%
Coupon Yield on Amortized Cost	7.53%	7.60%	7.57%	7.56%
Effect of Premium/Discount Amortization	-0.98%	-0.79%	-0.71%	-0.68%
Mortgage Yield	6.55%	6.81%	6.86%	6.88%
Cash Yield	5.59%	5.60%	5.52%	5.33%
Earning Asset Yield (Mortgages plus Cash)	6.54%	6.80%	6.86%	6.87%
Cost of Funds of Short-Term Borrowings	5.96%	5.98%	5.86%	5.62%
Cost of Funds of Long-Term Borrowings	6.40%	6.28%	n/a	n/a
Total Cost of Funds	6.09%	6.02%	5.86%	5.62%
Cost of Hedging (as % of Borrowings)	0.17%	0.14%	0.13%	0.12%
Interest Rate Spread	0.28%	0.64%	0.87%	1.13%
Net Interest Margin (Net Interest Income/Assets)	0.72%	1.12%	1.31%	1.57%
Net Interest Income/Average Equity	7.06%	11.13%	13.25%	15.30%
SELECTED OPERATING RATIOS AND RETURN ON EQUITY				
Credit Provisions as a % of Assets	0.06%	0.11%	0.10%	0.12%
Credit Provisions as a % of Equity	0.59%	1.09%	1.06%	1.17%
Operating Expenses to Average Assets	0.13%	0.13%	0.16%	0.20%
Operating Expenses to Average Equity	1.29%	1.33%	1.66%	1.97%
Efficiency Ratio (Op. Exp./Net Int. Income)	18.25%	11.93%	12.51%	12.86%
Combined Entity includes Redwood REIT and RWT Holdings, Inc.				
Combined Entity Total Operating Expenses	$ 1,128	$ 1,148	$ 1,215	$ 1,167
Combined Entity Operating Expenses to Average Assets	0.13%	0.13%	0.16%	0.20%

Combined Entity Operating Expenses to Average Equity	1.29%	1.33%	1.66%	1.97%
Combined Entity Efficiency Ratio (Op. Exp./Net Int. Income)	18.25%	11.93%	12.51%	12.86%
GAAP Return on Total Equity	5.80%	8.73%	10.53%	12.16%
GAAP Return on Common Equity	5.43%	8.60%	10.65%	12.44%
Taxable Income Return on Total Equity	6.38%	9.43%	11.34%	13.34%
Taxable Income Return on Common Equity	6.06%	9.36%	11.55%	13.79%
GAAP Return on Average Assets before Preferred Dividends	0.59%	0.88%	1.04%	1.25%
GAAP Return on Average Assets after Preferred Dividends	0.51%	0.80%	0.95%	1.12%
PRINCIPAL PAYDOWN AND PREPAYMENT RATES				
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities and Mortgage Loan Pools	27%	24%	23%	24%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities and Mortgage Loans	43%	31%	28%	32%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Loan Pools	24%	23%	28%	24%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Loans	29%	29%	35%	32%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools	30%	25%	22%	23%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities	53%	33%	26%	31%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 5 (CONTINUED)

EARNING ASSET YIELD, INTEREST RATE SPREAD AND INTEREST RATE MARGIN	FOR YEAR ENDING DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Mortgage Coupon Rate (All Mortgage Assets)	7.72%	7.55%	7.16%	6.09%
Amortized Cost as % of Principal Value	102.13%	100.68%	99.02%	100.02%
Coupon Yield on Amortized Cost	7.56%	7.50%	7.23%	6.09%
Effect of Premium/Discount Amortization	-0.81%	-0.55%	0.17%	0.45%
Mortgage Yield	6.75%	6.95%	7.40%	6.54%
Cash Yield	5.53%	5.51%	5.43%	4.73%
Earning Asset Yield (Mortgages plus Cash)	6.74%	6.93%	7.36%	6.33%
Cost of Funds of Short-Term Borrowings	5.86%	5.71%	6.06%	5.55%
Cost of Funds of Long-Term Borrowings	6.31%	n/a	n/a	n/a
Total Cost of Funds	5.92%	5.71%	6.06%	5.55%
Cost of Hedging (as % of Borrowings)	0.14%	0.13%	0.19%	

				0.06%
Interest Rate Spread	0.68%	1.09%	1.11%	0.72%
Net Interest Margin (Net Interest Income/Assets)	1.14%	1.69%	2.17%	2.50%
Net Interest Income/Average Equity	11.27%	12.90%	11.03%	7.27%
SELECTED OPERATING RATIOS AND RETURN ON EQUITY				
Credit Provisions as a % of Assets	0.10%	0.17%	0.22%	0.00%
Credit Provisions as a % of Equity	0.95%	1.29%	1.14%	0.00%
Operating Expenses to Average Assets	0.15%	0.26%	0.51%	0.69%
Operating Expenses to Average Equity	1.52%	1.94%	2.61%	2.01%
Efficiency Ratio (Op. Exp./Net Int. Income)	13.47%	15.08%	23.66%	27.73%
Combined Entity includes Redwood REIT and RWT Holdings, Inc.				
Combined Entity Total Operating Expenses	$ 4,658	$ 2,554	$ 1,131	$ 146
Combined Entity Operating Expenses to Average Assets	0.15%	0.26%	0.51%	0.69%
Combined Entity Operating Expenses to Average Equity	1.52%	1.94%	2.61%	2.01%
Combined Entity Efficiency Ratio (Op. Exp./Net Int. Income)	13.47%	15.08%	23.66%	27.73%
GAAP Return on Total Equity	8.98%	9.66%	7.28%	5.25%
GAAP Return on Common Equity	8.87%	9.61%	7.28%	5.25%
Taxable Income Return on Total Equity	9.76%	11.55%	8.84%	4.86%
Taxable Income Return on Common Equity	9.73%	11.68%	8.84%	4.86%
GAAP Return on Average Assets before Preferred Dividends	0.91%	1.27%	1.43%	1.81%
GAAP Return on Average Assets after Preferred Dividends	0.81%	1.15%	1.43%	1.81%
PRINCIPAL PAYDOWN AND PREPAYMENT RATES				
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities and Mortgage Loan Pools	25%	25%	19%	9%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities and Mortgage Loans	34%	27%	18%	7%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Loan Pools	24%	26%	5%	n/a
Annualized Principal Payment as % of Average Principal Balance of Mortgage Loans	31%	35%	6%	n/a
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools	25%	24%	19%	9%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities	36%	27%	19%	2%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 6 AVERAGE DAILY BALANCE SHEET (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING JUN. 30, 1998	 MAR. 31, 1998
<S>	<C>	<C>
Cash	$ 34,833	$ 27,907
Mortgage Loans	1,867,851	1,546,869

Mortgage Securities	1,622,388	1,745,368
Credit Reserve	(5,677)	(5,126)
Market Valuation Adjustment, Mortgage Assets	(4,401)	(4,272)
Interest Rate Agreements	9,995	10,394
Market Valuation Adjustment, Interest Rate Agreements	(8,246)	(8,863)
Other Assets	136,765	98,835
	-----------	-----------
Total Assets	3,653,508	3,411,112
	-----------	-----------
Short-Term Borrowings	2,263,697	1,942,426
Long-Term Borrowings	1,047,828	1,124,190
Other Liabilities	13,464	14,602
	-----------	-----------
Total Liabilities	3,324,989	3,081,218
	-----------	-----------
Preferred Stock	26,736	26,736
Common Stock	321,266	321,420
Market Valuation Adjustment	(12,647)	(13,136)
Retained Earnings, after Dividend	(6,836)	(5,127)
	-----------	-----------
Stockholders' Equity	$ 328,519	$ 329,894
	===========	===========
Amortized Cost of Total Assets	$ 3,666,155	$ 3,424,247
Equity, before Market Valuation Adjustments	341,166	343,029
BORROWING COMPOSITION (AT END OF PERIOD)		
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	54.9%	67.9%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	9.3%	11.3%
Long-Term Borrowings: Federal Funds, 10% cap	3.2%	4.2%
Long-Term Borrowings: 1 Year Treasury, 10% cap	14.7%	16.6%
Long-Term Borrowings: Fixed Rate until December 2002	18.0%	0.0%
	-----------	-----------
Total Borrowings %	100.0%	100.0%
Total Borrowings $	$ 3,529,502	$ 3,369,297
LIQUIDITY (AT END OF PERIOD)		
Unrestricted Cash	$ 11,354	$ 6,468
Estimated Borrowing Capacity	145,285	174,702
	-----------	-----------
Total Liquidity	$ 156,639	$ 181,170
Total Liquidity as Percent of Short-Term Borrowings	8%	8%
NET PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD)		
Unamortized Premium of Mortgage Assets	$ 75,158	$ 85,048
Unamortized Discount of Mortgage Assets	(10,651)	(12,131)
Unamortized Deferred Bond Issuance Costs of Long-Term Debt	4,704	3,300
Net Unamortized Premium of Long-Term Debt (net of DBIC)	(6,970)	(5,551)
	-----------	-----------
Net Unamortized Premium	$ 62,242	$ 70,666
Net Unamortized Premium as % of Equity (before Market Value Adjustments)	18.4%	20.6%
Net Unamortized Premium as % of Common Equity (before Mrkt Val. Adjustments)	19.9%	22.4%
Net Unamortized Premium as Percent of Assets (Amortized Cost)	1.6%	1.9%

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SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 6 (CONTINUED) AVERAGE DAILY BALANCE SHEET	AT OR FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Cash	$ 28,592	$ 35,647	$ 19,307	$ 12,147
Mortgage Loans	1,360,029	1,155,099	758,445	574,781
Mortgage Securities	1,914,118	2,136,442	2,111,832	1,658,629

Credit Reserve	(4,679)	(3,873)	(3,083)	(2,394)
Market Valuation Adjustment, Mortgage Assets	5,937	6,072	1,913	1,022
Interest Rate Agreements	11,207	11,943	11,185	6,899
Market Valuation Adjustment, Interest Rate Agreements	(8,792)	(8,640)	(4,576)	(4,004)
Other Assets	117,643	85,689	75,928	58,856
Total Assets	3,424,055	3,418,379	2,970,951	2,305,936
Short-Term Borrowings	2,144,794	2,695,438	2,659,914	2,056,051
Long-Term Borrowings	910,870	355,028	0	0
Other Liabilities	20,912	24,714	20,530	15,691
Total Liabilities	3,076,576	3,075,181	2,680,444	2,071,742
Preferred Stock	26,733	26,733	28,946	29,545
Common Stock	328,384	321,492	265,561	208,426
Market Valuation Adjustment	(2,855)	(2,568)	(2,663)	(2,982)
Retained Earnings, after Dividend	(4,783)	(2,458)	(1,337)	(795)
Stockholders' Equity	$ 347,479	$ 343,199	$ 290,507	$ 234,194
Amortized Cost of Total Assets	$ 3,426,910	$ 3,420,947	$ 2,973,614	$ 2,308,918
Equity, before Market Valuation Adjustments	350,334	345,767	293,170	237,176
BORROWING COMPOSITION (AT END OF PERIOD)				
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	62.0%	84.1%	100.0%	100.0%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	13.8%	9.9%	0.0%	0.0%
Long-Term Borrowings: Federal Funds, 10% cap	5.3%	6.0%	0.0%	0.0%
Long-Term Borrowings: 1 Year Treasury, 10% cap	18.9%	0.0%	0.0%	0.0%
Long-Term Borrowings: Fixed Rate until December 2002	0.0%	0.0%	0.0%	0.0%
Total Borrowings %	100.0%	100.0%	100.0%	100.0%
Total Borrowings $	$ 3,087,326	$ 3,137,140	$ 3,102,784	$ 2,373,279
LIQUIDITY (AT END OF PERIOD)				
Unrestricted Cash	$ 24,893	$ 28,758	$ 29,425	$ 12,985
Estimated Borrowing Capacity	182,713	206,442	160,338	140,561
Total Liquidity	$ 207,606	$ 235,200	$ 189,763	$ 153,546
Total Liquidity as Percent of Short-Term Borrowings	11%	9%	6%	6%

NET PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD)

Unamortized Premium of Mortgage Assets	$ 86,173	$ 86,934	$ 87,661	$ 65,107
Unamortized Discount of Mortgage Assets	(12,442)	(14,387)	(15,091)	(15,641)
Unamortized Deferred Bond Issuance Costs of Long-Term Debt	3,703	1,492	0	0
Net Unamortized Premium of Long-Term Debt (net of DBIC)	(5,795)	0	0	0
Net Unamortized Premium	$ 71,639	$ 74,039	$ 72,569	$ 49,466
Net Unamortized Premium as % of Equity (before Market Value Adjustments)	20.8%	20.9%	24.4%	20.1%
Net Unamortized Premium as % of Common Equity (before Mrkt Val. Adjustments)	22.5%	22.6%	26.9%	22.9%
Net Unamortized Premium as Percent of Assets (Amortized Cost)	2.1%	2.1%	2.1%	1.9%

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SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
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TABLE 6 (CONTINUED)
AVERAGE DAILY BALANCE SHEET

(ALL DOLLARS IN THOUSANDS)	AT OR FOR YEAR ENDING DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Cash	$ 24,001	$ 16,016	$ 4,272	$ 6,627
Mortgage Loans	964,768	77,215	5,006	0
Mortgage Securities	1,956,452	877,907	204,284	50,080
Credit Reserve	(3,514)	(1,262)	(92)	0
Market Valuation Adjustment, Mortgage Assets	(1,134)	(2,347)	(78)	(583)
Interest Rate Agreements	10,325	3,280	2,039	759
Market Valuation Adjustment, Interest Rate Agreements	(2,482)	(1,948)	(1,046)	31
Other Assets	84,693	26,606	5,107	948
Total Assets	3,033,108	995,467	219,492	57,862
Short-Term Borrowings	2,390,132	861,316	174,926	37,910
Long-Term Borrowings	319,076	0	0	0
Other Liabilities	20,488	7,131	2,342	367
Total Liabilities	2,729,696	868,447	177,268	38,277
Preferred Stock	27,978	11,274	0	0
Common Stock	281,405	120,436	43,390	20,941
Market Valuation Adjustment	(3,617)	(4,295)	(1,124)	(552)
Retained Earnings, after Dividend	(2,354)	(395)	(42)	(804)
Stockholders' Equity	$ 303,412	$ 127,020	$ 42,224	$

	===========	===========	=========	=========
Amortized Cost of Total Assets	$ 3,036,725	$ 999,762	$ 220,616	$ 58,414
Equity, before Market Valuation Adjustments	307,029	131,315	43,349	20,137
BORROWING COMPOSITION (AT END OF PERIOD)				
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	62.0%	100.0%	100.0%	100.0%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	13.8%	0.0%	0.0%	0.0%
Long-Term Borrowings: Federal Funds, 10% cap	5.3%	0.0%	0.0%	0.0%
Long-Term Borrowings: 1 Year Treasury, 10% cap	18.9%	0.0%	0.0%	0.0%
Long-Term Borrowings: Fixed Rate until December 2002	0.0%	0.0%	0.0%	0.0%
	-----------	-----------	---------	---------
Total Borrowings %	100.0%	100.0%	100.0%	100.0%
Total Borrowings $	$ 3,087,326	$ 1,953,103	$ 370,316	$ 100,376
LIQUIDITY (AT END OF PERIOD)				
Unrestricted Cash	$ 24,893	$ 11,068	$ 4,825	$ 1,027
Estimated Borrowing Capacity	182,713	123,995	38,698	11,907
	-----------	-----------	---------	---------
Total Liquidity	$ 207,606	$ 135,063	$ 43,523	$ 12,934
Total Liquidity as Percent of Short-Term Borrowings	11%	7%	12%	13%
NET PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD)				
Unamortized Premium of Mortgage Assets	$ 86,173	$ 54,318	$ 9,644	$ 827
Unamortized Discount of Mortgage Assets	(12,442)	(16,093)	(17,032)	(1,320)
Unamortized Deferred Bond Issuance Costs of Long-Term Debt	3,703	0	0	0
Net Unamortized Premium of Long-Term Debt	(5,795)	0	0	0
	-----------	-----------	---------	---------
Net Unamortized Premium	$ 71,639	$ 38,225	$ (7,389)	$ (493)
Net Unamortized Premium as % of Equity (before Market Value Adjustments)	20.8%	17.8%	-10.0%	-2.2%
Net Unamoritized Premium as % of Common Equity (before Mrkt Val. Adjustments)	22.5%	20.7%	-10.0%	-2.2%
Net Unamortized Premium as Percent of Assets (Amortized Cost)	2.1%	1.7%	-1.7%	-0.4%

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SUPPLEMENTAL HISTORICAL INFORMATION

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TABLE 7
ESTIMATED PERIOD-END BID-SIDE MARKET VALUE/REALIZABLE VALUE
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	AT OR FOR THREE MONTHS ENDING	
	JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>
Cash	$ 32,914	$ 32,202
Mortgage Loans	2,219,772	1,872,775
Mortgage Securities	1,570,842	1,770,566
Interest Rate Agreements	(123)	2,584
Other Assets	36,476	36,521

Short-Term Borrowings	1,936,158	2,288,018
Long-Term Borrowings	1,591,961	1,080,530
Other Liabilities	15,255	13,288
"Mark-To-Market" of Total Equity	316,507	332,812
Liquidation Cost of Preferred Equity	28,195	28,195
"Mark-To-Market" of Common Equity	$ 288,312	$ 304,617
"Mark-To-Market" of Common Equity/Common Share Outstanding	$ 20.48	$ 21.65
Reported Common Equity Per Common Share Outstanding	$ 20.89	$ 21.53
Historical Cost of Common Equity Per Common Share Outstanding	$ 22.17	$ 22.46
AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES		
Actual Average Equity/Assets	9.3%	10.0%
Average Risk-Adjusted Capital Guideline	7.4%	7.8%
Average Balance Sheet Capacity Utilization	79%	77%
Excess Capital and Asset Growth Potential At Period End		
Ending Actual Equity/Assets	8.30%	8.88%
Ending Risk-Adjusted Capital Guideline	6.48%	7.59%
Excess Capital	$ 64,465	$ 49,552
Estimated Asset Growth Potential (same asset mix and funding)	$ 1,007,936	$ 560,440
Estimated Asset Growth Potential Assuming All Assets (existing and future) Use Long-Term Funding	$ 3,800,803	$4,185,088
INVESTMENT OF RISK-ADJUSTED CAPITAL		
Equity Investments in Assets with Short-Term Funding		
Agencies	19.9%	22.1%
Mortgage Securities Rated "AAA" or "AA"	26.3%	28.0%
Mortgage Securities Rated "A" or below	0.0%	0.0%
Mortgage Loans	12.6%	18.2%
Equity Investment in Assets with Short-Term Funding	58.8%	68.3%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)		
Mortgage Securities Rated "A" or below	2.9%	2.8%
Mortgage Loans	17.8%	14.1%
Equity Investment in Assets with Long-Term, Non-Recourse Funding	20.7%	16.9%
Excess Capital	20.5%	14.8%
Total Market-Value of Capital %	100.0%	100.0%
Total Capital Available per Risk-Adjusted Capital Policy	$ 314,679	$ 331,548
Capital Utilization at Period-End	80%	85%
Capital Utilization at Period-End assuming all Mortgage Loans use Long-Term, Non-Recourse Funding	73%	76%

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SUPPLEMENTAL HISTORICAL INFORMATION

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TABLE 7 (CONTINUED)
ESTIMATED PERIOD-END BID-SIDE MARKET VALUE/REALIZABLE VALUE
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	AT OR FOR THREE MONTHS ENDING			
	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Cash	$ 49,549	$ 57,696	$ 29,425	$ 12,985
Mortgage Loans	1,552,586	1,379,166	1,136,004	729,561
Mortgage Securities	1,814,796	2,059,595	2,227,389	1,874,679
Interest Rate Agreements	1,522	2,169	4,206	5,773
Other Assets	25,156	26,048	25,857	19,291

Short-Term Borrowings	1,914,525	2,639,773	3,102,784	2,373,279
Long-Term Borrowings	1,172,938	497,465	0	0
Other Liabilities	21,201	30,628	27,515	23,411
"Mark-To-Market" of Total Equity	334,945	356,808	292,582	245,598
Liquidation Cost of Preferred Equity	28,195	28,195	28,195	30,989
"Mark-To-Market" of Common Equity	$ 306,750	$ 328,613	$ 264,387	$ 214,610
"Mark-To-Market" of Common Equity/Common Share Outstanding	$ 21.47	$ 22.54	$ 19.95	$ 18.03
Reported Common Equity Per Common Share Outstanding	$ 21.55	$ 22.61	$ 20.11	$ 18.17
Historical Cost of Common Equity Per Common Share Outstanding	$ 22.25	$ 22.49	$ 20.39	$ 18.16
AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES				
Actual Average Equity/Assets	10.2%	10.1%	9.9%	10.3%
Average Risk-Adjusted Capital Guideline	8.1%	9.0%	9.5%	10.1%
Average Balance Sheet Capacity Utilization	79%	89%	96%	98%
Excess Capital and Asset Growth Potential At Period End				
Ending Actual Equity/Assets	9.71%	10.12%	8.55%	9.28%
Ending Risk-Adjusted Capital Guideline	7.51%	8.59%	9.41%	10.09%
Excess Capital	$ 76,589	$ 53,027	$ (27,047)	$ (20,519)
Estimated Asset Growth Potential (same asset mix and funding)	$1,037,376	$ 551,347	$ (563,228)	$ (267,698)
Estimated Asset Growth Potential Assuming All Assets (existing and future) Use Long-Term Funding	$4,791,828	$5,209,015	$ 3,461,784	$ 3,450,901
INVESTMENT OF RISK-ADJUSTED CAPITAL				
Equity Investments in Assets with Short-Term Funding				
Agencies	24.0%	25.7%	35.7%	37.0%
Mortgage Securities Rated "AAA" or "AA"	27.6%	28.6%	36.3%	37.1%
Mortgage Securities Rated "A" or below	0.0%	5.9%	6.4%	7.6%
Mortgage Loans	8.2%	17.9%	30.8%	26.6%
Equity Investment in Assets with Short-Term Funding	59.8%	78.1%	109.2%	108.3%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)				
Mortgage Securities Rated "A" or below	2.7%	0.0%	0.0%	0.0%
Mortgage Loans	14.7%	7.1%	0.0%	0.0%
Equity Investment in Assets with Long-Term, Non-Recourse Funding	17.4%	7.1%	0.0%	0.0%
Excess Capital	22.8%	14.9%	-9.2%	-8.3%
Total Market-Value of Capital %	100.0%	100.0%	100.0%	100.0%
Total Capital Available per Risk-Adjusted Capital Policy	$ 335,345	$ 355,797	$ 294,952	$ 246,109

Capital Utilization at Period-End	77%	85%	109%	108%
Capital Utilization at Period-End assuming all Mortgage Loans use Long-Term, Non-Recourse Funding	73%	76%	94%	95%

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SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
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TABLE 7 (CONTINUED)
ESTIMATED PERIOD-END BID-SIDE MARKET VALUE/REALIZABLE VALUE
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	AT OR FOR YEAR ENDING			
	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Cash	$ 49,549	$ 11,068	$ 4,825	$ 1,027
Mortgage Loans	1,552,586	525,475	26,450	0
Mortgage Securities	1,814,796	1,627,953	405,794	117,477
Interest Rate Agreements	1,522	2,601	547	1,892
Other Assets	25,156	16,778	3,671	888
Short-Term Borrowings	1,914,525	1,953,103	370,316	100,376
Long-Term Borrowings	1,172,938	0	0	0
Other Liabilities	21,201	19,531	2,829	872
"Mark-To-Market" of Total Equity	334,945	211,241	68,142	20,036
Liquidation Cost of Preferred Equity	28,195	31,194	0	0
"Mark-To-Market" of Common Equity	$ 306,750	$ 180,047	$ 68,142	$ 20,036
"Mark-To-Market" of Common Equity/Common Share Outstanding	$ 21.47	$ 16.37	$ 12.35	$ 10.69
Reported Common Equity Per Common Share Outstanding	$ 21.55	$ 16.50	$ 12.38	$ 10.82
Historical Cost of Common Equity Per Common Share Outstanding	$ 22.25	$ 16.81	$ 13.37	$ 12.18
AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES				
Actual Average Equity/Assets	10.1%	13.1%	19.6%	34.5%
Average Risk-Adjusted Capital Guideline	9.1%	10.9%	13.4%	10.6%
Average Balance Sheet Capacity Utilization	90%	83%	68%	31%
Excess Capital and Asset Growth Potential At Period End				
Ending Actual Equity/Assets	9.71%	9.66%	15.47%	16.69%
Ending Risk-Adjusted Capital Guideline	7.51%	9.97%	12.59%	10.84%
Excess Capital	$ 76,589	$ (7,835)	$ 12,117	$ 6,600
Estimated Asset Growth Potential (same asset mix and funding)	$1,037,376	$ 254,662	$ 104,902	$215,757
Estimated Asset Growth Potential Assuming All Assets (existing and future) Use Long-Term Funding	$4,791,828	$ 3,970,772	$1,340,981	$799,596

INVESTMENT OF RISK-ADJUSTED CAPITAL

Equity Investments in Assets with Short-Term Funding				
Agencies	24.0%	39.3%	29.3%	33.1%
Mortgage Securities Rated "AAA" or "AA"	27.6%	32.6%	22.7%	18.9%
Mortgage Securities Rated "A" or below	0.0%	8.9%	26.7%	14.8%
Mortgage Loans	8.2%	22.9%	3.5%	0.0%
Equity Investment in Assets with Short-Term Funding	59.8%	103.7%	82.2%	66.9%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)				
Mortgage Securities Rated "A" or below	2.7%	0.0%	0.0%	0.0%
Mortgage Loans	14.7%	0.0%	0.0%	0.0%
Equity Investment in Assets with Long-Term, Non-Recourse Funding	17.4%	0.0%	0.0%	0.0%
Excess Capital	22.8%	-3.7%	17.8%	33.1%
Total Market-Value of Capital %	100.0%	100.0%	100.0%	100.0%
Total Capital Available per Risk-Adjusted Capital Policy	$ 334,945	$ 211,241	$ 68,142	$ 20,036
Capital Utilization at Period-End	77%	104%	82%	67%
Capital Utilization at Period-End assuming all Mortgage Loans use Long-Term, Non-Recourse Funding	73%	92%	80%	67%

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SUPPLEMENTAL HISTORICAL INFORMATION

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TABLE 8
CREDIT PROVISIONS AND CREDIT RESERVES

(ALL DOLLARS IN THOUSANDS)

<S>	AT OR FOR THREE MONTHS ENDING JUN. 30, 1998 <C>	MAR. 31, 1998 <C>
MORTGAGE LOANS		
Credit Provision During Period	$ 763	$ 601
Actual Losses During Period	133	7
Cumulative Actual Losses	216	83
Mortgage Loan Credit Reserve at End of Period	4,079	3,450
Annualized Mortgage Loan Credit Provision as % of Average Amortized Cost of Mortgage Loans	0.16%	0.16%
Mortgage Loan Credit Reserve as % of Amortized Cost of Mortgage Loans at Period End	0.18%	0.18%
Non-Performing Assets: 90+ Days Delinquent, Foreclosures, Bankruptcies, and REO		
Number of Loans	21	19
Non-Performing Assets Loan Balance	$4,947	$4,358
Non-Performing Assets as % of Amortized Cost of Mortgage Loans	0.22%	0.23%
Non-Performing Assets as % of Amortized Cost of Total Assets	0.13%	0.12%
Mortgage Loan Credit Reserve as % of Non-Performing Assets	82%	79%
Credit Experience of Mortgage Loans		
Liquidated Defaulted Loans (Cumulative)	9	7
Average Loss Severity Experience (Cumulative)	11%	6%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Non-Performing Mortgage Loans Default:		
At 10% Loss Severity	$ 504	$ 444
At 20% Loss Severity	1,009	888
At 30% Loss Severity	1,513	1,331
At 40% Loss Severity	2,017	1,775
Mortgage Loan Credit Reserve at End of Period	4,079	3,450
MORTGAGE SECURITIES		

Credit Provision During Period	$ 0	$ 0
Actual Losses During Period	331	42
Cumulative Actual Losses	487	156
Mortgage Securities Credit Reserve at End of Period	1,703	2,033
Annualized Mortgage Securities Credit Provision as % of Average Amortized Cost of Mortgage Securities Rated less than BBB	0.0%	0.0%
Mortgage Securities Credit Reserve as % of Amortized Cost of Mortgage Securities Rated less than BBB at End of Period	18.7%	22.3%
Amortized Cost of Mortgage Securities Rated less than BBB at End of Period	$9,116	$9,137
Credit Experience of Loans in Pools Underlying Mortgage Securities Rated less than BBB (Since Acquisition)		
Resolved Defaulted Loans (Cumulative)	351	284
Average Loss Severity Experience (Cumulative)	21%	21%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future)		
Seriously Delinquent Loans in Mortgage Pools Underlying less than BBB Rated Securities Default:		
At 10% Loss Severity	$ 429	$ 480
At 20% Loss Severity	712	951
At 30% Loss Severity	910	1,170
At 40% Loss Severity	1,385	1,824
Mortgage Securities Credit Reserve at End of Period	1,703	2,033

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SUPPLEMENTAL HISTORICAL INFORMATION

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TABLE 8 (CONTINUED)
CREDIT PROVISIONS AND CREDIT RESERVES

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

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

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

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TABLE 8 (CONTINUED)
CREDIT PROVISIONS AND CREDIT RESERVES

(ALL DOLLARS IN THOUSANDS)	AT OR FOR YEAR ENDING DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
MORTGAGE LOANS				
Credit Provision During Period	$2,503	$ 349	$ 79	$ 0
Actual Losses During Period	76	0	0	0
Cumulative Actual Losses	76	0	0	0
Mortgage Loan Credit Reserve at End of Period	2,855	428	79	0
Annualized Mortgage Loan Credit Provision as % of Average Amortized Cost of Mortgage Loans	0.26%	0.45%	1.58%	n/a
Mortgage Loan Credit Reserve as % of Amortized Cost of Mortgage Loans at Period End	0.18%	0.08%	0.30%	n/a
Non-Performing Assets: 90+ Days Delinquent, Foreclosures, Bankruptcies, and REO				
Number of Loans	17	7	0	0
Non-Performing Assets Loan Balance	$3,903	$ 1,249	$ 0	$ 0
Non-Performing Assets as % of Amortized Cost of Mortgage Loans	0.25%	0.24%	0.00%	0.00%
Non-Performing Assets as % of Amortized Cost of Total Assets	0.11%	0.06%	0.00%	0.00%
Mortgage Loan Credit Reserve as % of Non-Performing Assets	73%	34%	n/a	n/a
Credit Experience of Mortgage Loans				
Liquidated Defaulted Loans (Cumulative)	6	0	0	0
Average Loss Severity Experience (Cumulative)	7%	0%	0%	0%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Non-Performing Mortgage Loans Default:				
At 10% Loss Severity	$ 396	$ 127	$ 0	$ 0
At 20% Loss Severity	793	253	0	0
At 30% Loss Severity	1,189	380	0	0
At 40% Loss Severity	1,586	506	0	0
Mortgage Loan Credit Reserve at End of Period	2,855	428	79	0
MORTGAGE SECURITIES				
Credit Provision During Period	$ 427	$ 1,348	$ 414	$ 0
Actual Losses During Period	104	7	4	0
Cumulative Actual Losses	113	11	4	0
Mortgage Securities Credit Reserve at End of Period	2,076	1,752	411	0
Annualized Mortgage Securities Credit Provision as % of Average Amortized Cost of Mortgage Securities Rated less than BBB	1.7%	4.7%	2.9%	0.0%
Mortgage Securities Credit Reserve as % of Amortized Cost of Mortgage Securities Rated less than BBB at End of Period	22.8%	6.1%	1.4%	0.0%
Amortized Cost of Mortgage Securities Rated less than BBB at End of Period	$9,109	$28,935	$28,869	$3,376
Credit Experience of Loans in Pools Underlying Mortgage Securities Rated less than BBB (Since Acquisition)				
Resolved Defaulted Loans (Cumulative)	256	59	2	0
Average Loss Severity Experience (Cumulative)	21%	27%	9%	0%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Seriously Delinquent Loans in Mortgage Pools Underlying less than BBB Rated Securities Default:				

At 10% Loss Severity	$ 389	$ 63	$ 15	$ 0
At 20% Loss Severity	894	608	29	0
At 30% Loss Severity	1,163	2,040	103	0
At 40% Loss Severity	1,825	3,647	768	0
Mortgage Securities Credit Reserve at End of Period	2,076	1,752	411	0

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TABLE 9
SHARES OUTSTANDING AND PER SHARE DATA

(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	AT OR FOR THREE MONTHS ENDING JUN. 30, 1998	MAR. 31, 1998
<S>	<C>	<C>
Common Shares Outstanding at Period End	14,078,933	14,070,557
Shares Outstanding and Receiving Dividends at Period End		
Common (RWT)	13,768,056	14,107,100
Class A Preferred (converted 9/95)	0	0
Class B Preferred (RTW-PB)	909,518	909,518
Total	14,677,574	15,016,618
Common Dividend Declared	$ 0.010	$ 0.270
Class A Preferred Dividend Declared	n/a	n/a
Class B Preferred Dividends Declared	$ 0.755	$ 0.755
Common Dividend Total	$ 138	$ 3,809
Class A Preferred Dividend Total	0	0
Class B Preferred Dividends Total	687	687
Total Dividend	$ 825	$ 4,496
Taxable Income Earned	$ 838	$ 4,527
Dividend Pay-Out Ratio for Period	98%	99%
Cumulative Dividend Pay-Out Ratio	102%	102%
Warrants Outstanding at Period End (expired 12/31/97)	0	0
Average Shares Outstanding During Period		
Common	14,106,828	14,123,951
Class A Preferred	0	0
Class B Preferred	909,518	909,518
Total	15,016,346	15,033,469
Calculation of "Diluted" Common Shares		
Average Common Shares	14,106,828	14,123,951
Potential Dilution Due to Warrants	0	0
Potential Dilution Due to Options	149,030	110,474
Total Average "Diluted" Common Shares	14,255,858	14,234,425
Net Income to Common Shareholders	$ (491)	$ 2,450
Total Average "Diluted" Common Shares	14,255,858	14,234,425
Earnings Per Share ("Diluted")	$ (0.03)	$ 0.17
Earnings Per Share ("Basic")	$ (0.03)	$ 0.17
Per Share Ratios (Average Common and Preferred Shares Outstanding)		
Average Total Assets	$ 244.14	$ 227.77
Average Total Equity	$ 22.72	$ 22.82
Net Interest Income	$ 0.13	$ 0.43
Credit Expenses	$ 0.05	$ 0.04
Operating Expenses	$ 0.04	$ 0.13
Gain/(Loss) on Sale	$ 0.00	$ 0.00
Writedowns	$ 0.00	$ 0.05
Other Expenses (Income)	$ (0.01)	$ 0.00
Equity in Earnings of RWT Holdings, Inc.	$ 0.04	$ 0.00
Net Income	$ 0.01	$ 0.21

</TABLE>

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TABLE 9 (CONTINUED) AT OR

SHARES OUTSTANDING AND PER SHARE DATA	FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>
Common Shares Outstanding at Period End	14,284,657	14,576,477	13,251,847	11,905,957
Shares Outstanding and Receiving Dividends at Period End				
Common (RWT)	14,284,657	14,576,477	13,251,847	11,905,957
Class A Preferred (converted 9/95)	0	0	0	0
Class B Preferred (RTW-PB)	909,518	909,518	909,518	999,638
Total	15,194,175	15,485,995	14,161,365	12,905,595
Common Dividend Declared	$ 0.350	$ 0.600	$ 0.600	$ 0.600
Class A Preferred Dividend Declared	n/a	n/a	n/a	n/a
Class B Preferred Dividends Declared	$ 0.755	$ 0.755	$ 0.755	$ 0.755
Common Dividend Total	$ 5,000	$ 8,746	$ 7,951	$ 7,144
Class A Preferred Dividend Total	0	0	0	0
Class B Preferred Dividends Total	686	687	687	755
Total Dividend	$ 5,686	$ 9,433	$ 8,638	$ 7,899
Taxable Income Earned	$ 5,586	$ 8,151	$ 8,315	$ 7,912
Dividend Pay-Out Ratio for Period	102%	116%	104%	
100%				
Cumulative Dividend Pay-Out Ratio	103%	103%	100%	
98%				
Warrants Outstanding at Period End (expired 12/31/97)	0	149,466	236,297	272,304
Average Shares Outstanding During Period				
Common	14,375,992	14,316,678	12,997,566	11,605,171
Class A Preferred	0	0	0	
0				
Class B Preferred	909,518	909,518	990,725	1,005,515
Total	15,285,510	15,226,196	13,988,291	12,610,686
Calculation of "Diluted" Common Shares				
Average Common Shares	14,375,992	14,316,678	12,997,566	11,605,171
Potential Dilution Due to Warrants	57,139	130,489	182,137	258,422
Potential Dilution Due to Options	99,383	177,434	291,227	253,274
Total Average "Diluted" Common Shares	14,532,514	14,624,601	13,470,930	12,116,867
Net Income to Common Shareholders	$ 4,397	$ 6,859	$ 7,034	$ 6,456
Total Average "Diluted" Common Shares	14,532,514	14,624,601	13,470,930	12,116,867
Earnings Per Share ("Diluted")	$ 0.30	$ 0.47	$ 0.52	$ 0.53
Earnings Per Share ("Basic")	$ 0.31	$ 0.48	$ 0.54	$ 0.56
Per Share Ratios (Average Common and Preferred Shares Outstanding)				
Average Total Assets	$ 224.19	$ 224.68	$ 212.58	$ 183.09
Average Total Equity	$ 22.92	$ 22.71	$ 20.96	$ 18.81
Net Interest Income	$ 0.40	$ 0.63	$ 0.70	$ 0.72
Credit Expenses	$ 0.03	$ 0.06	$ 0.06	$ 0.06
Operating Expenses	$ 0.07	$ 0.07	$ 0.09	$ 0.09
Gain/(Loss) on Sale	$ 0.03	$ 0.00	$ 0.00	$ 0.00
Writedowns	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Other Expenses (Income)	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Equity in Earnings of RWT Holdings, Inc.	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net Income	$ 0.33	$ 0.50	$ 0.55	$ 0.57

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
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TABLE 9 (CONTINUED) SHARES OUTSTANDING AND PER SHARE DATA	AT OR FOR YEAR ENDING			
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DEC. 31,	DEC. 31,	DEC. 31,	DEC. 31,

<S>	1997 <C>	1996 <C>	1995 <C>	1994
Common Shares Outstanding at Period End	14,284,657	10,996,572	5,517,299	1,874,395
Shares Outstanding and Receiving Dividends at Period End				
Common (RWT)	14,284,657	10,996,572	5,517,299	208,332
Class A Preferred (converted 9/95)	0	0	0	1,666,063
Class B Preferred (RTW-PB)	909,518	1,006,250	0	0
Total	15,194,175	12,002,822	5,517,299	1,874,395
Common Dividend Declared	$ 2.150	$ 1.670	$ 0.460	n/a
Class A Preferred Dividend Declared	n/a	n/a	$ 0.500	$ 0.250
Class B Preferred Dividends Declared	$ 3.020	$ 1.141	n/a	n/a
Common Dividend Total	$ 28,840	$ 14,084	$ 2,537	$ 0
Class A Preferred Dividend Total	0	0	833	350
Class B Preferred Dividends Total	2,815	1,148	0	0
Total Dividend	$ 31,655	$ 15,232	$ 3,370	$ 350
Taxable Income Earned	$ 29,964	$ 15,168	$ 3,832	$ 353
Dividend Pay-Out Ratio for Period	106%	100%	88%	99%
Cumulative Dividend Pay-Out Ratio	103%	98%	89%	99%
Warrants Outstanding at Period End (expired 12/31/97)	0	412,894	1,665,063	1,666,063
Average Shares Outstanding During Period				
Common	13,334,163	7,950,175	2,487,857	208,332
Class A Preferred	0	0	826,185	1,467,748
Class B Preferred	953,435	382,155	0	0
Total	14,287,598	8,332,330	3,314,042	1,676,080
Calculation of "Diluted" Common Shares				
Average Common Shares	13,334,163	7,950,175	3,314,042	1,676,080
Potential Dilution Due to Warrants	191,513	618,618	221,112	240,766
Potential Dilution Due to Options	154,734	175,391	168,649	0
Total Average "Diluted" Common Shares	13,680,410	8,744,184	3,703,803	1,916,846
Net Income to Common Shareholders	$ 24,746	$ 11,537	$ 3,155	$ 382
Total Average "Diluted" Common Shares	13,680,410	8,744,184	3,703,803	1,916,846
Earnings Per Share ("Diluted")	$ 1.81	$ 1.32	$ 0.85	$ 0.20
Earnings Per Share ("Basic")	$ 1.86	$ 1.45	$ 0.95	$ 0.23
Per Share Ratios (Average Common and Preferred Shares Outstanding)				
Average Total Assets	$ 212.54	$ 119.99	$ 66.57	$ 34.85
Average Total Equity	$ 21.49	$ 15.76	$ 13.08	$ 12.01
Net Interest Income	$ 2.42	$ 2.03	$ 1.44	$ 0.32
Credit Expenses	$ 0.21	$ 0.20	$ 0.15	$ 0.00
Operating Expenses	$ 0.32	$ 0.31	$ 0.34	$ 0.09
Gain/(Loss) on Sale	$ 0.04	$ 0.00	$ 0.00	$ 0.00
Writedowns	$ 0.04	$ 0.00	$ 0.00	$ 0.00
Other Expenses (Income)	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Equity in Earnings of RWT Holdings, Inc.	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net Income	$ 1.93	$ 1.52	$ 0.95	$ 0.23

</TABLE>

PART II OTHER INFORMATION

Item 1. Legal Proceedings

At June 30, 1998, 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 4, 1998.

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

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	Votes For	Votes Withheld	Votes Excepted
<S>	<C>	<C>	<C>
1. Election of Directors			
Frederick H. Borden	11,072,640	925,927	2,250
Nello Gonfiantini	11,069,787	928,780	5,103
Mariann Byerwalter	11,063,862	934,705	11,028

</TABLE>

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

Thomas C. Brown
George E. Bull
Dan A. Emmett
Thomas F. Farb
Douglas B. Hansen
Charles J. Toeniskoetter

<TABLE>
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	Votes For	Votes Against	Votes Abstain
<S>	<C>	<C>	<C>
2. Ratification of technical amendments to the Company's charter	11,892,173	76,771	29,622

</TABLE>

<TABLE>
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	Votes For	Votes Against	Votes Abstain
<S>	<C>	<C>	<C>
3. Ratification of Coopers & Lybrand L.L.P. as the Company's independent public accountants for the fiscal year ending December 31, 1998	11,981,482	5,742	11,342

</TABLE>

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
Exhibit 11.1 to Part I - Computation of Earnings Per Share for the three and six months ended June 30, 1998 and June 30, 1997.

Exhibit 27 - Financial Data Schedule

(b) Reports
None

SIGNATURES

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

REDWOOD TRUST, INC.

Dated: August 10, 1998 By:/s/ Douglas B. Hansen

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

Dated: August 10, 1998 By: /s/ Vickie L. Rath

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

REDWOOD TRUST, INC.
INDEX TO EXHIBITS

<TABLE>
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Exhibit Number		Sequentially Numbered Page
<S>	<C>	<C>
11.1	Computations of Earnings per Share	70
27	Financial Data Schedule	72

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EXHIBIT 11.1

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

<TABLE>
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<S>	Three Months Ended June 30, 1998 <C>	Six Months Ended June 30, 1998 <C>
BASIC:		
Average common shares outstanding	14,106,828	14,115,342
Total	14,106,828	14,115,342
Net Income	$ (491,212)	$ 1,959,171
Per Share Amount	$ (0.03)	$ 0.14
DILUTED:		
Average common shares outstanding	14,106,828	14,115,342
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method ...	149,030	253,274
Total	14,255,858	14,368,616
Net Income	$ (491,212)	$ 1,959,171
Per Share Amount	$ (0.03)	$ 0.14

</TABLE>

EXHIBIT 11.1

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

<TABLE>
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<S>	Three Months Ended June 30, 1997 <C>	Six Months Ended June 30, 1997 <C>
BASIC:		
Average common shares outstanding	12,997,566	12,305,215
Total	12,997,566	12,305,215
Net Income	$ 7,034,308	$13,490,546
Per Share Amount	$ 0.54	$ 1.10
DILUTED:		
Average common shares outstanding...............................	12,997,566	12,305,215
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method	291,228	274,793
Net effect of dilutive stock warrants outstanding during the period -- based on the treasury stock method	182,137	220,952
Total	13,470,930	12,800,960
Net Income	$ 7,034,308	$13,490,546
Per Share Amount	$ 0.52	$ 1.05

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