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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: MARCH 31, 1999

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 May 12, 1999

Common Stock ($.01 par value) 10,041,817 as of May 12, 1999

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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 SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

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ASSETS	March 31, 1999 (Unaudited)	December 31, 1998
<S>	<C>	<C>
Mortgage loans: held-for-sale		
Residential	$ 199,893	$ 265,914
Commercial	2,880	8,287
	202,773	274,201
Mortgage loans: held-for-investment, net		
Residential	1,022,071	1,131,300
	1,022,071	1,131,300

Mortgage securities: trading	1,092,331	1,257,655
Mortgage securities: available-for-sale, net	7,706	7,707
US Treasury securities	33,485	48,009
Cash and cash equivalents	40,638	55,627
Restricted cash	11,491	12,857
Interest rate agreements	1,627	2,517
Accrued interest receivable	15,412	18,482
Investment in RWT Holdings, Inc.	12,639	15,124
Loan to RWT Holdings, Inc.	13,700	6,500
Receivable from RWT Holdings, Inc.	142	445
Other assets	2,959	2,024
	$2,456,974	$2,832,448
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt	$1,033,642	$1,257,570
Long-term debt, net	1,171,141	1,305,560
Accrued interest payable	5,695	10,820
Accrued expenses and other liabilities	1,611	3,022
Dividends payable	687	686
	2,212,776	2,577,658
Commitments and contingencies (See Note 13)		
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; 10,186,317 and 11,251,556 issued and outstanding	102	113
Additional paid-in capital	263,178	279,201
Accumulated other comprehensive income	(782)	(370)
Cumulative earnings	12,953	6,412
Cumulative distributions to stockholders	(57,989)	(57,302)
	244,198	254,790
	$2,456,974	$2,832,448

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(Unaudited)

<TABLE>
<CAPTION>

<S>	Three Months Ended March 31, 1999 <C>	1998 <C>
Interest Income		
Mortgage loans: held-for-sale		
Residential	$ 4,287	$ --
Commercial	76	--
	4,363	--
Mortgage loans: held-for-investment		
Residential	16,285	25,810
	16,285	25,810
Mortgage securities: trading	18,974	--
Mortgage securities: available-for-sale	803	27,667
US Treasury securities	533	--
Cash and cash equivalents	773	384
Total interest income	41,731	53,861

Interest Expense

Short-term debt	(14,750)	(28,003)
Long-term debt	(18,741)	(18,094)
Total interest expense	(33,491)	(46,097)
Net interest rate agreements expense	(333)	(1,378)
Net Interest Income	7,907	6,386
Provision for credit losses	(345)	(601)
Equity in earnings (losses) of RWT Holdings, Inc.	(2,484)	--
Operating expenses	(714)	(1,925)
Other income	8	--
Income before unrealized and realized gains (losses) on assets	4,372	3,860
Net unrealized and realized gains (losses) on assets	2,169	(723)
Income before preferred dividend	6,541	3,137
Cash dividends on Class B preferred stock	(687)	(687)
Net Income Available to Common Stockholders	$ 5,854	$ 2,450
Earnings per Share:		
Basic	$ 0.54	$ 0.17
Diluted	$ 0.54	$ 0.17
Weighted average shares of common stock and common stock equivalents:		
Basic	10,778,159	14,123,951
Diluted	10,861,774	14,234,425

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

<TABLE>
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	Class B Preferred stock		Common stock		Additional paid-in	Accumulated other comprehensive	Cumulative	Cumulative distributions to	
	Shares	Amount	Shares	Amount	capital	income	earnings	stockholders	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1998	909,518	26,736	11,251,556	113	279,201	(370)	6,412	(57,302)	254,790
Comprehensive income:									
Income before preferred dividend	--	--	--	--	--	--	6,541	--	6,541
Net unrealized loss on assets available-for-sale	--	--	--	--	--	(412)	--	--	(412)
Total comprehensive income	--	--	--	--	--	--	--	--	6,129
Issuance of common stock	--	--	12,361	--	1	--	--	--	1
Repurchase of common stock	--	--	(1,077,600)	(11)	(16,024)	--	--	--	(16,035)
Dividends declared:									
Preferred	--	--	--	--	--	--	--	(687)	(687)
Common	--	--	--	--	--	--	--	--	--

Balance, March 31, 1999	909,518	$26,736	10,186,317	$102	$263,178	$(782)	$12,953	$(57,989)	$244,198

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
Cash Flows From Operating Activities:		
Net income available to common stockholders	$ 5,854	$ 2,450
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,521	9,709
Provision for credit losses on mortgage assets	345	601
Equity in (earnings) losses of RWT Holdings, Inc.	2,484	--
Net unrealized and realized (gains) losses on assets	(2,169)	723
Purchases of mortgage loans: held-for-sale	(6,412)	--
Proceeds from sales of mortgage loans: held-for-sale	42,629	--
Principal payments on mortgage loans: held-for-sale	35,249	--
Principal payments on mortgage securities: trading	168,982	--
Purchases of US Treasury securities	(45,844)	--
Proceeds from sales of US Treasury securities	58,442	--
Purchases of interest rate agreements	(409)	--
(Increase) decrease in accrued interest receivable	3,070	(767)
Increase in other assets	(987)	(771)
Decrease in accrued interest payable	(5,125)	(2,264)
Decrease in accrued expenses and other liabilities	(1,411)	(375)
Net cash provided by operating activities	257,219	9,306
Cash Flows From Investing Activities:		
Purchases of mortgage loans: held-for-investment	--	(441,960)
Principal payments on mortgage loans: held-for-investment	107,362	118,707
Purchases of mortgage securities: available-for-sale	--	(161,842)
Proceeds from sales of mortgage securities: available-for-sale	--	9,295
Principal payments on mortgage securities: available-for-sale	58	187,405
Purchases of interest rate agreements	--	(897)
Net (increase) decrease in restricted cash	1,366	(1,077)
Investment in RWT Holdings, Inc., net of dividends received	--	(9,900)
Loans to RWT Holdings, Inc., net of repayments	(7,200)	--
Decrease in receivable from RWT Holdings, Inc.	303	--
Net cash provided by (used in) investing activities	101,889	(300,269)
Cash Flows From Financing Activities:		
Net proceeds from issuance of (repayments on) short-term debt	(223,928)	373,493
Repayments on long-term debt	(134,136)	(91,680)
Net proceeds from issuance of common stock	1	--
Repurchases of common stock	(16,035)	(4,275)
Increase in dividends payable - preferred	1	--
Dividends paid on common stock	--	(4,999)
Net cash provided by (used in) financing activities	(374,097)	272,539
Net decrease in cash and cash equivalents	(14,989)	(18,424)
Cash and cash equivalents at beginning of period	55,627	24,892
Cash and cash equivalents at end of period	$ 40,638	$ 6,468
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 38,616	$ 48,419

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1999
(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. ("Holdings"), a 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 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 or commercial 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. Certain amounts for prior periods have been reclassified to conform to the 1998 presentation.

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

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 certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues 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. Management estimates the fair value of its financial instruments using available market information and other appropriate valuation methodologies. The fair value of a financial instrument, as defined by Statement of Financial Accounting Standards ("SFAS") No. 107, Disclosures about Fair Value of Financial Instruments, is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Management's estimates are inherently subjective in nature and involve matters of uncertainty and judgement to interpret relevant market and other data. Accordingly, amounts realized in actual sales may differ from the fair values presented in Notes 3, 7 and 10.

Reserve for Credit Losses. A reserve 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 reserve 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 reserve 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 reserve and subsequent recoveries, if any, are credited to the reserve. The Company's actual credit losses may differ from those estimates used to establish the reserve. Summary information regarding the Reserve for Credit Losses is presented in Note 4.

ADOPTION OF SFAS NO. 133

The Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, effective July 1, 1998. In accordance with the transition provisions of SFAS No. 133, the Company recorded a net-of-tax cumulative-effect-type transition adjustment of $10.1 million (loss) in earnings to recognize at fair value the ineffective portion of all interest rate agreements that were previously designated as part of a hedging relationship.

The Company, upon its adoption of SFAS No. 133, also reclassified $1.53 billion of mortgage securities from available-for-sale to trading. This reclassification resulted in an $11.9 million reclassification loss adjustment, which was transferred from other comprehensive income to current earnings effective July 1, 1998. Under the provisions of SFAS No. 133, such a reclassification does not call into question the Company's intent to hold current or future debt securities to their maturity. Immediately after the adoption of SFAS No. 133 and the reclassification, the Company elected to not seek hedge accounting for any of the Company's interest rate agreements.

MORTGAGE ASSETS

The Company's Mortgage Assets consist of Mortgage Loans and Mortgage Securities. Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible. 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: Held-for-Sale

Effective September 30, 1998, the Company elected to reclassify certain short-funded Mortgage Loans from held-for-investment to held-for-sale. These Mortgage Loans are carried at the lower of cost or aggregate market value ("LOCOM"). Realized and unrealized gains and losses on these loans are recognized in "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

Some of the Mortgage Loans purchased by the Company for which securitization or sale is contemplated are committed for sale by the Company to Holdings, or a subsidiary of Holdings, under a Master Forward Commitment Agreement. As the forward commitment is entered into on the same date that the Company purchases the loans, the price under the forward commitment is the same as the price that the Company paid for the Mortgage Loans, as established by the external market. Fair value is therefore equal to the commitment price, which is the carrying value of the Mortgage Loans. Accordingly, no gain or loss is recognized on sales to Holdings or subsidiaries of Holdings.

Mortgage Loans: Held-for-Investment

Mortgage Loans held-for-investment are carried at their unpaid principal balance adjusted for net unamortized premiums or discounts, and net of the related allowance for credit losses.

Mortgage Securities: Trading

Effective July 1, 1998, concurrent with the adoption of SFAS No. 133, the Company elected to reclassify all of its short-funded Mortgage Securities from available-for-sale to trading. Mortgage Securities classified as trading are

accounted for in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, such securities are recorded at their estimated fair market value. Unrealized and realized gains and losses on these securities are recognized as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

Mortgage Securities: Available-for-Sale

Prior to the adoption of SFAS No. 133, the Company, in accordance with SFAS No. 115, classified all of its Mortgage Securities as available-for-sale investments as the Company, from time to time, sold some of its Mortgage Securities as part of its overall management of its balance sheet. Effective July 1, 1998, the Company reclassified all of its short-funded Mortgage Securities as trading investments, while all equity-funded Mortgage Securities remained in the

available-for-sale classification. All Mortgage Securities classified as available-for-sale are carried at their estimated fair value. Current period unrealized gains and losses are excluded from net income and reported as a component of Other 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 classified as available-for-sale that are considered 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.

US TREASURY SECURITIES

US Treasury securities include notes issued by the US Government. Interest is recognized as revenue when earned according to the terms of the Treasury securities. Discounts and premiums are amortized into interest income over the life of the security using methods that approximate the effective yield method. US Treasury securities are classified as trading and, accordingly, are recorded at their estimated fair market value with unrealized gains and losses recognized as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less. At December 31, 1998, cash equivalents included $25 million in repurchase agreements.

RESTRICTED CASH

Restricted cash of the Company includes principal and interest payments on mortgage loans held as collateral for the Company's Long-Term Debt, and cash pledged as collateral on certain interest rate agreements.

INTEREST RATE AGREEMENTS

The Company maintains an overall interest-rate risk-management strategy that incorporates the use of derivative interest rate agreements to minimize significant unplanned fluctuations in earnings that are caused by interest-rate volatility. Interest rate agreements that are used as part of the Company's interest-rate risk management strategy include interest rate options, swaps, options on swaps, futures contracts, and options on futures contracts (collectively "Interest Rate Agreements"). On the date an Interest Rate Agreement is entered into, the Company designates the interest rate agreement as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or (3) held for trading ("trading" instruments). Concurrent with the adoption of SFAS No. 133, the Company has elected to designate all of its existing Interest Rate Agreements as trading instruments.

Net premiums on interest rate options 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 options and swaps are recognized on an accrual basis.

Interest Rate Agreements Classified as Trading

Interest Rate Agreements that are designated as trading are not linked to specific assets and liabilities or to a forecasted transaction, or otherwise are not designated and, therefore do not qualify for hedge accounting. Accordingly, interest rate agreements classified as trading are reported at their estimated fair value with changes in their fair value reported in current-period earnings in "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

Interest Rate Agreements Classified as Hedges

Interest Rate Agreements that are designated as hedges are linked to specific assets and liabilities on the balance sheet or to a forecasted transaction, or otherwise qualify for hedge accounting. The Company currently does not have any Interest Rate Agreements classified as hedges.

Prior to the adoption of SFAS No. 133, Interest Rate Agreements that were hedging Mortgage Securities available-for-sale were 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 were used to hedge Mortgage Loans, Short-Term Debt or Long-Term Debt were carried at amortized cost. Realized gains and losses from the settlement or early termination of Interest Rate Agreements were 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.

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.

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 stockholders 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 stockholders. 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.

Under the Code, 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, and provided that the REIT has any remaining undistributed taxable income on the record date. Because the Company had already distributed more dividends than it had earned in taxable income as of December 31, 1998, the preferred dividend declared in December 1998 and paid in January 1999 is not considered taxable income to shareholders in 1998.

NET INCOME PER SHARE

Net income per share for the three months ended March 31, 1999 and 1998 is shown in accordance with SFAS No. 128, Earnings Per Share. 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 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.

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT SHARE DATA)	THREE MONTHS ENDED MARCH 31,	
	1999	1998
<S>	<C>	<C>
Numerator:		
Numerator for basic and diluted earnings per share--		
Income before preferred dividend	$6,541	$3,137
Cash dividends on Class B preferred stock	(687)	(687)
Basic and Diluted EPS Net income available to common stockholders	$5,854	$2,450
Denominator:		

Denominator for basic earnings per share-- Weighted average number of common shares outstanding during the period	10,778,159	14,123,951
Net effect of dilutive stock options	83,615	110,474
Denominator for diluted earnings per share--	10,861,774	14,234,425
Net earnings per share -- basic	$0.54	$0.17
Net earnings per share -- diluted	$0.54	$0.17

</TABLE>

COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income, requires the Company to classify items of "other comprehensive income" 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 March 31, 1999 and December 31, 1998, the only component of Accumulated Other Comprehensive Income is unrealized gains and losses on assets available-for-sale.

NOTE 3. MORTGAGE ASSETS

At March 31, 1999 and December 31, 1998, investments in Mortgage Assets consisted of interests in adjustable-rate, hybrid or fixed-rate mortgages on residential and commercial properties. The hybrid mortgages have an initial fixed coupon rate for three to ten 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 March 31, 1999 and December 31, 1998, the average annualized effective yield after taking into account the amortization expense due to prepayments on the Mortgage Assets was 6.61% and 6.95%, respectively, based on the reported cost of the assets. Of the Mortgage Assets owned by the Company at March 31, 1999, 77% are adjustable-rate mortgages, 22% are hybrid mortgages and 1% are fixed-rate mortgages. The coupons on 71% of the adjustable-rate Mortgage Assets are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months or 2% every year) while another 29% are not limited by such periodic caps. Most of the coupons on the adjustable-rate Mortgage Assets owned by the Company are limited by lifetime caps.

At March 31, 1999 and December 31, 1998, the weighted average lifetime cap on the adjustable-rate Mortgage Assets was 11.60% and 11.48%, respectively.

At March 31, 1999 and December 31, 1998, Mortgage Assets consisted of the following:

Mortgage Loans: Held-for-Sale

<TABLE>
<CAPTION>

(in thousands)	March 31, 1999	December 31, 1998
<S>	<C>	<C>
Current Face	$200,256	$274,630
Unamortized Discount	(1,163)	(1,099)
Unamortized Premium	800	670
Carrying Value	$199,893	$274,201

</TABLE>

During the three months ended March 31, 1999, the Company recognized a net loss of $24,830 as a result of LOCOM adjustments on Mortgage Loans held-for-sale. During the three months ended March 31, 1999, the Company sold Mortgage Loans held-for-sale with a carrying value of $42.6 million for proceeds of $42.6 million, resulting in a net gain of $17,941. As the Mortgage Loans were not reclassified to held-for-sale until September 30, 1998, no LOCOM adjustments or

sale transactions on held-for-sale Mortgage Loans were recorded for the three months ended March 31, 1998. The LOCOM adjustments and net gains on sales are reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

Mortgage Loans: Held-for-Investment

<TABLE>
<CAPTION>

(in thousands)	March 31, 1999	December 31, 1998
<S>	<C>	<C>
Current Face	$1,011,013	$1,118,375
Unamortized Premium	15,186	16,709
Amortized Cost	1,026,199	1,135,084
Allowance for Credit Losses	(4,128)	(3,784)
Carrying Value	$1,022,071	$1,131,300

</TABLE>

Mortgage Securities: Trading

<TABLE>
<CAPTION>

	March 31, 1999			December 31, 1998		
(in thousands)	Agency	Non-Agency	Total	Agency	Non-Agency	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current Face	$535,880	$545,993	$1,081,873	$609,826	$640,923	$1,250,749
Unamortized Discount	(9)	(1,231)	(1,240)	(5)	(3,084)	(3,089)
Unamortized Premium	9,028	2,670	11,698	7,602	2,393	9,995
Carrying Value	$544,899	$547,432	$1,092,331	$617,423	$640,232	$1,257,655

</TABLE>

For the three months ended March 31, 1999, the Company recognized a mark-to-market gain of $4.9 million on Mortgage Securities classified as trading. As the Company did not reclassify all of its short-funded Mortgage Securities from available-for-sale to trading until July 1, 1998 (see Note 2), there were no such mark-to-market adjustments for the three months ended March 31, 1998. The mark to market adjustments are reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

Mortgage Securities: Available-for-Sale

<TABLE>
<CAPTION>

(in thousands)	March 31, 1999 Non-Agency	December 31, 1998 Non-Agency
<S>	<C>	<C>
Current Face	$16,705	$17,281
Unamortized Discount	(7,149)	(8,015)
Amortized Cost	9,556	9,266
Allowance for Credit Losses	(1,069)	(1,189)
Gross Unrealized Gains	78	313
Gross Unrealized Losses	(859)	(683)
Carrying Value	$ 7,706	$ 7,707

</TABLE>

No sales or write-downs of Mortgage Securities available-for-sale occurred during the three months ended March 31, 1999. During the three months ended March 31, 1998, the Company sold Mortgage Securities available-for-sale with an amortized cost of $9.3 million for proceeds of $9.3 million, resulting in a net gain of $5,689. The Company also recognized a $0.7 million loss on the write-down of certain Mortgage Securities available-for-sale during the first quarter of 1998. The gains and losses on the sales and write-downs of Mortgage Securities available-for-sale are reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

NOTE 4. RESERVE FOR CREDIT LOSSES

The following table summarizes the Reserve for Credit Losses activity:

(in thousands)	Three Months Ended March 31, 1999	1998
Balance at beginning of period	$4,973	$4,931
Provision for credit losses	345	601
Charge-offs	(121)	(48)
Balance at end of period	$5,197	$5,484

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

NOTE 5. US TREASURY SECURITIES

At March 31, 1999 and December 31, 1998 US Treasury securities consisted of the following:

(in thousands)	March 31, 1999	December 31, 1998
Current Face	$33,000	$45,000
Unamortized Premium	485	3,009
Carrying Value	$33,485	$48,009

For the three months ended March 31, 1999, the Company recognized a mark-to-market loss of $1.9 million on US Treasury securities. During the quarter ended March 31, 1999, the Company received proceeds of $58.4 million on sales of US Treasury securities. The mark to market adjustments are reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

NOTE 6. 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 components of the Bond Collateral are summarized as follows:

(in thousands)	March 31, 1999	December 31, 1998
Mortgage loans: held-for-sale	$ 171,276	$ 197,646
Mortgage loans: held-for-investment, net	1,022,071	1,131,300
Restricted cash	11,182	12,857
Accrued interest receivable	6,761	7,707
	$1,211,290	$1,349,510

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 7. INTEREST RATE AGREEMENTS

At March 31, 1999 and December 31, 1998, all of the Company's Interest Rate Agreements were classified as trading, and therefore, reported at fair value.

During the three months ended March 31, 1999, the Company recognized a net loss of $0.8 million as a result of mark-to-market adjustments on interest rate agreements classified as trading. As the Company did not classify its interest rate agreements as trading instruments until July 1, 1998 (see Note 2), there were no related mark-to-market adjustments recognized during the three months ended March 31, 1998. The mark-to-market loss is reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

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.

	Notional Amounts		Credit Exposure (a)	
(in thousands)	March 31, 1999	December 31, 1998	March 31, 1999	December 31, 1998
Interest Rate Options				
Purchased	$3,278,900	$3,569,200	--	--
Written	40,000	--	$ 310	--
Interest Rate Swaps	440,000	440,000	8,213	$8,673
Total	$3,758,900	$3,915,200	$8,523	$8,673

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

Interest Rate Options purchased (written), which may include caps, floors, call and put corridors, options on futures and swaption collars (collectively, "Options"), are agreements which transfer, modify or reduce interest rate risk in exchange for the payment (receipt) of a premium when the contract is initiated. Purchased interest rate cap agreements provide cash flows to the Company to the extent

that a specific interest rate index exceeds a fixed rate. Conversely, purchased 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. Purchased call (put) 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 call (put) corridor is established at the time of the transaction by establishing a minimum (maximum) index rate]. The Company will receive cash on the purchased options on futures if the futures price exceeds (is below) the call (put) option strike price at the expiration of the option. For the written options on futures, the Company receives an up-front premium for selling the option, however, the Company will pay cash on the written option if the futures price exceeds (is below) the call (put) option strike price at the expiration of the option. Purchased receiver (payor) 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 maximum gain or loss on a receiver (payor) swaption is established at the time of the transaction by establishing a minimum (maximum) index rate]. The Company's credit risk on the purchased Options is limited to the carrying value of the Options agreements. The credit risk on options on futures is limited due to the fact that the exchange and its members are required to satisfy the obligations of any member that fails to perform.

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). Similar to options on futures, the credit risk on futures is limited by the requirement that the exchange and its members make

good on obligations of any member that fails to perform.

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 BBB or higher. Furthermore, the Company has entered into Interest Rate Agreements with several different counterparties in order to diversify the credit risk exposure.

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 and US Treasury securities.

At March 31, 1999, the Company had $1.0 billion of Short-Term Debt outstanding with a weighted average borrowing rate of 5.04% and a weighted average remaining maturity of 205 days. This debt was collateralized with $1.1 billion of Mortgage Assets and US Treasury securities. At December 31, 1998, the Company had $1.3 billion of Short-Term Debt outstanding with a weighted average borrowing rate of 5.62% and a weighted average remaining maturity of 48 days. This debt was collateralized with $1.3 billion of Mortgage Assets and US Treasury securities.

At March 31, 1999 and December 31, 1998, the Short-Term Debt had the following remaining maturities:

<TABLE>
<CAPTION>

(in thousands)	March 31, 1999	December 31, 1998
<S>	<C>	<C>
Within 30 days	$ 269,006	$ 428,292
30 to 90 days	152,090	714,114
Over 90 days	612,546	115,164
Total Short-Term Debt	$1,033,642	$1,257,570

</TABLE>

For the three months ended March 31, 1999 and 1998, the average balance of Short-Term Debt was $1.2 billion and $1.9 billion with a weighted average interest cost of 5.12% and 5.77%, respectively. The maximum balance outstanding during the three months ended March 31, 1999 and 1998 was $1.3 billion and $2.3 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 March 31, 1999 and December 31, 1998 along with selected other information are summarized below:

<TABLE>
<CAPTION>

(in thousands)	March 31, 1999	December 31, 1998
<S>	<C>	<C>
Long-Term Debt	$1,169,269	$1,303,405
Unamortized premium on Long-Term Debt	5,098	5,783

Deferred bond issuance costs	(3,226)	(3,628)
Total Long-Term Debt	$1,171,141	$1,305,560
Range of weighted-average interest rates, by series	5.73% to 6.51%	5.75% to 6.55%
Stated maturities	2017 - 2029	2017 - 2029
Number of series	3	3

</TABLE>

For the three months ended March 31, 1999 and 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 6.03% and 6.44%, respectively. At March 31, 1999 and December 31, 1998, interest payable on Long-Term Debt was $3.7 million and $4.2 million, respectively, and is reflected as a component of Accrued Interest Payable on the Consolidated Balance Sheets.

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying values and estimated fair values of the Company's financial instruments at March 31, 1999 and December 31, 1998.

<TABLE>
<CAPTION>

(in thousands)	March 31, 1999		December 31, 1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<S>	<C>	<C>	<C>	<C>
Assets				
Mortgage Loans: held-for-sale	$ 202,773	$ 202,816	$ 274,201	$ 274,302
Mortgage Loans: held-for-investment	$1,022,071	$1,018,549	$1,131,300	$1,120,376
Mortgage Securities: trading	$1,092,331	$1,092,331	$1,257,655	$1,257,655
Mortgage Securities: available-for-sale	$ 7,706	$ 7,706	$ 7,707	$ 7,707
US Treasury Securities	$ 33,485	$ 33,485	$ 48,009	$ 48,009
Interest Rate Agreements	$ 1,627	$ 1,627	$ 2,517	$ 2,517
Investment in RWT Holdings, Inc.	$ 12,639	$ 12,814	$ 15,124	$ 15,124
Liabilities				
Long-Term Debt	$1,171,141	$1,169,618	$1,305,560	$1,302,330

</TABLE>

The carrying values 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 March 31, 1999 and December 31, 1998, 96,732 shares of the Preferred Stock have been converted into 96,732 shares of the Company's Common Stock. At March 31, 1999 and December 31, 1998, 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. The total outstanding shares are determined as the highest number of shares outstanding prior to any stock repurchases. At March 31, 1999 and December 31, 1998, 372,832 and 273,312 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 March 31, 1999 and December 31, 1998, 361,198 and 381,298 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 months ended March 31, 1999 and 1998, the stock DERs accrued on NQSOs that had a stock DER feature resulted in charges to operating expenses of $0 and $53,228, 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 as of March 31 and changes during the periods ending on those dates is presented below.

<TABLE>
<CAPTION>

	1999		1998	
(in thousands, except share data)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding options at January 1	1,739,787	$23.68	840,644	$29.79
Options granted	42,000	$14.43	284,282	$20.20
Options exercised	(12,361)	$0.11	--	--
Options canceled	(141,520)	$28.96	--	--
Dividend equivalent rights earned	--	--	2,419	--
Outstanding options at March 31	1,627,906	$23.16	1,127,345	$27.31

</TABLE>

Stock Repurchases

In 1997 and 1998, the Company's Board of Directors approved the repurchase of 5,455,000 shares of the Company's Common Stock. Pursuant to this repurchase program, the Company repurchased 1,077,600 shares of its Common Stock for $16.0 million during the three months ended March 31, 1999. During 1997 and 1998, the Company repurchased 3,971,500 shares of its Common Stock for $70.1 million. The repurchased shares have been returned to the Company's authorized but unissued shares of Common Stock.

NOTE 12. RELATED PARTY TRANSACTIONS

Sale of Mortgage Loans

During the first quarter of 1999, the Company sold $8.3 million of commercial mortgage loans to Redwood Commercial Funding ("RCF"), a subsidiary of Holdings. Pursuant to the Master Forward Commitment Agreement, the Company sold the Mortgage Loans to RCF at the same price for which the Company acquired the Mortgage Loans. Similarly, the Company purchased $2.9 million of commercial mortgage loans during the three months ended March 31, 1999 and, under the terms of the Master Forward Commitment Agreement, committed to sell the Mortgage Loans to RCF during the second quarter of 1999.

Other

Under a revolving credit facility arrangement, the Company may loan funds to Holdings to finance certain Mortgage Loans owned by Holdings. These loans are typically unsecured and are repaid within six months. Such loans bear interest at a rate of 3.5% over the London Interbank Offered Rate ("LIBOR"). At March 31,

1999 and December 31, 1998, the Company had loaned $13.7 million and $6.5 million, respectively, to Holdings in accordance with the provisions of this arrangement.

The Company shares many of the operating expenses of Holdings, including personnel and related expenses, subject to full reimbursement by Holdings. During the three months ended March 31, 1999, $0.6 million of Holdings' operating expenses was paid by the Company and $0.9 million was reimbursed by Holdings. At March 31, 1999 and December 31, 1998, amounts due to the Company from Holdings for operating expenses totaled $134,362 and $444,831, respectively.

The Company may provide credit support to Holdings to facilitate Holdings' financings from third-party lenders and/or hedging arrangements with counterparties. As part of this arrangement, Holdings is authorized as 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, Holdings pays the Company credit support fees on borrowings subject to this arrangement. At March 31, 1999, the Company was providing credit support on $72.3 million of Holdings' Short-Term Debt. Holdings owed the Company $7,911 for credit support fees on March 31, 1999. No such arrangements were outstanding at December 31, 1998.

NOTE 13. COMMITMENTS AND CONTINGENCIES

At March 31, 1999, the Company had entered into commitments to sell $7.5 million of residential Mortgage Loans for settlement in April 1999 and $2.9 million of commercial Mortgage Loans to RCF for settlement in June 1999.

At March 31, 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: 1999 - $233,646; 2000 - $311,528; 2001 - $122,625.

NOTE 14. SUBSEQUENT EVENTS

During April and May 1999, pursuant to its stock repurchase program (see Note 11), the Company repurchased 144,500 shares of the Company's Common Stock for $2.2 million.

In April 1999, the Company exercised its right to call the Long-Term Debt of Sequoia Mortgage Trust 1 ("Sequoia 1"), a series of debt issued by Sequoia. This Long-Term Debt was called on May 4, 1999. In conjunction with this call, the Company restructured and contributed the Sequoia 1 debt to Sequoia Mortgage Trust 1A ("Sequoia 1A"), a newly formed trust, and Sequoia 1A issued Long-Term Debt collateralized by Sequoia 1 debt.

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
<TABLE>
<CAPTION>

	March 31, 1999 (Unaudited)	December 31, 1998
<S>	<C>	<C>
ASSETS		
Mortgage loans: held-for sale		
Residential	$ 25,369	$ 12,247
Commercial	8,263	--
	33,632	12,247
Mortgage securities: trading	52,370	--
Cash and cash equivalents	10,620	9,711
Accrued interest receivable	194	78
Other assets	2,878	742
	$ 99,694	$ 22,778
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt	$ 72,313	$ --
Loan from Redwood Trust, Inc.	13,700	6,500
Payable to Redwood Trust, Inc.	142	445
Accrued expenses and other liabilities	772	557

	86,927	7,502
Commitments and contingencies (See Note 9)		
STOCKHOLDERS' EQUITY		
Series A preferred stock, par value $0.01 per share; 10,000 shares authorized; 3,960 issued and outstanding ($3,960 aggregate liquidation preference)	19,800	19,800
Common stock, par value $0.01 per share; 10,000 shares authorized; 2,000 issued and outstanding	--	--
Additional paid-in capital	200	200
Accumulated deficit	(7,233)	(4,724)
	12,767	15,276
	$ 99,694	$ 22,778

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except share data)
(Unaudited)

<TABLE>
<CAPTION>

<S>	Three Months Ended March 31, 1999 <C>
Income	
Interest Income - Mortgage loans: held-for-sale	
Residential	$ 53
Commercial	126
	179
Interest Income - Mortgage securities: trading	207
Interest Income - Cash and cash equivalents	108
Net unrealized and realized gains on assets	478
Other Income	57
	1,029
Interest Expense	
Short-term debt	107
Credit support fees	8
Loans from Redwood Trust, Inc.	159
	274
Total Income after Interest Expense	755
Operating Expenses	
Compensation and benefits	2,259
General and administrative	1,005
	3,264
Net Loss	$(2,509)

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

<TABLE>
<CAPTION>

Class B Preferred stock	Common stock	Additional	Accumulated other

	Shares	Amount	Shares	Amount	paid-in capital	comprehensive income	Accumulated deficit	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1998	3,960	19,800	2,000	$ --	$ 200	$ --	$(4,724)	$ 15,276
Comprehensive income:								
Net loss	--	--	--	--	--	--	(2,509)	(2,509)
Balance, March 31, 1999	3,960	$19,800	2,000	$--	$ 200	$--	$(7,233)	$ 12,767

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31, 1999
<S>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (2,509)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	103
Net unrealized and realized (gains) losses on assets	(478)
Purchases of mortgage loans: held for sale	(102,342)
Proceeds from sales of mortgage loans: held for sale	17,841
Principal payments on mortgage loans: held for sale	30
Proceeds from sales of mortgage securities: trading	10,502
Principal payments on mortgage securities: trading	518
Increase in accrued interest receivable	(115)
Increase in other assets	(2,065)
Decrease in amounts due to Redwood Trust	(303)
Increase in accrued expenses and other liabilities	215
Net cash used in operating activities	(78,603)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of short-term debt	89,305
Repayments on short-term debt	(16,992)
Loans from Redwood Trust, Inc.	13,700
Repayment of loans from Redwood Trust, Inc.	(6,500)
Net cash provided by financing activities	79,513
Net increase in cash and cash equivalents	909
Cash and cash equivalents at beginning of period	9,711
Cash and cash equivalents at end of period	$ 10,620
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Non-Cash Transaction:	
Securitization of Mortgage Loans into Mortgage Securities	$ 62,843

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1999
(UNAUDITED)

NOTE 1. THE COMPANY

RWT Holdings, Inc. ("Holdings") was incorporated in Delaware on February 13, 1998 and commenced operations on April 1, 1998. Holdings' first fiscal year-end was December 31, 1998. Holdings originates, acquires, accumulates, services and sells real estate mortgage assets ("Mortgage Assets") which may be acquired or sold as whole loans ("Mortgage Loans") or as mortgage securities representing interests in or obligations backed by pools of mortgage loans ("Mortgage Securities"). Redwood Trust, Inc. ("Redwood Trust") owns all of the preferred stock and has a non-voting, 99% economic interest in Holdings. Holdings has three subsidiaries which are included in the consolidated financial statements. Redwood Financial Services, Inc. ("RFS") acquires seasoned loan portfolios from banks and thrifts and sells this product to institutional mortgage investors. Redwood Residential Funding, Inc. ("RRF") acquires newly-closed residential loans from mortgage bankers and sells mortgage securities, loans and servicing to investors. Redwood Commercial Funding, Inc. ("RCF") originates small balance commercial mortgages and sells them to depository institutions. Holdings and its subsidiaries currently utilize both debt and equity to finance acquisitions. References to Holdings in the following footnotes refer to Holdings and its subsidiaries.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Holdings and its subsidiaries. All significant intercompany balances and transactions with Holdings' consolidated subsidiaries have been eliminated.

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 the 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. Management estimates the fair value of its financial instruments using available market information and other appropriate valuation methodologies. The fair value of a financial instrument, as defined by Statement of Financial Accounting Standards ("SFAS") No. 107, Disclosures about Fair Value of Financial Instruments, is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Management's estimates are inherently subjective in nature and involve matters of uncertainty and judgement to interpret relevant market and other data. Accordingly, amounts realized in actual sales may differ from the fair values presented in Note 6.

ADOPTION OF SFAS NO. 133

Holdings adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, effective July 1, 1998. Upon the adoption of SFAS No. 133, Holdings did not record a transition adjustment, as there were no outstanding derivative instruments. Immediately after the adoption of SFAS No. 133, Holdings elected to not seek hedge accounting for any of its Interest Rate Agreements.

MORTGAGE ASSETS

Holdings' Mortgage Assets consist of Mortgage Loans and Mortgage Securities. Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible.

Mortgage Loans: Held-for-Sale

Mortgage Loans are recorded at the lower of cost or aggregate market value. Cost generally consists of the loan principal balance net of any unamortized premium or discount. Interest income is accrued based on the outstanding principal amount of the Mortgage Loans and their contractual terms. Realized and unrealized gains or losses on the loans are based on the specific identification method and are recognized in "Net unrealized and realized gains on assets" on the Consolidated Statement of Operations.

Some of the Mortgage Loans purchased by Redwood Trust for which securitization or sale is contemplated are committed for sale by Redwood Trust to Holdings, or a subsidiary of Holdings, under a Master Forward Commitment Agreement. As the forward commitment is entered into on the same date that Redwood Trust purchases the loans, the price under the forward commitment is the same as the price Redwood Trust paid for the Mortgage Loans, as established by the external market.

Mortgage Securities: Trading

Mortgage Securities classified as trading are accounted for in accordance with

SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, such securities are recorded at their estimated fair market value. Unrealized and realized gains and losses on these securities are recognized as a component of "Net unrealized and realized gains on assets" on the Consolidated Statement of Operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less.

INTEREST RATE AGREEMENTS

Holdings maintains an overall interest-rate risk-management strategy that incorporates the use of derivative interest rate agreements to minimize significant unplanned fluctuations in earnings that are caused by interest-rate volatility. Holdings currently designates Interest Rate Agreements as trading instruments. There were no outstanding Interest Rate Agreements at March 31, 1999.

INCOME TAXES

Taxable earnings of Holdings are subject to state and federal income taxes at the applicable statutory rates. Holdings provides for deferred income taxes if any, to reflect the estimated future tax effects under the provisions of SFAS No. 109, Accounting for Income Taxes. Under this pronouncement, deferred income taxes, if any, reflect the estimated future tax effects of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations.

COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income, requires Holdings to classify items of "other comprehensive income" 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. As of March 31, 1999 there was no other comprehensive income.

RECENT ACCOUNTING PRONOUNCEMENT

In October 1998, the Financial Accounting Standards Board issued SFAS No. 134, Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. SFAS No. 134 amends SFAS No. 65, Accounting for Certain Mortgage Backed Securities, to require that after an entity that is engaged in mortgage banking activities has securitized mortgage loans that are held for sale, it must classify the resulting retained mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. Holdings adopted this pronouncement effective January 1, 1999. The adoption of SFAS No. 134 had no impact on Holdings' financial statements.

NOTE 3. MORTGAGE ASSETS

At March 31, 1999 and December 31, 1998 Mortgage Assets consisted of the following:

MORTGAGE LOANS: HELD-FOR-SALE

<TABLE>
<CAPTION>

(IN THOUSANDS)	MARCH 31, 1999	DECEMBER 31, 1998
<S>	<C>	<C>
Current Face	$33,500	$12,072
Unamortized Premium	132	175
Carrying Value	$33,632	$12,247

</TABLE>

At March 31, 1999 Holdings recognized a lower of cost or market loss adjustment of $60,408 on Mortgage Loans held-for-sale. This loss is reflected as a component of "Net unrealized and realized gains on assets" on the Consolidated Statement of Operations. Also, during the three months ended March 31, 1999, Holdings sold Mortgage Loans held-for-sale for proceeds of $17.8 million.

MORTGAGE SECURITIES: TRADING

<TABLE>
<CAPTION>

(IN THOUSANDS)	MARCH 31, 1999

	AGENCY
Current Face	$51,602
Unamortized Premium	768
Carrying Value	$52,370

For the three months ended March 31, 1999, Holdings recognized a mark-to-market gain of $544,490 on Mortgage Securities classified as trading. This gain is reflected as a component of "Net unrealized and realized gains on assets" on the Consolidated Statement of Operations. Also during the three months ended March 31, 1999, Holdings sold Mortgage Securities classified as trading for proceeds of $10.5 million.

NOTE 4. SHORT-TERM DEBT

During the period ended March 31, 1999, Holdings entered into reverse repurchase agreements ("Short-Term Debt") in order to finance acquisitions of a portion of its Mortgage Assets. The average balance of Short-Term Debt outstanding during the three months ended March 31, 1999 was $8.1 million with a weighted average borrowing rate of 5.25%. The maximum balance outstanding during the three months ended March 31, 1999 was $87.6 million.

Redwood Trust may provide credit support to Holdings to facilitate Holdings' financings from third-party lenders and/or hedging arrangements with counterparties. As part of this arrangement, Holdings is authorized as a co-borrower under some of Redwood Trust's Short-Term Debt agreements subject to Redwood Trust continuing to remain jointly and severally liable for repayment. Accordingly, Holdings pays Redwood Trust credit support fees, which are reflected in the accompanying Consolidated Statement of Operations, on borrowings subject to this arrangement. These fees are consistent with industry standards. At March 31, 1999, Redwood Trust was providing credit support on $72.3 million of Holdings' Short-Term Debt. Holdings owed Redwood Trust $7,911 for credit support fees on March 31, 1999. No such arrangements were outstanding at December 31, 1998.

NOTE 5. INCOME TAXES

The provision for income taxes for the period from January 1, 1999 through March 31, 1999 amounted to $3,200 and represents minimum California franchise taxes. No tax provision has been recorded for the first quarter ended March 31, 1999, as Holdings reported a loss for the period. Due to the uncertainty of realization of net operating losses, no tax benefit has been provided against the loss for the period. In addition, a valuation allowance has been provided to eliminate the deferred tax asset related to net operating loss carryforwards at March 31, 1999 and December 31, 1998. At March 31, 1999 and December 31, 1998 the valuation allowance amounted to $2.9 million and $1.9 million, respectively. At December 31, 1998, Holdings had net operating loss carryforwards of approximately $4.7 million for both federal and state income tax purposes. The federal and state carryforwards expire through 2013 and 2003, respectively.

NOTE 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying values and estimated fair values of Holdings' financial instruments at March 31, 1999 and December 31, 1998.

(IN THOUSANDS)	MARCH 31, 1999		DECEMBER 31, 1998	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Mortgage Loans: held-for-sale	$33,632	$33,841	$12,247	$12,255
Mortgage Securities: trading	$52,370	$52,370	--	--

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 7. STOCKHOLDERS' EQUITY

The authorized capital stock of Holdings consists of Series A Preferred Stock ("Preferred Stock") and Common Stock. Holdings is authorized to issue 10,000 shares of Common Stock, each having a par value of $0.01, and 10,000 shares of

Preferred Stock, each having a par value of $0.01. All voting power is vested in the common stock.

Holdings issued a total of 3,960 shares of Preferred Stock to Redwood Trust; 1,980 shares on April 1, 1998 and 1,980 shares on October 29, 1998. The Preferred Stock entitles Redwood Trust to receive 99% of the aggregate amount of any such dividends or distributions made by Holdings. The holders of the Common Stock are entitled to receive the remaining 1% of the aggregate amount of such dividends or distributions. The Preferred Stock ranks senior to the Common Stock as to the payment of dividends and liquidation rights. The liquidation preference entitles the holders of the Preferred Stock to receive $1,000 per share liquidation preference before any distribution is made on the Common Stock. After the liquidation preference, the holders of Preferred Stock are entitled to 99% of any remaining assets.

NOTE 8. RELATED PARTY TRANSACTIONS

PURCHASE OF MORTGAGE LOANS

During the first quarter of 1999, RCF purchased $8.3 million of commercial mortgages from Redwood Trust. Pursuant to the Master Forward Commitment Agreement, RCF purchased the Mortgage Loans from Redwood Trust at the same price for which Redwood Trust acquired the Mortgage Loans. Similarly, Redwood Trust purchased $2.9 million of commercial mortgage loans during the three months ended March 31, 1999 and, under

the terms of the Master Forward Commitment Agreement, committed to sell the Mortgage Loans to RCF at the same price at which they were acquired during the second quarter of 1999.

OTHER

Under a revolving credit facility arrangement, Redwood Trust may loan funds to Holdings to finance certain Mortgage Assets owned by Holdings. These loans are typically unsecured and are repaid within six months. Such loans bear interest at a rate of 3.5% over the London Interbank Offered Rate ("LIBOR"). At March 31, 1999 and December 31, 1998, Holdings had borrowed $13.7 million and $6.5 million, respectively, from Redwood in accordance with the provisions of this arrangement.

Redwood Trust shares many of the operating expenses of Holdings, including personnel and related expenses, subject to full reimbursement by Holdings. During the three months ended March 31, 1999, $0.6 million of Holdings' operating expenses was paid by Redwood Trust and $0.9 million was reimbursed by Holdings. At March 31, 1999 and December 31, 1998, amounts due to Redwood Trust from Holdings for operating expenses totaled $134,362 and $444,831, respectively.

Holdings may borrow under several of the Company's Short-Term Debt agreements as a co-borrower. As of March 31, 1999, Holdings had borrowings of $72.3 million subject to this arrangement. At December 31, 1998, Holdings had no outstanding borrowings under these agreements (see Note 4).

NOTE 9. COMMITMENTS AND CONTINGENCIES

At March 31, 1999, Holdings is obligated under non-cancelable operating leases with expiration dates through 2003. The future minimum lease payments under these non-cancelable leases are as follows: 1999 - $387,831; 2000 - $504,577; 2001 - $460,120; 2002 - $290,376; 2003 - $266,178.

Rent expense was $205,429 for the three months ended March 31, 1999.

At March 31, 1999, RCF had entered into a commitment to purchase $2.9 million of commercial Mortgage Loans from Redwood Trust for settlement during the second quarter of 1999.

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., or "Redwood Trust", and our 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, we refer you to "Risk Factors" commencing on Page 16 of our 1998 Annual Report.

COMPANY OVERVIEW

We, together with our affiliated companies, operate a mortgage finance business providing funding to diverse segments of the U.S. mortgage market. We originate, acquire, process, aggregate, and credit-enhance high-quality residential and commercial mortgage loans and sell this product to institutional mortgage investors as tailored loan portfolios, mortgage securities, and mortgage-backed bonds. In addition, we invest in mortgage assets on a long-term basis for our own account.

A portion of the operations in which we have an interest are sheltered from corporate-level income taxes, as Redwood Trust (but not its affiliates) qualifies for tax treatment under the Internal Revenue Code as a Real Estate Investment Trust ("REIT"). The remainder of the operations in which we have an interest are subject to regular corporate taxation. Taxable non-REIT operations are conducted at Redwood Trust's 99%-owned affiliate corporation - RWT Holdings, Inc., or "Holdings" - and its subsidiaries.

In the first quarter of 1999, Redwood Trust (including both REIT and non-REIT operations) earned $5.9 million, or $0.54 per common share. Relative to the first quarter of 1998, net income increased by 139%, from $2.5 million, and earnings per share increased by 218%, from $0.17 per share. Relative to the fourth quarter of 1998, net income increased by 1.1%, from $5.8 million, and earnings per share increased by 5.9%, from $0.51 per share.

For more information, please visit our Web site on the Internet at: http://www.redwoodtrust.com. In the past, Redwood Trust has included extensive supplemental historical data on its operations in its Form 10-Q and 10-K filings. In the future, this information will be available on our Web site.

FINANCIAL CONDITION

At March 31, 1999, our reported balance sheet had $2.5 billion of assets funded with $2.2 billion of borrowings and $244 million of equity.

Included on the reported balance sheet at March 31, 1999 were $1.2 billion of assets and $1.2 billion of debt of three "Sequoia" trusts.

The Sequoia trusts are "bankruptcy-remote" with respect to Redwood Trust. Although the net earnings of the trusts accrue to Redwood Trust, Redwood Trust is not responsible for the repayment of Sequoia debt and Sequoia has no call on the liquidity of Redwood Trust. Our credit risk with respect to Sequoia's mortgage assets is limited to our investment in the equity of these trusts. At March 31, 1999, these equity investments had a reported basis of $40 million. The individual assets and liabilities of Sequoia had a net estimated market value of $38 million.

Subtracting out those Sequoia assets and liabilities that are non-recourse to Redwood Trust, our recourse balance sheet at March 31, 1999 consisted of $1.3 billion of assets, including our $40 million investment in Sequoia

equity, funded with $1.0 billion of borrowings and $244 million of equity. The ratio of equity to recourse assets was 19.0%. The ratio of recourse liabilities to equity was 4.2 to 1.0.

At December 31, 1998, we reported $2.8 billion in assets, of which $1.5 billion were recourse, and $2.6 billion of liabilities, of which $1.3 billion were recourse. Equity capital was $255 million. The ratio of equity to recourse assets was 16.7% and the ratio of recourse liabilities to equity was 4.9 to 1.0.

CASH

We had $41 million of unrestricted cash at March 31, 1999 and $56 million at year-end 1998.

Sequoia owned cash totaling $11 million at March 31, 1999 and $13 million at year-end 1998. In consolidating Sequoia assets on our balance sheet, we reflect this cash as restricted cash as it is not available to us.

U.S. TREASURY SECURITIES

Our ten-year U.S. Treasury securities are marked-to-market for income statement and balance sheet purposes. The market value was $33 million at March 31, 1999 and $48 million at December 31, 1998. The lower balance reflects a $13 million net sale of Treasury securities in the first quarter of 1999.

MORTGAGE SECURITIES: MARK-TO-MARKET

With the exception of our interest in SMFC 97-A, our mortgage securities portfolio is marked-to-market for income statement and balance sheet purposes. For the mark-to-market securities, the estimated bid-side market value was $1.1 billion at March 31, 1999: these appear on our balance sheet as "Mortgage Securities: Trading." We owned $1.3 billion in market value of these securities

at December 31, 1998. For a discussion of our interest in SMFC 97-A, we refer you to the section titled "SMFC 97-A" below.

At March 31, 1999, 48.9% of our mark-to-market residential mortgage securities portfolio consisted of residential adjustable-rate mortgage securities issued and credit-enhanced by Fannie Mae or Freddie Mac and effectively rated "AAA". These securities totaled $0.5 billion at March 31, 1999 and $0.6 billion at December 31, 1998.

At March 31, 1999, 41.0% of this residential mortgage securities portfolio consisted of residential adjustable-rate mortgage securities issued by private-label security issuers. These securities were credit-enhanced through subordination or other means and were rated "AAA" or "AA". The value of these securities was $0.4 billion at March 31, 1999 and $0.6 billion at December 31, 1998.

At March 31, 1999, 6.2% of this residential mortgage securities portfolio consisted of mortgage securities rated "AAA" or "AA" which were backed by home equity loans, or "HEL". The value of these securities was $68 million at March 31, 1999; floating-rate HEL securities were $66 million and fixed-rate HEL securities were $2 million. The value of these securities was $71 million at December 31, 1998; floating-rate HEL securities were $68 million and fixed-rate HEL securities were $3 million.

At March 31, 1999, 1.7% of this residential mortgage securities portfolio consisted of fixed-rate, private label collateralized mortgage obligations, commonly referred to as CMO's, rated "AAA" or "AA" with average lives of 1 to 2 years. The value of these securities was $18 million at March 31, 1999 and $19 million at December 31, 1998.

At March 31, 1999, 1.2% of this residential mortgage securities portfolio consisted of fixed-rate private label mortgage securities rated "AA" and backed by residential mortgage loans with loan-to-value ratios in excess of 100%. The value of these securities was $13 million at March 31, 1999 and $12 million at December 31, 1998.

At March 31, 1999, 1.0% of this residential mortgage securities portfolio consisted of floating-rate CMO's issued by Fannie Mae or Freddie Mac and effectively rated "AAA". These securities totaled $11 million at March 31, 1999 and $17 million at December 31, 1998.

At March 31, 1999, 0.03% of this residential mortgage securities portfolio consisted of interest-only mortgage securities rated "AAA" or "AA". The value of these securities was $0.3 million at March 31, 1999 and $0.4 million at December 31, 1998.

SMFC 97-A

In 1994 and 1995, we acquired a portfolio of subordinated mortgage securities. These securities were interests in pools of residential mortgages that served as the credit-enhancement for the "AAA" and other securities issued from those pools. Through ownership of these securities, we assumed most of the credit risk of the underlying mortgages. These securities were either not rated or were rated "A" through "B". We sold these subordinated securities to a trust, SMFC 97-A, in December 1997. SMFC 97-A issued mortgage securities to fund its acquisition of this portfolio.

We acquired from SMFC 97-A the most subordinated of the mortgage interests it issued. In effect, we acquired the equity of SMFC 97-A. At March 31, 1999, these securities effectively bore most of the credit risk related to $0.5 billion of underlying mortgages. Changes in market valuations of SMFC 97-A are not included in our income statement as these assets are funded with equity. The reported value of SMFC 97-A was $8 million at March 31, 1999 and $8 million at December 31, 1998. Our credit risk from SMFC 97-A is limited to our investment.

REDWOOD TRUST COMMERCIAL MORTGAGE LOANS

At March 31, 1999, we owned $3 million of commercial mortgage loans originated by Redwood Commercial Funding, Inc. and carried on our balance sheet as "Mortgage Loans: Held for Sale: Commercial". At March 31, 1999, we had committed to sell these loans to Holdings. At December 31, 1998, we owned $8 million of commercial mortgage loans.

REDWOOD TRUST RESIDENTIAL MORTGAGE LOANS

We owned $28 million residential mortgage loans at March 31, 1999 and $68 million at December 31, 1998. These were carried on our balance sheet at the lower-of-cost-or-market as "Mortgage Loans: Held for Sale: Residential".

SEQUOIA MORTGAGE TRUST 1 RESIDENTIAL MORTGAGE LOANS

Sequoia Mortgage Trust 1, "Sequoia 1", owned $171 million in principal value of residential mortgage loans and $11 million of cash at March 31, 1999 funded with

$175 million of collateralized mortgage bonds. We consolidated the assets and liabilities of Sequoia 1 on our balance sheet. These appeared on our balance sheet as part of "Mortgage Loans: Held for Sale," "Restricted Cash," and "Long-term Debt."

Our credit risk with respect to these loans is limited to our investment in the equity of Sequoia 1. The reported basis of this investment was $7 million at March 31, 1999. The net market value of Sequoia 1's individual assets over liabilities was also $7 million. As the equity owner of Sequoia 1, we are entitled to distributions of the net earnings of the trust, which principally consists of the interest income earned from Sequoia 1 mortgages less the interest expense on Sequoia 1 debt.

At December 31, 1998, the principal value of Sequoia 1's loans on our balance sheet totaled $197 million and was included as part of "Mortgage Loans: Held for Sale." We also reported $13 million of cash owned by Sequoia 1 as "Restricted Cash". Total Sequoia 1 debt was $202 million. We formed Sequoia 1 in June 1997. At that time, we sold $543 million of principal value of our loan portfolio to Sequoia and Sequoia issued $534 million of long-term amortizing mortgage-backed debt rated "AAA" to fund the purchase.

In May 1999, we effectively reduced the cost of our long-term financing arrangement for Sequoia 1's mortgage loans by exercising our right to call Sequoia 1's debt. We restructured Sequoia 1 debt and contributed the debt to Sequoia Mortgage Trust 1A ("Sequoia 1A"), a newly formed trust. Sequoia 1A issued lower-cost long-term debt collateralized by Sequoia 1 debt.

SEQUOIA MORTGAGE TRUST 2 RESIDENTIAL MORTGAGE LOANS

Sequoia Mortgage Trust 2, "Sequoia 2", owned $527 million of principal value of residential mortgage loans at March 31, 1999 funded with $521 million of collateralized mortgage bonds. We consolidated the assets and liabilities of Sequoia 2 on our balance sheet: these appeared on our balance sheet as part of "Mortgage Loans: Held for Investment" and "Long-term Debt." As the equity owner of Sequoia 2, we are entitled to receive distributions of its net income.

Our credit risk with respect to these loans is limited to our investment in the equity of Sequoia 2. The reported basis of this equity interest was $21 million; the estimated net market value of Sequoia 2's assets over its liabilities was $18 million.

We will have the right to call Sequoia 2's debt and re-acquire Sequoia 2's loans when the underlying mortgage loans collateral has been paid down to less than 25% of its initial balance. It most likely will be several years before we gain this right.

At December 31, 1998, Sequoia 2's loans, as reflected on our balance sheet, totaled $579 million and were included as part of "Mortgage Loans: Held for Investment". Total Sequoia 2 debt was $571 million. We formed Sequoia 2 in November 1997. At that time, we sold $757 million of principal value of our loan portfolio to Sequoia and Sequoia issued $749 million of long-term amortizing mortgage-backed debt rated "AAA" to fund the purchase.

SEQUOIA MORTGAGE TRUST 3 RESIDENTIAL MORTGAGE LOANS

Sequoia Mortgage Trust 3, "Sequoia 3", owned $484 million of principal value of residential mortgage loans at March 31, 1999 funded with $474 million of long-term debt. We consolidated the assets and liabilities of Sequoia 3 on our balance sheet: these appeared on our balance sheet as a component of "Mortgage Loans: Held for Investment" and "Long-term Debt." We own the equity of Sequoia 3 and are entitled to its earnings distributions.

Our credit risk with respect to these loans is limited to our investment in the equity of Sequoia 3. This investment had a reported basis of $12 million. The estimated net market value of Sequoia 3's assets and liabilities was $13 million.

We will have the right to call Sequoia 3's debt and re-acquire Sequoia 3's loans beginning in December 2002.

At December 31, 1998, Sequoia 3's loans, as reflected on our balance sheet, totaled $540 million and were included as part of "Mortgage Loans: Held for Investment". Total Sequoia 3 debt was $530 million. We formed Sequoia 3 in June 1998. At that time, Sequoia acquired $645 million of principal value from Redwood Trust and Holdings and Sequoia issued $635 million of long-term amortizing debt rated "AAA" to "BBB" to fund the purchase.

INTEREST RATE AGREEMENTS

Our interest rate agreements are carried on our balance sheet at estimated market value, which was $1.6 million at March 31, 1999 and $2.5 million at December 31, 1998. Please see "Note 2. Summary of Significant Accounting Policies", "Note 7. Interest Rate Agreements" and "Note 11. Fair Value of

Financial Instruments" in the Notes to Consolidated Financial Statements for more information.

INVESTMENT IN RWT HOLDINGS, INC.

We do not consolidate the assets and liabilities of Holdings on our balance sheet. We reflect the net book value of our individual investment in one line item on our balance sheet labeled "Investment in RWT Holdings, Inc.".

In 1998, we invested $19.8 million in the preferred stock of Holdings; our share of the operating losses at Holdings has reduced the carrying value of this investment. The carrying value was $12.6 million at March 31, 1999 and $15.1 million at December 31, 1998.

At March 31, 1999, our assets also included a loan to Holdings of $13.7 million and a receivable from Holdings of $0.1 million. At December 31, 1998, loans to Holdings totaled $6.5 million and receivables from Holdings were $0.4 million.

OTHER ASSETS

Our other assets include accrued interest receivables, other receivables, fixed assets, leasehold improvements and prepaid expenses. These totaled $18 million at March 31, 1999 and $21 million at December 31, 1999.

SHORT-TERM DEBT

Short-term borrowings totaled $1.0 billion at March 31, 1999. We pledged a portion of our mortgage securities portfolio, mortgage loan portfolio, and U.S. Treasury securities to secure this debt. Short-term debt totaled $1.3 billion at December 31, 1998. Maturities on this debt typically range from one month to one year. The interest rate on most of this debt adjusts monthly to a spread over or under the one month LIBOR interest rate.

LONG-TERM DEBT

At March 31, 1999, Sequoia 1 had $175 million, Sequoia 2 had $522 million, and Sequoia 3 had $474 million of long-term mortgage-backed debt outstanding, net of unamortized premiums on bonds and deferred bond issuance costs. Sequoia 1 and Sequoia 2 debt is floating rate debt. Sequoia 3 debt is fixed until December 2002 after which it becomes floating rate debt.

At December 31, 1998, Sequoia 1 had $202 million, Sequoia 2 had $574 million, and Sequoia 3 had $530 million of long-term mortgage-backed debt outstanding net of unamortized premiums on bonds and deferred bond issuance costs.

Sequoia debt is non-recourse to Redwood Trust. The debt is consolidated on our balance sheet and is reflected as long-term debt, which is carried at historical amortized cost. The original scheduled maturity of this debt was approximately thirty years. The expected average life of this debt is two to six years, as debt balances are retired over time as principal payments are received on the underlying mortgages.

OTHER LIABILITIES

Our other liabilities include accrued interest payable, accrued expenses, and dividends payable. The net balance of these accounts totaled $8 million at March 31, 1999 and $15 at December 31, 1998.

STOCKHOLDERS' EQUITY

Total equity capital was $244 million at March 31, 1999. Preferred stock equity was $27 million. Reported common equity totaled $217 million, or $21.35 per common share outstanding.

In reporting equity at March 31, 1999, we marked-to-market all earning assets and interest rate agreements except mortgage assets funded with equity (SMFC 97-A) or funded with borrowings to maturity (Sequoia 2 and Sequoia 3). In accordance with Generally Accepted Accounting Principles, no liabilities were marked-to-market.

If we had marked-to-market all of our assets and liabilities, equity capital would have been reported as $242 million at March 31, 1999. After subtracting out the preference value of the preferred stock, common equity on a full mark-to-market basis was $214 million and the net mark-to-market value per common share was $21.02.

Reported equity capital was $255 million at December 31, 1998. Reported common equity was $228 million, or $20.27 per common share outstanding. Mark-to-market common equity was $220 million, or $19.53 per common share.

Real shareholder wealth increased from $19.53 to $21.02 per share, an increase of 8% or $1.49 per share, during the first quarter of 1999 due to net asset appreciation, retained earnings, and the effects of our stock repurchase

program.

We acquired 1,077,600 shares of our common stock in the first quarter of 1999 at an average price of $14.88 per share. In the second quarter of 1999 through April 19, we had acquired an additional 144,500 shares at an average price of $15.40 per share.

RESULTS OF OPERATIONS

Our operating results include all of the reported income of Redwood Trust's REIT operations plus 99% of the after-tax results of operations at Holdings.

Net operating revenue from the REIT portfolio includes net interest income, net asset appreciation as discussed in "REIT Net Unrealized and Realized Gains and Losses on Assets", and credit expenses as discussed in "REIT Credit-Related Expenses." Our REIT net income is net REIT operating income less REIT operating expenses. Holdings' operating results, our share of which is also included in our reported net income, are discussed in a separate section below.

REIT INTEREST INCOME

In the first quarter of 1999, interest income generated by our REIT portfolio, including consolidated Sequoia assets, was $42 million. Our REIT portfolio had average earning assets of $2.6 billion and earned an average yield of 6.55%. During this quarter, the average coupon rate, or the cash earning rate on mortgage principal, was 6.99%. The reported value of assets included a 0.71% net premium, or $16 million. We write off this premium balance as an expense over time. Net premium amortization expense for the quarter was $2.3 million, which reduced earning asset yield by 0.37%. Prepayments on mortgage assets, which drives the rate at which we write off premium balances, were 33% CPR during the quarter. Other factors reduced the earning asset yield by 0.07%. At the end of the first quarter of 1999, earning assets were $2.4 billion.

In the fourth quarter of 1998, interest income was $54 million. Our portfolio had average earning assets of $3.1 billion and earned an average yield of 6.87%. The coupon rate was 7.17%. The reported value of assets included a 0.63% net premium, or $13 million. Net premium amortization expense was $1.7 million, which reduced earning asset yield by 0.23%. Prepayments during the quarter were 32% CPR. Other factors reduced the earning asset yield by 0.07%. At the end of the fourth quarter of 1998, earning assets were $2.8 billion.

Interest income declined from the fourth quarter of 1998 to the first quarter of 1999 as we continued reducing our earning asset balances in order to free capital to fund anticipated growth in the start-up operations at Holdings. Earning asset yields declined as interest rates fell and coupons on adjustable-rate assets reset at lower rates. An increase in prepayment rates and an increase in premium balances due to asset appreciation increased premium amortization expenses and contributed to the lower yield.

In the first quarter of 1998, interest income was $54 million. The portfolio had average earning assets of $3.3 billion and earned an average yield of 6.49%. The coupon rate was 7.65%. The reported value of assets included a 2.21% net premium, or $71 million. Net premium amortization expense was $8.2 million, which reduced earning asset yield by 0.99%. Prepayments during the quarter were 26% CPR. Other factors reduced the earning asset yield by 0.17%. At the end of the first quarter of 1998, earning assets were $3.7 billion.

REIT INTEREST EXPENSE

Interest expense in the first quarter of 1999 was $33 million. We funded our REIT portfolio with an average of $250 million of equity and $2.4 billion of borrowings, including consolidated Sequoia debt. We paid an average cost of funds of 5.59% for these borrowings. Short-term debt averaged 48% of total debt and cost us 5.12%. Long-term debt averaged 52% of total debt and cost us 6.03%.

In the fourth quarter of 1998, interest expense was $44 million. We funded our REIT portfolio with an average of $253 million of equity and $3.0 billion of borrowings. We paid an average cost of funds of 5.89% for these borrowings. Short-term debt averaged 53% of total debt and cost us 5.59%. Long-term debt averaged 47% of total debt and cost us 6.23%.

In the first quarter of 1998, interest expense was $46 million. We funded our REIT portfolio with an average of $330 million of equity and $3.1 billion of borrowings. We paid an average cost of funds of 6.01% for these borrowings. Short-term debt averaged 63% of total debt and cost us 5.77%. Long-term debt averaged 37% of total debt and cost us 6.44%.

During the last year, our borrowing costs have fallen due to decreases in short-term interest rates. Our borrowing costs have not fallen as much as they otherwise would have as we have been utilizing an increasing percentage of more expensive long-term debt.

REIT INTEREST RATE AGREEMENT EXPENSE

We hedge using interest rate agreements in order to strengthen our balance sheet, increase liquidity, and dampen potential earnings volatility. Hedging expenses include interest rate agreement expenses as well as changes in the market values of interest rate agreements. We refer you to "REIT Net Unrealized and Realized Gains and Losses on Assets" below for more information on changes in the market value of interest rate agreements.

Net interest rate agreements expense was $0.3 million in the first quarter of 1999, or 0.06% of average borrowings. In the fourth quarter of 1998, interest rate agreement expense was $0.3 million or 0.04% of average borrowings. In the first quarter of 1998, interest rate agreement expense was $1.4 million or 0.18% of average borrowings.

In adopting mark-to-market accounting for our interest rate agreements in the third quarter of 1998 through the early adoption of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, we wrote down our basis in our interest rate agreements. This market value adjustment had the effect of reducing interest rate agreement amortization expense on an on-going basis. Total interest rate agreement expense has also fallen as the size of our balance sheet decreased.

We refer you to "Note 7. Interest Rate Agreements" in the Notes to Consolidated Financial Statements for additional details.

REIT NET INTEREST INCOME

Net interest income, which equals interest income less interest expense less interest rate agreements expense, was $8 million in the first quarter of 1999. Our interest rate spread, which equals the yield on earning assets less the cost of funds and hedging, was 0.90%. Our net interest margin, which equals net interest income divided by average assets, was 1.19% during this period.

In the fourth quarter of 1998, net interest income was $10 million, the interest rate spread was 0.94%, and the net interest margin was 1.19%. Net interest income was lower in the first quarter of 1999 than in the fourth quarter of 1998 due to a lower average balance during the later period.

In the first quarter of 1998, net interest income was $6 million, the interest rate spread was 0.30%, and the net interest margin was 0.75%. Our spread and margin increased in the later part of 1998 in spite of accelerated prepayment rates primarily due to changes in accounting methodologies, which lowered amortization expense and thereby increased asset yields. Also, a reduction in interest rates lowered our cost of funds faster than coupon rates on our assets decreased. This reduction in short-term interest rates boosted our spreads and margins temporarily.

REIT CREDIT-RELATED EXPENSES

Credit-related expenses include credit provisions for loans and securities that are not marked-to-market and credit-related valuation adjustments for assets that are accounted for on a lower-of-cost-or-market basis. The credit-related valuation adjustments are included in "Net unrealized and realized gains or losses on assets" on our income statement.

In the first quarter of 1999, total credit-related expenses were $1.0 million, including $0.3 million of credit provisions and $0.7 million of credit-related mark-to-market adjustments. Total credit-related reserves were $7.1

million at March 31, 1999, including $5.2 million of credit reserves and $1.9 million of credit-related mark-to-market reserve. Actual realized credit losses in the first quarter of 1999 totaled $0.1 million. These losses were incurred on the mortgage securities underlying SMFC 97-A. There were no credit losses on mortgage loans in this period.

In the fourth quarter of 1998, total reported credit-related expenses netted to zero as we took credit provisions of $0.4 million offset by $0.4 million of positive, credit-related, mark-to-market adjustments. Total credit-related reserves were $6.1 million at December 31, 1998, including $4.9 million of credit reserves and $1.2 million of credit-related mark-to-market reserves. Total actual realized credit losses in the fourth quarter of 1998 were $0.02 million, all of which were related to SMFC 97-A securities.

In the first quarter of 1998, total credit-related expenses were $0.6 million. All of these expenses were credit provisions, as we had not yet adopted mark-to-market accounting. Total credit-related reserves were $5.5 million at March 31, 1998. Total actual realized credit losses in the first quarter of 1998 were $0.05 million, including $0.01 million in losses on loans and $0.04 million in losses on SMFC 97-A securities.

Our overall credit results have been excellent through March 31, 1999. Serious

delinquencies have remained below 0.50% of loans and loan loss severities have averaged less than 10%.

We have generally taken credit provisions at an annual rate of 0.15% for most residential loans held for investment, have written down the basis of delinquent lower-of-cost-or-market loans to estimated bid-side market value, and have established a credit reserve for our interests in SMFC 97-A to cover estimated future losses from that source.

REIT NET UNREALIZED AND REALIZED GAINS AND LOSSES ON ASSETS

In the first quarter of 1999, the net gain on asset market valuations was $2.2 million. This net gain consisted of $3.7 million of market value gains on portfolio earning assets, $0.7 million credit-related mark-to-market expenses, and $0.8 million market value losses on interest rate agreements. Market values for our mortgage portfolio improved in the first quarter of 1999 as the global financial markets stabilized.

In the fourth quarter of 1998, total net asset appreciation income was $2.0 million. This included a $1.1 million gain on mortgage assets, a $0.4 million mark-to-market gain in the credit-related reserve, and $0.5 million market value gains on interest rate agreements.

In the first quarter of 1998, we had not yet adopted mark-to-market accounting. As a result, most of the unrealized market value gains and losses incurred during that quarter were not recognized in earnings. We sold $9 million of mortgage securities for a $6,000 realized gain. We also wrote down all of our interest-only mortgage securities by $0.7 million to their estimated market value.

REIT NET OPERATING REVENUE

REIT net operating revenue is earnings before operating expenses. It is total asset earnings less the all-in costs of borrowing and hedging. For the first quarter of 1999, REIT net operating revenue was $9.8 million.

Gross asset earnings in the first quarter of 1999 were $44.4 million, reflecting interest income of $41.7 million less credit-related expenses of $1.0 million plus positive mark-to-market adjustments on mortgage assets of $3.7 million. Interest expenses on borrowing were $33.5 million. Hedging expenses were $1.1 million, reflecting $0.3 million interest rate agreement expense plus $0.8 million mark-to-market adjustments on interest rate agreements.

For the fourth quarter of 1998, REIT net operating revenue was $11.3 million. For the first quarter of 1998, REIT net operating revenue was $5.1 million.

The analysis of quarter to quarter changes in net operating revenue is discussed above.

REIT OPERATING EXPENSES

Total operating expenses for the REIT for the first quarter of 1999 were $0.7 million. Total operating expenses for the fourth quarter of 1998 were $2.3 million. Total operating expenses for the first quarter of 1998 were $1.9 million.

Total operating expenses in the fourth quarter of 1998 included one-time termination expenses of $1.2 million. On-going expenses in that period totaled $1.1 million.

On-going operating expenses as a percentage of assets were 0.11% in the first quarter of 1999, 0.14% in the fourth quarter of 1998, and 0.22% in the first quarter of 1998. Operating expenses as a percentage of equity were 1.14%in the first quarter of 1999, 1.75% in the fourth quarter of 1998, and 2.24% in the first quarter of 1998.

On-going operating expenses at the REIT have generally declined after the first quarter of 1998 as the Company continues to transfer certain mortgage operations to its affiliates.

NET REIT EARNINGS

Net REIT earnings, which equals net REIT operating revenue less REIT operating expenses, were $9.0 million in the first quarter of 1999. In the fourth quarter of 1998, net REIT earnings were $9.0 million. In the first quarter of 1998, net REIT earnings were $3.1 million.

INCOME FROM THE INVESTMENT IN RWT HOLDINGS, INC.

Our share of the losses generated by start-up operations at Holdings, our non-REIT mortgage finance affiliate, was $2.5 million in the first quarter of 1999. We recognized losses from Holdings of $2.5 million in the fourth quarter of 1998. Holdings had no impact on first quarter 1998 earnings as Holdings had

only recently commenced operations.

We refer you to Holdings' "Consolidated Financial Statements and Notes", and Holdings' "Management's Discussion and Analysis" below for more information on Holdings.

NET INCOME

Net income for all of our operations was $6.6 million in the first quarter of 1999. After preferred dividends of $0.7 million, net income available to common stockholders was $5.9 million.

Our net income was $6.5 million in the fourth quarter of 1998. After preferred dividends of $0.7 million, net income available to common stockholders was $5.8 million.

Our net income was $3.1 million in the first quarter of 1998. After preferred dividends of $0.7 million, net income available to common stockholders was $2.5 million.

EARNINGS PER SHARE

Average diluted common shares outstanding were 10.9 million in the first quarter of 1999 compared to 11.4 million in the fourth quarter of 1998 and 14.2 million in the first quarter of 1998. Diluted earnings per share were $0.54 in the first quarter of 1999, $0.51 in the fourth quarter of 1998, and $0.17 in the first quarter of 1998.

Shares outstanding declined as a result of our common stock repurchase program.

DIVIDENDS

We paid no common stock dividends for the first quarter of 1999 and the fourth quarter of 1998. We paid a first quarter 1998 common stock dividend of $0.27 per share.

Under the minimum REIT dividend distribution rules, we were not required to declare a common stock dividend in the fourth quarter of 1998 or the first quarter of 1999. While we had more than ample liquidity and balance sheet strength to pay a dividend in those quarters, we chose to retain our capital for use in our operations and our common stock repurchase program.

RISK MANAGEMENT

MARKET VALUE RISK

The market value of our assets can fluctuate due to changes in interest rates, prepayment rates, liquidity, financing, supply and demand, credit and other factors. These fluctuations affect our earnings.

At March 31, 1999, we, including Sequoia, owned mortgage securities and loans totaling $1.3 billion that we account for on a mark-to-market basis or, in the case of mortgage loans, on a lower-of-cost-or-market basis. Of these assets, 87% had adjustable-rate coupons and 13% were hybrid mortgage assets with initial fixed-rate coupons.

Our interest rate agreements hedging program may offset some asset market value fluctuations due to interest rate changes. All of our $4 billion in notional amounts of interest rate agreements are marked-to-market for income statement purposes.

INTEREST RATE RISK

At March 31, 1999, we, including Sequoia, owned $2.4 billion adjustable-rate assets and had $2.2 billion adjustable-rate liabilities.

Hybrid mortgage assets, with fixed-rate coupons for 3 to 7 years and adjustable-rate coupons thereafter, totaled $512 million. Debt that had interest rate reset characteristics matched to these hybrid mortgages totaled $474 million.

Fixed-rate assets, including U.S. Treasuries, were $68 million; there were no fixed-rate liabilities.

We owned interest rate agreements with a notional face of $4 billion.

On average, our cost of funds had the ability to rise or fall more quickly as a result of changes in short-term interest rates than did the earning rate on the assets. The risk of reduced earnings in a rising interest rate environment is mitigated to some extent by our interest rate agreements hedging program.

At March 31, 1999, we owned $2.4 billion of adjustable-rate mortgages with interest rates that adjust every one, six or twelve months off of interest rates

of the same maturity. A majority of our debt has an interest expense that adjusts monthly off of one-month interest rates. As a result, our net income may vary somewhat as the yield curve between one-month interest rates and six and twelve-month interest rates varies.

Adjustable-rate assets with earnings rates dependent on U.S. Treasury rates totaled $0.7 billion at March 31, 1999. Liabilities with a cost of funds dependent on U.S. Treasury rates totaled $0.4 billion at that time. As part of our hedging program, we also had $0.3 billion notional amount of basis swaps that, in effect, increased the Company's U.S. Treasury-based liabilities to $0.7 billion. At March 31, 1999, we had little earnings risk with respect to the risk of U.S. Treasury rates deviating from LIBOR market rates.

Changes in interest rates affect prepayment rates (see below) and influence other factors that may have an effect on our results.

LIQUIDITY RISK

Our primary liquidity risk arises from financing long-term mortgage assets with short-term debt. Even if the interest rate adjustments of these assets and liabilities are well matched, maturities may not be matched.

The assets that we pledge to secure short-term borrowings are high-quality, liquid assets. As a result, we have not had difficulty refinancing our short-term debt as it matures, even during the financial market liquidity crisis of the fourth quarter of 1998. Still, changes in the market values of our assets, in the perceived credit worthiness of the Company, and in the capital markets, can impact our access to liquidity. We cannot give assurances that we will always be able to refinance our short-term debt.

At March 31, 1999, we had $105 million of highly liquid assets which were unpledged and available to meet margin calls on short-term debt that could be caused by asset value declines or changes in lender over-collateralization requirements. These assets consisted of unrestricted cash and unpledged "AAA" rated mortgage securities. Total available liquidity equaled 10% of our short-term debt balances.

In the first quarter of 1999, we entered into several short-term borrowing commitments with maturities beyond December 31, 1999 in order to secure financing now during the period at the beginning of the year 2000 for a portion of our assets.

PREPAYMENT RISK

As we receive repayments of mortgage principal, we amortize into income our mortgage premium balances as an expense and our mortgage discount balances as income. Mortgage premium balances arise when we acquire mortgage assets at a price in excess of the principal value of the mortgages, or when an asset appreciates and is marked-to-market at a price above par. Mortgage discount balances arise when we acquire mortgage assets at a price below the principal value of the mortgages, or when an asset depreciates and is marked-to-market at a price below par. At March 31, 1999, mortgage premium balances were $28 million and mortgage discount balances were $10 million. Net mortgage premium was $18 million.

Sequoia's long-term debt had associated deferred bond issuance costs, which are amortized as an expense as the bonds are paid off with mortgage principal receipts. These deferred costs totaled $3 million at March 31, 1999. In addition, premium received upon bond issuance at prices over principal value is amortized as income as the bond issues pay down. These balances totaled $5 million at March 31, 1999. The combined effect of these two items was to reduce our effective mortgage-related premium by $2 million.

Our net premium at March 31, 1999 for assets and liabilities affected by the rate of mortgage principal receipts was $16 million. This net premium equaled 7.5% of total common equity. Amortization expense and income will vary as prepayment rates on mortgage assets vary. In addition, changes in prepayment rates will effect the market value of our assets and our earnings. Changes in the value of our assets, to the extent they are incorporated into the basis of our assets, will also affect future amortization expense.

CREDIT RISK

Our principal credit risk comes from loans owned by Sequoia, loans held in portfolio, and our SMFC 97-A securities. We also have credit risk with counter-parties with whom we do business; to the extent they fail to perform as agreed, our results could fluctuate.

We, not including Sequoia, owned $28 million in residential loans at March 31, 1999. Of these, $1.1 million were seriously delinquent.

We also owned $3 million in commercial loans. These commercial loans were all current at March 31, 1999.

The three Sequoia trusts owned $1.2 billion in residential mortgage loans at March 31, 1999. Our total credit risk from these trusts is limited to our equity investment in these trusts. These equity investments had a reported value of $40 million. At year-end, $4.9 million of the underlying loans, or 0.41%, were seriously delinquent.

At March 31, 1999, we had $4.1 million loan credit reserves and $1.9 million loan mark-to-market credit reserves to provide for potential future credit losses from Redwood Trust and Sequoia mortgage loans. Total mortgage loan credit-related reserves were $6.0 million and total seriously delinquent loans were $6.0 million.

To date, we have lost an average of 8% of the loan balance of defaulted loans. Loss severity may increase, particularly if real estate values decline.

At March 31, 1999, we also had $1.1 million credit reserves for our SMFC 97-A mortgage securities. Our total potential credit exposure from these securities after this credit reserve was $8 million. We currently believe this reserve is likely to be sufficient to cover currently anticipated SMFC 97-A credit losses.

CAPITAL RISK

Our capital levels, and thus our access to borrowings and liquidity, may be tested, particularly if the market value of our assets securing short-term borrowings declines.

Through our risk-adjusted capital policy, we assign a guideline capital adequacy amount, expressed as a guideline equity-to-assets ratio, to each of our 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 our collateralized short-term lenders. Capital requirements for mortgage equity interests (net trust assets funded with equity) generally equal our net investment. The sum of the capital adequacy amounts for all of our mortgage assets is our aggregate guideline capital adequacy amount.

The total guideline equity-to-assets ratio capital amount has declined over the last few years as we have eliminated some of the risks of short-term debt funding through issuing long-term debt. In the most recent quarters, however, the total guideline has increased, as we have acquired new types of assets such as commercial loans.

We do not expect that our actual capital levels will always exceed the guideline amount. We measure all of our 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, our capital guideline amount would rise. The potential interest rate risk of our mortgages would increase, at least on a temporary basis, due to periodic and life caps and slowing prepayment rates. Our actual capital levels, as determined for the risk-adjusted capital policy, would likely fall as the market values of our mortgages, net of mark-to-market gains on hedges, decreased. (Such 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 our actual capital levels decreased below our capital adequacy guideline amount, we would generally cease the acquisition of new mortgage assets until capital balance was restored through prepayments, interest rate changes, or other means. 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 our risk-adjusted capital policy.

Growth in assets and earnings may be limited when our access to new equity capital is limited. Holdings can benefit over time from the re-investment of any retained earnings at Holdings. Our REIT operations, however, are generally required to distribute at least 95% of taxable income as dividends.

INFLATION RISK

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates, changes in interest rates and other factors drive our performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates.

Our financial statements are prepared in accordance with Generally Accepted Accounting Principles and our dividends are generally determined based on our REIT net income as calculated for tax purposes. In each case, our activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

YEAR 2000 READINESS DISCLOSURE

In 1998, we established a Year 2000 Project. The goal of this on-going project is to ensure that our communications, data and information systems are ready for the Year 2000 and to employ prudent management to minimize any potential negative impact of the Year 2000 on our business partners and our investors. Senior management has taken an active role in the Year 2000 Project and provides updates to the Board of Directors as necessary.

Our definition of "Readiness for the Year 2000" includes testing 100% of our internal systems (hardware and software) to ensure that Year 2000 dates are retained and correctly roll from December 31, 1999 to January 1,

2000 and from February 28, to February 29, to March 1, 2000. It also includes having an enterprise-wide contingency and disaster recovery plan for any known Year 2000 issues (and to the extent possible, other unforeseeable circumstances).

Our project management strategies include system risk assessment, system upgrades or workarounds, and contingency planning. We believe we are devoting the necessary resources to address all appropriate Year 2000 issues. We do not currently anticipate incurring costs related to the Year 2000 issue that would be material to our financial position, results of operations, or cash flows in future periods.

We commenced operations within the past five years and have built our internal systems on a client-server model. Thus, we are not aware of any internal "legacy" computer systems or software issues.

In the third quarter of 1998, internal computer systems were successfully tested. Hardware testing included forward date testing of the December 31, 1999 to January 1, 2000 rollover and leap year 2000. Critical software applications used to manage our businesses were also successfully tested.

As systems are modified or new hardware or software systems are implemented in the normal course of business, our policy is to receive certification of Year 2000 compliance and to test for Year 2000 compliance upon installation.

We continue to gather and assess information of our business partners' Year 2000 readiness. We will monitor public disclosures by key business partners into the New Year and solicit disclosures directly through our own Year 2000 questionnaire and subsequent discussions. Direct data collection should be substantially completed by June 30, 1999.

Business partners that provide information or services through externally controlled or externally coordinated systems have been identified. Joint testing of certain systems has been initiated. External joint testing is targeted for completion by September 30, 1999.

Our affiliates and we are developing contingency plans and workaround systems for critical systems. Workarounds may include substituting compliant business partners for those who are non-compliant. The benefit of this contingency plan is likely to be limited due to our lack of control on external vendors and inability to replace certain business partners efficiently.

We believe we are devoting the necessary technical and management resources to address the Year 2000 issues over which we have control. While it is inherently difficult to assess the impact our vendors and their vendors may have on us in the event they are unable to successfully manage their own year 2000 issues, we believe we are on plan to reach our Year 2000 Project goals by October 1999.

RWT HOLDINGS, INC.

RWT Holdings, Inc., or "Holdings" was incorporated in Delaware in February 1998 and commenced operations on April 1, 1998. Holdings' start-up operations have been funded primarily by Redwood Trust, which has a significant investment in Holdings through the ownership of all of Holdings' preferred stock. Redwood Trust, however, does not control Holdings. We refer you to "Note 1. The Company" in the Notes to the Consolidated Financial Statements of RWT Holdings, Inc. and Subsidiaries for additional information on Holdings' initial capitalization.

Holdings will conduct mortgage production operations - originating, acquiring, aggregating and reselling mortgage loans - through three wholly-owned subsidiaries: Redwood Financial Services, Inc., Redwood Residential Funding, Inc., and Redwood Commercial Funding, Inc.

Redwood Financial Services, Inc., or "RFS", provides asset and liability management and portfolio evaluation services to commercial banks and other large holders of seasoned mortgage loan portfolios and seeks to acquire or

assist in the sale or securitization of portions of such portfolios. RFS also

seeks to provide other transaction services to its customers including sales of mortgage loans and other assets to them to meet their investment needs.

Redwood Residential Funding, Inc., or "RRF", will acquire newly originated residential loans from mortgage bankers. It will establish correspondent loan purchase operations and add value to its lender group through consistent and low cost execution, risk-based pricing, and other technology oriented, value added services. It will sell its loans to its investor clients as tailored loan portfolios or as structured mortgage securities.

Redwood Commercial Funding, Inc., or "RCF", acquires, originates and services commercial mortgage loans typically ranging in size from $0.5 million to $5.0 million. Loans are made to credit-worthy borrowers on a variety of commercial property types. These loans will be sold to investor clients, typically banks and savings and loan institutions.

At March 31, 1999, Holdings owned $25.4 million of residential mortgage loans, $8.3 million of commercial mortgage loans, and $52.4 million of residential mortgage securities. Holdings also had $10.6 million in cash and $3.1 million in other assets for total assets of $99.7 million. Holdings had a commitment to acquire $3 million of commercial loans from Redwood Trust in the second quarter of 1999.

The loans owned by Holdings were funded with short-term borrowings and equity. Short-term debt was $72.3 million, loans from Redwood Trust were $13.7 million, and other liabilities totaled $0.9 million. Total equity at March 31, 1999 was $12.8 million, reflecting the $20.0 million of initial capital less the $7.2 million in net start-up expenses incurred through the first quarter of 1999.

In the first quarter of 1999, net operating revenue totaled $0.8 million, including interest income of $0.6 million, net asset appreciation income of $0.5 million, and interest expenses of $0.3 million.

Operating expenses at Holdings totaled $3.3 million in the first quarter of 1999. Holdings' net loss in the first quarter of 1999 was $2.5 million.

Holdings pre-tax loss as reported for GAAP currently equals its after-tax loss. Due to the start-up nature of its operations, Holdings is not able to accrue a tax benefit relating to its operating losses for GAAP at this time. Each of the Holdings' operations is still in start-up mode. Holdings currently expects these operations to become profitable in the aggregate during 1999.

In the fourth quarter of 1998, Holdings generated $0.2 million of net operating revenue and had $2.7 million in operating expenses, resulting in a net loss of $2.5 million. Income and expenses increased in the first quarter of 1999 due to increased activity at the Holdings' entities as they continue to build up their businesses.

Holdings' operations began as of mid-1998 and thus there were no operations in the first quarter of 1998.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

At March 31, 1999 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

Not applicable

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 months ended March 31, 1999 and March 31, 1998.

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: May 12, 1999

By: /s/ Douglas B. Hansen

Douglas B. Hansen
President
(authorized officer of registrant)

Dated: May 12, 1999

By: /s/ Vickie L. Rath

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

REDWOOD TRUST, INC.
INDEX TO EXHIBIT

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27	Financial Data Schedule	47

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EXHIBIT 11.1

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

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
Basic:		
Average common shares outstanding	10,778,159	14,123,951
Total	10,778,159	14,123,951
Net Income	$ 5,854,817	$ 2,450,383
Per Share Amount	$ 0.54	$ 0.17
DILUTED:		
Average common shares outstanding	10,778,159	14,123,951
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method	83,615	110,474
Total	10,861,774	14,234,425
Net Income	$ 5,854,817	$ 2,450,383
Per Share Amount	$ 0.54	$ 0.17

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<EPS-PRIMARY>	0.54
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