

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 10, 2004

REDWOOD TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other
jurisdiction of
Incorporation)

001-13759
(Commission File
Number)

68-0329422
(I.R.S. Employer
Identification No.)

One Belvedere Place
Suite 300
Mill Valley, California 94941
(Address of principal executive offices and Zip Code)

(415) 389-7373
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operation and Financial Condition.

On November 10, 2004, Redwood Trust, Inc. issued a press release and supplemental financial information regarding its financial results for the third quarter of 2004. Redwood Trust, Inc. hereby furnishes, as exhibits to this current report on Form 8-K, a copy of its supplemental financial information for the third quarter of 2004 and a copy of its earnings release for the third quarter of 2004.

Item 9.01. Financial Statements and Exhibits.

(c)

99.1 Supplemental Financial Information for the Quarter Ended September 30, 2004.

99.2 Press Release, dated November 10, 2004, reporting Redwood Trust's earnings for the third quarter of 2004.

SIGNATURE

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

Date: November 23, 2004

REDWOOD TRUST, INC.

By: /s/ Harold F. Zagunis

Harold F. Zagunis

Vice President, Chief Financial Officer, Secretary and
Controller

Index to Exhibits

Number	Description
99.1	Supplemental Financial Information for the Quarter Ended September 30, 2004.
99.2	Press Release, dated November 10, 2004, reporting Redwood Trust's earnings for the third quarter of 2004.



REDWOOD TRUST



SUPPLEMENTAL FINANCIAL INFORMATION
QUARTER ENDED SEPTEMBER 30, 2004

This supplemental information package is designed to provide investors with information regarding Redwood Trust that is more detailed than can be found in our quarterly press release or SEC disclosures. If you have suggestions about how we could improve this supplemental financial information package, please call Nicole Klock at 415-380-2321 or email her at nicole.klock@redwoodtrust.com.

NON-GAAP MEASURES

A number of non-GAAP measures are presented in this supplemental information package, including Core Earnings, Core Equity, Core Return on Core Equity, and others. Non-GAAP measures are reconciled to our reported GAAP financials. Information is also provided on taxable income, which is our income as calculated for tax purposes.

GAAP attempts to present economic activity using a common format with a common set of rules for all companies. For this reason, GAAP is an important tool for investors. Each company, however, is different, and there are other measures of economic activity – ones that are more tailored to the individual circumstances of each business – that can also be useful for investors. In this supplement, we try to present a wide variety of information that might be useful to investors.

CORE EARNINGS

Core earnings is defined by Redwood management. We attempt to strip some of the elements out of GAAP that are temporary, one-time, or non-economic in nature or that relate to the past rather than the future, so that the underlying on-going “core” trend of earnings is more clear, at least in certain respects.

To calculate core earnings, we first attempt to adjust for events that are not likely to be repeated. For example, in accordance with GAAP, in the second quarter of 2004 we reported GAAP income of \$5.2 million as a one-time recognition of the remaining tax NOLs we expect to benefit from in the future. This GAAP income item will not be repeated, so we excluded it from our core income calculation.

We also exclude realized gains (and losses) from asset sales and calls. We sell assets from time to time as part of our on-going portfolio management activities. These occasional sales can produce material gains and losses that could obscure the underlying trend of our long-term portfolio earnings, so we exclude them from core earnings. Similarly, we exclude gains from calls of residential credit-enhancement securities, as these are essentially sales of assets that produce a highly variable stream of income that may obscure some underlying income generation trends.

GAAP earnings includes mark-to-market income and expenses for certain of our assets and interest rate agreements. These are unrealized market value fluctuations – we exclude them from core earnings. Similarly, we have issued certain stock options that are “variable” and thus are marked-to-market for GAAP. When our stock price goes up, it is a GAAP expense. When our stock price goes down, GAAP income is created. We exclude all this from core earnings.

CORE EQUITY

GAAP equity includes mark-to-market adjustments for certain of our assets and interest rate agreements. This can be useful as a measure that approximates liquidation value (at least for those assets), but for other purposes GAAP equity is less useful, we believe. For instance, return on equity calculated using GAAP equity does not make much sense to us. When our assets that are marked-to-market through our balance sheet equity account appreciate (which is a good thing), our GAAP return on equity goes down because our equity base is larger but these particular mark-to-market gains are not recognized in GAAP income.

Core equity is defined by Redwood management. It is GAAP equity with mark-to-market gains and losses (“accumulated other comprehensive income”) excluded. It is, we believe, a better measure of the amount of capital we have to run our business.

CORE RETURN ON CORE EQUITY

Core return on core equity, or core ROE, is core earnings divided by core equity. This is return on equity with mark-to-market gains and losses and one-time events stripped out.

ADJUSTED CORE EQUITY

We have minimum dividend distribution requirements as a REIT. We thus have future payment obligations, but these are not recognized in GAAP accounting until dividends are declared. Cash that we have earned but that we must pay out as dividends is not cash that will be available to us to acquire long-term assets and build our business. So when we try to answer questions such as “how much equity per share do we have available to build our business and to generate dividends in the long-term?” we use adjusted core equity per share. Adjusted core equity is core equity less undistributed REIT taxable income that is still undeclared but that will need to be paid out.

TAXABLE INCOME

Taxable income is the pre-tax income we earn calculated using calculation methods appropriate for tax purposes. Taxable income differs significantly from GAAP. REIT taxable income is that portion of our taxable income that is subject to REIT tax rules. We must distribute at least 90% of this income as dividends to shareholders over time. As a REIT we are not subject to corporate income taxes on the REIT taxable income we distribute. The remainder of our taxable income (the non-REIT taxable income) is income we earn in taxable subsidiaries. We pay income tax on this income and we generally retain the after-tax income at the subsidiary level.

REDWOOD EARNING ASSETS

Redwood's real earning assets in an economic sense (real assets that are sitting in our custodial account) totaled approximately \$1.1 billion at the end of the third quarter. Included in this amount are securities we have acquired from securitizations we have sponsored with a cost basis of approximately \$245 million. All of the \$23 billion of assets and asset-backed securities liabilities of the securitization entities we have sponsored are shown on our consolidated GAAP balance sheet, even though we do not own these assets and we are not responsible for the payment of these liabilities. For some analytical tasks (such as determining how much financial leverage Redwood carries on its balance sheet) we believe it makes more sense to consider the assets Redwood actually owns and the debt Redwood actually owes rather than including all GAAP assets and liabilities consolidated from securitization entities that are independent of Redwood.

REDWOOD DEBT

Redwood's real economic debt — the money we have to pay back to a lender — was \$246 million at the end of the third quarter of 2004. Our GAAP balance sheet shows liabilities of \$22 billion because all of the assets and liabilities of the independent securitization entities we have sponsored are consolidated.

LEVERAGE RATIOS

Because of the consolidation of independent securitization entities, it appears from our GAAP financial statements that Redwood is highly leveraged, with liabilities greater than twenty-five times equity. In fact, Redwood has \$246 million of true debt and \$902 million of GAAP equity supporting \$1.1 billion of earning assets (as of September 30, 2004). We only use debt to finance on a temporary basis the accumulation of assets prior to sale to a securitization entity. Our permanent investment portfolio, the assets we have acquired or created to own on a long-term basis, is financed entirely with equity capital.

PROFITABILITY RATIOS

Many financial institution analysts use asset-based profitability ratios such as interest rate spread and interest rate margin in their work analyzing financial institutions. Because of our consolidation of securitization entities for GAAP, we believe equity-based profitability ratios are more appropriate for Redwood. Net interest income as a percentage of equity is a useful measure, we believe. For operating expenses, we believe a useful measure is the efficiency ratio, or operating expenses as a percentage of net interest income.

Table 1: GAAP Earnings (all \$ in thousands, except per share data)

Table 1 GAAP Earnings (all \$ in thousands, except per share data)	Q3:2004	Q2:2004	Q1:2004	Q4:2003	Q3:2003	Q2:2003	Q1:2003	Nine Months 2004	Nine Months 2003
Interest income (Redwood and consolidated trusts)	171,804	144,865	130,158	111,071	88,905	68,659	63,397	446,827	220,961
Discount amortization income	9,012	9,077	8,836	10,407	11,574	10,110	5,661	26,925	27,345
Premium amortization expense	802	(14,463)	(11,646)	(9,948)	(8,858)	(5,180)	(6,177)	(25,307)	(20,215)
Provision for credit losses	(1,528)	(1,500)	(2,511)	(3,268)	(1,458)	(2,163)	(1,756)	(5,539)	(5,377)
Total GAAP Interest Income	180,090	137,979	124,837	108,262	90,163	71,426	61,125	442,906	222,714
Interest expense on Redwood Trust's debt	(2,312)	(2,490)	(2,571)	(1,788)	(1,671)	(1,639)	(1,940)	(7,373)	(5,250)
ABS expenses consolidated from trusts	(108,237)	(78,809)	(69,069)	(67,552)	(46,479)	(36,769)	(32,414)	(256,115)	(115,662)
ABS issuance expense amortization	(4,197)	(4,305)	(3,543)	(4,333)	(4,991)	(1,702)	(1,779)	(12,045)	(8,472)
ABS interest agreement expense	(2,888)	(5,988)	(4,965)	(2,358)	(2,855)	(1,873)	(1,089)	(13,841)	(5,817)
ABS issuance premium amortization income	2,823	1,233	571	7,437	464	181	289	4,627	934
Total consolidated ABS expense	(112,499)	(87,869)	(77,006)	(66,806)	(53,861)	(40,163)	(34,993)	(277,374)	(129,017)
GAAP net interest income	65,279	47,620	45,260	39,668	34,631	29,624	24,192	158,159	88,447
Fixed compensation expense	(1,959)	(1,842)	(2,230)	(1,641)	(1,515)	(1,394)	(1,398)	(6,031)	(4,307)
Variable compensation expense	(3,443)	(4,722)	(4,022)	(3,575)	(4,643)	(4,658)	(3,810)	(12,187)	(13,111)
Fair value of stock options granted	(133)	(547)	(310)	(388)	—	—	—	(990)	—
Other operating expense	(2,512)	(1,781)	(1,735)	(2,076)	(2,427)	(1,251)	(1,264)	(6,028)	(4,942)
Operating expenses	(8,047)	(8,892)	(8,297)	(7,680)	(8,585)	(7,303)	(6,472)	(25,236)	(22,360)
Excise taxes	(301)	(190)	(300)	(341)	—	—	(862)	(791)	(862)
Variable stock option market value change	(213)	621	(1,429)	(2,701)	(513)	(1,490)	(948)	(1,021)	(2,951)
Total GAAP operating expenses	(8,561)	(8,461)	(10,026)	(10,722)	(9,098)	(8,793)	(8,282)	(27,048)	(26,173)
Realized gains on calls of residential CES	20,472	15,246	11,816	47,561	3,800	4,345	853	47,534	8,998
Realized gains on asset sales	489	994	6,255	8	—	(24)	722	7,738	698
Loss on repurchase of ABS issued	—	—	—	(2,143)	—	—	—	—	—
Valuation write-downs for EITF 99-20	(422)	(3,846)	(558)	(2,797)	(3,261)	(915)	(652)	(4,826)	(4,828)
Interest rate agreements valuation adjustments	47	(113)	(1)	20	(1)	(462)	(4)	(67)	(467)
Commercial real estate valuation adjustments	—	(23)	(75)	(500)	130	(3)	(1)	(98)	126
Net gains and valuation adjustments	20,586	12,258	17,437	42,149	668	2,941	918	50,281	4,527
Dividends on and earnings allocated to preferred stock	—	—	—	—	—	—	(813)	—	(1,154)
Deferred tax benefit (one time Q2:2004)	—	5,180	—	—	—	—	—	5,180	—
Provision for income taxes	(4,962)	(1,509)	(1,880)	(1,162)	(1,565)	(1,560)	(1,215)	(8,351)	(4,340)
GAAP Net Income (1)	72,342	55,088	50,791	69,933	24,636	22,212	14,800	178,221	61,307
Diluted shares for GAAP (000)	22,728	21,325	20,399	19,801	19,018	18,433	17,886	21,486	18,466
GAAP earnings per share	\$ 3.18	\$ 2.58	\$ 2.49	\$ 3.53	\$ 1.30	\$ 1.21	\$ 0.87	\$ 8.29	\$ 3.38

- (1) The first quarter 2003 and the nine month 2003 GAAP earnings are lower than previously reported due to the adoption of EITF 03-6 (Participating Securities and the Two-Class Method under FASB Statement No. 128), which allocates undistributed earnings between the common and preferred stock based upon their respective contractual rights to share in such earnings as if the earnings were distributed. EITF 03-6 had the effect of lowering GAAP earnings by \$0.5 million for the nine months 2003. EITF 03-6 also lowered GAAP earnings per share (diluted) by \$0.03 per share.

Table 2: Core Earnings (all \$ in thousands, except per share data)

	Q3:2004	Q2:2004	Q1:2004	Q4:2003	Q3:2003	Q2:2003	Q1:2003	Nine Months 2004	Nine Months 2003
GAAP income items not included in CORE									
Variable stock option market value change	(213)	621	(1,429)	(2,701)	(513)	(1,490)	(948)	(1,021)	(2,951)
Realized gains on calls of residential CES	20,472	15,246	11,816	47,561	3,800	4,345	853	47,534	8,998
Realized gains on asset sales	489	994	6,255	8	—	(24)	722	7,738	698
Loss on repurchase of ABS issued	—	—	—	(2,143)	—	—	—	—	—
Valuation write-downs for EITF 99-20	(422)	(3,846)	(558)	(2,797)	(3,261)	(915)	(652)	(4,826)	(4,828)
Interest rate agreements valuation adjustments	47	(113)	(1)	20	(1)	(462)	(4)	(67)	(467)
Commercial real estate valuation adjustments	—	(23)	(75)	(500)	130	(3)	(1)	(98)	126
Net gains and valuation adjustments	20,586	12,258	17,437	42,149	668	2,941	918	50,281	4,527
Deferred tax benefit (one time Q2:2004)	—	5,180	—	—	—	—	—	5,180	—
Total GAAP / CORE differences	20,373	18,059	16,008	39,448	155	1,451	(30)	54,440	1,576
Core earnings	51,969	37,029	34,783	30,485	24,481	20,761	14,830	123,781	59,731
GAAP / CORE differences	20,373	18,059	16,008	39,448	155	1,451	(30)	54,440	1,576
GAAP Net Income	72,342	55,088	50,791	69,933	24,636	22,212	14,800	178,221	61,307
Per Share Analysis									
Variable stock option market value change	(\$0.01)	\$ 0.03	(\$0.07)	(\$0.14)	(\$0.03)	(\$0.08)	(\$0.05)	(\$0.05)	(\$0.16)
Realized gains on calls of residential CES	0.90	0.71	0.58	2.40	0.20	0.24	0.05	2.21	0.49
Realized gains on asset sales	0.02	0.05	0.31	0.00	0.00	(0.00)	0.04	0.36	0.04
Loss on repurchase of ABS issued	0.00	0.00	0.00	(0.11)	0.00	0.00	0.00	0.00	0.00
Valuation write-downs for EITF 99-20	(0.02)	(0.18)	(0.03)	(0.14)	(0.17)	(0.05)	(0.04)	(0.22)	(0.26)
Interest rate agreements valuation adjustments	0.00	(0.01)	(0.00)	0.00	(0.00)	(0.03)	(0.00)	(0.01)	(0.03)
Commercial real estate valuation adjustments	0.00	(0.00)	(0.01)	(0.02)	0.01	(0.00)	(0.00)	(0.00)	0.01
Deferred tax benefit (one time Q2:2004)	0.00	0.24	0.00	0.00	0.00	0.00	0.00	0.24	0.00
GAAP / CORE differences per share	\$ 0.89	\$ 0.84	\$ 0.78	\$ 1.99	\$ 0.01	\$ 0.08	(\$0.00)	\$ 2.53	\$ 0.09
CORE earnings per share	\$ 2.29	\$ 1.74	\$ 1.71	\$ 1.54	\$ 1.29	\$ 1.13	\$ 0.87	\$ 5.76	\$ 3.29
GAAP / CORE differences per share	0.89	0.84	0.78	1.99	0.01	0.08	(0.00)	2.53	0.09
GAAP earnings per share	\$ 3.18	\$ 2.58	\$ 2.49	\$ 3.53	\$ 1.30	\$ 1.21	\$ 0.87	\$ 8.29	\$ 3.38
Diluted shares outstanding (000)	22,728	21,325	20,399	19,801	19,018	18,433	17,886	21,486	18,466

Table 3: GAAP / TAX Differences (all \$ in thousands, except per share data)

Table 3
GAAP/TAX Differences
(all \$ in thousands, except per share data)

	Estimated Q3:2004	Estimated Q2:2004	Estimated Q1:2004	Estimated Nine Months 2004	Actual 2003
GAAP net income	\$ 72,342	\$ 55,088	\$ 50,791	\$ 178,221	\$ 131,713
Interest income and expense differences	(23,527)	5,208	(1,150)	(19,469)	22,324
Provision for credit losses - GAAP	1,528	1,500	2,511	5,539	8,646
Tax deductions for realized credit losses	(127)	(506)	(4)	(637)	(825)
Long-term compensation differences	2,045	2,827	1,793	6,665	1,832
Stock option exercise deduction differences	(2,388)	(508)	(10,962)	(13,858)	3,207
Depreciation of fixed asset differences	(589)	46	(6)	(549)	(686)
Other operating expense differences	(34)	5	(16)	(45)	906
Sale of assets to third parties differences	(576)	(536)	(566)	(1,678)	(69)
Call income of residential CES differences	(3,961)	(2,157)	(1,899)	(8,017)	(8,402)
Tax gain on securitizations	11,153	10,303	—	21,456	—
Tax gain on intercompany sales and transfers	28	(71)	7,546	7,503	2,823
GAAP market valuation write downs (EITF 99-20)	422	3,846	558	4,826	7,625
Interest rate agreements differences	(278)	502	50	274	(229)
Provision for excise tax - GAAP	301	190	300	791	1,203
Provision for income tax differences	2,834	(3,672)	1,881	1,043	5,502
Preferred dividend - GAAP	—	—	—	—	681
Total taxable income (pre-tax)	\$ 59,173	\$ 72,065	\$ 50,827	\$ 182,065	\$ 176,251
Earnings from taxable subsidiaries	(10,143)	(11,721)	(8,337)	(30,201)	(7,861)
REIT taxable income (pre-tax)	\$ 49,030	\$ 60,344	\$ 42,490	151,864	\$ 168,390
Common shares outstanding at period end (000)	23,346	21,511	19,796	23,346	19,063
Total taxable income per share	\$ 2.53	\$ 3.35	\$ 2.57	\$ 8.45	\$ 9.64
REIT taxable income per share	2.10	2.81	2.15	7.05	9.21

Table 4: Taxable Income Estimates (all \$ in thousands, except per share data)

Table 4
Taxable Income Estimates
(all \$ in thousands, except per share data)

	Estimated Q3:2004	Estimated Q2:2004	Estimated Q1:2004	Estimated Nine Months 2004	Actual 2003
Taxable income in taxable subs (pre-tax)	\$10,143	\$11,721	\$ 8,337	\$ 30,201	\$ 7,861
REIT taxable income (pre-tax)	49,030	60,344	42,490	151,864	168,390
Total taxable income (pre-tax)	59,173	72,065	50,827	182,065	176,251
Income in taxable subs (pre-tax)	10,143	11,721	8,337	30,201	7,861
Income tax for taxable subs (actual tax due)	(4,574)	(1,600)	(1,150)	(7,324)	(873)
After-tax income in taxable subs	5,569	10,121	7,187	22,877	6,988
Ordinary REIT taxable income	33,527	46,931	27,635	108,093	123,045
Capital gain REIT taxable income	15,503	13,413	14,855	43,771	45,345
REIT taxable income (pre-tax)	49,030	60,344	42,490	151,864	168,390
REIT taxable income (pre-tax)	49,030	60,344	42,490	151,864	168,390
Excise taxes due to deferrals	(301)	(190)	(300)	(791)	(1,305)
Income taxes due to earnings retention (actual tax due)	(1,537)	(2,151)	(1,267)	(4,955)	(5,619)
REIT taxable income (after-tax)	47,192	58,003	40,923	146,118	161,466
After-tax income in taxable subs	5,569	10,121	7,187	22,877	6,988
REIT taxable income (after-tax)	47,192	58,003	40,923	146,118	161,466
Total taxable income (after-tax)	52,761	68,124	48,110	168,995	168,454
Regular dividend per share	\$ 0.67	\$ 0.67	\$ 0.67	\$ 2.01	\$ 3.36
Special dividend per share	—	—	0.50	0.50	4.75
Total dividends per share	0.67	0.67	1.17	2.51	8.11
Shares at period end (000)	23,346	21,511	19,796	23,346	19,063
Dividends declared	\$15,642	\$14,412	\$23,162	\$ 53,216	\$137,436
Dividend deduction on stock issued through DRIP	844	712	655	2,211	1,161
Total dividend deductions	16,486	15,124	23,817	55,427	138,597
Taxable income (after-tax) retained in tax subs	\$ 5,569	\$10,121	\$ 7,187	\$ 22,877	\$ 6,988
Taxable income (after-tax) retained in REIT	1,816	2,542	1,497	5,854	6,686
Total retained taxable earnings (after-tax)	7,385	12,663	8,684	28,731	13,674
Per share outstanding at quarter end					
REIT taxable income (pre-tax)	\$ 2.10	\$ 2.81	\$ 2.15	\$ 7.05	\$ 9.21
Total taxable income (pre-tax)	2.53	3.35	2.57	8.45	9.64
Total retained taxable earnings (after-tax)	0.32	0.59	0.44	1.34	0.76

The estimated taxable income amounts and the associated income tax provision numbers are based on revised taxable income for each of the first three quarters of 2004. The nine month tax provision amounts are consistent with the current provision per the nine month GAAP financials.

Table 5: Retention and Distribution of Taxable Income (all \$ in thousands, except per share data)

Table 5
Retention and Distribution of Taxable Income
(all \$ in thousands, except per share data)

	<u>9/30/2004</u>	<u>6/30/2004</u>	<u>3/31/2004</u>	<u>12/31/2003</u>
Undistributed REIT taxable income (pre-tax): begin	\$ 109,790	\$ 69,263	\$ 53,354	\$ 35,865
REIT taxable income (pre-tax)	49,030	60,344	42,490	168,390
Permanently retained (pre-tax)	(3,353)	(4,693)	(2,764)	(12,305)
Dividend of 2002 income	—	—	—	(35,865)
Dividend of 2003 income	(14,413)	(15,124)	(23,817)	(102,732)
Dividend of 2004 income	(2,073)	—	—	—
Undistributed REIT taxable income (pre-tax): end	\$ 138,982	\$ 109,790	\$ 69,263	\$ 53,354
Shares outstanding at period end	23,346	21,511	19,796	19,063
Undistributed REIT taxable income (pre-tax) per share outstanding	\$ 5.95	\$ 5.10	\$ 3.50	\$ 2.80
Undistributed REIT taxable income (pre-tax)				
From 2002's income	—	—	—	—
From 2003's income	—	14,413	29,537	53,354
From 2004's income	138,982	95,377	39,727	—
Total	\$ 138,982	\$ 109,790	\$ 69,263	\$ 53,354

Table 6: Assets (all \$ in millions)

Table 6
Assets
(all \$ in millions)

	<u>Q3:2004</u>	<u>Q2:2004</u>	<u>Q1:2004</u>	<u>Q4:2003</u>	<u>Q3:2003</u>	<u>Q2:2003</u>	<u>Q1:2003</u>
Residential loans owned by Redwood	\$ 259	\$ 161	\$ 97	\$ 43	\$ 406	\$ 218	\$ 454
Residential loans consolidated from entities	21,299	19,755	17,989	16,196	13,407	9,030	6,867
Total GAAP residential loans	21,558	19,916	18,086	16,239	13,813	9,248	7,321
HELOC loans owned by Redwood	—	—	—	—	—	—	—
HELOC loans consolidated from entities	317	327	—	—	—	—	—
Total GAAP HELOC loans	317	327	—	—	—	—	—
Commercial loans owned by Redwood	21	25	14	14	15	25	22
Commercial loans consolidated from entities	12	8	8	9	9	10	9
Total GAAP commercial loans	33	33	22	23	24	35	31
Residential CES owned by Redwood	327	312	256	251	204	203	214
Residential CES consolidated from entities	170	131	119	128	169	190	159
Total GAAP residential CES	497	443	375	379	373	393	373
Other securities owned by Redwood	170	215	239	167	125	104	89
Other securities consolidated from entities	1,069	881	698	678	480	491	277
Total GAAP other securities	1,239	1,096	937	845	605	595	366
Cash owned by Redwood	76	38	58	58	32	37	43
Restricted cash consolidated from entities	45	20	14	22	14	18	12
Accrued interest receivable	62	49	44	40	33	24	22
Principal receivable	1	12	—	13	2	1	1
Interest rate agreements	10	17	1	2	—	—	—
Deferred tax asset	9	5	—	—	—	—	—
Other assets	7	7	6	5	5	5	2
Total GAAP assets	<u>23,854</u>	<u>21,963</u>	<u>19,543</u>	<u>17,626</u>	<u>14,901</u>	<u>10,356</u>	<u>8,171</u>
Residential loans owned by Redwood	259	161	97	43	406	218	454
HELOC loans owned by Redwood	—	—	—	—	—	—	—
Commercial loans owned by Redwood	21	25	14	14	15	25	22
Residential CES owned by Redwood	327	312	256	251	204	203	214
Other securities owned by Redwood	170	215	239	167	125	104	89
Cash owned by Redwood	76	38	58	58	32	37	43
Assets of securitizations for GAAP	22,867	21,102	18,814	17,011	14,065	9,721	7,312
ABS liabilities of entities for GAAP	(22,622)	(20,870)	(18,583)	(16,782)	(13,782)	(9,542)	(7,170)
Redwood earning assets — GAAP basis	<u>1,098</u>	<u>983</u>	<u>895</u>	<u>762</u>	<u>1,065</u>	<u>766</u>	<u>964</u>

Table 7: Liabilities (all \$ in millions)

**Table 7
Liabilities
(all \$ in millions)**

	<u>Q3:2004</u>	<u>Q2:2004</u>	<u>Q1:2004</u>	<u>Q4:2003</u>	<u>Q3:2003</u>	<u>Q2:2003</u>	<u>Q1:2003</u>
Redwood Trust debt: short-term	246	270	278	236	500	218	476
Redwood Trust debt: long-term	—	—	—	—	—	—	—
Total Redwood Trust debt	246	270	278	236	500	218	476
ABS issued, consolidated from entities	22,449	20,724	18,458	16,661	13,743	9,554	7,188
Unamortized IO issuance premium	185	161	162	153	66	13	—
Unamortized ABS issuance premium	46	38	10	12	9	4	4
Unamortized ABS issuance cost	(58)	(53)	(47)	(44)	(36)	(29)	(22)
ABS obligations of entities	22,622	20,870	18,583	16,782	13,782	9,542	7,170
Accrued interest payable	29	22	18	17	10	7	5
Interest rate agreements	7	1	12	4	4	8	4
Accrued expenses and other liabilities	32	28	21	22	27	22	20
Dividends payable	16	14	23	12	12	12	11
Total GAAP liabilities	22,952	21,205	18,935	17,073	14,335	9,809	7,686
Preferred Stock	—	—	—	—	—	—	27
Common stock	727	625	549	518	489	465	428
Accumulated other comprehensive income	97	111	79	82	91	109	68
Cumulative GAAP earnings	427	355	299	249	179	154	132
Cumulative distributions to shareholders	(349)	(333)	(319)	(296)	(193)	(181)	(170)
GAAP stockholders' equity	902	758	608	553	566	547	485
Total GAAP liabilities and equity	23,854	21,963	19,543	17,626	14,901	10,356	8,171
Total Redwood Trust debt	246	270	278	236	500	218	476
GAAP stockholders' equity	902	758	608	553	566	547	485
Redwood capital	1,148	1,028	886	789	1,066	765	961
Redwood debt to equity ratio	27%	36%	46%	43%	88%	40%	98%
Debt to capital ratio	21%	26%	31%	30%	47%	28%	50%
Redwood earning assets	1,098	983	895	762	1,065	766	964
Redwood debt	246	270	278	236	500	218	476
Redwood net earning assets (GAAP basis)	852	713	617	526	565	548	488
Equity to earning assets	82%	77%	68%	73%	53%	71%	50%

Table 8: Book Value and Profitability (all \$ in thousands, except per share data)

Table 8
Book Value and Profitability
(all \$ in thousands, except per share data)

	<u>Q3:2004</u>	<u>Q2:2004</u>	<u>Q1:2004</u>	<u>Q4:2003</u>	<u>Q3:2003</u>	<u>Q2:2003</u>	<u>Q1:2003</u>	<u>Nine Months 2004</u>	<u>Nine Months 2003</u>
BOOK VALUE									
GAAP equity	\$901,841	\$757,940	\$608,122	\$553,328	\$566,134	\$547,176	\$485,402	901,841	566,134
Balance sheet mark-to-market adjustments	<u>96,452</u>	<u>111,221</u>	<u>78,517</u>	<u>82,179</u>	<u>90,592</u>	<u>108,409</u>	<u>68,077</u>	<u>96,452</u>	<u>90,592</u>
Core equity	805,389	646,719	529,605	471,149	475,542	438,767	417,325	805,389	475,542
Core equity	805,389	646,719	529,605	471,149	475,542	438,767	417,325	805,389	475,542
REIT taxable income to be paid as dividends	<u>138,982</u>	<u>109,790</u>	<u>69,263</u>	<u>53,354</u>	<u>83,212</u>	<u>64,966</u>	<u>47,138</u>	<u>138,982</u>	<u>83,212</u>
Adjusted core equity	666,407	536,929	460,342	417,796	392,330	373,801	370,187	666,407	392,330
Shares outstanding at quarter end	23,346	21,511	19,796	19,063	18,468	17,821	16,605	23,346	18,468
GAAP equity per share	\$ 38.63	\$ 35.24	\$ 30.72	\$ 29.03	\$ 30.65	\$ 30.70	\$ 29.23	\$ 38.63	\$ 30.65
Core equity per share	34.50	30.06	26.75	24.72	25.75	24.62	25.13	34.50	25.75
Adjusted core equity per share	28.55	24.96	23.25	21.92	21.24	20.98	22.29	28.55	21.24
PROFITABILITY									
Net interest income	\$ 65,279	\$ 47,620	\$ 45,260	\$ 39,668	\$ 34,631	\$ 29,624	\$ 24,192	\$158,159	\$ 88,447
Net interest income / average core equity	38%	33%	36%	34%	30%	28%	23%	35%	27%
Operating expenses (before excise and VSOE)	8,047	8,892	8,297	7,680	8,585	7,303	6,472	25,236	22,360
Efficiency ratio: op exp / core net interest income	12%	19%	18%	19%	25%	25%	27%	16%	25%
Core earnings	51,969	37,029	34,783	30,485	24,481	20,761	14,830	123,781	59,731
Core return on average core equity	30%	25%	27%	26%	21%	19%	14%	28%	18%

Table 9: Asset / Liability Matching at September 30, 2004 (all \$ in thousands) (1)

Table 9
Asset/Liability Matching at September 30, 2004
(all \$ in thousands)

Asset Type	Asset Amount	One-Month LIBOR Liabilities	Six-Month LIBOR Liabilities	One-Year Treasury Liabilities	Fixed/Hybrid Liabilities	Non Interest Bearing Liabilities	Equity	Total Liabilities And Equity
Cash (unrestricted)	\$ 76,006	\$ 76,006	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 76,006
One-Month LIBOR	5,689,057	5,614,258	71,810	—	—	—	2,989	5,689,057
Six-Month LIBOR	16,781,204	—	16,390,360	143,620	—	—	247,224	16,781,204
Other ARM	360,870	317,015	—	—	—	—	43,855	360,870
Fixed / Hybrid < 1yr*	138,253	—	—	—	38,874	—	99,379	138,253
Fixed / Hybrid > 1yr	674,999	—	—	—	216,703	—	458,296	674,999
Non-Earning Assets	133,975	—	—	—	—	83,877	50,098	133,975
Total	\$23,854,364	\$6,007,279	\$16,462,170	\$143,620	\$255,577	\$83,877	\$901,841	23,854,364

* Projected principal receipts on fixed-rate and hybrid assets over the next twelve months.

(1) includes assets and ABS liabilities of consolidated securitization entities.

Table 10: Average Balance Sheet (all \$ in thousands)

Table 10
Average Balance Sheet
(all \$ in thousands)

	Q3:2004	Q2:2004	Q1:2004	Q4:2003	Q3:2003	Q2:2003	Q1:2003	9 months 2004	9 months 2003
Average residential real estate loans	\$20,484,287	\$18,754,200	\$16,916,295	\$14,381,270	\$10,958,059	\$7,670,484	\$6,625,540	\$18,724,706	\$8,433,898
Average residential HELOC	323,100	124,053	—	—	—	—	—	149,686	—
Average residential loan CES	368,887	317,235	287,078	272,999	270,991	279,010	278,339	324,563	276,086
Average commercial real estate loans	33,461	26,129	22,316	23,464	30,471	33,138	30,888	27,324	31,498
Average securities portfolio	1,148,828	980,089	862,005	709,867	602,622	453,546	360,084	997,528	472,972
Average cash and cash equivalents	101,937	81,450	70,642	116,265	49,053	87,747	98,715	84,739	78,323
Average earning assets	22,460,500	20,283,156	18,158,336	15,503,865	11,911,196	8,523,925	7,393,566	20,308,546	9,292,777
Average other assets	416,736	327,205	227,634	254,552	220,420	163,446	160,161	324,198	181,563
Average total assets	\$22,877,236	\$20,610,361	\$18,385,970	\$15,758,417	\$12,131,616	\$8,687,371	\$7,553,727	\$20,632,744	\$9,474,340
Average Redwood debt	\$ 404,589	\$ 539,231	\$ 447,931	\$ 410,631	\$ 344,424	\$ 299,141	\$ 399,130	\$ 463,700	\$ 347,365
Average asset-backed securities issues	21,606,164	19,350,833	17,299,503	14,708,963	11,197,470	7,861,252	6,637,053	19,426,816	8,581,963
Average total obligations	22,010,753	19,890,064	17,747,434	15,119,594	11,541,894	8,160,393	7,036,183	19,890,516	8,929,328
Average other liabilities	64,916	56,424	54,151	79,750	37,077	21,605	28,458	58,522	29,078
Average total liabilities	22,075,669	19,946,488	17,801,585	15,199,344	11,578,971	8,181,998	7,064,641	19,949,038	8,958,406
Average core equity	695,488	583,875	506,445	469,857	458,304	428,896	414,855	595,635	434,276
Average balance sheet mark-to-market adjustments	106,079	79,998	77,940	89,216	94,341	76,477	74,231	88,071	81,658
Average total equity	801,567	663,873	584,385	559,073	552,645	505,373	489,086	683,706	515,934
Average total liabilities and equity	\$22,877,236	\$20,610,361	\$18,385,970	\$15,758,417	\$12,131,616	\$8,687,371	\$7,553,727	\$20,632,744	\$9,474,340

Table 11: Balances & Yields (all \$ in thousands)

Table 11
Balances & Yields
(all \$ in thousands)

	At period end					For period ended		
	Current Face	Unamortized Premium/(Discount)	Credit Protection	Unrealized Gain/(loss)	Net Book Value	Average Balance*	Interest Income	Yield
Total Earning Assets (GAAP)								
Q1: 2003	8,356,918	(50,540)	(244,056)	72,282	8,134,604	7,393,566	61,125	3.31%
Q2: 2003	10,471,188	(62,789)	(216,834)	115,903	10,307,468	8,523,925	71,426	3.35%
Q3: 2003	14,969,841	(23,059)	(191,264)	91,992	14,847,510	11,911,196	90,163	3.03%
Q4: 2003	17,657,339	21,354	(217,806)	82,600	17,543,487	15,503,865	108,262	2.79%
2003	17,657,339	21,354	(217,806)	82,600	17,543,487	10,858,311	330,976	3.05%
Q1: 2004	19,537,316	39,166	(244,412)	87,874	19,477,810	18,158,335	124,837	2.75%
Q2: 2004	21,975,772	49,407	(264,523)	91,454	21,852,110	20,283,156	137,979	2.72%
Q3: 2004	23,883,198	75,814	(329,441)	90,818	23,720,389	22,460,500	180,090	3.21%
Residential Real Estate Loans								
Q1: 2003	7,297,515	33,520	(9,996)	—	7,321,039	6,625,539	42,314	2.55%
Q2: 2003	9,206,986	52,593	(12,159)	—	9,247,420	7,670,484	47,299	2.47%
Q3: 2003	13,703,475	123,392	(13,617)	—	13,813,250	10,958,059	63,638	2.32%
Q4: 2003	16,110,748	144,748	(16,336)	—	16,239,160	14,381,270	82,727	2.30%
2003	16,110,748	144,748	(16,336)	—	16,239,160	9,932,961	235,978	2.38%
Q1: 2004	17,950,901	154,451	(18,847)	—	18,086,505	16,916,295	98,826	2.34%
Q2: 2004	19,766,481	169,174	(20,080)	—	19,915,575	18,754,200	109,880	2.34%
Q3: 2004	21,381,784	197,472	(21,344)	—	21,557,912	20,484,287	147,974	2.89%
Home Equity Lines of Credit								
Q1: 2003	—	—	—	—	—	—	—	—
Q2: 2003	—	—	—	—	—	—	—	—
Q3: 2003	—	—	—	—	—	—	—	—
Q4: 2003	—	—	—	—	—	—	—	—
2003	—	—	—	—	—	—	—	—
Q1: 2004	—	—	—	—	—	—	—	—
Q2: 2004	317,045	10,043	(267)	—	326,821	124,053	536	1.73%
Q3: 2004	308,697	9,029	(531)	—	317,195	323,100	1,618	2.00%
Residential Credit-Enhancement Securities								
Q1: 2003	614,111	(84,648)	(234,060)	77,759	373,162	278,339	13,693	19.68%
Q2: 2003	598,134	(113,358)	(204,675)	113,310	393,411	279,010	17,977	25.77%
Q3: 2003	603,855	(145,356)	(177,647)	92,559	373,411	270,991	19,027	28.09%
Q4: 2003	623,692	(123,329)	(200,970)	79,334	378,727	272,999	17,394	25.49%
2003	623,692	(123,329)	(200,970)	79,334	378,727	275,308	68,091	24.73%
Q1: 2004	634,000	(110,994)	(216,924)	68,534	374,616	287,078	15,533	21.64%
Q2: 2004	712,908	(121,808)	(235,535)	86,674	442,239	317,235	16,077	20.27%
Q3: 2004	830,524	(109,367)	(298,925)	74,577	496,809	368,887	16,007	17.36%
Commercial Real Estate Loans								
Q1: 2003	32,223	(1,009)	—	—	31,214	30,888	816	10.57%
Q2: 2003	42,492	171	(8,141)	—	34,522	33,138	960	11.59%
Q3: 2003	31,211	538	(8,141)	—	23,608	30,471	939	12.33%
Q4: 2003	31,180	(120)	(8,641)	—	22,419	23,464	244	4.16%
2003	31,180	(120)	(8,641)	—	22,419	29,473	2,959	10.04%
Q1: 2004	31,136	(318)	(8,641)	—	22,177	22,316	701	12.56%
Q2: 2004	43,448	(1,261)	(8,641)	—	33,546	26,129	868	13.29%
Q3: 2004	43,410	(1,380)	(8,641)	—	33,389	33,461	1,038	12.41%
Securities								
Q1: 2003	370,187	1,597	—	(5,477)	366,307	360,084	4,192	4.66%
Q2: 2003	587,038	5,946	—	2,593	595,577	453,546	5,057	4.46%
Q3: 2003	599,144	6,508	—	(567)	605,085	602,622	6,478	4.30%
Q4: 2003	833,252	8,196	—	3,266	844,714	709,867	7,803	4.40%
2003	833,252	8,196	—	3,266	844,714	532,683	23,530	4.42%
Q1: 2004	921,279	(3,973)	—	19,340	936,646	862,005	9,611	4.46%
Q2: 2004	1,097,429	(6,741)	—	4,780	1,095,468	980,089	10,545	4.30%
Q3: 2004	1,242,777	(19,940)	—	16,241	1,239,078	1,148,828	13,278	4.62%
Cash & Equivalents								
Q1: 2003	42,882	—	—	—	42,882	—	110	—
Q2: 2003	36,539	—	—	—	36,539	—	133	—
Q3: 2003	32,156	—	—	—	32,156	—	81	—
Q4: 2003	58,467	—	—	—	58,467	—	94	—
2003	58,467	—	—	—	58,467	—	418	—
Q1: 2004	57,866	—	—	—	57,866	—	166	—
Q2: 2004	38,461	—	—	—	38,461	—	73	—
Q3: 2004	76,006	—	—	—	76,006	—	175	—

* Average excludes unrealized gains(losses) from mark-to-market adjustments.

Table 12: Portfolio Activity (all \$ in thousands)

Table 12
Portfolio Activity
(all \$ in thousands)

	Acquisitions	Sales	Principal Payments	Discount/ (Premium) Amortization	Credit Provision	Net Charge-offs/ (Recoveries)	Net Mark-to-Mkt Adjustment	Net Increase/ (Decrease)
Residential Real Estate Loans (GAAP)								
Q1: 2003	1,338,920	(73,137)	(152,768)	(6,156)	(1,756)	31	726	1,105,860
Q2: 2003	2,168,181	—	(234,582)	(5,055)	(2,163)	—	—	1,926,381
Q3: 2003	4,996,403	—	(420,395)	(8,720)	(1,458)	—	—	4,565,830
Q4: 2003	2,897,863	(605)	(458,957)	(9,684)	(2,769)	50	12	2,425,910
2003	11,401,367	(73,742)	(1,266,702)	(29,615)	(8,146)	81	738	10,023,981
Q1: 2004	2,321,706	—	(460,334)	(11,516)	(2,511)	—	—	1,847,345
Q2: 2004	2,703,443	—	(859,148)	(13,992)	(1,233)	—	—	1,829,070
Q3: 2004	2,898,165	(112,811)	(1,144,320)	2,078	(1,264)	—	489	1,642,337
Home Equity Line of Credit								
Q1: 2003	—	—	—	—	—	—	—	—
Q2: 2003	—	—	—	—	—	—	—	—
Q3: 2003	—	—	—	—	—	—	—	—
Q4: 2003	—	—	—	—	—	—	—	—
2003	—	—	—	—	—	—	—	—
Q1: 2004	—	—	—	—	—	—	—	—
Q2: 2004	335,044	—	(7,706)	(250)	(267)	—	—	326,821
Q3: 2004	—	—	(8,290)	(1,072)	(264)	—	—	(9,626)
Residential Loan Credit-Enhancement								
Securities								
Q1: 2003	37,077	—	(23,212)	5,545	—	—	1,273	20,683
Q2: 2003	11,265	(1,248)	(38,773)	10,024	—	—	38,981	20,249
Q3: 2003	23,164	—	(37,647)	11,432	—	—	(16,949)	(20,000)
Q4: 2003	77,367	—	(116,575)	10,188	—	—	34,336	5,316
2003	148,873	(1,248)	(216,207)	37,189	—	—	57,641	26,248
Q1: 2004	37,608	(22,416)	(34,640)	8,637	—	—	6,700	(4,111)
Q2: 2004	75,027	—	(46,997)	8,847	—	—	30,746	67,623
Q3: 2004	82,918	—	(44,822)	8,181	—	—	8,293	54,570
Commercial Real Estate Loans								
Q1: 2003	2,011	—	(68)	—	—	—	1	1,944
Q2: 2003	3,408	—	(34)	(67)	—	—	1	3,308
Q3: 2003	1,023	—	(12,034)	(33)	—	—	130	(10,914)
Q4: 2003	—	—	(31)	(158)	(500)	—	(500)	(1,189)
2003	6,442	—	(12,167)	(258)	(500)	—	(368)	(6,851)
Q1: 2004	—	—	(45)	(122)	—	—	(75)	(242)
Q2: 2004	17,066	(2,339)	(3,233)	(102)	—	—	(23)	11,369
Q3: 2004	—	—	(29)	(128)	—	—	—	(157)
Securities								
Q1: 2003	42,955	—	(11,329)	3	—	—	(1,019)	30,610
Q2: 2003	237,515	(4,051)	(12,126)	(111)	—	—	8,043	229,270
Q3: 2003	28,702	—	(12,677)	(96)	—	—	(6,421)	9,508
Q4: 2003	256,588	—	(17,658)	(343)	—	—	1,042	239,629
2003	565,760	(4,051)	(53,790)	(547)	—	—	1,645	509,017
Q1: 2004	86,278	(142)	(9,807)	(484)	—	—	16,087	91,932
Q2: 2004	192,700	(8,333)	(10,069)	(705)	—	—	(14,771)	158,822
Q3: 2004	151,064	—	(18,489)	(86)	—	—	11,121	143,610

Table 13: Residential Credit Results (all \$ in thousands)

Table 13
Residential Credit Results
(all \$ in thousands)

	Underlying Loans	Internally- Designated Credit Reserves	External Credit Enhancement	(4) Total Credit Protection	Total Credit Protection As % of Loans	Seriously Delinquent Loans	Seriously Delinquent Loan %	Total Credit Losses	Losses To Securities Junior To Redwood's Interest	Redwood's Share of Net Charge Offs (Recoveries)	Total Credit Losses As % of Loans (Annualized)
Total Managed Residential Portfolio											
Q1: 2003	68,069,255	244,056	61,814	305,870	0.45%	162,657	0.24%	1,171	456	715	0.01%
Q2: 2003	61,071,919	216,834	58,296	275,130	0.45%	163,894	0.27%	384	152	232	0.01%
Q3: 2003	57,493,402	191,264	51,985	243,249	0.42%	179,871	0.31%	986	38	948	0.01%
Q4: 2003	84,372,335	217,306	46,476	263,782	0.31%	137,978	0.16%	1,645	357	1,288	0.01%
2003	84,372,335	217,306	46,476	263,782	0.31%	137,978	0.16%	4,186	1,003	3,183	0.01%
Q1: 2004	89,448,075	235,771	43,797	279,568	0.31%	146,055	0.16%	103	—	103	0.01%
Q2: 2004	117,020,797	255,615	70,460	326,075	0.28%	136,654	0.12%	1,781	75	1,706	0.01%
Q3: 2004	142,967,137	320,269	69,244	389,513	0.27%	185,023	0.13%	730	196	534	0.01%
Residential Real Estate Loans											
Q1: 2003	7,297,515	9,996	—	9,996	0.14%	1,159	0.02%	31	—	31	0.01%
Q2: 2003	9,206,986	12,159	—	12,159	0.13%	3,895	0.04%	—	—	—	0.00%
Q3: 2003	13,703,475	13,617	—	13,617	0.10%	1,598	0.01%	—	—	—	0.00%
Q4: 2003	16,110,748	16,336	—	16,336	0.10%	5,419	0.03%	50	—	50	0.01%
2003	16,110,748	16,336	—	16,336	0.10%	5,419	0.03%	81	—	81	0.01%
Q1: 2004	17,950,901	18,847	—	18,847	0.10%	3,439	0.02%	—	—	—	0.00%
Q2: 2004	19,766,481	20,080	—	20,080	0.10%	5,362	0.03%	—	—	—	0.00%
Q3: 2004	21,381,784	21,344	—	21,344	0.10%	10,785	0.05%	—	—	—	0.00%
Residential Loan Credit-Enhancement Securities											
Q1: 2003	60,748,216	234,060	61,814	295,874	0.49%	161,498	0.27%	1,140	456	684	0.01%
Q2: 2003	51,824,499	204,675	58,296	262,971	0.51%	159,999	0.31%	384	152	232	0.01%
Q3: 2003	43,680,152	177,647	51,985	229,632	0.53%	178,273	0.41%	986	38	948	0.01%
Q4: 2003	68,133,175	200,970	46,476	247,446	0.36%	132,559	0.19%	1,595	357	1,238	0.01%
2003	68,133,175	200,970	46,476	247,446	0.36%	132,559	0.19%	4,105	1,003	3,102	0.01%
Q1: 2004	71,361,570	216,924	43,797	260,721	0.37%	142,616	0.20%	103	—	103	0.01%
Q2: 2004	97,105,222	235,535	70,460	305,995	0.32%	131,292	0.14%	1,781	75	1,706	0.01%
Q3: 2004	121,585,353	298,925	69,244	368,169	0.30%	174,238	0.14%	730	196	534	0.01%

(4) The credit reserve on residential real estate loans owned is only available to absorb losses on the residential real estate loan portfolio. The internally-designated credit reserves on loans credit enhanced and the external credit enhancement on loans credit enhanced are only available to absorb losses on the residential loan credit-enhancement portfolio. This table excludes the residential home equity lines of credit.

Table 14: Residential Real Estate Loan Characteristics (at period end, all \$ in thousands)

Table 14
Residential Real Estate Loan Characteristics
(at period end, all \$ in thousands)

	Sep. 2004	Jun. 2004	Mar. 2004	Dec. 2003	Sep. 2003	Jun. 2003	Mar. 2003
Residential Loans	\$21,557,912	\$19,915,575	\$18,086,505	\$16,239,160	\$13,813,250	\$9,247,420	\$7,321,039
Number of loans	61,299	56,097	49,756	43,919	37,122	24,988	19,805
Average loan size	\$ 352	\$ 355	\$ 364	\$ 370	\$ 372	\$ 370	\$ 370
Adjustable %	99%	99%	99%	99%	99%	99%	99%
Hybrid %	1%	1%	1%	1%	1%	1%	1%
Fixed %	0%	0%	0%	0%	0%	0%	0%
Northern California	13%	14%	13%	13%	13%	13%	13%
Southern California	12%	12%	12%	12%	12%	12%	12%
Florida	11%	11%	11%	11%	11%	12%	12%
Georgia	5%	5%	5%	6%	6%	5%	5%
New York	5%	5%	5%	5%	6%	6%	7%
New Jersey	4%	4%	4%	5%	5%	4%	5%
Texas	4%	4%	4%	4%	4%	3%	3%
Arizona	4%	4%	4%	4%	3%	3%	3%
Colorado	4%	4%	4%	4%	3%	3%	3%
Illinois	3%	3%	4%	4%	4%	4%	4%
Virginia	3%	3%	2%	3%	2%	2%	2%
Other states (none greater than 3%)	32%	31%	32%	29%	31%	33%	31%
Year 2004 origination	32%	23%	11%	0%	0%	0%	0%
Year 2003 origination	46%	52%	60%	66%	58%	40%	11%
Year 2002 origination	18%	21%	24%	28%	34%	49%	72%
Year 2001 origination	3%	3%	3%	4%	5%	6%	11%
Year 2000 origination	0%	0%	0%	0%	0%	0%	0%
Year 1999 origination	0%	1%	1%	1%	1%	1%	2%
Year 1998 origination or earlier	1%	1%	1%	1%	2%	4%	4%
% balance in loans > \$1mm per loan	14%	14%	15%	16%	17%	15%	14%

This table only includes loans shown under "residential real estate loans" on our GAAP balance sheet. These are the loans securitized by Sequoia securitization entities sponsored by Redwood. Not included are loans underlying residential credit-enhancement securities by Redwood from securitizations sponsored by others.

Table 15: Residential Loan Credit-Enhancement Securities — Underlying Collateral Characteristics (all \$ in thousands)

Table 15
Residential Loan Credit-Enhancement Securities — Underlying Collateral Characteristics
(all \$ in thousands)

	Sep. 2004	Jun. 2004	Mar. 2004	Dec. 2003	Sep. 2003	Jun. 2003	Mar. 2003
First loss position, principal value	\$ 320,975	\$ 279,927	\$ 262,329	\$ 255,570	\$ 236,968	\$ 233,787	\$ 236,122
Second loss position, principal value	244,042	197,403	176,672	174,592	168,547	168,524	176,864
Third loss position, principal value	265,507	235,578	194,999	193,530	198,340	195,823	201,125
Total principal value	\$ 830,524	\$ 712,908	\$ 634,000	\$ 623,692	\$ 603,855	\$ 598,134	\$ 614,111
First loss position, reported value	\$ 99,783	\$ 102,088	\$ 75,769	\$ 78,030	\$ 70,458	\$ 74,470	\$ 63,675
Second loss position, reported value	174,371	145,211	133,167	134,225	128,280	139,788	130,415
Third loss position, reported value	222,655	194,940	165,680	166,472	174,673	179,153	179,072
Total reported value	\$ 496,809	\$ 442,239	\$ 374,616	\$ 378,727	\$ 373,411	\$ 393,411	\$ 373,162
Internal Designated Credit Reserves	\$ 298,925	\$ 235,535	\$ 216,924	\$ 200,970	\$ 177,647	\$ 204,675	\$ 234,060
External Credit Enhancement	69,244	70,460	43,797	46,476	51,985	58,296	61,814
Total Credit Protection	\$ 368,169	\$ 305,995	\$ 260,721	\$ 247,446	\$ 229,632	\$ 262,971	\$ 295,874
As % of Total Portfolio	0.30%	0.32%	0.37%	0.36%	0.53%	0.51%	0.49%
Underlying Residential Real Estate Loans	\$121,585,353	\$97,105,222	\$71,361,570	\$68,133,175	\$43,680,152	\$51,824,499	\$60,748,216
Number of credit-enhanced loans	298,003	216,048	163,673	152,083	96,424	116,730	138,327
Average loan size	\$ 408	\$ 449	\$ 436	\$ 448	\$ 453	\$ 444	\$ 439
Adjustable %	18%	13%	20%	21%	21%	36%	27%
Hybrid %	30%	44%	66%	64%	57%	36%	39%
Fixed %	52%	43%	14%	15%	22%	28%	34%
Northern California	23%	23%	26%	26%	25%	26%	26%
Southern California	23%	24%	25%	25%	25%	24%	24%
Florida	6%	4%	4%	4%	4%	4%	4%
New York	5%	5%	5%	5%	6%	6%	5%
Massachusetts	3%	3%	3%	3%	3%	3%	3%
New Jersey	3%	3%	3%	3%	3%	3%	3%
Virginia	3%	3%	3%	3%	3%	3%	3%
Illinois	3%	3%	3%	3%	3%	3%	3%
Other states (none greater than 3%)	31%	32%	28%	28%	28%	28%	29%
Year 2004 origination	28%	16%	0%	0%	0%	0%	0%
Year 2003 origination	48%	50%	58%	51%	28%	12%	2%
Year 2002 origination	14%	18%	22%	26%	34%	42%	41%
Year 2001 origination	4%	6%	8%	11%	18%	24%	31%
Year 2000 origination	1%	2%	2%	2%	4%	4%	4%
Year 1999 origination	1%	2%	3%	3%	6%	7%	9%
Year 1998 or earlier origination	4%	6%	7%	7%	10%	11%	13%
% balance in loans > \$1mm per loan	10%	6%	9%	11%	11%	10%	10%

This table includes loans underlying residential credit-enhancement securities acquired from securitizations sponsored by others. Not included are loans underlying residential credit-enhancement securities acquired from Sequoia entities sponsored by Redwood.

Table 16: Commercial Real Estate Loans — Characteristics (at period end, all \$ in thousands)

Table 16
Commercial Real Estate Loans — Characteristics
(at period end, all \$ in thousands)

	Sep. 2004	Jun. 2004	Mar. 2004	Dec. 2003	Sep. 2003	Jun. 2003	Mar. 2003
Commercial Mortgage Loans	\$33,389	\$33,546	\$22,177	\$22,419	\$23,608	\$34,522	\$31,214
Number of Loans	7	6	9	9	9	12	10
Average Loan Size	\$ 4,770	\$ 5,591	\$ 2,464	\$ 2,491	\$ 2,623	\$ 2,877	\$ 3,121
Serious Delinquency	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 650	\$ 650
Realized Credit losses	—	—	—	—	—	—	—
California %	72%	72%	65%	65%	65%	46%	40%

Table 17: Securities Portfolio — Characteristics at September 30, 2004 (all \$ in thousands)

Table 17
Securities Portfolio — Characteristics at September 30, 2004
(all \$ in thousands)

	<u>Total</u>	<u>Rating: AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>Unrated</u>
Commercial Real Estate	\$ 188,875	\$15,712	\$ —	\$ 27,970	\$100,351	\$34,033	\$1,667	\$ 9,142
Residential Prime	363,791	29,089	195,462	52,996	86,244	—	—	—
Residential Subprime	373,364	—	30,579	251,111	91,674	—	—	—
Residential Second Lien	135,635	—	59,492	66,604	9,539	—	—	—
Manufactured Housing	13,516	2,532	5,444	—	—	3,681	1,859	—
Corporate REIT Debt	64,345	—	—	7,359	48,862	8,124	—	—
Real Estate CDOs	99,552	4,962	30,107	33,236	24,309	2,956	425	3,557
Total Securities Portfolio	<u>\$1,239,078</u>	<u>\$52,295</u>	<u>\$321,084</u>	<u>\$439,276</u>	<u>\$360,979</u>	<u>\$48,794</u>	<u>\$3,951</u>	<u>\$12,699</u>

Includes a portion of Redwood's permanent investment portfolio, plus securities consolidated from Acacia CDO securitization entities sponsored by Redwood, plus securities held by Redwood temporarily prior to sale to Acacia.

Does not include securities purchased for Acacia or Redwood's permanent investment portfolio from securitization entities sponsored by Redwood, as those securities are eliminated in the GAAP consolidation of the underlying entities.

Does not include residential credit-enhancement securities.

Table 18: ABS Issued Characteristics — Residential Mortgage Loans (Sequoia) (all \$ in thousands)

Table 18
ABS Issued Characteristics — Residential Mortgage Loans (Sequoia)
(all \$ in thousands)

Sequoia ABS Issued	Debt Rating	Issue Date	Original Issue Amount	Index	Stated Maturity	Estimated Callable Date	Principal Outstanding At September, 30, 2004	Interest Rate At September, 30 2004
Sequoia 1 A1	AAA	07/29/97	\$ 334,347	1m LIBOR	2028	Called	—	NM
Sequoia 1 A2	AAA	07/29/97	200,000	Fed Funds	2028	Called	—	NM
Sequoia 2 A1	AAA	11/06/97	592,560	1y Treasury	2029	2004	143,692	2.62%
Sequoia 2 A2	AAA	11/06/97	156,600	1m LIBOR	2029	2004	37,974	2.18%
Sequoia 3 A1	AAA	06/26/98	225,459	Fixed to 12/02	2028	Retired	—	NM
Sequoia 3 A2	AAA	06/26/98	95,000	Fixed to 12/02	2028	Retired	—	NM
Sequoia 3 A3	AAA	06/26/98	164,200	Fixed to 12/02	2028	Retired	—	NM
Sequoia 3 A4	AAA	06/26/98	121,923	1m LIBOR	2028	Called	—	NM
Sequoia 3 M1	AA/AAA	06/26/98	16,127	1m LIBOR	2028	Called	—	NM
Sequoia 3 M2	A/AA	06/26/98	7,741	1m LIBOR	2028	Called	—	NM
Sequoia 3 M3	BBB/A	06/26/98	4,838	1m LIBOR	2028	Called	—	NM
Sequoia 1A A1	AAA	05/04/99	157,266	1m LIBOR	2028	Called	—	NM
Sequoia 4 A	AAA	03/21/00	377,119	1m LIBOR	2024	2007	153,223	2.19%
Sequoia 5 A	AAA	10/29/01	496,667	1m LIBOR	2026	2008	318,600	2.16%
Sequoia 5 B1	AA	10/29/01	5,918	1m LIBOR	2026	2008	5,918	2.61%
Sequoia 5 B2	A	10/29/01	5,146	1m LIBOR	2026	2008	5,146	2.61%
Sequoia 5 B3	BBB	10/29/01	2,316	1m LIBOR	2026	2008	2,316	2.61%
Sequoia 6A	AAA	04/26/02	496,378	1m LIBOR	2027	2009	349,053	2.13%
Sequoia 6B1	AA	04/26/02	5,915	1m LIBOR	2027	2009	5,915	2.51%
Sequoia 7A	AAA	05/29/02	554,686	1m LIBOR	2032	2008	352,748	2.15%
Sequoia 7B1	AA	05/29/02	8,080	1m LIBOR	2032	2008	8,080	2.56%
Sequoia 8 1A-1	AAA	07/30/02	50,000	1m LIBOR	2032	Retired	—	NM
Sequoia 8 1A-2	AAA	07/30/02	61,468	Fixed to 12/04	2032	2008	14,973	3.46%
Sequoia 8 2A	AAA	07/30/02	463,097	1m LIBOR	2032	2008	327,900	2.11%
Sequoia 8 3A	AAA	07/30/02	49,973	6m LIBOR	2032	2008	29,748	3.11%
Sequoia 8 B1	AA	07/30/02	9,069	1m LIBOR	2032	2008	9,069	2.49%
Sequoia 9 1A	AAA	08/28/02	381,689	1m LIBOR	2032	2011	276,999	2.16%
Sequoia 9 2A	AAA	08/28/02	168,875	1m LIBOR	2032	2011	94,258	3.33%
Sequoia 9 B1	AA	08/28/02	7,702	1m LIBOR	2032	2011	7,702	2.56%
Sequoia 10 1A	AAA	09/26/02	822,375	1m LIBOR	2027	2011	614,038	2.21%
Sequoia 10 2A-1	AAA	09/26/02	190,000	1m LIBOR	2027	2011	144,551	2.19%
Sequoia 10 2A-2	AAA	09/26/02	3,500	1m LIBOR	2027	2011	3,500	2.49%
Sequoia 10 B1	AA	09/26/02	12,600	1m LIBOR	2027	2011	12,600	2.61%
Sequoia 10 B2	A	09/26/02	8,400	1m LIBOR	2027	2011	8,400	2.61%
Sequoia 10 B3	BBB	09/26/02	4,725	1m LIBOR	2027	2011	4,725	3.21%
Sequoia 11 A	AAA	10/30/02	695,210	1m LIBOR	2032	2011	501,733	2.26%
Sequoia 11 B1	AA	10/30/02	9,726	1m LIBOR	2032	2011	9,726	2.78%
Sequoia 12 A	AAA	12/19/02	1,080,076	1m LIBOR	2033	2009	825,682	2.26%
Sequoia 12 B1	AA	12/19/02	16,815	1m LIBOR	2033	2009	16,815	2.66%
Sequoia 2003-1 A1	AAA	02/27/03	798,206	1m LIBOR	2033	2009	613,484	2.19%
Sequoia 2003-1 A2	AAA	02/27/03	190,000	6m LIBOR	2033	2009	145,691	2.32%
	AA	02/27/03	15,905	1m LIBOR	2033	2009	15,905	2.69%
Sequoia 2003-1 B1								
Sequoia 2003-1 B2	A	02/27/03	8,210	Pass Through	2033	2009	8,210	2.94%
Sequoia 2003-2 A1	AAA	04/29/03	500,000	1m LIBOR	2022	2009	388,418	2.14%
Sequoia 2003-2 A2	AAA	04/29/03	303,600	6m LIBOR	2022	2009	232,757	1.62%
Sequoia 2003-2 M1	AA	04/29/03	11,480	1m LIBOR	2016	2009	11,480	2.46%
Sequoia 2003-3 A1	AAA	06/26/03	379,455	1m LIBOR	2023	2009	302,478	2.14%
Sequoia 2003-3 A2	AAA	06/26/03	149,922	6m LIBOR	2023	2009	122,846	2.22%
Sequoia 2003-3 B1	AA	06/26/03	9,075	1m LIBOR	2025	2009	9,075	2.46%
MLCC 2003-C A1	AAA	06/26/03	773,795	1m LIBOR	2023	2012	616,275	2.17%
MLCC 2003-C A2	AAA	06/26/03	200,002	6m LIBOR	2023	2012	156,483	2.22%
MLCC 2003-C B1	AA	06/26/03	10,553	1m LIBOR	2025	2012	10,553	2.49%
MLCC 2003-D A	AAA	07/29/03	992,833	1m LIBOR	2028	2012	834,951	2.15%
MLCC 2003-D B1	AA	07/29/03	10,758	1m LIBOR	2028	2012	10,758	2.47%
Sequoia 2003-4 1A1	AAA	07/29/03	148,641	1m LIBOR	2033	2009	128,865	2.12%
Sequoia 2003-4 1A2	AAA	07/29/03	150,000	6m LIBOR	2033	2009	132,085	2.22%
Sequoia 2003-4 1B1	AA	07/29/03	3,864	1m LIBOR	2033	2009	3,864	2.46%
Sequoia 2003-4 2A1	AAA	07/29/03	189,415	1m LIBOR	2033	2011	166,650	2.16%
Sequoia 2003-4 2M1	AA	07/29/03	9,986	1m LIBOR	2033	2011	9,986	2.28%
Sequoia 2003-4 2B1	AA	07/29/03	2,367	1m LIBOR	2033	2011	2,367	2.46%
Sequoia 2003-5 A1	AAA	08/27/03	675,596	1m LIBOR	2033	2009	540,081	2.12%
Sequoia 2003-5 A2	AAA	08/27/03	149,609	6m LIBOR	2033	2009	126,915	2.25%
Sequoia 2003-5 B1	AA	08/27/03	15,043	1m LIBOR	2033	2009	15,043	2.41%
Sequoia 2003-6 A1	AAA	10/29/03	458,238	1m LIBOR	2033	2009	381,021	2.12%
Sequoia 2003-6 A2	AAA	10/29/03	180,474	6m LIBOR	2033	2009	150,155	1.61%

Table 18: ABS Issued Characteristics — Residential Mortgage Loans (Sequoia) — continued

Table 18
ABS Issued Characteristics — Residential Mortgage Loans (Sequoia)
(all \$ in thousands)

Sequoia ABS Issued	Debt Rating	Issue Date	Original Issue Amount	Index	Stated Maturity	Estimated Callable Date	Principal Outstanding At September, 30, 2004	Interest Rate At September, 30 2004
Sequoia 2003-6 B1	AA	10/29/03	11,287	1m LIBOR	2033	2009	11,287	2.39%
Sequoia 2003-7 A1	AAA	11/25/03	290,000	1m LIBOR	2034	2009	253,944	2.13%
Sequoia 2003-7 A2	AAA	11/25/03	505,100	6m LIBOR	2034	2009	438,226	1.88%
Sequoia 2003-7 B1	AA	11/25/03	16,607	1m LIBOR	2034	2009	16,607	2.36%
Sequoia 2003-8 A1	AAA	12/23/03	791,768	1m LIBOR	2034	2009	706,042	2.13%
Sequoia 2003-8 A2	AAA	12/23/03	150,000	6m LIBOR	2034	2009	136,270	2.21%
Sequoia 2003-8 B1	AA	12/23/03	14,166	1m LIBOR	2034	2009	14,166	2.40%
Sequoia 2003-8 B2	A	12/23/03	8,304	1m LIBOR	2034	2009	8,304	3.06%
MLCC 2003-E A1	AAA	08/28/03	823,305	1m LIBOR	2028	2012	704,808	2.15%
MLCC 2003-E A2	AAA	08/28/03	150,000	6m LIBOR	2028	2012	128,916	2.28%
MLCC 2003-E B1	AA	08/28/03	10,547	1m LIBOR	2028	2012	10,547	2.44%
MLCC 2003-F A1	AAA	09/25/03	839,000	1m LIBOR	2028	2012	723,248	2.16%
MLCC 2003-F A2	AAA	09/25/03	270,000	6m LIBOR	2028	2012	234,322	2.46%
MLCC 2003-F A3	AAA	09/25/03	175,000	Pass Through	2028	2012	156,096	3.22%
MLCC 2003-F B1	AA	09/25/03	13,913	1m LIBOR	2028	2012	13,913	2.44%
MLCC 2003-H A1	AAA	12/22/03	365,708	1m LIBOR	2029	2012	333,105	2.16%
MLCC 2003-H A2	AAA	12/22/03	240,000	6m LIBOR	2029	2012	221,820	2.21%
MLCC 2003-H A3A	AAA	12/22/03	119,613	Pass Through	2029	2012	105,591	2.87%
MLCC 2003-H B1	AA	12/22/03	7,875	1m LIBOR	2029	2012	7,875	2.39%
MLCC 2003-H B2	A	12/22/03	6,000	1m LIBOR	2029	2012	6,000	3.09%
Sequoia 2004-1 A1	AAA	01/28/04	601,250	6m LIBOR	2034	2010	541,882	2.19%
Sequoia 2004-1 B1	AA	01/28/04	9,375	1m LIBOR	2034	2010	9,375	2.36%
Sequoia 2004-1 B2	A	01/28/04	5,937	1m LIBOR	2034	2010	5,937	2.86%
Sequoia 2004-2 A1	AAA	02/25/04	671,998	6m LIBOR	2034	2010	600,819	2.19%
Sequoia 2004-2 B1	AA	02/25/04	11,550	1m LIBOR	2034	2010	11,550	2.31%
Sequoia 2004-2 B2	A	02/25/04	7,000	1m LIBOR	2034	2010	7,000	2.79%
Sequoia 2004-3 A1	AAA	03/30/04	894,673	6m LIBOR	2034	2010	810,525	2.33%
Sequoia 2004-3 M1	AA	03/30/04	13,800	1m LIBOR	2034	2010	13,800	2.31%
Sequoia 2004-3 M2	A	03/30/04	9,200	1m LIBOR	2034	2010	9,200	2.71%
Sequoia 2004-4 A1	AAA	04/29/04	785,971	6m LIBOR	2010	2010	743,503	1.61%
Sequoia 2004-4 B1	AA	04/29/04	14,612	1m LIBOR	2010	2010	14,612	2.31%
Sequoia 2004-4 B2	A	04/29/04	8,350	1m LIBOR	2010	2010	8,350	2.71%
Sequoia 2004-5 A1	AAA	05/27/04	547,657	Pass Through	2012	2010	521,542	2.77%
Sequoia 2004-5 A2	AAA	05/27/04	185,613	1m LIBOR	2012	2010	179,511	2.07%
Sequoia 2004-5 A3	AAA	05/27/04	74,897	6m LIBOR	2012	2010	72,435	1.86%
Sequoia 2004-5 B1	AA	05/27/04	14,874	1m LIBOR	2012	2010	14,874	2.29%
Sequoia 2004-5 B2	A	05/27/04	8,499	1m LIBOR	2012	2010	8,499	2.69%
Sequoia 2004-6 A1	AAA	06/29/04	500,000	Pass Through	2012	2010	482,997	2.80%
Sequoia 2004-6 A2	AAA	06/29/04	185,687	1m LIBOR	2012	2010	179,059	2.09%
Sequoia 2004-6 A3a	AAA	06/29/04	196,500	6m LIBOR	2012	2010	189,403	2.16%
Sequoia 2004-6 A3b	AAA	06/29/04	3,500	6m LIBOR	2012	2010	3,374	2.31%
Sequoia 2004-6 B1	AA	06/29/04	15,725	1m LIBOR	2012	2010	15,725	2.31%
Sequoia 2004-6 B2	A	06/29/04	9,250	1m LIBOR	2012	2010	9,250	2.69%
SMHT 2004-1	AAA	06/29/04	317,044	1m LIBOR	2014	2007	307,187	2.04%
Sequoia 2004-7 A1	AAA	07/29/04	498,828	Pass Through	2034	2010	489,619	2.93%
Sequoia 2004-7 A2	AAA	07/29/04	252,102	1m LIBOR	2034	2010	247,872	2.12%
Sequoia 2004-7 A3a	AAA	07/29/04	247,874	6m LIBOR	2034	2010	243,324	2.29%
Sequoia 2004-7 A3b	AAA	07/29/04	3,956	6m LIBOR	2034	2010	3,883	2.51%
Sequoia 2004-7 B1	AA	07/29/04	18,900	1m LIBOR	2034	2010	18,900	2.36%
Sequoia 2004-7 B2	A	07/29/04	11,025	1m LIBOR	2034	2010	11,025	2.75%
Sequoia 2004-8 A1	AAA	08/27/04	365,049	1m LIBOR	2034	2010	361,872	2.16%
Sequoia 2004-8 A2	AAA	08/27/04	418,050	6m LIBOR	2034	2010	415,087	2.35%
Sequoia 2004-8 B1	AA	08/27/04	16,400	1m LIBOR	2034	2010	16,400	2.33%
Sequoia 2004-8 B2	A	08/27/04	8,200	1m LIBOR	2034	2010	8,200	2.71%
Sequoia 2004-9 A1	AAA	09/29/04	453,364	1m LIBOR	2034	2010	453,364	2.18%
Sequoia 2004-9 A2	AAA	09/29/04	296,310	6m LIBOR	2034	2010	296,310	2.53%
Sequoia 2004-9 B1	AA	09/29/04	14,915	1m LIBOR	2034	2010	14,915	2.35%
Sequoia 2004-9 B2	A	09/29/04	8,242	1m LIBOR	2034	2010	8,242	2.72%
Total Sequoia ABS Issuance			\$26,914,982				21,001,989	2.23%

Does not include Sequoia ABS acquired by Redwood or Acacia

**Table 19: ABS Issued Characteristics — IO's from Residential Real Estate Loans
Sequoia Interest-Only Certificates Issued (all \$ in thousands)**

Table 19
ABS Characteristics — IO's from Residential Real Estate Loans — Sequoia Interest Only Certificates Issued
(all \$ in thousands)

Sequoia ABS IO's Issued	Debt Rating	Issue Date	Original Issue Amount	Index	Stated Maturity	Estimated Callable Date	Adjusted Issue Amount September. 30, 2004	Interest Rate At September. 30 2004
MLCC 2003-C X-A-2	AAA	06/26/03	12,662	Fixed	2007	2007	4,028	4.50%
MLCC 2003-D X-A-1	AAA	07/29/03	22,371	Fixed	2007	2007	8,663	4.50%
MLCC 2003-E X-A-1	AAA	08/28/03	16,550	Fixed	2007	2007	8,951	4.25%
MLCC 2003-F X-A-1	AAA	09/25/03	18,666	Fixed	2007	2007	10,409	4.50%
Sequoia 2003-6 X-1	AAA	10/29/03	8,220	Fixed	2007	2007	4,718	4.50%
SMFC 2003A AX1	AAA	10/31/03	70,568	Fixed	2007	2007	37,735	4.50%
Sequoia 2003-7 X-1	AAA	11/25/03	10,345	Fixed	2007	2007	6,210	4.25%
Sequoia 2003-8 X-1	AAA	12/23/03	12,256	Fixed	2007	2007	7,755	4.50%
Sequoia 2004-1 X-1	AAA	01/28/04	7,801	Fixed	2007	2007	5,240	4.00%
Sequoia 2004-2 X-1	AAA	02/25/04	8,776	Fixed	2007	2007	6,170	3.75%
SMFC 2004A AX1	AAA	02/26/04	10,626	Fixed	2007	2007	10,558	3.75%
MLCC 2003-H X-A-1	AAA	12/22/03	10,430	Fixed	2007	2007	6,798	4.25%
Sequoia 2004-4 X-1	AAA	05/28/04	9,789	Fixed	2010	2010	8,037	4.25%
Sequoia 2004-5 X-1	AAA	05/27/04	3,371	Fixed	2012	2012	2,768	4.15%
Sequoia 2004-6 X-A	AAA	06/29/04	10,884	WAC IO	2012	2012	10,190	N/A
Sequoia 2004-7 X-A	AAA	07/29/04	12,145	WAC IO	2034	2012	11,493	N/A
Sequoia 2004-8 X-A	AAA	08/27/04	18,270	WAC IO	2034	2012	18,118	N/A
Sequoia 2004-9 X-A	AAA	09/29/04	16,951	WAC IO	2034	2012	16,951	N/A
Total Sequoia Issuance			\$280,681				\$ 184,792	4.32%

Does not include Sequoia IO's acquired by Redwood or Acacia

Table 20: ABS Characteristics — Commercial Real Estate Loans (all \$ in thousands)

Table 20
 ABS Characteristics — Commercial Real Estate Loans
 (all \$ in thousands)

Commercial ABS Issued	Debt Rating	Issue Date	Original Issue Amount	Index	Stated Maturity	Estimated Callable Date	Principal Outstanding At September 30, 2004	Interest Rate At September 30 2004
Commercial 1	NR	03/30/01	\$ 9,010	1m LIBOR	2002	Paid Off	\$ —	NM
Commercial 2	NR	03/30/01	8,320	1m LIBOR	2003	Paid Off	—	NM
Commercial 3	NR	03/01/02	8,318	1m LIBOR	2003	Paid Off	—	NM
Commercial 4	NR	08/18/03	5,595	1m LIBOR	2009	NC	5,514	9.50%
Total Commercial Issuance			\$31,243				\$ 5,514	9.50%

Table 21: ABS, CDO and Resecuritization Characteristics
Collateralized Debt Obligations and Other Resecuritizations — Acacia and SMFC (all \$ in thousands)

Table 21
ABS Characteristics
Collateralized Debt Obligations and Other Resecuritizations — Acacia and SMFC
(all \$ in thousands)

CDO & Other Resecuritization Issuance	Debt Rating	Issue Date	Original Issue Amount	Index	Stated Maturity	Estimated Callable Date	Principal Outstanding At September 30, 2004	Interest Rate At September 30 2004
SMFC 2002A A1	AAA	04/30/02	64,761	1m LIBOR	2030	2006	10,679	2.24%
SMFC 2002A A2	AAA	04/30/02	15,861	1m LIBOR	2029	2006	1,611	2.39%
Acacia CDO 1 A	AAA	12/10/02	224,250	3m LIBOR	2018	2010	219,031	2.39%
Acacia CDO 1 B	AA	12/10/02	45,000	3m LIBOR	2037	2010	45,000	3.11%
Acacia CDO 1 C	BBB	12/10/02	15,750	3m LIBOR	2037	2010	15,750	4.51%
SMFC 2002B I A1	AA	12/19/02	16,855	Fixed	2031	2004	1,222	5.43%
SMFC 2002B I A2	A	12/19/02	18,274	Fixed	2031	2004	1,323	5.68%
SMFC 2002B I A3	BBB	12/19/02	17,221	Fixed	2031	2004	1,247	6.38%
SMFC 2002B I A4	BB	12/19/02	25,133	Fixed	2031	2004	1,821	6.75%
SMFC 2002B II A1	AA	12/19/02	15,517	Fixed	2039	2004	1,843	4.82%
SMFC 2002B II A2	A	12/19/02	18,345	Fixed	2039	2004	2,178	4.92%
SMFC 2002B II A3	BBB	12/19/02	14,989	Fixed	2039	2004	1,780	5.35%
SMFC 2002B II A4	BB	12/19/02	8,347	Fixed	2039	2004	991	6.00%
Acacia CDO 2 A	AAA	05/13/03	222,000	3m LIBOR	2023	2011	221,071	2.50%
Acacia CDO 2 B	AA	05/13/03	45,375	3m LIBOR	2038	2011	45,375	3.15%
Acacia CDO 2 C	BBB	05/13/03	16,500	3m LIBOR	2038	2011	16,500	5.10%
Acacia CDO 3 A	AAA	11/04/03	222,000	3m LIBOR	2038	2011	221,726	2.39%
Acacia CDO 3 B	AA	11/04/03	45,750	3m LIBOR	2038	2011	45,750	3.01%
Acacia CDO 3 C	BBB	11/04/03	16,500	3m LIBOR	2038	2011	16,500	5.21%
Acacia CDO 4 A	AAA	04/08/04	229,400	3m LIBOR	2039	2014	229,278	1.97%
Acacia CDO 4 B1	AA	04/08/04	45,300	3m LIBOR	2039	2014	45,300	2.44%
Acacia CDO 4 B2	AA	04/08/04	2,000	Fixed	2039	2014	2,000	4.81%
Acacia CDO 4 C1	BBB	04/08/04	13,700	3m LIBOR	2039	2014	13,700	4.44%
Acacia CDO 4 C2	BBB	04/08/04	3,000	Fixed	2039	2014	3,000	6.81%
Acacia CDO 5 A	AAA	07/14/04	222,500	3m LIBOR	2039	2014	222,500	2.04%
Acacia CDO 5 B	AA	07/14/04	42,250	3m LIBOR	2039	2014	42,250	2.51%
Acacia CDO 5 C	A	07/14/04	9,000	3m LIBOR	2039	2014	9,000	3.11%
Acacia CDO 5 D	A	07/14/04	3,000	3m LIBOR	2039	2014	3,000	3.66%
Total Resecuritizations			\$1,638,578				\$ 1,441,426	2.51%

Does not include securities acquired by Redwood or Acacia

End



REDWOOD TRUST

FOR IMMEDIATE RELEASE
Tuesday, November 10, 2004

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**Redwood Trust Reports Earnings for the Third Quarter of
2004
GAAP Earnings of \$3.18 per share and Core Earnings of \$2.29 per share**

Mill Valley, CA November 10, 2004 – Redwood Trust, Inc. (NYSE: RWT) today reported GAAP earnings of \$72 million, or \$3.18 per share, for the third quarter of 2004. GAAP earnings for the first nine months of 2004 were \$178 million, or \$8.29 per share. Redwood Trust is a financial institution that invests in, credit-enhances, and securitizes residential and commercial real estate loans and securities.

Core earnings for the third quarter of 2004 were \$2.29 per share. This is a 32% increase from the \$1.74 core earnings per share Redwood earned in the previous quarter and a 78% increase over the \$1.29 core earnings per share earned in the third quarter of 2003. Core earnings for the first nine months of 2004 were \$5.76 per share, a 75% increase over the \$3.29 core earnings per share earned in the first nine months of 2003. Core earnings are ongoing earnings from operations, and thus exclude gains and losses from asset sales, calls, and changes in market values that are included in reported GAAP earnings.

Redwood's total taxable income (pre-tax income as calculated according to tax rules) for the third quarter of 2004 was \$2.53 per share outstanding at quarter-end. Our REIT taxable income (which excludes income earned in taxable non-REIT subsidiaries) was \$2.10 per share for the quarter. For the first nine months of 2004, total taxable income was \$8.45 per share and our REIT taxable income was \$7.05 per share. All taxable income results reported here are estimates that are subject to change.

“Our business continues to develop and grow in a manner that we believe should support attractive long-term results,” said Doug Hansen, Redwood’s President. “The portfolio of assets we have built over the last ten years is performing well. The new assets we are acquiring for our permanent investment portfolio are high quality, and are likely, we believe, to provide attractive returns for shareholders in the years ahead.”

Hansen continued, “Our portfolio of managed real estate credit continues to grow. Our managed assets within the high-quality jumbo residential real estate loan segment have grown from \$84 billion to \$143 billion during the first nine months of 2004.”

“Our real estate portfolios are designed to deliver attractive returns on the upside if real estate credit performs well,” Hansen said. There is also significant downside risk within our portfolio if real estate credit performs poorly. For now, from our point of view, real estate credit trends continue to be favorable.”

“We continue to maintain a strong balance sheet,” said Hansen. “We do not leverage our permanent investment portfolio assets. We only use debt to facilitate the accumulation of assets on a temporary basis prior to securitization.”

“We have made a number of cautionary statements during the last year,” continued Hansen. “We have said that we believe credit losses and loan delinquencies are likely to increase from the insignificant levels we are experiencing today, especially if housing prices level off. Rising short-term interest rates could create stress for homeowners, including some of our borrowers. We believe prepayment patterns for residential real estate loans are unlikely to be as favorable for us in the future as they have been in the last few years.”

Hansen also stated, “Competition is increasing. Asset prices have risen and quality loans are harder to find. This makes underwriting and investment discipline more important than ever. In response, we continue to tighten our credit standards and increase our future credit loss assumptions when evaluating new assets. This could mean that growth in the future becomes more difficult.”

“Furthermore,” Hansen continued, “we have said that, irrespective of the above trends, we expect core earnings per share may decline over time (potentially creating some negative year-over-year core earnings comparisons during 2005) due to calls of our residential credit-enhancement securities. These calls are a favorable economic event for Redwood (as we realize a large capital gain when the calls occur), but they also tend to reduce our ongoing earnings as our highest-yielding assets are typically the ones that get called away.”

“Constant vigilance with respect to all these cautionary statements continues to be warranted,” reiterated Hansen. “Nevertheless, the current environment for our business is still reasonably favorable. We expect our core financial results going forward will remain attractive, even if they do not match 2004’s record results. Our outlook for the future of our business continues to be positive and optimistic.”

Third Quarter Review

Redwood acquired \$75 million of new assets for its permanent investment portfolio during the third quarter of 2004. We acquired \$55 million residential credit-enhancement securities (CES) – including \$49 million from securitizations sponsored by others and \$6 million from the Sequoia residential loan securitization program we sponsor. We acquired \$1 million residential interest-only securities (IOS) from securitizations sponsored by others. We also acquired as permanent investments \$6 million commercial real estate CES and \$13 million collateralized debt obligations (CDO) equity securities from the Acacia CDO securitization program we sponsor. Our permanent investment portfolio consists of assets we have acquired that earn an equity rate of return and that we generally hold without leverage on our balance sheet. The bulk of our earnings come from our permanent investment portfolio.

Our securitization activities were successful and profitable in the third quarter. Redwood acquired \$2.9 billion residential real estate loans. We sold \$2.7 billion loans to Sequoia securitization entities for securitization. Sequoia completed three securitizations (Sequoia 2004-7, 2004-8, and 2004-9), creating and selling \$2.7 billion asset-backed securities (ABS) to capital markets investors, including \$6 million to Redwood Trust for its permanent investment portfolio. During the third quarter, Redwood acquired \$188 million real estate securities for future sale to Acacia CDO entities. Redwood sold \$300 million securities to Acacia CDO 5, which issued \$300 million ABS securities to capital markets investors. Redwood bought \$13 million of these Acacia 5 securities for its permanent investment portfolio.

Redwood utilizes both debt and equity to fund the accumulation of assets prior to sale to securitization entities. Redwood's debt averaged \$405 million for the quarter and the maximum level of debt reached during the quarter was \$976 million. We expect Redwood's debt levels to vary between \$0 and \$2 billion during the next year, varying as a function of the timing of Redwood's purchase of assets under accumulation for sale to securitization entities relative to the closing of Redwood's sales transactions to these entities. At the end of the third quarter of 2004, Redwood Trust had debt of \$246 million and shareholders' equity of \$902 million, for quarter-end debt-to-equity ratio of 0.27 to 1.0.

For GAAP balance sheet purposes, Redwood reports its own assets and debt, plus all of the assets and ABS liabilities of the securitization entities sponsored by Redwood. The four securitizations sponsored by Redwood in the third quarter added \$2.9 billion of assets and liabilities to Redwood's consolidated GAAP balance sheet. Redwood's net investment in and maximum loss exposure to these securitizations totaled \$19 million.

Residential real estate loan credit managed by Redwood rose to \$143 billion at the end of the third quarter. Redwood owns the residential CES issued from the securitizations of these loans. Redwood sponsored the securitization of \$21 billion of these loans through the Sequoia securitization program; other sponsors

securitized the remainder of these loans. The underlying loans were generally originated to high-quality standards. The bulk of these loans were jumbo loans at the time of origination (Fannie Mae and Freddie Mac were not eligible to invest in, credit-enhance, or securitize these loans due to the larger loan balances of these loans).

Seriously delinquent loans (over 90 days, in foreclosure, in bankruptcy, or real estate owned (REO)) within Redwood's managed residential loans increased during the quarter while remaining at low levels. Serious delinquencies were \$185 million (0.13% of loan balances) at the end of the third quarter as compared to \$137 million (0.12% of loan balances) at the beginning of the quarter and \$180 million (0.31% of loan balances) one year ago.

Credit losses for Redwood's managed residential loans were \$0.7 million for the third quarter of 2004, \$1.8 million for the previous quarter, and \$1.0 million for the third quarter of 2003. The credit loss rate for these loans remained under one basis point (less than 0.01%) per annum.

Credit results for the rest of the residential and commercial loans that underlie our permanent investment portfolio were also strong during the third quarter of 2004.

Current residential loan prepayment rate patterns continue to be favorable for Redwood's long-term results, although not as favorable as they were in the past. In the third quarter, prepayment rates on short-term ARMs (adjustable rate mortgages with coupon rates that adjust each month or six months) securitized by Sequoia remained near 20% CPR (i.e. approximately 20% of the aggregate loan balance is prepaying annually).

Short-term interest rates rose 20 to 50 basis points during the quarter (0.20% to 0.50%). We continue to maintain a balance sheet that is well balanced and matched from an interest rate perspective, so these interest rate changes had little direct effect on our economic results.

Third quarter GAAP and core income benefited from a reduction in premium amortization expenses on residential loans from \$13 million in the prior quarter to a negative expense of \$2 million in the third quarter. Under our current GAAP methodologies, premium amortization expenses tend to be significantly lower in a rising rate environment than in a falling rate environment. Assuming we continue with this methodology in future quarters, our GAAP and core results could be volatile should the direction of change of interest rates fluctuate from quarter to quarter.

Investors should note that our economic risk with respect to the premium balances on these loans is less than the \$195 million of premium balance on our GAAP books (as of September 30, 2004) would suggest. When we sponsor the securitization of these loans, our purchase premium on these loans is effectively offset in some cases as a result of the issuance of asset-backed securities (ABS) at premium prices and from the issuance of ABS interest-only securities (all the proceeds of which are issuance premium). The total ABS issuance premium (net of unamortized ABS issuance expenses) on our GAAP books for these loans at September 30, 2004 was \$185 million. GAAP income from the amortization of this ABS issuance premium (which reduces our reported GAAP interest expense) partially offsets expenses from the amortization of purchase premiums (which reduces our GAAP interest income) from the same loans. Our net premium position on these loans (including ABS premium) is \$10 million, for an adjusted net amortized basis of 100.05% of principal value of the loans. GAAP accounting methods used for these offsetting premium balances on the same loans are not parallel, however. Additionally, premium balances are not equally offsetting on each pool of loans. Furthermore, as noted above, premium amortization expenses on loans for GAAP can be volatile, depending on the direction of interest rate changes. As a result of these three factors, net premium amortization for GAAP for these assets and ABS liabilities can be variable even though the aggregate net premium economic risk is low.

Redwood's GAAP and taxable income exceeded core earnings due, in part, to calls of residential CES. During the third quarter of 2004, calls of \$32 million principal value of CES generated \$20 million of GAAP income and \$15 million of estimated taxable income. We do not include gains or losses from calls, sales, or market value fluctuations in our core earnings calculations.

The yield Redwood earns on its residential CES portfolio that it has acquired from securitizations sponsored by others continued to decline as the highest-yielding assets are called away. Redwood's yield from this portfolio was 17% in the third quarter of 2004 versus 20% in the prior quarter and 28% in the third quarter of 2003.

Redwood raised \$98 million new equity capital in the third quarter, and has raised \$198 million of new equity during the first nine months of 2004. Permanent investment portfolio acquisitions for the year have totaled \$209 million. These purchases have been funded with new equity capital, retained earnings, and cash flow from our existing portfolio. Redwood ended the quarter with \$302 million of net liquidity (unrestricted)

cash balance assuming assets held short-term for sale to securitization entities were sold and all Redwood Trust debt paid off using the sale proceeds). This should be sufficient to provide continued on-going support for our securitization activities, meet our dividend distribution requirements, and fund permanent asset acquisitions for the fourth quarter of 2004.

Growth has contributed positively to Redwood in a number of ways. Our operating efficiency has improved with growth – our efficiency ratio (operating expenses before excise tax and variable stock option expenses divided by net interest income) has improved from 25% to 12% over the last year. In addition, the combination of accretive stock issuance (as a result of growth) and retention of earnings has increased the amount of permanent tangible capital per share we have available to help us generate shareholder dividends. We believe the best measure of long-term-dividend producing capital is “adjusted core book value per share”, which is GAAP book value per share, less mark-to-market adjustments, less undistributed REIT taxable income (at least 90% of which will be distributed in the near future as dividends under the REIT rules). Adjusted core book value has increased by 30% during the first nine months of 2004 (from \$21.92 per share to \$28.55 per share).

“The third quarter was a strong quarter for real economics, cash flow, taxable income, REIT taxable income, book value gains, core earnings, and GAAP earnings,” said Hansen. “Total taxable income of \$59 million (\$2.53 per share) was an outstanding result. Furthermore, REIT taxable income of \$49 million (\$2.10 per share) for the third quarter significantly increases the dividends per share we will be distributing to shareholders over the next year.”

Release of Form 10-Q

Our GAAP and core earnings for the third quarter of 2004 include \$4.8 million of net positive prior period adjustments. Of this amount, \$4.1 million increases our interest income through a reduction of premium amortization expense and \$0.7 million reduces our income tax accruals. In management’s opinion, these adjustments are immaterial and we have therefore reported them as a component of income during the third quarter of 2004. If these were material adjustments, we would not have recorded these adjustments in this quarter, but rather we would have restated earnings for quarters during the years 2001 through 2004, with an aggregate increase in GAAP and core earnings during these quarters. At the time of this press release, our external auditors have indicated that they have not yet completed their review of this issue (and it is possible other issues could arise before their overall review is completed). Since their review is required before we file our Form 10-Q with the SEC, we have requested a five-day extension for filing the Form 10-Q, and we currently anticipate filing our Form 10-Q on or before Monday, November 15, 2004.

Dividends

“The outlook for continuing our regular dividend payments of \$0.67 per share per quarter remains excellent,” said Hansen.

“We estimate we ended the third quarter with \$139 million (\$5.95 per share currently outstanding) of undistributed REIT taxable income.” Hanson continued, “All of this undistributed REIT taxable income was earned during 2004. Under the REIT rules, we will need to distribute at least 90% of this amount (plus 90% of fourth quarter REIT taxable earnings) to shareholders prior to September 2005. It is likely we will make these required distributions through continued regular dividends plus one or more special dividends to be authorized in the future by our Board of Directors.”

We generally release our press release, our Form 10-Q (including our financial statements, footnotes, and management’s discussion and analysis), and our supplemental information package all on the same day. For this quarter, our release of our Form 10-Q is delayed for reasons discussed above. Once released and filed, you can access these documents at our web site — www.redwoodtrust.com.

“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995: Certain matters discussed in this news release may constitute forward-looking statements within the meaning of the federal securities laws that inherently include certain risks and uncertainties. Actual results and the timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, among other things, changes in interest rates on our real estate loan assets and borrowings, changes in prepayment rates on our real estate loan assets, general economic conditions, particularly as they affect the price of real estate loan and the credit status of borrowers, and the level of liquidity in the capital markets, as it affects our ability to finance our real estate loan portfolio, and other risk factors outlined in the Company’s 2003 Annual Report on Form 10-K and September 2004 Prospectus Supplement (available on the Company’s Web site or by request to the Contacts listed above). Other factors not presently identified may also cause actual results to differ. No one should assume that results or trends projected in or contemplated by the forward-looking statements included above will prove to be accurate in the future. We will revise our outlook from time to time and frequently will not disclose such revisions publicly.

REDWOOD TRUST, INC.

(All dollars in millions, except per share data)

CONSOLIDATED INCOME STATEMENT	Third Quarter 2004	Second Quarter 2004	First Quarter 2004	Fourth Quarter 2003	Third Quarter 2003
Interest Income	\$ 180.1	\$ 138.0	\$ 124.8	\$ 108.3	\$ 90.2
Interest Expense	(114.8)	(90.4)	(79.5)	(68.6)	(55.6)
Net Interest Income	\$ 65.3	\$ 47.6	\$ 45.3	\$ 39.7	\$ 34.6
Operating Expenses	(8.3)	(9.1)	(8.6)	(8.0)	(8.5)
Net Recognized Gains (Losses) and Valuation Adjustments	20.5	12.3	17.4	42.1	0.6
Variable Stock Option (Expense) Income	(0.2)	0.6	(1.4)	(2.7)	(0.5)
Provision For Income Taxes	(5.0)	(1.5)	(1.9)	(1.2)	(1.5)
One Time Deferred Tax Benefit	0.0	5.2	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
GAAP Earnings	\$ 72.3	\$ 55.1	\$ 50.8	\$ 69.9	\$ 24.7
Less: Net Recognized Gains (Losses) and Valuation Adjustments	(20.5)	(12.3)	(17.4)	(42.1)	(0.6)
Less: Variable Stock Option Expense (Income)	0.2	(0.6)	1.4	2.7	0.5
Less: One-Time Deferred Tax Benefit	0.0	(5.2)	0.0	0.0	0.0
Less: Premium Amortization Expense Adjustments	—	—	—	—	—
Core Earnings (1)	\$ 52.0	\$ 37.0	\$ 34.8	\$ 30.5	\$ 24.6
Average Diluted Shares (thousands)	22,728	21,325	20,399	19,801	19,018
GAAP Earnings per Share (Diluted)	\$ 3.18	\$ 2.58	\$ 2.49	\$ 3.53	\$ 1.30
Core Earnings per Share (1)	\$ 2.29	\$ 1.74	\$ 1.71	\$ 1.54	\$ 1.29
Estimated Total Taxable Income Per Share Outstanding	\$ 2.53	\$ 3.35	\$ 2.57	\$ 4.15	\$ 1.97
Estimated REIT Taxable Income Per Share Outstanding	\$ 2.10	\$ 2.81	\$ 2.15	\$ 4.00	\$ 1.83
Dividends Per Common Share (Regular)	\$ 0.67	\$ 0.67	\$ 0.67	\$ 0.65	\$ 0.65
Dividends Per Common Share (Special)	\$ 0.00	\$ 0.00	\$ 0.50	\$ 4.75	\$ 0.00
Total Dividends per Common Share	\$ 0.67	\$ 0.67	\$ 1.17	\$ 5.40	\$ 0.65
GAAP Net Interest Income / Average GAAP Equity	32.6%	28.7%	31.0%	28.4%	25.1%
Core Net Interest Income / Average Core Equity (2)	37.5%	32.6%	35.7%	33.8%	30.2%
GAAP ROE: GAAP Earnings/ Avg GAAP Common Equity	36.1%	33.2%	34.8%	50.0%	17.8%
Core ROE: Core Earnings / Avg Common Core Equity	29.9%	25.4%	27.5%	26.0%	21.4%

(1) Core earnings is not a measure of earnings in accordance with generally accepted accounting principles (GAAP). It is calculated as GAAP earnings from ongoing operations less net recognized gains (losses) and valuation adjustments (which include gains and losses from sales and calls and valuation adjustments on certain assets hedges) and other temporary or one-time adjustments. Management believes that core earnings provides relevant and useful information regarding its results from operations in addition to GAAP measures of performance. This is, in part, because market valuation adjustments on only a portion of the company's assets and stock options and none of its liabilities are recognized through the income statement under GAAP and thus GAAP valuation adjustments may not be fully indicative of changes in market values on the balance sheet as a whole or a reliable guide to current operating performance. Furthermore, gains or losses realized upon sales of assets vary based on portfolio management decisions; a sale of an asset for a gain or a loss may or may not affect on-going earnings from operations. Because all companies and analysts do not calculate non-GAAP measures such as core earnings in the same fashion, core earnings as calculated by the company may not be comparable to similarly titled measures reported by other companies.

(2) Core equity is calculated as GAAP equity less unrealized gains and losses on certain assets and hedges. Management believes measurements based on core equity provide relevant and useful information regarding its results of operations in addition to GAAP measures of performance. This is, in part, because market valuation adjustments reflected in GAAP equity represent unrealized gains and losses on a portion of the balance sheet only and may not be reflective of the equity available to invest in operations. Because all companies and analysts do not calculate non-GAAP measures in the same fashion, core equity and ratios using core equity as calculated by the company may not be comparable to similarly titled measures reported by other companies.

REDWOOD TRUST, INC.
(All dollars in millions, except per share data)

CONSOLIDATED INCOME STATEMENT	Nine Months 2004	Nine Months 2003
Interest Income	\$ 442.9	\$ 222.7
Interest Expense	(284.7)	(134.3)
Net Interest Income	158.2	88.4
Operating Expenses	(26.0)	(23.2)
Net Recognized Gains (Losses) and Valuation Adjustments	50.2	4.6
Variable Stock Option (Expense) Income	(1.0)	(3.0)
Provision For Income Taxes	(8.4)	(4.3)
One Time Deferred Tax Benefit	5.2	0.0
GAAP Earnings (Diluted)	\$ 178.2	\$ 62.5
Less: Dividends On and Earnings Allocated to Preferred	0.0	(1.2)
GAAP Earnings (1)	178.2	61.3
Less: Net Recognized Gains (Losses) and Valuation Adjustments	(50.2)	(4.6)
Less: Variable Stock Option Expense (Income)	1.0	3.0
Less: One Time Deferred Tax Benefit	(5.2)	0.0
Core Earnings (2)	\$ 123.8	\$ 59.7
Average Diluted Shares	21,486	18,165
GAAP Earnings per Share (Diluted) (2)	\$ 8.29	\$ 3.38
Core Earnings per Share (1)	\$ 5.76	\$ 3.29
Estimated Total Taxable Income Per Share Outstanding	\$ 8.45	\$ 5.48
Estimated REIT Taxable Income Per Share Outstanding	\$ 7.05	\$ 5.21
Dividends Per Common Share (Regular)	\$ 2.01	\$ 1.95
Dividends Per Common Share (Special)	\$ 0.50	\$ 0.00
Total Dividends Per Common Share	\$ 2.51	\$ 1.95
GAAP Net Interest Income / Average GAAP Equity	30.8%	22.9%
Core Net Interest Income / Average Core Equity (3)	35.4%	27.2%
GAAP Return on Equity: GAAP Earnings/ Average GAAP Equity	34.8%	16.3%
Core Return on Equity: Core Earnings / Average Core Equity	27.7%	19.0%

- (1) Core earnings is not a measure of earnings in accordance with generally accepted accounting principles (GAAP). It is calculated as GAAP earnings from ongoing operations less net recognized gains (losses) and valuation adjustments (which include gains and losses from sales and calls and valuation adjustments on certain assets hedges) and other temporary or one-time adjustments. Management believes that core earnings provides relevant and useful information regarding its results from operations in addition to GAAP measures of performance. This is, in part, because market valuation adjustments on only a portion of the company's assets and stock options and none of its liabilities are recognized through the income statement under GAAP and thus GAAP valuation adjustments may not be fully indicative of changes in market values on the balance sheet as a whole or a reliable guide to current operating performance. Furthermore, gains or losses realized upon sales of assets vary based on portfolio management decisions; a sale of an asset for a gain or a loss may or may not affect on-going earnings from operations. Because all companies and analysts do not calculate non-GAAP measures such as core earnings in the same fashion, core earnings as calculated by the company may not be comparable to similarly titled measures reported by other companies.
- (2) Historic periods may be lower than previously reported earnings per share numbers as a result of the application of EITF 03-6 (Participating Securities and the Two-Class Method under FASB Statement No. 128) requirement that prior period basic and diluted earnings per share be restated for participating securities. Under the provision of EITF 03-6 our convertible preferred stock that was converted in the second quarter of 2003 is a participating security and thus our reported earnings per share for periods 2003 and earlier are revised downwards by up to 2% per period.
- (3) Core equity is calculated as GAAP equity less unrealized gains and losses on certain assets and hedges. Management believes measurements based on core equity provide relevant and useful information regarding its results of operations in addition to GAAP measures of performance. This is, in part, because market valuation adjustments reflected in GAAP equity represent unrealized gains and losses on a portion of the balance sheet only and may not be reflective of the equity available to invest in operations. Because all companies and analysts do not calculate non-GAAP measures in the same fashion, core equity and ratios using core equity as calculated by the company may not be comparable to similarly titled measures reported by other companies.

REDWOOD TRUST, INC.

(All dollars in millions, except per share data)

CONSOLIDATED BALANCE SHEET	30-Sept 2004	30-Jun 2004	31-Mar 2004	31-Dec 2003	30-Sep 2003
Residential Real Estate Loans	\$21,558	\$19,916	\$18,086	\$16,239	\$13,813
Residential Home Equity Lines of Credit (HELOC)	317	327	—	—	—
Residential Loan Credit-Enhancement Securities	497	442	375	379	373
Commercial Real Estate Loans	33	34	22	22	24
Securities Portfolio	1,239	1,095	937	845	605
Cash and Cash Equivalents	76	38	58	59	32
Working Capital and Other Assets	134	110	66	83	54
Total Consolidated Assets	\$23,854	\$21,962	\$19,544	\$17,627	\$14,901
Redwood Trust Debt	\$ 246	\$ 270	\$ 278	\$ 236	\$ 500
Consolidated Asset-Back Securities Issued	22,622	20,870	18,583	16,783	13,782
Working Capital and Other Liabilities	84	64	75	55	53
Common Equity	902	758	608	553	566
Total Liabilities and Equity	\$23,854	\$21,962	\$19,544	\$17,627	\$14,901
Total GAAP Equity	\$ 902	\$ 758	\$ 608	\$ 553	\$ 566
Less: Accumulated Other Comprehensive Income	(96)	(111)	(79)	(82)	(91)
Core Equity	\$ 806	\$ 647	\$ 529	\$ 471	\$ 475
Less: Undistributed REIT Taxable Income	(139)	(110)	(69)	(53)	(83)
Adjusted Core Equity	\$ 667	\$ 537	\$ 460	\$ 418	\$ 392
Common Shares Outstanding at Period End (thousands)	23,346	21,511	19,796	19,063	18,468
GAAP Equity (GAAP Book Value) per Common Share	\$ 38.64	\$ 35.24	\$ 30.72	\$ 29.03	\$ 30.65
Core Equity (Core Book Value) per Common Share	\$ 34.52	\$ 30.06	\$ 26.75	\$ 24.72	\$ 25.75
Adjusted Core Equity per Share	\$ 28.55	\$ 24.96	\$ 23.25	\$ 21.92	\$ 21.24
Average Total Consolidated Assets	\$22,877	\$20,610	\$18,386	\$15,758	\$12,132
Average Consolidated Earning Assets	\$22,461	\$20,283	\$18,158	\$15,504	\$11,911
Average Debt and Asset Backed Securities Issued	\$22,011	\$19,890	\$17,747	\$15,120	\$11,542
Average Total GAAP Equity	\$ 802	\$ 664	\$ 584	\$ 559	\$ 553

REDWOOD TRUST, INC.

(All dollars in millions)

	30-Sep 2004	30-Jun 2004	31-Mar 2004	31-Dec 2003	30-Sep 2003
LEVERAGE RATIOS (1)					
Total Reported Consolidated Assets	\$ 23,854	\$ 21,962	\$ 19,544	\$ 17,627	\$ 14,901
Less: Assets Consolidated from Securitization Entities	(22,706)	(20,934)	(18,658)	(16,838)	(13,835)
Redwood's Direct Assets	\$ 1,148	\$ 1,028	\$ 886	\$ 789	\$ 1,066
Total Redwood Debt and Consolidated ABS Issued Securities	\$ 22,868	\$ 21,140	\$ 18,861	\$ 17,019	\$ 14,282
Less: Consolidated ABS Issued Securities	(22,622)	(20,870)	(18,583)	(16,783)	(13,782)
Redwood's Debt	\$ 246	\$ 270	\$ 278	\$ 236	\$ 500
Redwood Debt	\$ 246	\$ 270	\$ 278	\$ 236	\$ 500
Redwood Equity	902	758	608	553	566
Redwood Capital	\$ 1,148	\$ 1,028	\$ 886	\$ 789	\$ 1,066
Redwood Debt to GAAP Equity	0.3x	0.4x	0.5x	0.4x	0.9x
GAAP Equity / Redwood's Direct Assets	79%	74%	69%	70%	53%
Redwood Debt to Capital Ratio	21%	26%	31%	30%	47%

(1) The Asset-Backed Securities reported on our GAAP balance sheet as liabilities consist of Asset-Backed securities issued by bankruptcy-remote securitization entities. The owners of these securities have no recourse to Redwood and must look only to the assets of the securitization entities for repayment. Both the assets and liabilities of these entities, however, are consolidated on Redwood's balance sheet for GAAP reporting purposes. Management believes that an analyst could achieve insight into Redwood's business and balance sheet by distinguishing between debt that must be repaid by Redwood and Asset-Backed Securities that are consolidated onto Redwood's balance sheet from other entities. This table shows leverage ratios calculated for Redwood using measures that incorporate Redwood's debt only.

REDWOOD TRUST, INC.

(All dollars in millions, except per share data)

	Third Quarter 2004	Second Quarter 2004	First Quarter 2004	Fourth Quarter 2003	Third Quarter 2003
Consolidated Residential Real Estate Loans (1)					
Start of Period Balances	\$19,916	\$18,086	\$16,239	\$13,813	\$ 9,247
Acquisitions	2,898	2,703	2,322	2,897	4,997
Sales Proceeds (Not Including Sales to Consolidated Asset-Backed Securities Trusts)	(113)	0	0	(1)	0
Principal Pay Downs	(1,144)	(858)	(460)	(458)	(420)
Net Amortization Expense	2	(14)	(12)	(10)	(9)
Net Charge Offs (Recoveries)	0	0	0	0	0
Credit Provisions	(1)	(1)	(3)	(2)	(2)
Net Recognized Gains (Losses)	0	0	0	0	0
End of Period Balances	\$21,558	\$19,916	\$18,086	\$16,239	\$13,813
Average Amortized Cost During Period, Net of Credit Reserves	\$20,484	\$18,754	\$16,916	\$14,381	\$10,958
Interest Income	\$ 148	\$ 110	\$ 99	\$ 83	\$ 64
Yield	2.89%	2.34%	2.34%	2.30%	2.32%
Principal Value of Loans	\$21,382	\$19,767	\$17,951	\$16,111	\$13,704
Credit Reserve	(21)	(20)	(19)	(16)	(14)
Net Premium to be Amortized	197	169	154	144	123
Residential Real Estate Loans	\$21,558	\$19,916	\$18,086	\$16,239	\$13,813
Credit Reserve, Start of Period	\$ 20	\$ 19	\$ 16	\$ 14	\$ 12
Net Charge-Offs	0	0	0	0	0
Credit Provisions	1	1	3	2	2
Credit Reserve, End of Period	\$ 21	\$ 20	\$ 19	\$ 16	\$ 14
Delinquencies (90 days + FC + BK + REO)	\$ 11	\$ 5	\$ 3	\$ 5	\$ 2
Delinquencies as % of Residential Loans	0.05%	0.03%	0.02%	0.03%	0.01%
Net Charge-offs as % of Residential Loans (Annualized)	0.00%	0.00%	0.00%	0.01%	0.00%
Reserve as % of Residential Loans	0.10%	0.10%	0.10%	0.10%	0.10%
Reserve as % of Delinquencies	198%	374%	548%	301%	852%

(1) Includes loans securitized by securitization entities sponsored by Redwood that are consolidated on Redwood's GAAP balance sheet as well as loans owned directly by Redwood on a temporary basis prior to sale to a securitization entity.

REDWOOD TRUST, INC.

(All dollars in millions, except per share data)

	Third Quarter 2004	Second Quarter 2004	First Quarter 2004	Fourth Quarter 2003	Third Quarter 2003
Consolidated Residential Home Equity Lines of Credit (HELOC)					
Start of Period Balances	\$ 327	\$ 0	\$ 0	\$ 0	\$ 0
Acquisitions	0	335	0	0	0
Sales Proceeds (Not Including Sales to Consolidated Asset-Backed Securities Trusts)	0	0	0	0	0
Principal Pay Downs	(8)	(8)	0	0	0
Net Amortization Expense	(1)	(0)	0	0	0
Net Charge Offs (Recoveries)	0	0	0	0	0
Credit Provisions	(1)	(0)	0	0	0
Net Recognized Gains (Losses) & Valuation Adjustments	0	0	0	0	0
End of Period Balances	\$ 317	\$ 327	\$ 0	\$ 0	\$ 0
Average Amortized Cost During Period, Net of Credit Reserves	\$ 323	\$ 124	\$ 0	\$ 0	\$ 0
Interest Income	\$ 1	\$ 1	\$ 0	\$ 0	\$ 0
Yield	2.00%	1.73%	0.00%	0.00%	0.00%
Principal Value of Loans	\$ 309	\$ 317	\$ 0	\$ 0	\$ 0
Credit Reserve	(1)	(0)	0	0	0
Net Premium to be Amortized	9	10	0	0	0
Residential Home Equity Lines of Credit	\$ 317	\$ 327	\$ 0	\$ 0	\$ 0
Credit Reserve, Start of Period	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Charge-Offs	0	0	0	0	0
Credit Provisions	1	0	0	0	0
Credit Reserve, End of Period	\$ 1	\$ 0	\$ 0	\$ 0	\$ 0
Delinquencies (90 days + FC + BK + REO)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Delinquencies as % of HELOCs	0.00%	0.00%	0.00%	0.00%	0.00%
Net charge-offs as % of HELOCs (Annualized)	0.00%	0.00%	0.00%	0.00%	0.00%
Reserve as % of HELOCs	0.17%	0.08%	0.00%	0.00%	0.00%
Reserve as % of Delinquencies	0.00%	0.00%	0.00%	0.00%	0.00%

REDWOOD TRUST, INC.
(All dollars in millions, except per share data)

	Third Quarter 2004	Second Quarter 2004	First Quarter 2004	Fourth Quarter 2003	Third Quarter 2003
Consolidated Residential Loan Credit-Enhancement Securities (1)					
Start of Period Balances	\$ 442	\$ 375	\$ 379	\$ 373	\$ 393
Acquisitions	83	75	38	78	23
Sales Proceeds (Not Including Sales to Consolidated Asset-Backed Securities Trusts)	0	0	(22)	0	0
Principal Pay Downs (Including Calls)	(45)	(48)	(35)	(117)	(37)
Net Amortization Income	9	9	9	10	11
Unrealized (Losses) Gains Reported Through Balance Sheet	(12)	18	(12)	(12)	(21)
Realized Gains and Market Valuation Losses Reported in Income Statement	20	13	18	47	4
End of Period Balances	\$ 497	\$ 442	\$ 375	\$ 379	\$ 373
Average Amortized Cost During Period, Net of Credit Reserves	\$ 369	\$ 317	\$ 287	\$ 273	\$ 271
Interest Income	\$ 16	\$ 16	\$ 16	\$ 17	\$ 19
Yield	17.36%	20.27%	21.64%	25.49%	28.09%
Principal Value of Redwood's Credit-Enhancement Securities	\$ 831	\$ 713	\$ 634	\$ 624	\$ 604
Internally Designated Credit Protection on Loans Credit-Enhanced	(299)	(236)	(217)	(201)	(178)
Net Discount to be Amortized	(109)	(122)	(111)	(123)	(145)
Net Investment in Credit-Enhancement Securities	\$ 423	\$ 355	\$ 306	\$ 300	\$ 281
Net Unrealized Gains (Losses)	74	87	69	79	92
	\$ 497	\$ 442	\$ 375	\$ 379	\$ 373
Residential Loan Credit-Enhancement Securities					
Securities Senior to Redwood's Interests	\$120,685	\$96,322	\$70,684	\$67,463	\$43,024
Principal Value of Redwood's Credit-Enhancement Securities	831	713	634	624	604
Securities Junior to Redwood's Interests	69	70	44	46	52
Underlying Residential Real Estate Loan Balances	\$121,585	\$97,105	\$71,362	\$68,133	\$43,680
Internally Designated Credit Protection on Loans Credit-Enhanced	\$ 299	\$ 236	\$ 217	\$ 201	\$ 178
External Credit Enhancement on Loans Credit-Enhanced	69	70	44	46	52
Total Credit Protection (2)	\$ 368	\$ 306	\$ 261	\$ 247	\$ 230

	Third Quarter 2004	Second Quarter 2004	First Quarter 2004	Fourth Quarter 2003	Third Quarter 2003
Delinquencies (90 days + FC + BK + REO)	\$ 174	\$ 131	\$ 143	\$ 133	\$ 178
Redwood's Net Charge-Offs	\$ (1)	\$ (2)	\$ (0)	\$ (1)	\$ (1)
Losses to Securities Junior to Redwood's Interests	(0)	(0)	(0)	(1)	(0)
Total Underlying Loan Credit Losses	\$ (1)	\$ (2)	\$ (0)	\$ (2)	\$ (1)
Delinquencies as % of Underlying Loans	0.14%	0.14%	0.20%	0.19%	0.41%
Total Pool Credit Losses/Underlying Loans (Annualized)	0.01%	0.01%	0.01%	0.01%	0.01%
Total Credit Protection as % of Underlying Loans	0.30%	0.32%	0.37%	0.36%	0.53%
Total Credit Protection as % of Delinquencies	211%	233%	183%	187%	129%

(1) Includes credit-enhancement securities acquired from securitizations sponsored by third parties. Does not include residential CES acquired from securitizations sponsored by us.

(2) Total credit protection represents the aggregate of the internally designated credit reserve and the amount of any junior securities with respect to each credit-enhanced security. The credit protection amount for any credit-enhanced security is only available to absorb losses on the pool of loans related to that security. To the extent such losses exceed the credit protection amount for that security, a charge-off of the net investment in that security would result.

REDWOOD TRUST, INC.

(All dollars in millions, except per share data)

	Third Quarter 2004	Second Quarter 2004	First Quarter 2004	Fourth Quarter 2003	Third Quarter 2003
TOTAL MANAGED RESIDENTIAL LOANS (1)					
Residential Real Estate Loans Owned by Redwood	\$ 259	\$ 161	\$ 97	\$ 43	\$ 406
Residential Real Estate Loans Securititized by Redwood	21,299	19,755	17,989	16,196	13,407
Residential Real Estate Loans Securititized by Others	<u>121,585</u>	<u>97,105</u>	<u>71,362</u>	<u>68,133</u>	<u>43,680</u>
Total Residential Real Estate Loans Managed	\$143,143	\$117,021	\$89,448	\$84,372	\$57,493
Credit Reserve on Residential Loans Securititized by Redwood	\$ 21	\$ 20	\$ 19	\$ 16	\$ 14
Internally Designated Credit Reserve on Loans Securititized by Others	299	236	217	201	178
Redwood's Total Residential Credit Protection	\$ 320	\$ 256	\$ 236	\$ 217	\$ 192
External Credit Enhancement on Loans Securititized by Others	<u>69</u>	<u>70</u>	<u>44</u>	<u>46</u>	<u>52</u>
Total Credit Protection (2)	\$ 389	\$ 326	\$ 280	\$ 263	\$ 244
Total Credit Protection as % of Total Residential Loans	0.27%	0.28%	0.31%	0.31%	0.42%
Delinquencies for Residential Loans owned by Redwood	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Delinquencies for Residential Loans Securititized by Redwood	11	5	3	5	2
Delinquencies for Residential Loans Securititized by Others	<u>174</u>	<u>131</u>	<u>143</u>	<u>133</u>	<u>178</u>
Total Residential Loan Serious Delinquencies	\$ 185	\$ 136	\$ 146	\$ 138	\$ 180
Delinquencies as % of Total Residential Loans	0.13%	0.12%	0.16%	0.16%	0.31%
Total Credit Protection as % of Delinquencies	211%	239%	191%	191%	136%
Net Charge-Offs on Residential Loans Owned by Redwood	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Charge-Offs on Residential Loans Securititized by Redwood	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Charge-Offs on Residential Loan Securititized by Others	<u>(1)</u>	<u>(2)</u>	<u>0</u>	<u>(1)</u>	<u>(1)</u>
Redwood's Shares of Net Credit (Losses) Recoveries	\$ (1)	\$ (2)	\$ 0	\$ (1)	\$ (1)
Credit Losses to External Credit Enhancement	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1)</u>	<u>0</u>
Total Residential Credit Losses	\$ (1)	\$ (2)	\$ 0	\$ (2)	\$ (1)
Total Credit Losses as % of Total Residential Loans (Annualized)	0.01%	0.01%	0.01%	0.01%	0.01%

(1) Includes loans securitized by Sequoia securitization entities sponsored by Redwood from which Redwood has acquired the residential CES plus loans securitized by third parties from which Redwood has required the residential credit-enhanced securities, plus loans held temporarily by Redwood prior to securitization.

(2) The credit reserve on residential real estate loans owned is only available to absorb losses on the residential real estate loan portfolio. The internally designated credit reserve on loans credit-enhanced and the external credit enhancement on loans credit-enhanced are only available to absorb losses on the pool of loans related to each individual credit-enhancement security.

REDWOOD TRUST, INC.

(All dollars in millions, except per share data)

	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Commercial Real Estate Loans					
Start of Period Balances	\$ 34	\$ 22	\$ 22	\$ 24	\$ 35
Acquisitions	0	17	0	0	1
Sales Proceeds (Not Including Sales to Consolidated Asset-Backed Securities Trusts)	0	(2)	0	0	(1)
Principal Pay Downs	0	(3)	0	0	(11)
Net Amortization Income	(1)	0	0	0	0
Credit Provisions	0	0	0	(1)	0
Net Loss Adjustments through I/S	0	0	0	(1)	0
End of Period Balances	\$ 33	\$ 34	\$ 22	\$ 22	\$ 24
Average Amortized Cost During Period, Net of Credit Reserves	\$ 33	\$ 26	\$ 22	\$ 23	\$ 30
Interest Income	\$ 1.0	\$ 0.9	\$ 0.7	\$ 0.2	\$ 0.9
Yield	12.40%	13.29%	12.56%	4.16%	12.33%
Principal Value of Loans	\$ 43	\$ 43	\$ 31	\$ 31	\$ 31
Credit Reserve and Credit Protection	(9)	(8)	(8)	(8)	(7)
Net Discount to be Amortized	(1)	(1)	(1)	(1)	(0)
Commercial Mortgage Loans	\$ 33	\$ 34	\$ 22	\$ 22	\$ 24
Commercial Real Estate Loan Delinquencies	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Commercial Real Estate Loan Net Charge-Offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Commercial Real Estate Loan Credit Provisions	\$ 0	\$ 0	\$ 0	\$ 1	\$ 0
Commercial Real Estate Loan Credit Reserves and Credit Protection	\$ 8	\$ 8	\$ 8	\$ 8	\$ 7

	Third Quarter 2004	Second Quarter 2004	First Quarter 2004	Fourth Quarter 2003	Third Quarter 2003
Securities Portfolio					
Start of Period Balances	\$ 1,095	\$ 937	\$ 845	\$ 605	\$ 596
Acquisitions	151	193	86	257	28
Sales Proceeds (Not Including Sales to Consolidated Asset-Backed Securities Trusts)	0	(9)	0	0	0
Principal Pay Downs	(18)	(10)	(10)	(17)	(13)
Net Amortization Income (Expense)	0	(1)	0	(1)	0
Net Unrealized Gains (Losses)	11	0	16	4	(3)
Net Recognized Gains (Losses) & Valuation Adjustments	0	(15)	0	(3)	(3)
End of Period Balances	\$ 1,239	\$ 1,095	\$ 937	\$ 845	\$ 605
Average Amortized Cost During Period	\$ 1,149	\$ 980	\$ 862	\$ 710	\$ 603
Interest Income	\$ 13	\$ 11	\$ 10	\$ 8	\$ 6
Yield	4.62%	4.30%	4.46%	4.40%	4.30%
Principal Value of Securities	1,243	1,097	921	833	599
Net (Discount) Premium to be Amortized	(20)	(7)	(4)	8	7
Net Unrealized Gains (losses)	16	5	20	4	(1)
Securities Portfolio	\$ 1,239	\$ 1,095	\$ 937	\$ 845	\$ 605

REDWOOD TRUST, INC.

(All dollars in millions, except per share data)

Differences Between GAAP Net Income and Estimated Total Taxable and REIT Taxable Income

	Estimated For the Three Months Ended September 30, 2004	Estimated For the Nine Months Ended September 30, 2004	Actual For the Year Ended December 31, 2003
GAAP Net Income	\$ 72.3	\$ 178.2	\$ 131.7
Interest Income and Expense Differences	(23.5)	(19.5)	22.3
Provision for Credit Losses - GAAP	1.5	5.5	8.7
Tax Deductions for Realized Credit Losses	(0.1)	(0.6)	(0.8)
Long-Term Compensation Differences	2.0	6.7	1.8
Stock Option Exercise Deductions Differences	(2.4)	(13.9)	3.2
Depreciation of Fixed Asset Differences	(0.6)	(0.5)	(0.7)
Other Operating Expense Differences	(0.0)	(0.0)	0.9
Sales of Assets to Third Parties Differences	(0.5)	(1.7)	(0.0)
Call Income from Residential CES Differences	(4.0)	(8.0)	(8.4)
Tax Gain on Securitizations	11.2	21.5	—
Tax Gain on Intercompany Sales and Transfers	0.0	7.5	2.8
GAAP Market Valuation Write Downs (EITF 99-20)	0.4	4.8	7.6
Interest Rate Agreements Differences	(0.3)	0.3	(0.2)
Provision for Excise Tax - GAAP	0.3	0.8	1.2
Provision for Income Tax Differences	2.8	1.0	5.5
Preferred Dividend - GAAP	0.0	0.0	0.7
Total Taxable Income (Pre-Tax)	\$ 59.1	\$ 182.1	\$ 176.3
(Earnings) Losses From Taxable Subsidiaries	(10.1)	(30.2)	(7.9)
REIT Taxable Income (Pre-Tax)	49.0	151.9	168.4
GAAP Income per Share Based on Average Diluted Shares During Period (2)	\$ 3.18	\$ 8.29	\$ 7.04
Total Taxable Income per Share Based on Shares Outstanding at Period End	\$ 2.53	\$ 8.45	\$ 9.64
REIT Taxable Income per Share Based on Shares Outstanding at Period End	\$ 2.10	\$ 7.05	\$ 9.21

(1) *Estimated total taxable income and estimated REIT taxable income are not GAAP performance measures but are important measures as they are the basis of our dividend distributions to shareholders.*

(2) *Historic periods may be lower than previously reported earnings per share numbers as a result of the application of EITF 03-6 (Participating Securities and the Two-Class Method under FASB Statement No. 128) requirement that prior period basic and diluted earnings per share be restated for participating securities. Under the provision of EITF 03-6 our convertible preferred stock that was converted in the second quarter of 2003 is a participating security and thus our reported earnings per share for periods 2003 and earlier are revised downwards by up to 2% per period..*

[END]