**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 8-K/A**
**(Amendment No. 2)**

**CURRENT REPORT**
**Pursuant to Section 13 or 15(d) of the**
**Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): October 14, 2019**

# REDWOOD TRUST, INC.

(Exact name of registrant as specified in its charter)

| **Maryland** | **001-13759** | **68-0329422** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification Number) |

**One Belvedere Place**
**Suite 300**
**Mill Valley, California 94941**
(Address of principal executive offices, including 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:

☐ 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))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

Emerging growth company ☐

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

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

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

## Explanatory Note

Redwood Trust, Inc. ("Redwood") is filing this Amendment No. 2 on Form 8-K/A (this "Second Amendment") to amend the Form 8-K filed with the Securities and Exchange Commission on October 15, 2019 (the "Original Report") relating to the acquisition (the "Acquisition") from CF CoreVest Parent I LLC, CF CoreVest Parent II LLC and CoreVest Management Partners LLC (collectively, the "Sellers") of all of the Sellers' equity interests in CF CoreVest Holdings I LLC ("Holdings I"), CF CoreVest Holdings II LLC ("Holdings II"), and several of its affiliates ("CoreVest"), including the promote interests in CF CoreVest UST Asset Investor I LLC and CF CoreVest UB Asset Investor II LLC. On October 22, 2019, Redwood filed Amendment No. 1 on Form 8-K/A (the "First Amendment") to amend the Original Report to include Item 9.01(a) and (b) disclosure related to certain required financial statements. This Second Amendment is being filed to update Item 9.01(a) and (b) disclosure related to certain required financial statements. No disclosure of the text in Item 1.01 (Entry into a Material Definitive Agreement), Item 2.01 (Completion of Acquisition or Disposition of Assets), Item 7.01 (Regulation FD Disclosure) or Item 9.01(d) (Financial Statements and Exhibits) of the Original Report was changed as a result of the First Amendment or this Second Amendment except for the addition of the exhibits listed in Item 9.01(d) of this Second Amendment.

**Item 9.01 Financial Statements and Exhibits.**

(a) Financial Statements of Businesses Acquired.

The consolidated financial statements (unaudited) of Holdings I for the nine months ended September 30, 2019 and 2018, and the consolidated financial statements of Holdings I for the year ended December 31, 2018 are filed as Exhibit 99.1 and Exhibit 99.3, respectively, to this Second Amendment and are incorporated by reference herein.

The consolidated financial statements (unaudited) of Holdings II for the nine months ended September 30, 2019 and 2018, and the consolidated financial statements of Holdings II for the year ended December 31, 2018 are filed as Exhibit 99.2 and Exhibit 99.4, respectively, to this Second Amendment and are incorporated by reference herein.

(b) Pro Forma Financial Information.

This Second Amendment includes Redwood and CoreVest unaudited pro forma condensed combined financial statements, including condensed combined balance sheets of Redwood and CoreVest giving effect to the Acquisition as if it had been consummated on September 30, 2019. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2019 and for the year ended December 31, 2018 present the historical consolidated statements of operations of Redwood and CoreVest, giving effect to the Acquisition as if it had been consummated on January 1, 2018, the beginning of the earliest period presented. This unaudited pro forma financial information is filed as Exhibit 99.5 to this Second Amendment and is incorporated herein by reference.

This unaudited pro forma financial information is not necessarily indicative of the expected financial position or results of Redwood's operations for any future period. Differences could result from numerous factors, including changes in market conditions or benchmark interest rates, changes in Redwood's capital structure, changes in Redwood's portfolio of investments, changes in Redwood's operating expenses, exposure to new or increased risks as a result of the Acquisition, failure to effectively integrate operations, and for other reasons, including those discussed in our Annual Report on Form 10-K for the year ended December 31, 2018 and in subsequent Quarterly Reports on Form 10-Q.

(d) Exhibits.

| | |
|---|---|
| 23.1 | Consent of Independent Auditors |
| 99.1 | Consolidated financial statements (unaudited) of CF CoreVest Holdings I LLC for the nine months ended September 30, 2019 and 2018 |
| 99.2 | Consolidated financial statements (unaudited) of CF CoreVest Holdings II LLC for the nine months ended September 30, 2019 and 2018 |
| 99.3 | Consolidated financial statements of CF CoreVest Holdings I LLC for the year ended December 31, 2018 |
| 99.4 | Consolidated financial statements of CF CoreVest Holdings II LLC for the year ended December 31, 2018 |
| 99.5 | Unaudited pro forma condensed combined balance sheets of Redwood and CoreVest as of September 30, 2019, unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2019 and for the year ended December 31, 2018 |
| 104 | Cover Page Interactive Data File (formatted in Inline XBRL in Exhibit 101) |

**SIGNATURES**

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

Date: December 26, 2019

REDWOOD TRUST, INC.

By: /s/ Collin L. Cochrane
Name: Collin L. Cochrane
Title: Chief Financial Officer

**Exhibit 23.1**

**Consent of Independent Auditors**

We consent to the incorporation by reference in the following registration statements:

- Registration Statement (Form S-3 No. 333-231338) of Redwood Trust, Inc.,
- Registration Statement (Form S-8 No. 333-89300) pertaining to the 2002 Redwood Trust, Inc. Incentive Stock Plan,
- Registration Statement (Form S-8 No. 333-89302) pertaining to the 2002 Redwood Trust, Inc. Employee Stock Purchase Plan,
- Registration Statement (Form S-8 No. 333-90592) pertaining to the Redwood Trust, Inc. Executive Deferred Compensation Plan,
- Registration Statement (Form S-8 No. 333-116395) pertaining to the 2002 Redwood Trust, Inc. Incentive Stock Plan,
- Registration Statement (Form S-8 No. 333-136497) pertaining to the 2002 Redwood Trust, Inc. Incentive Plan,
- Registration Statement (Form S-8 No. 333-155154) pertaining to the 2002 Redwood Trust, Inc. Incentive Plan (as amended),
- Registration Statement (Form S-8 No. 333-162893) pertaining to the 2002 Redwood Trust, Inc. Employee Stock Purchase Plan,
- Registration Statement (Form S-8 No. 333-176102) pertaining to the 2002 Redwood Trust, Inc. Incentive Plan (as amended),
- Registration Statement (Form S-8 No. 333-183114) pertaining to the 2002 Redwood Trust, Inc. Employee Stock Purchase Plan,
- Registration Statement (Form S-8 No. 333-183116) pertaining to the 2002 Redwood Trust, Inc. Incentive Plan,
- Registration Statement (Form S-8 No. 333-190529) pertaining to the 2002 Redwood Trust, Inc. Employee Stock Purchase Plan,
- Registration Statement (Form S-8 No. 333-190530) pertaining to the 2002 Redwood Trust, Inc. Incentive Plan,
- Registration Statement (Form S-8 No. 333-196247) pertaining to the Redwood Trust, Inc. 2014 Incentive Award Plan,
- Registration Statement (Form S-8 No. 333-197990) pertaining to the Redwood Trust, Inc. Amended and Restated Executive Deferred Compensation Plan,
- Registration Statement (Form S-8 No. 333-226721) pertaining to the Redwood Trust, Inc. Amended and Restated 2014 Incentive Award Plan,
- Registration Statement (Form S-8 No. 333-229985) pertaining to the Redwood Trust, Inc. Amended and Restated Executive Deferred Compensation Plan, and
- Registration Statement (Form S-8 No. 333-233158) pertaining to the 2002 Redwood Trust, Inc. Employee Stock Purchase Plan;

of our report dated April 30, 2019 (except for Notes 9, 12 and 13 as to which the date is December 23, 2019), with respect to the consolidated financial statements of CF CoreVest Holdings I LLC, and our report dated December 23, 2019, with respect to the consolidated financial statements of CF CoreVest Holdings II LLC, included in this Current Report on Form 8-K/A.

/s/ Ernst & Young LLP

Los Angeles, California
December 23, 2019

**Exhibit 99.1**

Consolidated Financial Statements (Unaudited)

CF CoreVest Holdings I LLC and Subsidiaries
For the Nine Months Ended September 30, 2019 and 2018

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Financial Statements (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**

**Table of Contents**


Consolidated Financial Statements (Unaudited)

| | |
|---|---|
| Consolidated Balance Sheets | 3 |
| Consolidated Statements of Operations | 4 |
| Consolidated Statements of Equity | 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7 |

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Balance Sheets (Unaudited)**
**As of September 30, 2019 and December 31, 2018**
**(In Thousands)**

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Loans held for investment, at fair value (Note 4) | $ 2,205,575 | $ 1,262,589 |
| Cash | 19,663 | 18,078 |
| Restricted cash | 52,238 | 24,753 |
| Receivables | 22,033 | 19,108 |
| Related party receivable | 220 | - |
| Real estate owned | 2,916 | 727 |
| Other assets, net | 2,039 | 1,703 |
| **Total assets** | $ 2,304,684 | $ 1,326,958 |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| **Liabilities:** | | |
| Secured financing facilities, at fair value (Note 5) | $ 623,091 | $ 296,805 |
| Secured notes, at fair value (Note 5) | 1,310,995 | 752,176 |
| Accounts payable and accrued expenses | 18,171 | 13,228 |
| Related party payable | - | 14 |
| Borrower deposits | 3,339 | 2,554 |
| Other liabilities | 44,112 | 22,645 |
| **Total liabilities** | 1,999,708 | 1,087,422 |
| **Equity:** | | |
| Members' equity | 302,922 | 238,844 |
| Noncontrolling interest | 2,054 | 692 |
| **Total equity** | 304,976 | 239,536 |
| **Total liabilities and equity** | $ 2,304,684 | $ 1,326,958 |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Statements of Operations (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**
**(In thousands)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| **Revenue** | | |
| Interest income | $ 79,249 | $ 37,188 |
| Interest expense | 52,913 | 21,487 |
| Net interest income | 26,336 | 15,701 |
| Origination fees | 15,203 | 5,959 |
| Asset management fees | 962 | 3,462 |
| Other fees | 3,730 | 1,749 |
| Total revenue | 46,231 | 26,871 |
| | | |
| **Expenses** | | |
| Salaries and employee benefits | 12,563 | 9,922 |
| Loan servicing | 3,039 | 2,475 |
| General and administrative | 9,479 | 5,738 |
| Total expense | 25,081 | 18,135 |
| | | |
| **Other income (expense)** | | |
| Net realized gains on sales of loans | 1,769 | 534 |
| Net realized gains (losses) on sales of real estate owned | 24 | (23) |
| Net realized gains on sales of securities | 1,254 | - |
| Net gains (losses) on non-designated hedges | (15,647) | 3,284 |
| Net unrealized gains | 28,972 | 6,144 |
| Total other income (expense) | 16,372 | 9,939 |
| | | |
| **Net income** | **37,522** | **18,675** |
| | | |
| Net income attributable to noncontrolling interest | 2,054 | 513 |
| Net income attributable to members | **$ 35,468** | **$ 18,162** |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Statements of Equity (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**
**(In thousands)**

| | Members' Equity | Noncontrolling Interest | Total Equity |
|---|---|---|---|
| **Balance at December 31, 2017** | $ 149,211 | $ - | $ 149,211 |
| Contributions | 83,571 | - | 83,571 |
| Distributions | (90,000) | - | (90,000) |
| Net income | 18,162 | 513 | 18,675 |
| **Balance at September 30, 2018** | $ 160,944 | $ 513 | $ 161,457 |
| | | | |
| **Balance at December 31, 2018** | $ 238,844 | $ 692 | $ 239,536 |
| Contributions | 188,110 | - | 188,110 |
| Distributions | (159,500) | (692) | (160,192) |
| Net income | 35,468 | 2,054 | 37,522 |
| **Balance at September 30, 2019** | $ 302,922 | $ 2,054 | $ 304,976 |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Statements of Cash Flows (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**
**(In thousands)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| **Cash Flows From Operating Activities:** | | |
| Net income | $ 37,522 | $ 18,675 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net realized gains on sale of loans | (1,769) | (534) |
| Net realized gains on sale of securities | (1,254) | - |
| Net realized (gains) losses on sales of real estate owned (REO) | (24) | 23 |
| Net (gains) losses on non-designated hedges | 15,647 | (3,284) |
| Net unrealized gains | (28,972) | (6,144) |
| Depreciation on fixed assets | 51 | 22 |
| Net change in: | | |
| Receivables | (5,120) | (1,531) |
| Related party receivables | (220) | 826 |
| Other assets | (123) | 123 |
| Accounts payable and accrued expenses | 4,171 | 1,284 |
| Related party payable | (14) | - |
| Borrower deposits | 816 | 932 |
| Other liabilities | 22,484 | 10,331 |
| Net cash provided by operating activities | 43,195 | 20,723 |
| | | |
| **Cash Flows From Investing Activities:** | | |
| Repayments of principal on loans receivable | 213,921 | 152,364 |
| Net disbursements on originated and purchased loans | (1,141,106) | (444,331) |
| Net proceeds from non-designated hedges | (16,705) | 2,820 |
| Net proceeds received on sale of loans | 53,234 | 24,971 |
| Net proceeds received on sale of securities | 7,913 | - |
| Net proceeds received on sale of real estate owned | 328 | 2,951 |
| Other investing activities, net | (223) | (120) |
| Net cash used in investing activities | (882,638) | (261,345) |
| | | |
| **Cash Flows From Financing Activities:** | | |
| Proceeds from secured financing | 980,949 | 367,512 |
| Repayments of secured financing | (654,664) | (322,233) |
| Proceeds from issuance of secured notes | 554,357 | 221,328 |
| Repayments of secured notes | (40,046) | (10,521) |
| Contributions from members | 188,110 | 83,571 |
| Distributions to members | (159,500) | (90,000) |
| Distributions to noncontrolling interest | (692) | - |
| Net cash provided by financing activities | 868,514 | 249,657 |
| | | |
| Net increase in cash and restricted cash | 29,070 | 9,035 |
| Cash and restricted cash at beginning of period | 42,831 | 27,734 |
| Cash and restricted cash at end of period | $ 71,901 | $ 36,769 |
| | | |
| **Supplemental Cash Flow Information:** | | |
| Cash paid during the period for interest | $ 50,221 | $ 20,642 |
| | | |
| **Supplemental Noncash Information:** | | |
| Repayments of principal on loans receivable due from servicer | $ 9,138 | $ 4,211 |
| Transfers from loans to REO | $ 2,493 | $ 2,303 |
| | | |
| **Reconciliation of Cash and Restricted Cash to Balance Sheet:** | | |
| As of Beginning of Period: | | |
| Cash | $ 18,078 | $ 16,783 |
| Restricted cash | 24,753 | 10,951 |
| Total cash and restricted cash | $ 42,831 | $ 27,734 |
| | | |
| As of End of Period: | | |
| Cash | $ 19,663 | $ 15,421 |
| Restricted cash | 52,238 | 21,348 |
| Total cash and restricted cash | $ 71,901 | $ 36,769 |

**CF CoreVest Holdings I LLC and Subsidiaries**
**Notes to Consolidated Financial Statements (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**

## 1. ORGANIZATION

CF CoreVest Holdings I LLC ("CoreVest I" or the "Company"), a Delaware limited liability company, was formed on May 31, 2017. On July 17, 2017, the Company was capitalized by contributions from its members and acquired a portfolio of term and bridge loans collateralized by single family residential real estate, along with related secured financing facilities debt and other assets and liabilities.

CoreVest American Finance Lender, LLC ("CAFL"), a wholly owned subsidiary of CoreVest I, possesses all appropriate state lending licenses and originates all mortgages of the Company. All loans originated by CAFL are immediately sold to CF CoreVest Purchaser LLC ("Purchaser"), a wholly owned subsidiary of CF CoreVest UST Asset Investor I LLC ("Investor I"), a wholly owned subsidiary of CoreVest I. CAFL originated and sold $0.9 billion and $1.1 billion of loans to Purchaser for the year ended December 31, 2018 and for the period from January 1, 2019 through September 30, 2019, respectively. In addition, CAFL provides all management and advisory functions for Investor I and CF CoreVest UB Asset Investor II LLC ("Investor II"), a wholly owned subsidiary of CF CoreVest Holdings II ("CoreVest II"), such as day-to-day operations and all strategic initiatives as may be appropriate, in exchange for management fees. CoreVest II is an affiliate under common control with the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (''GAAP'') for interim financial information as prescribed by the Financial Accounting Standards Board's (''FASB'') Accounting Standards Codification (''ASC''). The consolidated financial statements, including these notes, are unaudited and exclude certain disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) for a fair presentation of the consolidated financial statements. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Actual results could differ from those estimates.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Consolidation*

The Company consolidates entities in which it retains a controlling financial interest or entities that meet the definition of a variable interest entity ("VIE") for which the Company is the primary beneficiary. In performing its analysis of whether an entity is a VIE, the Company considers whether (i) the entity has sufficient equity to finance its activities without subordinated financial support; (ii) the equity holders of the entity have the characteristics of a controlling financial interest, including the power, through voting or similar rights, to direct the activities of the entity that most significantly affect its economic performance; or (iii) the entity is established with non-substantive voting rights and conducts substantially all of its activities on behalf of the equity holder with disproportionately few voting rights. In performing its analysis of whether it is the primary beneficiary, the Company considers whether it individually has the power to direct the activities of the VIE that most significantly affect its economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The determination of whether an entity is a VIE, and whether the Company is the primary beneficiary, which is performed at initial investment and each reporting period thereafter, involves significant judgments, including the determination of which activities most significantly affect the entities' economic performance, estimates about the current and future fair values and economic performance of assets held by the VIE, and general market conditions.

As more fully described in Note 5, in October 2017, December 2017, July 2018, December 2018, April 2019 and July 2019, the Company securitized loans by entering into secured note payable arrangements. The notes were transferred into trusts that issued and sold pass-through certificates approximating the principal amount of the notes. The Company retained beneficial interests in the securitization vehicles in the form of subordinate securities. Affiliates of the Company appointed a third party to act as special servicer of the underlying collateral mortgage loans. The special servicer has the power to direct activities during the loan workout process on defaulted and delinquent loans as permitted by the underlying contractual agreements, which is subject to the consent of the Company, as the controlling class representative or directing holder who, under certain circumstances, has the right to unilaterally remove the special servicer. Because the Company's rights as the directing holder and controlling class representative provide it with the ability to direct activities that most significantly impact the economic performance of the securitization vehicles, for example, responsibility over decisions related to loan modifications and workouts, the Company maintains effective control over the loans transferred into the securitization trusts. Considering the positions retained by the Company in the securitization vehicles together with its role as controlling class representative or directing holder, the Company is deemed to be the primary beneficiary and consolidates securitization vehicles. Accordingly, these securitizations did not qualify as sale transactions and are accounted for as secured financings with the underlying mortgage loans pledged as collateral. All of the underlying assets, liabilities, equity, revenue and expenses of the securitization vehicles are consolidated within the consolidated financial statements. The Company's exposure to the obligations of the securitization vehicles is generally limited to its investment in these entities, which was $131.1 million and $97.8 million as of September 30, 2019 and December 31, 2018, respectively.

The Company has elected the fair value option for its loans held for investment and related debt, including the loans held for investment and related secured notes of each consolidated securitization vehicle. Accordingly, the Company has also elected the measurement alternative for consolidated collateralized financing entities, which permits it to measure the financial assets and financial liabilities of the consolidated securitization trusts using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The Company has determined that the fair value of the financial liabilities is more observable. Accordingly, the secured notes of each consolidated securitization vehicle are measured at fair value and the loans held for investment are measured in consolidation as the sum of (i) the fair value of the related secured notes plus (ii) the fair value of the beneficial interests retained by the Company. The Company's fair value measurements and related disclosures are more fully described in Note 6.

If a legal entity fails to meet any of the three characteristics of a VIE, the Company then evaluates such entity under the voting model. Under the voting model, the Company consolidates the entity if it determines that it, directly or indirectly, has greater than 50% of the voting shares and that other equity holders do not have substantive participating rights. If the Company has a variable interest in a VIE but is not the primary beneficiary, or if the Company has the ability to exercise significant influence over a voting interest entity but does not have control, it accounts for its investment using the equity method of accounting.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Fair Value Option*

Upon certain specified events, including the acquisition of certain eligible financial assets and financial liabilities, GAAP provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for such eligible assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported as a component of net income or loss. The decision to elect the fair value option is determined on an instrument by instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in the consolidated balance sheet from those instruments using another accounting method. The Company has elected the fair value option for its loans held for investment, secured notes and secured financing facilities, primarily to mitigate accounting mismatches that may arise between the values of securitized or to-be-securitized assets and related liabilities, which are generally recourse only to the securitized assets. The Company has not elected the fair value option for any other financial instruments, which are carried at cost with fair value disclosed where reasonably estimable (see Note 6).

*Cash and Cash Equivalents*

The Company considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The Company did not have any cash equivalents at September 30, 2019. The Company maintains its cash accounts in commercial banks. At various times during the year, the Company had deposits in excess of federally insured limits.

*Restricted Cash*

Restricted cash primarily includes escrow deposits from borrowers for various purposes, including property taxes, insurance, replacement reserves and interest reserves with a corresponding liability. In addition, cash balances are maintained as required by the broker-dealer in support of the Company's derivative hedging operations.

*Loans Held for Investment*

Loans that the Company has the intent and ability to hold for the foreseeable future are classified as held for investment. Interest income on performing loans is recognized based upon the contractual terms and outstanding principal balance of the loans. Since the Company has elected the fair value option, origination fees and direct loan costs are recorded directly in income and are not deferred. When a loan is prepaid, prepayment fees or yield maintenance fees and any excess of proceeds over the carrying amount of the loan are recognized as a component of other income in the consolidated statement of operations. Fees and premiums on loans prepaid during the nine-months ended September 30, 2019 and September 30, 2018 totaled $2.8 million and $0.9 million, respectively.

*Past Due Loans*

The Company places loans on nonaccrual status when any portion of principal or interest is more than 90 days past due, or earlier when concern exists as to the ultimate collection of principal or interest. When a loan is placed on nonaccrual status, the Company reverses the accrual for unpaid interest and does not recognize interest income until the cash is received and the loan returns to accrual status. Generally, a loan may be returned to accrual status when all delinquent principal and interest are brought current in accordance with the terms of the loan agreement and the borrower has met certain performance criteria.

*Receivables*

The Company outsources the servicing of loans to third parties (the "Servicers"). Servicers collect interest income, fees and principal payoffs from borrowers and then remit payments to the Company per the contractual terms of the servicing agreements. Funds received by the Servicers, but not yet paid to the Company, are included in receivables on the accompanying consolidated balance sheets. The Company also has unpaid interest due from borrowers based on the contractual terms of the loan included in receivables on the accompanying consolidated balance sheets.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Real Estate Owned (REO) Assets*

REO assets acquired through foreclosure are recorded at fair value as of the date of foreclosure, typically using broker opinions of value or third-party appraisals of the underlying collateral. REO assets that are available for sale in their current condition and for which it is probable that a sale will occur within twelve months of the foreclosure date are classified as “held for sale.” Subsequent to the foreclosure date, assets held for sale are carried at the lower of carrying value or fair value less estimated costs to sell, with decreases in estimated fair value included as a component of losses on real estate owned on the consolidated statement of operations.

If the Company intends to hold REO for more than twelve months, the asset is classified as “held for use” and the initial basis is allocated to the various components (principally land and building) based upon relative fair value. Held for use REO assets are subsequently carried at historical cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the REO assets, which is typically 40 years for buildings. Depreciation expense is included in general and administrative expense on the consolidated statement of operations.

Carrying costs incurred after the acquisition of REO, including property taxes and insurance, are expensed as incurred.

*Other Assets*

Other assets include prepaid expenses, lease deposits and fixed assets, net. Fixed assets consist primarily of furniture, fixtures and equipment and are recorded at historical cost less depreciation, which approximates fair value. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which generally range from 5 to 15 years.

*Borrower Deposits*

Borrower deposits relate to funds received from potential borrowers for which term sheets have been executed. Once a term sheet is executed, more extensive due diligence is performed by the underwriting team to originate the loan. Any unused deposits are returned to the borrower upon the origination of the loan or if the loan does not close.

*Transfers of Financial Assets*

Sale accounting for transfers of financial assets is limited to the transfer of an entire financial asset, a group of financial assets in their entirety, or if a component of the financial asset is transferred, when the component meets the definition of a participating interest.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. If the Company has any continuing involvement, rights or obligations with the transferred financial asset (outside of standard representations and warranties), sale accounting would require that the transfer meets the following sale conditions: (i) the transferred asset has been legally isolated; (ii) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset; and (iii) the Company does not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by the Company to repurchase or redeem the asset before its maturity, (b) the unilateral ability by the Company to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring the Company to repurchase the asset at a price so favorable to the transferee that it is probable the repurchase will occur.

If the criteria for sale accounting are met, the transferred financial asset is removed from the balance sheet and a net gain or loss is recognized upon sale, taking into account any retained interests. Transfers of financial assets that do not meet the criteria for sale are accounted for as financing transactions.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Derivative Instruments*

The Company has entered into derivative financial instruments to manage its exposure to interest rate movements impacting interest expense on its borrowings and the fair value of its loan portfolio. Interest rate contracts that qualify as cash flow hedges are accounted for in accordance with ASC 815, *Derivatives and Hedging.* The fair value of the derivative financial instruments is included in other assets, net or other liabilities, as appropriate. To the extent they are effective, fair value adjustments on derivative instruments designated as hedges are reported as other comprehensive income and included in stockholders' equity until the hedged item is realized. Ineffective portions, if any, are included in earnings. The Company does not enter into derivative transactions for speculative or trading purposes. See Note 7*, "*Derivative Instruments" for further discussion on derivative financial instruments.

*Fair Value Measurement*

GAAP establishes a hierarchy for inputs used in measuring fair value which prioritizes such inputs based upon market observability, which are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3 – Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

In instances where the determination of fair value is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

*Income Taxes*

Under federal and state income tax rules, limited liability companies are generally not subject to income tax. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements. Income or loss is includable in the income tax return of the Member. The Company periodically evaluates its tax positions, including its status as a pass-through entity, to evaluate whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of September 30, 2019 and December 31, 2018, the Company has not established a liability for uncertain tax positions.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Recent Accounting Updates*

***Revenue Recognition***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers,* which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Company adopted the new revenue recognition guidance, which applies to its fee income, effective January 1, 2019 using the modified retrospective approach. Since the timing and pattern of revenue recognition for the Company's fee income under the new standard is similar to legacy GAAP, the adoption of the new standard did not result in a cumulative effect adjustment within the consolidated statements of equity and the application of the new standard did not have a material effect on the Company's results of operations for the nine months ended September 30, 2019.

***Financial Instruments***

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* Changes to the current GAAP model primarily affect the accounting for equity investments (other than those accounted for using the equity method of accounting), financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The adoption of this new standard, effective January 1, 2019, did not have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of financial instruments. The main provisions of ASU 2016-13 include (1) replacing the "incurred loss" approach under current GAAP with an "expected loss" model for instruments measured at amortized cost, (2) requiring entities to record an allowance for available-for-sale debt securities rather than reduce the carrying amount of the investments, as required by the other-than-temporary-impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. The Company is currently assessing the impact of adoption of ASU 2016-13.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires that cash and cash equivalent balances in the statement of cash flows include restricted cash and restricted cash equivalent amounts, and therefore, changes in restricted cash and restricted cash equivalents be presented in the statement of cash flows. This eliminates the presentation of transfers between cash and cash equivalents with restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, this ASU requires disclosure of a reconciliation between the totals in the statement of cash flows and the related captions in the balance sheet. The guidance also requires disclosure of the nature of restricted cash and restricted cash equivalents, similar to existing requirements under Regulation S-X; however, it does not define restricted cash and restricted cash equivalents. ASU No. 2016-18 is effective for the Company for fiscal years and interim periods beginning after December 15, 2018, to be applied retrospectively, with early adoption permitted. The Company adopted this guidance effective January 1, 2018.

## 3. SIGNIFICANT RISKS AND UNCERTAINTIES

The Company's earnings are dependent on its ability to originate loans and either sell them into the secondary market or hold them in the loan portfolio and collect principal and interest as they come due. When loans become nonperforming or their ultimate collection is in doubt, income is adversely affected. The Company's ability to sustain profitability will depend significantly on loan production and the ability to manage the credit quality of the loan portfolio.

Risk management is a significant component of a Company's strategy to deliver consistent risk-adjusted returns. Management closely monitors the Company's portfolio and actively manages risks associated with, among other things, the Company's assets and interest rates. In addition, management periodically reviews policies with respect to risk assessment and risk management, including key risks to which the Company is subjected, including credit risk, liquidity risk, interest rate risk, concentration risk and market risk. Management then implements steps to monitor and control such risks.

***Market Risk***: Market risk is the potential adverse changes in the values of the financial instruments due to unfavorable changes in the level or volatility of interest rates, foreign currency exchange rates, or other factors. The Company mitigates the exposure to market risk by entering into interest rate swap contracts which hedge against adverse changes in fair value of its fixed-rate loans.

***Credit Risk***: The Company is subjected to credit risk in connection with originating single-family residential term and bridge loans. The credit risk related to these loans pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is granted or renewed and periodically reviewed throughout the loan term. Management believes that loan credit quality is primarily determined by the borrowers' credit profiles and loan characteristics. Nevertheless, unanticipated credit losses could occur which could adversely impact operating results.

***Interest Rate Risk***: Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. The Company's operating results will depend, in part, on differences between the income from the investments in loan portfolios and financing costs. The warehouse financing is based on a floating rate of interest calculated on a fixed spread over the relevant index as determined by the particular financing arrangement. In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to the Company which could materially and adversely affect the business, financial condition, liquidity, results of operations and prospects. Furthermore, such defaults could have an adverse effect on the spread between the interest-earning assets and interest-bearing liabilities.

***Concentration Risk***: Concentration of credit risk arises when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. As of September 30, 2019 and December 31, 2018, substantially all of the Company's loan portfolio was collateralized by single family residential properties and bridge loan assets. As of September 30, 2019, the Company had geographic concentration of loans in New Jersey and Texas of 12% and 10%, respectively, and no other individual state was greater than 10%.

***Liquidity Risk***: Liquidity risk arises in the investments and the general financing of investing activities. It includes the risk of not being able to liquidate positions in a timely manner at a reasonable price, in addition to potential increases in collateral requirements during times of heightened market volatility. If the Company was forced to dispose of an illiquid investment at an inopportune time, management may be forced to do so at a substantial discount to the market value, resulting in a realized loss.

## 4. LOANS HELD FOR INVESTMENT

The Company offers loans targeted for residential buy-to-rent property investors seeking financing. The loans are either originated or acquired by the Company and are primarily secured by first mortgages on single family residential ("SFR") properties.

Loans held for investment are divided into two portfolio segments, fixed-rate term loans with an original maturity of typically 5, 10 or 30 years and fixed/floating rate bridge loans with an original maturity of typically 6 to 24 months.

| | September 30, 2019 | | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Unpaid Principal Balance** | **Fair Value** | **Weighted Average Coupon** | **Weighted Average Maturity in Years** | **Number of Loans** |
| Securitized Term | $ 1,350,081 | $ 1,442,056 | 5.89% | 5.8 | 512 |
| Unsecuritized Term (5, 10, & 30 Year) | 355,531 | 361,282 | 5.02% | 8.3 | 200 |
| Bridge | 405,099 | 402,237 | 8.35% | 0.9 | 353 |
| Total | $ 2,110,711 | $ 2,205,575 | 6.22% | 5.3 | 1065 |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Unpaid Principal Balance** | **Fair Value** | **Weighted Average Coupon** | **Weighted Average Maturity in Years** | **Number of Loans** |
| Securitized Term | $ 832,637 | $ 850,013 | 6.12% | 5.6 | 370 |
| Unsecuritized Term (5, 10, & 30 Year) | 198,185 | 202,316 | 5.74% | 8.8 | 117 |
| Bridge | 210,260 | 210,260 | 9.01% | 0.6 | 236 |
| Total | $ 1,241,082 | $ 1,262,589 | 6.55% | 5.3 | 723 |

As of September 30, 2019 and December 31, 2018, bridge balances included $2.5 million and $4.4 million of second mortgages, respectively.

The following table provides a summary of nonperforming loans that were 90 days or more past due and on nonaccrual loans:

| | September 30, 2019 | | |
|---|---|---|---|
| **(In thousands)** | **Unpaid Principal Balance** | **Unrealized Gains(Losses)** | **Fair Value** |
| Securitized Term | $ 5,911 | $ (1,039) | $ 4,872 |
| Unsecuritized Term (5, 10, & 30 Year) | 3,624 | - | 3,624 |
| Bridge | 11,774 | (2,862) | 8,912 |
| Total | $ 21,309 | $ (3,901) | $ 17,408 |

| | December 31, 2018 | | |
|---|---|---|---|
| **(In thousands)** | **Unpaid Principal Balance** | **Unrealized Gains(Losses)** | **Fair Value** |
| Securitized Term | $ 5,372 | $ - | $ 5,372 |
| Unsecuritized Term (5, 10, & 30 Year) | 3,546 | (29) | 3,517 |
| Bridge | 971 | - | 971 |
| Total | $ 15,261 | $ (29) | $ 15,232 |

## 5. DEBT

*Secured Financing Facilities*

As of September 30, 2019 and December 31, 2018, the Company had Master Repurchase Agreements outstanding with two counterparties.

Secured financing facilities consisted of the following:

| | September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Maturity Date | Unpaid Principal Balance | Fair Value | Committed Amount | Rate Terms | Principal Pledged |
| Morgan Stanley Bank - Term | 12/24/2020 | $ 161,933 | $ 161,933 | $ 250,000 | (1) | $ 190,509 |
| Morgan Stanley Bank - Bridge | 08/28/2020 | 108,212 | 108,212 | 200,000 | (2) | 135,265 |
| Goldman Sachs | 12/12/2020 | 302,946 | 302,946 | 350,000 | (3) | 378,683 |
| Goldman Sachs | 10/02/2019 | 50,000 | 50,000 | 84,257 | (5) | 121,075 |
| Total secured financing facility | | $ 623,091 | $ 623,091 | $ 884,257 | | $ 825,532 |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Maturity Date | Unpaid Principal Balance | Fair Value | Committed Amount | Rate Terms | Principal Pledged |
| Morgan Stanley Bank - Term | 12/24/2020 | $ 96,371 | $ 96,371 | $ 250,000 | (1) | $ 113,371 |
| Morgan Stanley Bank - Bridge | 08/28/2020 | 71,053 | 71,053 | 200,000 | (2) | 85,174 |
| Goldman Sachs | 12/12/2020 | 129,381 | 129,381 | 200,000 | (4) | 160,090 |
| Total secured financing facility | | $ 296,805 | $ 296,805 | $ 650,000 | | $ 358,635 |

(1) Interest is equal to 30 Day LIBOR plus 2.55%

(2) Interest is equal to 30 Day LIBOR plus 3.00%

(3) Interest is equal to 90 Day LIBOR plus 2.375% (Term Loans), 2.50% (30 Year Term Loans), 2.75% (Bridge Loans)

(4) Interest is equal to 30 Day Libor plus 0.80% to 1.65% by security (average 1.27%)

(5) Interest is equal to 90 Day LIBOR plus 2.50% (Term Loans), 2.75% (30 Year Term Loans), 3.00% (Bridge Loans)

The Company recognized interest expense and non-utilization fees on secured financing facilities totaling $17.1 million and $7.7 million during the nine months ended September 30, 2019 and September 30, 2018, respectively. In conjunction with the execution of the secured financing facilities, during the nine months ended September 30, 2019 and September 30, 2018, the Company incurred financing and related legal costs totaling $1.6 million and $1.2 million, respectively. These costs are included in interest expense in the accompanying consolidated statement of operations.

The secured financing facilities are fully collateralized by portions of our loan portfolio (see Note 4). The Company was in compliance with all covenants related to these financing arrangements at September 30, 2019 and December 31, 2018.

## 5. DEBT (CONTINUED)

*Secured Notes*

As of September 30, 2019, the Company had completed six securitizations backed by single-family residential term loans made to multiple borrowers. The secured notes issued from each of the securitizations consisted of the following:

| | | September 30, 2019 | | | | |
|---|---|---|---|---|---|---|
| (In thousands) | Original Unpaid Principal Balance | Unpaid Principal Balance | Fair Value (1) | Weighted Average Maturity in Years | Blended Rate(2) | Number of Tranches |
| Security 2017-1 | $ 187,265 | $ 148,596 | $ 149,994 | 2.5 | 3.39% | 5 |
| Security 2017-2 | 182,454 | 167,888 | 168,344 | 4.7 | 3.23% | 4 |
| Security 2018-1 | 218,249 | 207,167 | 217,315 | 4.3 | 4.05% | 5 |
| Security 2018-2 | 207,659 | 194,754 | 208,936 | 5.5 | 4.35% | 5 |
| Security 2019-1 | 288,575 | 287,749 | 320,212 | 6.1 | 3.62% | 5 |
| Security 2019-2 | 221,178 | 220,107 | 246,194 | 6.9 | 3.15% | 5 |
| Total | $ 1,305,380 | $ 1,226,261 | $ 1,310,995 | 5.2 | 3.64% | 29 |

(1) Includes interest-only notes with a notional balance of $693 million and a blended rate of 2.15%.
(2) Represents blended rate on non interest-only notes.

| | | December 31, 2018 | | | | |
|---|---|---|---|---|---|---|
| (In thousands) | Original Unpaid Principal Balance | Unpaid Principal Balance | Fair Value (1) | Weighted Average Maturity in Years | Blended Rate(2) | Number of Tranches |
| Security 2017-1 | $ 187,265 | $ 163,889 | $ 160,264 | 3.4 | 3.34% | 5 |
| Security 2017-2 | 182,454 | 179,023 | 176,849 | 5.3 | 3.15% | 4 |
| Security 2018-1 | 218,249 | 216,793 | 215,724 | 5.4 | 4.03% | 5 |
| Security 2018-2 | 207,659 | 196,849 | 199,339 | 6.6 | 4.34% | 5 |
| Total | $ 795,627 | $ 756,554 | $ 752,176 | 5.2 | 3.75% | 19 |

(1) Includes interest-only notes with a notional balance of $139 million and a blended rate of 2.51%.
(2) Represents blended rate on non interest-only notes.

## 6. FAIR VALUE MEASUREMENT

Considerable judgment may be necessary to interpret market data and develop estimated fair value. The use of different assumptions or methodologies could have a material effect on the estimated fair value amounts.

*Financial Instruments Reported at Fair Value*

The Company has elected the fair value option for its loans held for investment, securitization debt and secured financing facilities and has certain derivative assets and liabilities that are required to be recorded at fair value. The following table presents the estimated fair values of the Company's financial instruments reported at fair value, aggregated by the level in the fair value hierarchy:

| | September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Fair Value Measurement Using | | | | |
| (In thousands) | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Other Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value | Unpaid Principal Balance |
| **Assets** | | | | | |
| Loans held for investment | $ - | $ - | $ 2,205,575 | $ 2,205,575 | $ 2,110,711 |
| Interest rate derivative contracts | $ - | $ 41 | $ - | $ 41 | $ - |
| **Liabilities** | | | | | |
| Secured notes | $ - | $ - | $ 1,310,995 | $ 1,310,995 | $ 1,226,261 |
| Secured financing facilities | $ - | $ - | $ 623,091 | $ 623,091 | $ 623,091 |
| Interest rate derivative contracts | $ - | $ 863 | $ - | $ 863 | $ - |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Fair Value Measurement Using | | | | |
| (In thousands) | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Other Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value | Unpaid Principal Balance |
| **Assets** | | | | | |
| Loans held for investment | $ - | $ - | $ 1,262,589 | $ 1,262,589 | $ 1,241,082 |
| Interest rate derivative contracts | $ - | $ - | $ - | $ - | $ - |
| **Liabilities** | | | | | |
| Secured notes | $ - | $ - | $ 752,176 | $ 752,176 | $ 756,554 |
| Secured financing facilities | $ - | $ - | $ 296,805 | $ 296,805 | $ 296,805 |
| Interest rate derivative contracts | $ - | $ 1,880 | $ - | $ 1,880 | $ - |

## 6. FAIR VALUE MEASUREMENT (CONTINUED)

Activity in loans held for investment, at fair value, is summarized below (in thousands):

| | | |
|---|---|---|
| Balances at December 31, 2017 | $ | 633,952 |
| Loan acquisitions and originations | | 450,252 |
| Principal repayments | | (150,300) |
| Principal transferred to real estate owned | | (2,303) |
| Net proceeds received on sale of loans | | (24,971) |
| Gain on sale of loans | | 534 |
| Changes in fair value | | 3,825 |
| Balances at September 30, 2018 | $ | 910,989 |
| | | |
| Balances at December 31, 2018 | $ | 1,262,589 |
| Loan acquisitions and originations | | 1,144,465 |
| Principal repayments | | (220,994) |
| Principal transferred to real estate owned | | (2,493) |
| Net proceeds received on sale of loans | | (53,234) |
| Gain on sale of loans | | 1,769 |
| Changes in fair value | | 73,473 |
| Balances at September 30, 2019 | $ | 2,205,575 |

Activity in secured notes, at fair value, is summarized below (in thousands):

| | | |
|---|---|---|
| Balances at December 31, 2017 | $ | 368,773 |
| Issuance of secured notes | | 221,328 |
| Principal repayments | | (10,521) |
| Changes in fair value | | (2,430) |
| Balances at September 30, 2018 | $ | 577,150 |
| | | |
| Balances at December 31, 2018 | $ | 752,176 |
| Issuance of secured notes | | 547,705 |
| Net proceeds received on sale of securities | | 7,913 |
| Gain on sale of securities | | (1,254) |
| Principal repayments | | (40,046) |
| Changes in fair value | | 44,501 |
| Balances at September 30, 2019 | $ | 1,310,995 |

## 6. FAIR VALUE MEASUREMENT (CONTINUED)

The Company's retained interests in the securitization vehicles are valued using monthly quotes obtained from broker dealers. The Company seeks to obtain quotes from at least two brokers. In cases where broker quotes are not reflective of fair value, a secondary broker quote is unavailable, or no broker quotes are available, a comparison value made up of quotes for similar securities or a discounted cash flow methodology may be used. Such investments are classified as Level 3 when the quoted prices are indicative in nature for securities that are in an illiquid market, are for similar securities, or require adjustment for investment-specific factors or restrictions. The Company evaluates the dealer quotes based on available market information, including trading activity of the subject or similar securities, or by performing a comparable security analysis to ensure that fair values are reasonable.

The Company's secured notes held by the consolidated securitization vehicles are valued using quotes obtained from broker dealers. In cases where broker quotes are not reflective of fair value, a secondary broker quote is unavailable, or no broker quotes are available, a comparison value made up of quotes for similar securities may be used.

The Company's loans held for investment held by consolidated securitization vehicles are measured based on the more observable fair value of the related secured notes. Accordingly, the loans held for investment of the consolidated securitization vehicles are measured as the sum of (i) the fair value of the related secured notes plus (ii) the fair value of the beneficial interests retained by the Company, in accordance with the measurement alternative for consolidated collateralized financing vehicles under ASC 810.

The Company's bridge loans held for investment are valued at par or current principal value due to the short-term duration of these assets.

The Company's non-securitized term loans held for investment are valued using a market yield methodology which discounts the loan's contractual cash flows at a market rate of interest for a similar instrument as of the reporting date. Market rates are estimated using Level 3 inputs such as interest rates on loans recently originated for borrowers with similar credit metrics, market comparisons, dealer quotes, and other quantitative and qualitative factors.

The principal balance of the Company's secured financing facilities approximates its fair value as they were recently obtained, and the interest rates reflect market rates since they are indexed to LIBOR.

The fair values of interest rate futures derivative contracts are based on quoted prices in active markets for similar instruments. As a result, interest rate futures derivative contracts are classified in Level 2 of the fair value hierarchy.

See Note 7, "Derivative Instruments" for further discussion on derivative financial instruments.

*Financial Instruments Reported at Historical Cost*

The carrying values of receivables and accrued and other liabilities approximate their fair values due to their short-term nature.

## 7. DERIVATIVE INSTRUMENTS

The Company's objective in using derivative instruments is to manage its exposure to interest rate movements impacting interest expense on its borrowings and the fair value of its loan portfolio. The Company has entered into interest rate futures to (i) mitigate changes in the fair value of its loan portfolio, which generally bears interest at fixed rates, and (ii) offset the impact of changes in interest rates on its variable-rate borrowings. The Company does not enter into derivative transactions for speculative or trading purposes, but may enter into derivatives to manage the economic risk of changes in interest rates.

The Company utilizes interest rate futures as economic hedges for its loan portfolio and secured financing facility, but has not designated its derivative instruments as accounting hedges. Derivative financial instruments are recognized as either assets or liabilities in the consolidated balance sheets at fair value. For the nine months ended September 30, 2019 and September 30, 2018, net losses of $15.6 million and net gains of $3.3 million, respectively, are included in other income (expense) in the accompanying consolidated statements of operations related to the Company's non-designated interest rate futures.

The fair values of derivative instruments included in other assets, net and other liabilities in our consolidated balance sheets were as follows:

| | September 30, 2019 | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| **(In thousands)** | Notional Amount | Estimated Fair Value | Notional Amount | Estimated Fair Value |
| Interest rate futures—loans receivable | $ 13,400 | $ 41 | $ 294,500 | $ 863 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| | Notional Amount | Estimated Fair Value | Notional Amount | Estimated Fair Value |
| Interest rate futures—loans receivable | $ - | $ - | $ 160,700 | $ 1,880 |

## 8. EQUITY

CoreVest Management Partners LLC is a non-managing member (the "Promote Member") of Investor I and Investor II. Pursuant to the Amended and Restated Limited Liability Company Agreements of Investor I and Investor II, the Promote Member is entitled to distributions of available earnings for each calendar year after the managing member has achieved certain threshold returns on its time-weighted average undistributed capital. Distributions payable to the Promote Member, assuming the Company's assets were sold and its liabilities settled at their GAAP book values as of the reporting date, are presented as noncontrolling interests in the consolidated financial statements.

Contributions and distributions to the members are made in accordance with their percentage interests, which are equal to each member's aggregate capital contributions to the Company, divided by the aggregate amount of all capital contributions of all members to the Company.

During the nine months ended September 30, 2019 the Company received $188.1 million in contributions from its members and made $160.2 million of distributions, including $159.5 million of distributions to its members and $0.7 million of distributions to the Promote Member.

## 9. OTHER ASSETS AND OTHER LIABILITIES

The following table summarizes the Company's other assets:

| (In thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Prepaid expenses | $ 393 | $ 447 |
| Fixed assets, net | 424 | 252 |
| Derivative assets | 41 | - |
| Goodwill | 874 | 874 |
| Other | 307 | 130 |
| Total | $ 2,039 | $ 1,703 |

The following table summarizes the Company's other liabilities:

| (In thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Escrow deposits | $ 43,249 | $ 20,765 |
| Derivative liabilities | 863 | 1,880 |
| Total | $ 44,112 | $ 22,645 |

## 10. RELATED PARTY TRANSACTIONS

CAFL has entered into a management and advisory services agreement with Investor II pursuant to which CAFL provides day-to-day management of the Company's operations, and those of its subsidiaries. For the nine-month period ended September 30, 2019 and September 30, 2018 CAFL accrued $1 million and $3.5 million, respectively, in reimbursements from Investor II for its allocable share of these services. Reimbursements received from Investor II are presented as management fees in the consolidated statement of operations.

## 11. COMMITMENTS AND CONTINGENCIES

The Company may be required to fund additional amounts to borrowers pursuant to certain loan agreements following its approval of underwritten residential assets for the purchase of additional residential assets or for the renovation or construction element after the initial purchase. As of September 30, 2019, the Company had $929.8 million in unfunded loan commitments for the purchase of additional residential assets and $80.4 million in unfunded loan commitments for the renovation or construction element.

In the ordinary course of business, the Company may be involved in litigation which may result in legal costs and liability that could have a material effect on the Company's financial position and results of operations. At September 30, 2019, the Company is not subject to any pending litigation or other regulatory actions that either individually or in the aggregate would have a material effect on the consolidated financial statements.

## 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

*Leases*

As of September 30, 2019 and December 31, 2018, the Company's future minimum lease payments under a non-cancelable lease with an initial term of one year or more for its offices in Irvine & Los Angeles, California, New York, NY and Salt Lake City, Utah were as follows:

| (In thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **Year Ended December 31,** | | |
| 2019 | $ 207 | 462 |
| 2020 | 759 | 407 |
| 2021 | 441 | 140 |
| 2022 | 164 | - |
| Thereafter | - | - |
| Total | $ 1,571 | $ 1,009 |

## 12. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date these financial statements were available to be issued.

On October 14, 2019, Redwood Trust, Inc. and RWT Holdings, Inc., a wholly-owned subsidiary ("Redwood"), entered into an equity interests purchase agreement with CF CoreVest Parent I LLC, CF CoreVest Parent II LLC and CoreVest Management Partners LLC (collectively, the "Sellers"), and members of the CoreVest management team, pursuant to which Redwood acquired a 100% equity interest in CF CoreVest Holdings I LLC, CF CoreVest Holdings II LLC and several of its affiliates ("CoreVest"), including the promote interests in CF CoreVest UST Asset Investor I LLC and CF CoreVest UB Asset Investor II LLC. The acquisition included CoreVest's operating platform and a portfolio of business purpose loans and securities. The estimated aggregate consideration for CoreVest is approximately $492 million, subject to a customary post-closing reconciliation, including a net book value adjustment. The consideration consisted of $482 million, payable in cash, and approximately $10 million of Redwood shares issued to the CoreVest management team. The transaction closed on October 15, 2019.

In November 2019, the Company completed a seventh securitization transaction backed by 128 single-family residential term loans made to multiple borrowers. The Company issued $342.0 million in unpaid principal balance of secured notes at a blended rate of 2.92%, as well as interest-only notes with a notional balance of $332.0 million and a blended rate of 1.88%.

On December 20, 2019, the Company completed a reorganization in connection with the amendment of its secured financing facilities with Goldman Sachs and Morgan Stanley. Affiliates of the Company entered into an amended Master Repurchase Agreement with Goldman Sachs Bank USA to finance term and bridge loans on an uncommitted basis with a maximum facility amount of $450.0 million and entered into amended Master Repurchase Agreements with Morgan Stanley Bank N.A. to finance term and bridge loans on an uncommitted basis with maximum facility amounts of $175.0 million and $150.0 million, respectively.

**Exhibit 99.2**

Consolidated Financial Statements
(Unaudited)

CF CoreVest Holdings II LLC and Subsidiaries
For the Nine Months Ended September 30, 2019 and 2018

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**CF CoreVest Holdings II LLC and Subsidiaries**
**Consolidated Financial Statements (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**

**Table of Contents**


Consolidated Financial Statements (Unaudited)

| | |
|---|---|
| Consolidated Balance Sheets | 1 |
| Consolidated Statements of Operations | 2 |
| Consolidated Statements of Equity | 3 |
| Consolidated Statements of Cash Flows | 4 |
| Notes to Consolidated Financial Statements | 5 |

**CF CoreVest Holdings II LLC and Subsidiaries**
**Consolidated Balance Sheets (Unaudited)**
**As of September 30, 2019 and December 31, 2018**
**(In Thousands)**

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Loans held for investment, at fair value | $ 376,190 | $ 453,171 |
| Cash | 148 | 35 |
| Restricted cash | 17,905 | 17,921 |
| Receivables | 1,826 | 2,281 |
| Related party receivable | - | 14 |
| Other assets, net | 40 | 40 |
| **Total assets** | $ 396,109 | $ 473,462 |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| **Liabilities:** | | |
| Secured notes, at fair value | $ 332,358 | $ 406,837 |
| Accounts payable and accrued expenses | 1,926 | 1,780 |
| Other liabilities | 17,905 | 17,921 |
| Related party payable | 220 | - |
| **Total liabilities** | 352,409 | 426,538 |
| **Equity:** | | |
| Members' equity | 43,700 | 46,924 |
| **Total liabilities and equity** | $ 396,109 | $ 473,462 |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings II LLC & Subsidiaries**
**Consolidated Statements of Operations (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**
**(In thousands)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| **Revenue** | | |
| Interest income | $ 17,854 | $ 25,334 |
| Interest expense | 10,249 | 13,618 |
| Net interest income | 7,605 | 11,716 |
| Other fees | 2,628 | 6,239 |
| Total revenue | 10,233 | 17,955 |
| | | |
| **Expenses** | | |
| Management fees | 962 | 3,462 |
| Loan servicing | 980 | 1,210 |
| General and administrative | 211 | 745 |
| Total expense | 2,153 | 5,417 |
| | | |
| **Other income (expense)** | | |
| Net unrealized loss | (2,566) | (8,570) |
| Total other income (expense) | (2,566) | (8,570) |
| | | |
| **Net income** | **$ 5,514** | **$ 3,968** |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings II LLC and Subsidiaries**
**Consolidated Statements of Equity (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**
**(In thousands)**

| | | |
|---|---|---|
| **Balance at December 31, 2017** | $ | 58,559 |
| Distributions | | (13,105) |
| Net income | | 3,968 |
| **Balance at September 30, 2018** | $ | 49,422 |
| | | |
| **Balance at December 31, 2018** | $ | 46,924 |
| Distributions | | (8,738) |
| Net income | | 5,514 |
| **Balance at September 30, 2019** | $ | 43,700 |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings II LLC and Subsidiaries**
**Consolidated Statements of Cash Flows (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**
**(In thousands)**

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | **2019** | | **2018** | |
| **Cash Flows From Operating Activities:** | | | | |
| Net income | $ | 5,514 | $ | 3,968 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Net unrealized loss | | 2,566 | | 8,570 |
| Net change in: | | | | |
| Receivables | | 651 | | 440 |
| Other assets | | - | | 19 |
| Related party receivable | | 14 | | - |
| Accounts payable and accrued expenses | | (102) | | (337) |
| Other liabilities | | (16) | | 1,153 |
| Related party payable | | 220 | | (826) |
| Net cash provided by operating activities | | 8,847 | | 12,987 |
| **Cash Flows From Investing Activities:** | | | | |
| Repayments of principal on loans receivable | | 80,200 | | 82,503 |
| Net proceeds from sale of real estate owned | | - | | 2,429 |
| Net cash provided by investing activities | | 80,200 | | 84,932 |
| **Cash Flows From Financing Activities:** | | | | |
| Repayments of secured financing | | (80,212) | | (84,932) |
| Distributions to members | | (8,738) | | (13,105) |
| Net cash used in financing activities | | (88,950) | | (98,037) |
| Net increase (decrease) in cash and restricted cash | | 97 | | (118) |
| Cash and restricted cash at beginning of period | | 17,956 | | 22,461 |
| Cash and restricted cash at end of period | $ | 18,053 | $ | 22,343 |
| | | | | |
| **Supplemental Cash Flow Information:** | | | | |
| Cash paid during the period for interest | $ | 10,429 | $ | 13,805 |
| **Supplemental Noncash Information:** | | | | |
| Repayments of principal on loans receivable due to servicer | $ | 102 | $ | 57 |
| **Reconciliation of Cash and Restricted Cash to Balance Sheet:** | | | | |
| Cash | $ | 148 | $ | 27 |
| Restricted cash | | 17,905 | | 22,316 |
| Total cash and restricted cash | $ | 18,053 | $ | 22,343 |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings II LLC and Subsidiaries**
**Notes to Consolidated Financial Statements (Unaudited)**
**For the Nine Months Ended September 30, 2019 and 2018**

## 1. ORGANIZATION

CF CoreVest Holdings II LLC (the "Company"), a Delaware limited liability company, was formed on May 31, 2017. On July 17, 2017, the Company was capitalized by contributions from its members and acquired a portfolio of term loans collateralized by single family residential real estate, along with related securitization debt and other assets and liabilities.

The Company is managed and advised by CoreVest American Finance Lender LLC ("CAFL"), a Delaware limited liability company and wholly owned subsidiary of CF CoreVest Holdings I, an affiliate. CAFL provides all management and advisory functions for the Company, such as day-to-day operations and all strategic initiatives, in exchange for management fees.

## 2. SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (''GAAP'') for interim financial information as prescribed by the Financial Accounting Standards Board's (''FASB'') Accounting Standards Codification (''ASC''). The consolidated financial statements, including these notes, are unaudited and exclude certain disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) for a fair presentation of the consolidated financial statements. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Actual results could differ from those estimates.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Consolidation***

The Company consolidates entities in which it retains a controlling financial interest or entities that meet the definition of a variable interest entity ("VIE") for which the Company is the primary beneficiary. In performing its analysis of whether an entity is a VIE, the Company considers whether (i) the entity has sufficient equity to finance its activities without subordinated financial support; (ii) the equity holders of the entity have the characteristics of a controlling financial interest, including the power, through voting or similar rights, to direct the activities of the entity that most significantly affect its economic performance; or (iii) the entity is established with non-substantive voting rights and conducts substantially all of its activities on behalf of the equity holder with disproportionately few voting rights. In performing its analysis of whether it is the primary beneficiary, the Company considers whether it individually has the power to direct the activities of the VIE that most significantly affect its economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The determination of whether an entity is a VIE, and whether the Company is the primary beneficiary, which is performed at initial investment and each reporting period thereafter, involves significant judgments, including the determination of which activities most significantly affect the entities' economic performance, estimates about the current and future fair values and economic performance of assets held by the VIE, and general market conditions.

As more fully described in Note 5, the loans acquired by the Company were securitized in three separate transactions in October 2015, May 2016 and November 2016. In each securitization transaction, loans originated or acquired by Colony American Finance, LLC ("CAF") were transferred into trusts that issued and sold pass-through certificates approximating the principal amount of the notes. The trusts were determined to be VIEs as they did not have sufficient equity to finance their activities without subordinated financial support. CAF, as the sponsor, retained beneficial interests in the securitization vehicles in the form of subordinate securities. A third party was appointed to act as special servicer of the underlying collateral mortgage loans. The special servicer has the power to direct activities during the loan workout process on defaulted and delinquent loans as permitted by the underlying contractual agreements, which is subject to the consent of the Company, as the controlling class representative or directing holder who, under certain circumstances, has the right to unilaterally remove the special servicer. Because the Company's rights as the directing holder and controlling class representative provide it with the ability to direct activities that most significantly impact the economic performance of the VIEs, including responsibility over decisions related to loan modifications and workouts, the Company is deemed to be the primary beneficiary of the VIEs and consolidates securitization vehicles. Substantially all of the Company's assets and liabilities are comprised of assets and liabilities of the consolidated securitization vehicles. The Company's exposure to the obligations of the securitization vehicles is generally limited to its investments in the retained beneficial interests of the VIEs, valued at approximately $43.7 million and $46.3 million as of September 30, 2019 and December 31, 2018, respectively.

The Company has elected the fair value option for the loans held for investment and related secured notes of each consolidated securitization vehicle. Accordingly, the Company has also elected the measurement alternative for consolidated collateralized financing entities, which permits it to measure the financial assets and financial liabilities of the consolidated securitization trusts using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The Company has determined that the fair value of the financial liabilities is more observable. Accordingly, the secured notes of each consolidated securitization vehicle are measured at fair value and the loans held for investment are measured in consolidation as the sum of (i) the fair value of the related secured notes plus (ii) the fair value of the beneficial interests retained by the Company. The Company's fair value measurements and related disclosures are more fully described in Note 6.

If a legal entity fails to meet any of the three characteristics of a VIE, the Company then evaluates such entity under the voting model. Under the voting model, the Company consolidates the entity if it determines that the Company, directly or indirectly, has greater than 50% of the voting shares and that other equity holders do not have substantive participating rights. If the Company has a variable interest in a VIE but is not the primary beneficiary, or if the Company has the ability to exercise significant influence over a voting interest entity but does not have control, the Company accounts for its investment using the equity method of accounting.

***Fair Value Option***

Upon certain specified events, including the acquisition of certain eligible financial assets and financial liabilities, GAAP provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for such eligible assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported as a component of net income or loss. The decision to elect the fair value option is determined on an instrument by instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in the consolidated balance sheet from those instruments using another accounting method.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company has elected the fair value option for the loans held for investment and related secured notes of its consolidated VIEs in order to mitigate accounting mismatches that may arise between the values of the securitized assets and related liabilities, which are generally recourse only to the securitized assets. The Company has not elected the fair value option for any other financial instruments, which are carried at cost with fair value disclosed where reasonably estimable (see Note 6).

***Cash and Cash Equivalents***

The Company considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The Company did not have any cash equivalents at September 30, 2019 and December 31, 2018. The Company maintains its cash accounts in commercial banks. At various times during the year, the Company had deposits in excess of federally insured limits.

***Restricted Cash***

Restricted cash includes escrow deposits from borrowers for various purposes, including property taxes, insurance, replacement reserves and interest reserves, with a corresponding liability.

***Loans Held for Investment***

Loans that the Company has the intent and ability to hold for the foreseeable future are classified as held for investment. Interest income on performing loans is recognized based upon the contractual terms and outstanding principal balance of the loans. Since the Company has elected the fair value option, origination fees and direct loan costs are recorded directly in income and are not deferred. When a loan is prepaid, prepayment fees or yield maintenance fees and any excess of proceeds over the carrying amount of the loan are recognized as a component of other income in the consolidated statement of operations. For the nine months ended September 30, 2019 and 2018, the Company received fees of approximately $2.6 million and $6.2 million, respectively.

***Past Due Loans***

The Company places loans on nonaccrual status when any portion of principal or interest is more than 90 days past due, or earlier when concern exists as to the ultimate collection of principal or interest. When a loan is placed on nonaccrual status, the Company reverses the accrual for unpaid interest and does not recognize interest income until the cash is received and the loan returns to accrual status. Generally, a loan may be returned to accrual status when all delinquent principal and interest are brought current in accordance with the terms of the loan agreement and the borrower has met certain performance criteria.

***Receivables***

The Company outsources the servicing of loans to third parties (the “Servicers”). Servicers collect interest income, fees and principal payoffs from borrowers and then remit payments to the Company per the contractual terms of the servicing agreements. Funds received by the Servicers, but not yet paid to the Company, are included in receivables on the accompanying consolidated balance sheets. The Company also has unpaid interest due from borrowers based on the contractual terms of the loan included in receivables on the accompanying consolidated balance sheets.

***Real Estate Owned (REO) Assets***

REO assets acquired through foreclosure are recorded at fair value as of the date of foreclosure, typically using broker opinions of value or third-party appraisals of the underlying collateral. REO assets that are available for sale in their current condition and for which it is probable that a sale will occur within twelve months of the foreclosure date are classified as “held for sale.” Subsequent to the foreclosure date, assets held for sale are carried at the lower of carrying value or fair value less estimated costs to sell, with decreases in estimated fair value included as a component of losses on real estate owned on the consolidated statement of operations.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the Company intends to hold REO for more than twelve months, the asset is classified as "held for use" and the initial basis is allocated to the various components (principally land and building) based upon relative fair value. Held for use REO assets are subsequently carried at historical cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the REO assets, which is typically 40 years for buildings. Depreciation expense is included in general and administrative expense on the consolidated statement of operations.

Carrying costs incurred after the acquisition of REO, including property taxes and insurance, are expensed as incurred.

During the nine months ended September 30, 2019, the Company did not foreclose on any properties and did not have REO assets as of September 30, 2019. During the nine months ended September 30, 2018, the Company foreclosed on 26 properties with an estimated fair value of $2.4 million based upon broker opinions of value and other market data. The properties were subsequently sold for amounts that approximated their fair values at foreclosure. The Company had no REO assets as of September 30, 2018.

***Transfers of Financial Assets***

Sale accounting for transfers of financial assets is limited to the transfer of an entire financial asset, a group of financial assets in their entirety, or if a component of the financial asset is transferred, when the component meets the definition of a participating interest.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. If the Company has any continuing involvement, rights or obligations with the transferred financial asset (outside of standard representations and warranties), sale accounting would require that the transfer meets the following sale conditions: (i) the transferred asset has been legally isolated; (ii) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset; and (iii) the Company does not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by the Company to repurchase or redeem the asset before its maturity, (b) the unilateral ability by the Company to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring the Company to repurchase the asset at a price so favorable to the transferee that it is probable the repurchase will occur.

If the criteria for sale accounting are met, the transferred financial asset is removed from the balance sheet and a net gain or loss is recognized upon sale, taking into account any retained interests. Transfers of financial assets that do not meet the criteria for sale are accounted for as financing transactions.

***Fair Value Measurement***

GAAP establishes a hierarchy for inputs used in measuring fair value which prioritizes such inputs based upon market observability, which are as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3—Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

In instances where the determination of fair value is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Income Taxes***

Under federal and state income tax rules, limited liability companies are generally not subject to income tax. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements. Income or loss is includable in the income tax return of the Member. The Company periodically evaluates its tax positions, including its status as a pass-through entity, to evaluate whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of September 30, 2019 and December 31, 2018, the Company had not established a liability for uncertain tax positions.

***Recent Accounting Updates***

*Revenue Recognition*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers,* which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Company adopted the new revenue recognition guidance, which applies to its fee income, effective January 1, 2019 using the modified retrospective approach. Since the timing and pattern of revenue recognition for the Company's fee income under the new standard is similar to legacy GAAP, the adoption of the new standard did not result in a cumulative effect adjustment within the consolidated statements of equity and the application of the new standard did not have a material effect on the Company's results of operations for the nine months ended September 30, 2019.

*Financial Instruments*

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* Changes to the current GAAP model primarily affect the accounting for equity investments (other than those accounted for using the equity method of accounting), financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The adoption of this new standard, effective January 1, 2019, did not have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of financial instruments. The main provisions of ASU 2016-13 include (1) replacing the "incurred loss" approach under current GAAP with an "expected loss" model for instruments measured at amortized cost, (2) requiring entities to record an allowance for available-for-sale debt securities rather than reduce the carrying amount of the investments, as required by the other-than-temporary-impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. The Company is currently assessing the impact of adoption of ASU 2016-13.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires that cash and cash equivalent balances in the statement of cash flows include restricted cash and restricted cash equivalent amounts, and therefore, changes in restricted cash and restricted cash equivalents be presented in the statement of cash flows. This eliminates the presentation of transfers between cash and cash equivalents with restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, this ASU requires disclosure of a reconciliation between the totals in the statement of cash flows and the related captions in the balance sheet. The guidance also requires disclosure of the nature of restricted cash and restricted cash equivalents, similar to existing requirements under Regulation S-X; however, it does not define restricted cash and restricted cash equivalents. The Company adopted this guidance effective January 1, 2018.

## 3. SIGNIFICANT RISKS AND UNCERTAINTIES

The Company’s earnings are dependent on its ability to collect principal and interest as they come due. When loans become nonperforming or their ultimate collection is in doubt, income is adversely affected. The Company’s ability to sustain profitability will depend significantly on the management of the credit quality of the loan portfolio.

Risk management is a significant component of a Company’s strategy to deliver consistent risk-adjusted returns. Management closely monitors the Company’s portfolio and actively manages risks associated with, among other things, the Company’s assets and interest rates. In addition, management periodically reviews policies with respect to risk assessment and risk management, including key risks to which the Company is subjected, including credit risk, liquidity risk, interest rate risk, concentration risk and market risk. Management then implements steps to monitor and control such risks.

***Market Risk***. Market risk is the potential adverse changes in the values of the financial instruments due to unfavorable changes in the level or volatility of interest rates, foreign currency exchange rates, or other factors.

***Credit Risk***. The Company is subjected to credit risk which pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is renewed and periodically reviewed throughout the loan term. Management believes that loan credit quality is primarily determined by the borrowers' credit profiles and loan characteristics. Nevertheless, unanticipated credit losses could occur which could adversely impact operating results.

***Interest Rate Risk***. Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company’s control. In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to the Company which could materially and adversely affect the financial condition, liquidity and results of operations.

***Concentration Risk.*** Concentration of credit risk arises when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. As of September 30, 2019 and December 31, 2018, substantially all the Company’s loan portfolio was collateralized by single family residential properties. As of September 30, 2019, the Company had geographic concentration of loans in Texas of 29% and no other individual state was greater than 10%.

***Liquidity Risk***. Liquidity risk arises in the investments and the general financing of investing activities. It includes the risk of not being able to liquidate positions in a timely manner at a reasonable price, in addition to potential increase in collateral requirements during times of heightened market volatility. If the Company was forced to dispose of an illiquid investment at an inopportune time, management may be forced to do so at a substantial discount to the market value, resulting in a realized loss.

## 4. LOANS HELD FOR INVESTMENT

Loans held for investment are predominantly fixed-rate term loans with an original maturity of 5 or 10 years, secured by first mortgages on single family residential properties.

At September 30, 2019, the Company had 153 loans held for investment with an unpaid principal balance of $378 million and a fair value or $376 million. At September 30, 2019, the loans held for investment had a weighted average maturity of 3.3 years and a weighted average coupon of 5.79%. At December 31, 2018, the Company had 181 loans held for investment with an unpaid principal balance of $458 million and a fair value or $453 million. At December 31, 2018, the loans held for investment had a weighted average maturity of 3.6 years and a weighted average coupon of 5.74%.

At September 30, 2019, the Company had nonperforming or nonaccrual loans of $8 million (unpaid principal balance) with a fair value of $7 million. At December 31, 2018, the Company had nonperforming or nonaccrual loans of $12 million (unpaid principal balance) with a fair value of $11 million

## 5. DEBT

***Secured Notes***

As of September 30, 2019, the Company had completed three securitizations backed by single-family residential term loans made to multiple borrowers. The secured notes issued from each of the securitizations consisted of the following:

| | September 30, 2019 | | | | |
|---|---|---|---|---|---|
| **(In thousands)** | **Unpaid Principal Balance** | **Fair Value** | **Weighted Average Maturity in Years** | **Blended Rate** | **Number of Tranches** |
| Security 2015-1 | $ 91,947 | $ 91,894 | 3.2 | 4.45% | 6 |
| Security 2016-1 | 110,190 | 110,015 | 2.5 | 4.05% | 6 |
| Security 2016-2 | 130,643 | 130,449 | 2.7 | 3.18% | 5 |
| Total | $ 332,780 | $ 332,358 | 2.8 | 3.82% | 17 |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| **(In thousands)** | **Unpaid Principal Balance** | **Fair Value** | **Weighted Average Maturity in Years** | **Blended Rate** | **Number of Tranches** |
| Security 2015-1 | $ 126,887 | $ 126,789 | 3.6 | 4.02% | 6 |
| Security 2016-1 | 140,160 | 137,223 | 2.9 | 3.73% | 6 |
| Security 2016-2 | 145,945 | 142,825 | 3.3 | 3.11% | 5 |
| Total | $ 412,992 | $ 406,837 | 3.3 | 3.60% | 17 |

## 6. FAIR VALUE MEASUREMENTS

Considerable judgment may be necessary to interpret market data and develop estimated fair value. The use of different assumptions or methodologies could have a material effect on the estimated fair value amounts.

***Financial Instruments Reported at Fair Value***

The Company has elected the fair value option for loans held for investment and related securitization debt of consolidated VIEs. The following table presents the estimated fair values of the Company's financial instruments reported at fair value, aggregated by the level in the fair value hierarchy:

| | Fair Value Measurement Using | | | | |
|---|---|---|---|---|---|
| **(In thousands)** | **Quoted Prices in Active Markets for Identical Instruments (Level 1)** | **Other Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Fair Value** | **Principal Value** |
| **September 30, 2019** | | | | | |
| **Assets** | | | | | |
| Loans held for investment | $ — | $ — | $ 376,190 | $ 376,190 | $ 377,661 |
| **Liabilities** | | | | | |
| Secured notes | $ — | $ — | $ 332,358 | $ 332,358 | $ 332,780 |
| **December 31, 2018** | | | | | |
| **Assets** | | | | | |
| Loans held for investment | $ — | $ — | $ 453,171 | $ 453,171 | $ 457,966 |
| **Liabilities** | | | | | |
| Secured notes | $ — | $ — | $ 406,837 | $ 406,837 | $ 412,992 |

## 6. FAIR VALUE MEASUREMENTS (CONTINUED)

Activity in loans held for investment, at fair value, for the nine months ended September 30, 2019 and 2018 is summarized below:

| (In thousands) | |
|---|---|
| Balances at December 31, 2017 | $ 624,650 |
| Principal repayments | (80,061) |
| Changes in fair value | (4,708) |
| Transfer to REO | (2,429) |
| Balances at September 30, 2018 | $ 537,452 |
| | |
| Balances at December 31, 2018 | $ 453,171 |
| Principal repayments | (80,148) |
| Changes in fair value | 3,167 |
| Transfer to REO | - |
| Balances at September 30, 2019 | $ 376,190 |

Activity in secured notes, at fair value, for the nine months ended September 30, 2019 and 2018 is summarized below:

| (In thousands) | |
|---|---|
| Balances at December 31, 2017 | $ 569,464 |
| Principal repayments | (84,932) |
| Changes in fair value | 3,863 |
| Balances at September 30, 2018 | $ 488,395 |
| | |
| Balances at December 31, 2018 | $ 406,837 |
| Principal repayments | (80,212) |
| Changes in fair value | 5,733 |
| Balances at September 30, 2019 | $ 332,358 |

The Company estimates the fair value of financial instruments on a monthly basis.

The Company's retained interests in the securitization vehicles are valued using monthly quotes obtained from broker dealers. The Company seeks to obtain quotes from at least two brokers. In cases where broker quotes are not reflective of fair value, a secondary broker quote is unavailable, or no broker quotes are available, a comparison value made up of quotes for similar securities or discounted cash flow analysis may be used. Such investments are classified as Level 3 when the quoted prices are indicative in nature for securities that are in an illiquid market, are for similar securities, or require adjustment for investment-specific factors or restrictions. The Company evaluates the dealer quotes based on available market information, including trading activity of the subject or similar securities, or by performing a comparable security analysis to ensure that fair values are reasonable.

The Company's secured notes held by the consolidated securitization vehicles are valued using quotes obtained from broker dealers. In cases where broker quotes are not reflective of fair value, a secondary broker quote is unavailable, or no broker quotes are available, a comparison value made up of quotes for similar securities may be used.

The Company's loans held for investment held by consolidated securitization vehicles are measured based on the more observable fair value of the related secured notes. Accordingly, the loans held for investment of the consolidated securitization vehicles are measured as the sum of (i) the fair value of the related secured notes plus (ii) the fair value of the beneficial interests retained by the Company, in accordance with the measurement alternative for consolidated collateralized financing vehicles under ASC 810.

## 6. FAIR VALUE MEASUREMENTS (CONTINUED)

***Financial Instruments Reported at Historical Cost***

The carrying values of receivables, other assets, accounts payable, accrued expenses and other liabilities approximate their fair values due to their short-term nature.

## 7. MEMBERS' EQUITY

Contributions and distributions to the members are made in accordance with their percentage interests, which are equal to each member's aggregate capital contributions to the Company, divided by the aggregate amount of all capital contributions of all members to the Company.

During the nine months ended September 30, 2019, the Company received no contributions from its members and made $8.7 million of distributions to its members. During the nine months ended September 30, 2018, the Company received no contributions from its members and made $13.1 million of distributions to its members.

## 8. RELATED PARTY TRANSACTIONS

The Company has entered into a management and advisory services agreement with CAFL pursuant to which CAFL provides day-to-day management of the Company's operations and those of its subsidiaries.

The Company accrued $1.0 million in reimbursements to CAFL for its allocable share of these services for the nine month period ended September 30, 2019, of which $220,000 was due to CAFL as of September 30, 2019. The Company paid $3.5 million in reimbursements to CAFL for its allocable share of these services for the nine month period ended September 30, 2018, of which $287,000 was due to CAFL as of September 30, 2018. Reimbursements payable to CAFL are presented as management fees in the accompanying consolidated statement of operations.

## 9. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company may be involved in litigation which may result in legal costs and liability that could have a material effect on the Company's financial position and results of operations. At September 30, 2019, the Company was not subject to any pending litigation or other regulatory actions that either individually or in the aggregate would have a material effect on the consolidated financial statements.

## 10. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through December 23, 2019, the date these financial statements were available to be issued.

On October 14, 2019, Redwood Trust, Inc. and RWT Holdings, Inc., a wholly-owned subsidiary ("Redwood"), entered into an equity interests purchase agreement with CF CoreVest Parent I LLC, CF CoreVest Parent II LLC and CoreVest Management Partners LLC (collectively, the "Sellers"), and members of the CoreVest management team, pursuant to which Redwood acquired a 100% equity interest in CF CoreVest Holdings I LLC, CF CoreVest Holdings II LLC and several of its affiliates ("CoreVest"), including the promote interests in CF CoreVest UST Asset Investor I LLC and CF CoreVest UB Asset Investor II LLC. The acquisition included CoreVest's operating platform and a portfolio of business purpose loans and securities. The estimated aggregate consideration for CoreVest is approximately $492 million, subject to a customary post-closing reconciliation, including a net book value adjustment. The consideration consisted of $482 million, payable in cash, and approximately $10 million of Redwood shares issued to the CoreVest management team. The transaction closed on October 15, 2019.

**Exhibit 99.3**

Consolidated Financial Statements

CF CoreVest Holdings I LLC and Subsidiaries
For the Year Ended December 31, 2018
With Report of Independent Auditors

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Financial Statements**
**For the Year Ended December 31, 2018**

**Table of Contents**


| | |
|---|---|
| Report of Independent Auditors | 1 |
| Consolidated Financial Statements | |
| Consolidated Balance Sheet | 2 |
| Consolidated Statement of Operations | 3 |
| Consolidated Statement of Equity | 4 |
| Consolidated Statement of Cash Flows | 5 |
| Notes to Consolidated Financial Statements | 7 |

## Report of Independent Auditors

To the Members of
CF CoreVest Holdings I LLC

We have audited the accompanying consolidated financial statements of CF CoreVest Holdings I LLC, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CF CoreVest Holdings I LLC at December 31, 2018, and the consolidated results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
April 30, 2019, except for Notes 9, 12 and 13 as to which the date is December 23, 2019

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Balance Sheet**
**December 31, 2018**
**(In Thousands)**

| | | |
|---|---|---|
| **ASSETS** | | |
| Loans held for investment, at fair value (Note 6) | $ | 1,262,589 |
| Cash | | 18,078 |
| Restricted cash | | 24,753 |
| Receivables | | 19,108 |
| Real estate owned | | 727 |
| Other assets, net | | 1,703 |
| **Total assets** | $ | 1,326,958 |
| | | |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| **Liabilities:** | | |
| Secured financing facilities, at fair value (Note 6) | $ | 296,805 |
| Secured notes, at fair value (Note 6) | | 752,176 |
| Accounts payable and accrued expenses | | 13,228 |
| Related party payable | | 14 |
| Borrower deposits | | 2,554 |
| Other liabilities | | 22,645 |
| **Total liabilities** | | 1,087,422 |
| Commitments and contingencies (Note 11) | | |
| **Equity:** | | |
| Members' equity | | 238,844 |
| Noncontrolling interest | | 692 |
| **Total equity** | | 239,536 |
| **Total liabilities and equity** | $ | 1,326,958 |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Statement of Operations**
**For the Year Ended December 31, 2018**
**(In Thousands)**

| | |
|---|---|
| **Revenue** | |
| Interest income | $ 53,451 |
| Interest expense | 31,821 |
| Net interest income | 21,630 |
| Origination fees | 10,916 |
| Asset management fees | 3,812 |
| Other fees | 3,669 |
| Total revenue | 40,027 |
| | |
| **Expenses** | |
| Salaries and employee benefits | 13,796 |
| Loan servicing | 3,292 |
| General and administrative | 8,197 |
| Total expenses | 25,285 |
| | |
| **Other income (expense)** | |
| Realized gains on sales of loans | 984 |
| Losses on real estate owned | (138) |
| Losses on derivatives | (2,016) |
| Net unrealized gains | 13,182 |
| Total other income (expense) | 12,012 |
| | |
| **Net income** | 26,754 |
| | |
| Net income attributable to noncontrolling interest | 692 |
| Net income attributable to members | **$ 26,062** |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Statement of Equity**
**For the Year Ended December 31, 2018**
**(In Thousands)**

| | Members' Equity | Noncontrolling Interest | Total Equity |
|---|---|---|---|
| **Balance at December 31, 2017** | $ 149,211 | $ – | $ 149,211 |
| Contributions | 161,571 | – | 161,571 |
| Distributions | (98,000) | – | (98,000) |
| Net income | 26,062 | 692 | 26,754 |
| **Balance at December 31, 2018** | **$ 238,844** | **$ 692** | **$ 239,536** |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Statement of Cash Flows**
**For the Year Ended December 31, 2018**
**(In Thousands)**

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Net income | $ 26,754 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Realized gains on sale of loans | (984) |
| Losses on real estate owned | 138 |
| Losses on derivatives | 2,016 |
| Net unrealized gains | (13,182) |
| Depreciation on fixed assets | 34 |
| Net change in: | |
| Receivables | (4,377) |
| Related party receivables | 1,113 |
| Other assets | (770) |
| Accounts payable and accrued liabilities | 4,888 |
| Related party payable | 14 |
| Borrower deposits | 982 |
| Other liabilities | 11,628 |
| **Net cash provided by operating activities** | **28,254** |
| | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Repayments of principal on loans receivable | 198,497 |
| Net disbursements on originated and purchased loans | (849,621) |
| Net proceeds from non-designated hedges | (177) |
| Net proceeds received on sale of loans | 34,689 |
| Net proceeds received on sale of real estate owned | 3,533 |
| Other investing activities, net | (122) |
| **Net cash used in investing activities** | **(613,201)** |
| | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Proceeds from secured financing | 678,739 |
| Repayments of secured financing | (522,165) |
| Proceeds from issuance of secured notes | 407,865 |
| Secured notes repayments | (27,966) |
| Contributions from members | 161,571 |
| Distributions to members | (98,000) |
| **Net cash provided by financing activities** | **600,044** |
| | |
| Net increase (decrease) in cash and restricted cash | **15,097** |
| Cash and restricted cash, beginning of period | **27,734** |
| Cash and restricted cash, end of period | **$ 42,831** |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings I LLC and Subsidiaries**
**Consolidated Statement of Cash Flows (Continued)**
**For the Year Ended December 31, 2018**
**(In Thousands)**

| | | |
|---|---|---|
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash paid for interest | $ | 29,863 |
| | | |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | | |
| Repayments of principal on loans receivable due from servicer | $ | 4,649 |
| Transfers from loans to REO | $ | 3,030 |
| | | |
| **RECONCILIATION OF CASH AND RESTRICTED CASH TO BALANCE SHEET** | | |
| As of December 31, 2017: | | |
| Cash | $ | 16,783 |
| Restricted cash | | 10,951 |
| Total cash and restricted cash | **$** | **27,734** |
| | | |
| As of December 31, 2018: | | |
| Cash | $ | 18,078 |
| Restricted cash | | 24,753 |
| Total cash and restricted cash | **$** | **42,831** |

**CF CoreVest Holdings I LLC and Subsidiaries**
**Notes to Consolidated Financial Statements**
**December 31, 2018**

## 1. ORGANIZATION

CF CoreVest Holdings I LLC ("CoreVest I" or the "Company"), a Delaware limited liability company, was formed on May 31, 2017. On July 17, 2017, the Company was capitalized by contributions from its members and acquired a portfolio of term and bridge loans collateralized by single family residential real estate, along with related secured financing facilities debt and other assets and liabilities. The acquired assets and liabilities, which were recorded at fair value at acquisition, are summarized as follows (in thousands):

| | | |
|---|---|---|
| **Assets acquired:** | | |
| Loans held for investment | $ | 424,892 |
| Receivables | | 22,264 |
| Real estate owned | | 1,849 |
| Other assets | | 9,044 |
| | | 458,049 |
| **Liabilities assumed:** | | |
| Secured financing facilities | | 257,639 |
| Accounts payable and accrued expenses | | 2,964 |
| Borrower deposits | | 1,464 |
| Other liabilities | | 267,328 |
| | | |
| Cash paid, net of cash acquired | $ | 190,721 |

CoreVest American Finance Lender, LLC ("CAFL"), a wholly owned subsidiary of CoreVest I, possesses all appropriate state lending licenses and originates all mortgages of the Company. All loans originated by CAFL are immediately sold to CF CoreVest Purchaser LLC ("Purchaser"), a wholly owned subsidiary of CF CoreVest UST Asset Investor I LLC ("Investor I"), a wholly owned subsidiary of CoreVest I. CAFL originated and sold $340 million and $852 million of loans to Purchaser for the period from July 17, 2017 through December 31, 2017 and for the year ended December 31, 2018, respectively. In addition, CAFL provides all management and advisory functions for Investor I and CF CoreVest UB Asset Investor II LLC ("Investor II"), a wholly owned subsidiary of CF CoreVest Holdings II ("CoreVest II"), such as day-to-day operations and all strategic initiatives as may be appropriate, in exchange for management fees. CoreVest II is an affiliate under common control with the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (''GAAP'') as prescribed by the Financial Accounting Standards Board's (''FASB'') Accounting Standards Codification (''ASC''). The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries for the year ended December 31, 2018. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Actual results could differ from those estimates.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Consolidation*

The Company consolidates entities in which it retains a controlling financial interest or entities that meet the definition of a variable interest entity (“VIE”) for which the Company is the primary beneficiary. In performing its analysis of whether an entity is a VIE, the Company considers whether (i) the entity has sufficient equity to finance its activities without subordinated financial support; (ii) the equity holders of the entity have the characteristics of a controlling financial interest, including the power, through voting or similar rights, to direct the activities of the entity that most significantly affect its economic performance; or (iii) the entity is established with non-substantive voting rights and conducts substantially all of its activities on behalf of the equity holder with disproportionately few voting rights. In performing its analysis of whether it is the primary beneficiary, the Company considers whether it individually has the power to direct the activities of the VIE that most significantly affect its economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The determination of whether an entity is a VIE, and whether the Company is the primary beneficiary, which is performed at initial investment and each reporting period thereafter, involves significant judgments, including the determination of which activities most significantly affect the entities’ economic performance, estimates about the current and future fair values and economic performance of assets held by the VIE, and general market conditions.

As more fully described in Note 5, in October 2017, December 2017, July 2018 and December 2018, the Company securitized loans by entering into secured note payable arrangements. The notes were transferred into trusts that issued and sold pass-through certificates approximating the principal amount of the notes. The Company retained beneficial interests in the securitization vehicles in the form of subordinate securities. Affiliates of the Company appointed a third party to act as special servicer of the underlying collateral mortgage loans. The special servicer has the power to direct activities during the loan workout process on defaulted and delinquent loans as permitted by the underlying contractual agreements, which is subject to the consent of the Company, as the controlling class representative or directing holder who, under certain circumstances, has the right to unilaterally remove the special servicer. Because the Company’s rights as the directing holder and controlling class representative provide it with the ability to direct activities that most significantly impact the economic performance of the securitization vehicles, for example, responsibility over decisions related to loan modifications and workouts, the Company maintains effective control over the loans transferred into the securitization trusts. Considering the positions retained by the Company in the securitization vehicles together with its role as controlling class representative or directing holder, the Company is deemed to be the primary beneficiary and consolidates securitization vehicles. Accordingly, these securitizations did not qualify as sale transactions and are accounted for as secured financings with the underlying mortgage loans pledged as collateral. All of the underlying assets, liabilities, equity, revenue and expenses of the securitization vehicles are consolidated within the consolidated financial statements. The Company’s exposure to the obligations of the securitization vehicles is generally limited to its investment in these entities which was $97.8 million as of December 31, 2018.

The Company has elected the fair value option for its loans held for investment and related debt, including the loans held for investment and related secured notes of each consolidated securitization vehicle. Accordingly, the Company has also elected the measurement alternative for consolidated collateralized financing entities, which permits it to measure the financial assets and financial liabilities of the consolidated securitization trusts using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The Company has determined that the fair value of the financial liabilities is more observable. Accordingly, the secured notes of each consolidated securitization vehicle are measured at fair value and the loans held for investment are measured in consolidation as the sum of (i) the fair value of the related secured notes plus (ii) the fair value of the beneficial interests retained by the Company. The Company’s fair value measurements and related disclosures are more fully described in Note 6.

If a legal entity fails to meet any of the three characteristics of a VIE, the Company then evaluates such entity under the voting model. Under the voting model, the Company consolidates the entity if it determines that it, directly or indirectly, has greater than 50% of the voting shares and that other equity holders do not have substantive participating rights. If the Company has a variable interest in a VIE but is not the primary beneficiary, or if the Company has the ability to exercise significant influence over a voting interest entity but does not have control, it accounts for its investment using the equity method of accounting.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Fair Value Option*

Upon certain specified events, including the acquisition of certain eligible financial assets and financial liabilities, GAAP provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for such eligible assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported as a component of net income or loss. The decision to elect the fair value option is determined on an instrument by instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in the consolidated balance sheet from those instruments using another accounting method. The Company has elected the fair value option for its loans held for investment, secured notes and secured financing facilities, primarily to mitigate accounting mismatches that may arise between the values of securitized or to-be-securitized assets and related liabilities, which are generally recourse only to the securitized assets. The Company has not elected the fair value option for any other financial instruments, which are carried at cost with fair value disclosed where reasonably estimable (see Note 6).

*Cash and Cash Equivalents*

The Company considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The Company did not have any cash equivalents at December 31, 2018. The Company maintains its cash accounts in commercial banks. At various times during the year, the Company had deposits in excess of federally insured limits.

*Restricted Cash*

Restricted cash primarily includes escrow deposits from borrowers for various purposes, including property taxes, insurance, replacement reserves and interest reserves with a corresponding liability. In addition, cash balances are maintained as required by the broker-dealer in support of the Company’s derivative hedging operations.

*Loans Held for Investment*

Loans that the Company has the intent and ability to hold for the foreseeable future are classified as held for investment. Interest income on performing loans is recognized based upon the contractual terms and outstanding principal balance of the loans. Since the Company has elected the fair value option, origination fees and direct loan costs are recorded directly in income and are not deferred. When a loan is prepaid, prepayment fees or yield maintenance fees and any excess of proceeds over the carrying amount of the loan are recognized as a component of other income in the consolidated statement of operations. Fees and premiums on loans prepaid during the year ended December 31, 2018 totaled $2.6 million.

*Past Due Loans*

The Company places loans on nonaccrual status when any portion of principal or interest is more than 90 days past due, or earlier when concern exists as to the ultimate collection of principal or interest. When a loan is placed on nonaccrual status, the Company reverses the accrual for unpaid interest and does not recognize interest income until the cash is received and the loan returns to accrual status. Generally, a loan may be returned to accrual status when all delinquent principal and interest are brought current in accordance with the terms of the loan agreement and the borrower has met certain performance criteria.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Receivables*

The Company outsources the servicing of loans to third parties (the "Servicers"). Servicers collect interest income, fees and principal payoffs from borrowers and then remit payments to the Company per the contractual terms of the servicing agreements. Funds received by the Servicers, but not yet paid to the Company, are included in receivables on the accompanying consolidated balance sheets. The Company also has unpaid interest due from borrowers based on the contractual terms of the loan included in receivables on the accompanying consolidated balance sheets.

*Real Estate Owned (REO) Assets*

REO assets acquired through foreclosure are recorded at fair value as of the date of foreclosure, typically using broker opinions of value or third-party appraisals of the underlying collateral. REO assets that are available for sale in their current condition and for which it is probable that a sale will occur within twelve months of the foreclosure date are classified as "held for sale." Subsequent to the foreclosure date, assets held for sale are carried at the lower of carrying value or fair value less estimated costs to sell, with decreases in estimated fair value included as a component of losses on real estate owned on the consolidated statement of operations.

If the Company intends to hold REO for more than twelve months, the asset is classified as "held for use" and the initial basis is allocated to the various components (principally land and building) based upon relative fair value. Held for use REO assets are subsequently carried at historical cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the REO assets, which is typically 40 years for buildings. Depreciation expense is included in general and administrative expense on the consolidated statement of operations.

Carrying costs incurred after the acquisition of REO, including property taxes and insurance, are expensed as incurred.

*Other Assets*

Other assets include prepaid expenses, lease deposits and fixed assets, net. Fixed assets consist primarily of furniture, fixtures and equipment and are recorded at historical cost less depreciation, which approximates fair value. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which generally range from 5 to 15 years.

*Borrower Deposits*

Borrower deposits relate to funds received from potential borrowers for which term sheets have been executed. Once a term sheet is executed, more extensive due diligence is performed by the underwriting team to originate the loan. Any unused deposits are returned to the borrower upon the origination of the loan or if the loan does not close.

*Transfers of Financial Assets*

Sale accounting for transfers of financial assets is limited to the transfer of an entire financial asset, a group of financial assets in their entirety, or if a component of the financial asset is transferred, when the component meets the definition of a participating interest.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. If the Company has any continuing involvement, rights or obligations with the transferred financial asset (outside of standard representations and warranties), sale accounting would require that the transfer meets the following sale conditions: (i) the transferred asset has been legally isolated; (ii) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset; and (iii) the Company does not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by the Company to repurchase or redeem the asset before its maturity, (b) the unilateral ability by the Company to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring the Company to repurchase the asset at a price so favorable to the transferee that it is probable the repurchase will occur.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the criteria for sale accounting are met, the transferred financial asset is removed from the balance sheet and a net gain or loss is recognized upon sale, taking into account any retained interests. Transfers of financial assets that do not meet the criteria for sale are accounted for as financing transactions.

*Derivative Instruments*

The Company has entered into derivative financial instruments to manage its exposure to interest rate movements impacting interest expense on its borrowings and the fair value of its loan portfolio. Interest rate contracts that qualify as cash flow hedges are accounted for in accordance with ASC 815, *Derivatives and Hedging.* The fair value of the derivative financial instruments is included in other assets, net or other liabilities, as appropriate. To the extent they are effective, fair value adjustments on derivative instruments designated as hedges are reported as other comprehensive income and included in stockholders' equity until the hedged item is realized. Ineffective portions, if any, are included in earnings. The Company does not enter into derivative transactions for speculative or trading purposes. See Note 7*, "*Derivative Instruments" for further discussion on derivative financial instruments.

*Fair Value Measurement*

GAAP establishes a hierarchy for inputs used in measuring fair value which prioritizes such inputs based upon market observability, which are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3 – Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

In instances where the determination of fair value is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

*Income Taxes*

Under federal and state income tax rules, limited liability companies are generally not subject to income tax. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements. Income or loss is includable in the income tax return of the Member. The Company periodically evaluates its tax positions, including its status as a pass-through entity, to evaluate whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of December 31, 2018, the Company had not established a liability for uncertain tax positions.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Recent Accounting Updates*

***Revenue Recognition***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers,* which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. In July 2015, the FASB deferred the effective date of the new standard by one year to fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted but not before the original effective date. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect as of the date of initial application recognized in retained earnings. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

***Financial Instruments***

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* Changes to the current GAAP model primarily affect the accounting for equity investments (other than those accounted for using the equity method of accounting), financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. This ASU is effective for financial statements for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. All entities can early adopt the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of financial instruments. The main provisions of ASU 2016-13 include (1) replacing the "incurred loss" approach under current GAAP with an "expected loss" model for instruments measured at amortized cost, (2) requiring entities to record an allowance for available-for-sale debt securities rather than reduce the carrying amount of the investments, as required by the other-than-temporary-impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. The Company is currently assessing the impact of adoption of ASU 2016-13.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires that cash and cash equivalent balances in the statement of cash flows include restricted cash and restricted cash equivalent amounts, and therefore, changes in restricted cash and restricted cash equivalents be presented in the statement of cash flows. This eliminates the presentation of transfers between cash and cash equivalents with restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, this ASU requires disclosure of a reconciliation between the totals in the statement of cash flows and the related captions in the balance sheet. The guidance also requires disclosure of the nature of restricted cash and restricted cash equivalents, similar to existing requirements under Regulation S-X; however, it does not define restricted cash and restricted cash equivalents. ASU No. 2016-18 is effective for the Company for fiscal years and interim periods beginning after December 15, 2018, to be applied retrospectively, with early adoption permitted.

## 3. SIGNIFICANT RISKS AND UNCERTAINTIES

The Company's earnings are dependent on its ability to originate loans and either sell them into the secondary market or hold them in the loan portfolio and collect principal and interest as they come due. When loans become nonperforming or their ultimate collection is in doubt, income is adversely affected. The Company's ability to sustain profitability will depend significantly on loan production and the ability to manage the credit quality of the loan portfolio.

Risk management is a significant component of a Company's strategy to deliver consistent risk-adjusted returns. Management closely monitors the Company's portfolio and actively manages risks associated with, among other things, the Company's assets and interest rates. In addition, management periodically reviews policies with respect to risk assessment and risk management, including key risks to which the Company is subjected, including credit risk, liquidity risk, interest rate risk, concentration risk and market risk. Management then implements steps to monitor and control such risks.

***Market Risk***: Market risk is the potential adverse changes in the values of the financial instruments due to unfavorable changes in the level or volatility of interest rates, foreign currency exchange rates, or other factors. The Company mitigates the exposure to market risk by entering into interest rate swap contracts which hedge against adverse changes in fair value of its fixed-rate loans.

***Credit Risk***: The Company is subjected to credit risk in connection with originating single-family residential term and bridge loans. The credit risk related to these loans pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is granted or renewed and periodically reviewed throughout the loan term. Management believes that loan credit quality is primarily determined by the borrowers' credit profiles and loan characteristics. Nevertheless, unanticipated credit losses could occur which could adversely impact operating results.

***Interest Rate Risk***: Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. The Company's operating results will depend, in part, on differences between the income from the investments in loan portfolios and financing costs. The warehouse financing is based on a floating rate of interest calculated on a fixed spread over the relevant index as determined by the particular financing arrangement. In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to the Company which could materially and adversely affect the business, financial condition, liquidity, results of operations and prospects. Furthermore, such defaults could have an adverse effect on the spread between the interest-earning assets and interest-bearing liabilities.

***Concentration Risk***: Concentration of credit risk arises when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. For the year ended December 31, 2018, substantially all the Company's loan portfolio was collateralized by single family residential properties and bridge loan assets.

***Liquidity Risk***: Liquidity risk arises in the investments and the general financing of investing activities. It includes the risk of not being able to liquidate positions in a timely manner at a reasonable price, in addition to potential increases in collateral requirements during times of heightened market volatility. If the Company was forced to dispose of an illiquid investment at an inopportune time, management may be forced to do so at a substantial discount to the market value, resulting in a realized loss.

## 4. LOANS HELD FOR INVESTMENT

The Company offers loans targeted for residential buy-to-rent property investors seeking financing. The loans are either originated or acquired by the Company and are primarily secured by first mortgages on single family residential ("SFR") properties.

Loans held for investment are divided into two portfolio segments, fixed-rate term loans with an original maturity of typically 5, 10 or 30 years and fixed/floating rate bridge loans with an original maturity of typically 6 to 24 months. Loans held for investment included the following:

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Unpaid Principal Balance | Fair Value | Weighted Average Coupon | Weighted Average Maturity in Years | Number of Loans |
| Term (Security 2017-1) | $ 183,860 | $ 186,264 | 6.11% | 3.9 | 80 |
| Term (Security 2017-2) | 199,309 | 199,420 | 5.87% | 6.0 | 59 |
| Term (Security 2018-1) | 234,609 | 237,806 | 6.20% | 5.5 | 116 |
| Term (Security 2018-2) | 214,859 | 226,523 | 6.27% | 6.9 | 115 |
| Term (5 & 10 Year) | 187,556 | 191,458 | 5.64% | 7.6 | 34 |
| Term (30 Year) | 10,629 | 10,858 | 7.52% | 29.9 | 83 |
| Bridge (1) | 210,260 | 210,260 | 9.01% | 0.6 | 236 |
| Total | $ 1,241,082 | $ 1,262,589 | 6.55% | 5.3 | 723 |

(1) Bridge balances included $4.4 million of second mortgages

The following table provides a summary of nonperforming loans that are 90 days or more past due and on nonaccrual status as of December 31, 2018:

| (In thousands) | Unpaid Principal Balance | Unrealized Gains (Losses) | Fair Value |
|---|---|---|---|
| Term (Security 2017-1) | $ 2,966 | $ – | $ 2,966 |
| Term (Security 2017-2) | 2,406 | – | 2,406 |
| Term (Security 2018-1) | – | – | – |
| Term (Security 2018-2) | – | – | – |
| Term (5 & 10 Year) | 3,546 | (29) | 3,517 |
| Term (30 Year) | – | – | – |
| Bridge | 971 | – | 971 |
| Total | $ 9,889 | $ (29) | $ 9,860 |

## 5. DEBT

*Secured Financing Facilities*

***Morgan Stanley***

Upon acquisition of the initial loan portfolio on July 17, 2017, the Company assumed, through a wholly owned subsidiary, CAF Term Borrower MS, LLC, a Master Repurchase Agreement with Morgan Stanley Bank N.A. to finance term loans with a maximum commitment of $250.0 million.

On August 29, 2017, the Company, through its wholly owned subsidiary, CAF Bridge Borrower MS LLC, entered into a Master Repurchase Agreement with Morgan Stanley Bank N.A. to finance bridge loans with a maximum commitment of $200.0 million.

## 5. DEBT (CONTINUED)

***Goldman Sachs***

On December 13, 2017, the Company, through its wholly owned subsidiary, CAF Borrower GS LLC, entered into a Master Repurchase Agreement with Goldman Sachs Bank USA to finance term and bridge loans with a maximum commitment of $200.0 million.

Secured financing facilities consisted of the following:

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Maturity Date** | **Unpaid Principal Balance** | **Fair Value** | **Committed Amount** | **Rate Terms** | **Principal Pledged** |
| Morgan Stanley Bank – Term | 12/24/2020 | $ 96,371 | $ 96,371 | $ 250,000 | (1) | $ 113,371 |
| Morgan Stanley Bank – Bridge | 8/28/2020 | 71,053 | 71,053 | 200,000 | (2) | 85,174 |
| Goldman Sachs | 12/12/2020 | 129,381 | 129,381 | 200,000 | (3) | 160,090 |
| Total secured financing facility | | $ 296,805 | $ 296,805 | $ 650,000 | | $ 358,635 |

(1) Interest is equal to 30 Day LIBOR plus 2.55%
Non-utilization fee is equal to 0.75% <50%, 0.50% 50-80% and 0.00% over 80%

(2) Interest is equal to 30 Day LIBOR plus 3.00%
Non-utilization fee is equal to 0.75% <50%, 0.50% 50-75% and 0.00% over 75%

(3) Interest is equal to 90 Day LIBOR plus 2.50% (Term Loans), 2.75% (30 Year Term Loans), 3.00% (Bridge Loans)
Non-utilization fee is equal to 0.625% <50% and 0.375% over 50%

The Company recognized interest expense and non-utilization fees on secured financing facilities totaling $11.1 million and $0.1 million, respectively, during the year ended December 31, 2018. In conjunction with the execution of the secured financing facilities, during the year ended December 31, 2018, the Company incurred financing and related legal costs totaling $1.7 which are included in interest expense in the accompanying consolidated statement of operations.

The secured financing facilities are fully collateralized by portions of our loan portfolio (see Note 4). The Company was in compliance with all covenants related to these financing arrangements at December 31, 2018.

*Secured Notes*

In October 2017, CoreVest I completed its first securitization transaction backed by 87 single-family residential term loans made to multiple borrowers. The borrower issued, through CoreVest American Finance Depositor LLC ("Depositor"), a wholly owned subsidiary, $207.2 million of five- and ten-year term non-recourse mortgage pass-through certificates with a blended rate of 3.57% (the "2017-1 Secured Notes"). The Company sold $187.3 million of this issuance at a blended rate of 3.30%. In addition, the Company sold $5.0 million, notional value, of the X-A interest strip for $0.5 million. The mortgage loans backing the pass-through (REMIC) certificates were originated by CAFL and sold by Purchaser, as mortgage loan seller, to Depositor, who in turn transferred the mortgage loans to the 2017-1 Trust.

In December 2017, CoreVest I completed a second securitization transaction backed by 59 single-family residential term loans made to multiple borrowers. The borrower issued, through Depositor, $202.7 million of five- and ten-year term non-recourse mortgage pass-through certificates with a blended rate of 3.38% (the ("2017-2 Secured Notes"). The Company sold $182.5 million of this issuance at a blended rate of 3.13%. In addition, the Company sold $50.0 million, notional value, of the X-A interest strip for $5.4 million. The mortgage loans backing the pass-through (REMIC) certificates were originated by CAFL and sold by Purchaser, as mortgage loan seller, to Depositor, who in turn transferred the mortgage loans to the 2017-2 Trust. In addition, the Class A certificates representing approximately $161.1 million were guaranteed, with respect to certain payments of interest and principal, by Federal Home Loan Mortgage Corporation.

## 5. DEBT (CONTINUED)

In July 2018, CoreVest I completed a third securitization transaction backed by 117 single-family residential term loans made to multiple borrowers. The sponsor issued, through Depositor, $236.8 million of five- and ten-year term non-recourse mortgage pass-through certificates with a blended rate of 4.18% (the ("2018-1 Secured Notes"). The Company sold $218.2 million of this issuance at a blended rate of 4.03%. In addition, the Company sold $26.0 million, notional value, of the X-A interest strip for $2.4 million. The mortgage loans backing the pass-through (REMIC) certificates were originated by CAFL and sold by Purchaser, as mortgage loan seller, to Depositor, who in turn transferred the mortgage loans to the 2018-1 Trust.

In December 2018, CoreVest I completed a fourth securitization transaction backed by 121 single-family residential term loans made to multiple borrowers. The borrower issued, through Depositor, $226.1 million of five- and ten-year term non-recourse mortgage pass-through certificates with a blended rate of 4.47% (the ("2018-2 Secured Notes"). The Company sold $207.7 million of this issuance at a blended rate of 4.33%. The mortgage loans backing the pass-through (REMIC) certificates were originated by CAFL and sold by Purchaser, as mortgage loan seller, to Depositor, who in turn transferred the mortgage loans to the 2018-2 Trust.

Secured notes consisted of the following as of December 31, 2018:

| | | | December 31, 2018 | | | | |
|---|---|---|---|---|---|---|---|
| **(In thousands)** | **Issuance Balance** | **Original Unpaid Principal Balance** | **Unpaid Principal Balance** | **Fair Value** | **Weighted Average Maturity in Years** | **Blended Rate** | **Number of Tranches** |
| Security 2017-1 | $ 207,209 | $ 187,265 | $ 163,889 | $ 160,264 | 3.4 | 3.34% | 5 |
| Security 2017-2 | 202,727 | 182,454 | 179,023 | 176,849 | 5.3 | 3.15% | 4 |
| Security 2018-1 | 236,784 | 218,249 | 216,793 | 215,724 | 5.4 | 4.03% | 5 |
| Security 2018-2 | 226,146 | 207,659 | 196,849 | 199,339 | 6.6 | 4.34% | 5 |
| Total | $ 872,866 | $ 795,627 | $ 756,554 | $ 752,176 | 5.2 | 3.75% | 19 |

## 6. FAIR VALUE MEASUREMENT

Considerable judgment may be necessary to interpret market data and develop estimated fair value. The use of different assumptions or methodologies could have a material effect on the estimated fair value amounts.

*Financial Instruments Reported at Fair Value*

The Company has elected the fair value option for its loans held for investment, securitization debt and secured financing facilities and has certain derivative assets and liabilities that are required to be recorded at fair value. The following table presents the estimated fair values of the Company's financial instruments reported at fair value, aggregated by the level in the fair value hierarchy as of December 31, 2018:

| | Fair Value Measurement Using | | | | |
|---|---|---|---|---|---|
| **(In thousands)** | **Quoted Prices in Active Markets for Identical Instruments (Level 1)** | **Other Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Fair Value** | **Unpaid Principal Balance** |
| **Assets** | | | | | |
| Loans held for investment | $ – | $ – | $ 1,262,589 | $ 1,262,589 | $ 1,241,582 |
| Interest rate derivative contracts | $ – | $ – | $ – | $ – | $ – |
| | | | | | |
| **Liabilities** | | | | | |
| Secured notes | $ – | $ – | $ 762,986 | $ 762,986 | $ 767,364 |
| Secured financing facilities | – | – | 296,805 | 296,805 | 296,805 |
| Interest rate derivative contracts | $ – | $ 1,880 | $ – | $ 1,880 | $ – |

Activity in loans held for investment, at fair value, for the year ended December 31, 2018 is summarized below:

| **(In thousands)** | |
|---|---|
| Balance at December 31, 2017 | $ 633,952 |
| Loan acquisitions and originations | 852,260 |
| Principal repayments | (196,872) |
| Principal transferred to real estate owned | (3,030) |
| Net proceeds received on sale of loans | (34,689) |
| Gain on sale of loans | 984 |
| Changes in fair value | 9,984 |
| Balances at December 31, 2018 | $ 1,262,589 |

Activity in secured notes, at fair value, for the period ended December 31, 2018 is summarized below:

| **(In thousands)** | |
|---|---|
| Balance at December 31, 2017 | $ 368,773 |
| Issuance of secured notes | 425,326 |
| Principal repayments | (38,776) |
| Changes in fair value | (3,147) |
| Balances at December 31, 2018 | $ 752,176 |

## 6. FAIR VALUE MEASUREMENT (CONTINUED)

The Company's retained interests in the securitization vehicles are valued using monthly quotes obtained from broker dealers. The Company seeks to obtain quotes from at least two brokers. In cases where broker quotes are not reflective of fair value, a secondary broker quote is unavailable, or no broker quotes are available, a comparison value made up of quotes for similar securities or a discounted cash flow methodology may be used. Such investments are classified as Level 3 when the quoted prices are indicative in nature for securities that are in an illiquid market, are for similar securities, or require adjustment for investment-specific factors or restrictions. The Company evaluates the dealer quotes based on available market information, including trading activity of the subject or similar securities, or by performing a comparable security analysis to ensure that fair values are reasonable.

The Company's secured notes held by the consolidated securitization vehicles are valued using quotes obtained from broker dealers. In cases where broker quotes are not reflective of fair value, a secondary broker quote is unavailable, or no broker quotes are available, a comparison value made up of quotes for similar securities may be used.

The Company's loans held for investment held by consolidated securitization vehicles are measured based on the more observable fair value of the related secured notes. Accordingly, the loans held for investment of the consolidated securitization vehicles are measured as the sum of (i) the fair value of the related secured notes plus (ii) the fair value of the beneficial interests retained by the Company, in accordance with the measurement alternative for consolidated collateralized financing vehicles under ASC 810.

The Company's bridge loans held for investment are valued at par or current principal value due to the short-term duration of these assets.

The Company's non-securitized term loans held for investment are valued using a market yield methodology which discounts the loan's contractual cash flows at a market rate of interest for a similar instrument as of the reporting date. Market rates are estimated using Level 3 inputs such as interest rates on loans recently originated for borrowers with similar credit metrics, market comparisons, dealer quotes, and other quantitative and qualitative factors.

The principal balance of the Company's secured financing facilities approximates its fair value as they were recently obtained, and the interest rates reflect market rates since they are indexed to LIBOR.

The fair values of interest rate futures derivative contracts are based on quoted prices in active markets for similar instruments. As a result, interest rate futures derivative contracts are classified in Level 2 of the fair value hierarchy.

See Note 7, "Derivative Instruments" for further discussion on derivative financial instruments.

*Financial Instruments Reported at Historical Cost*

The carrying values of receivables and accrued and other liabilities approximate their fair values due to their short-term nature.

## 7. DERIVATIVE INSTRUMENTS

The Company's objective in using derivative instruments is to manage its exposure to interest rate movements impacting interest expense on its borrowings and the fair value of its loan portfolio. The Company has entered into interest rate futures to (i) mitigate changes in the fair value of its loan portfolio, which generally bears interest at fixed rates, and (ii) offset the impact of changes in interest rates on its variable-rate borrowings. The Company does not enter into derivative transactions for speculative or trading purposes, but may enter into derivatives to manage the economic risk of changes in interest rates.

## 7. DERIVATIVE INSTRUMENTS (CONTINUED)

The Company utilizes interest rate futures as economic hedges for its loan portfolio and secured financing facility, but has not designated its derivative instruments as accounting hedges. Derivative financial instruments are recognized as either assets or liabilities in the consolidated balance sheets at fair value. For the year ended December 31, 2018, net losses of $2.0 million were included in other income(expense), in the accompanying consolidated statement of operations related to the Company's non-designated interest rate futures.

The fair values of derivative instruments included in other assets, net and other liabilities in our consolidated balance sheets were as follows:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| (In thousands) | Notional Amount | Estimated Fair Value | Notional Amount | Estimated Fair Value |
| Interest rate futures – loans receivable | $ – | $ – | $ 160,700 | $ 1,880 |

## 8. EQUITY

CoreVest Management Partners LLC is a non-managing member (the "Promote Member") of Investor I and Investor II. Pursuant to the Amended and Restated Limited Liability Company Agreements of Investor I and Investor II, the Promote Member is entitled to Distributions of Available Earnings for each Calendar Year after the Managing Member has achieved certain threshold returns on its Time-Weighted Average Undistributed Capital. Distributions payable to the Promote Member, assuming the Company's assets were sold and its liabilities settled at their GAAP book values as of the reporting date, are presented as noncontrolling interests in the consolidated financial statements.

Contributions and distributions to the members are made in accordance with their percentage interests, which are equal to each member's aggregate capital contributions to the Company, divided by the aggregate amount of all capital contributions of all members to the Company.

During the year ended December 31, 2018, the Company received $161.6 million in contributions from its members and made $98.0 million of distributions to its members.

## 9. OTHER ASSETS AND OTHER LIABILITIES

The following table summarizes the Company's other assets, net as of December 31, 2018:

| (In thousands) | |
|---|---|
| Prepaid expenses | $ 447 |
| Fixed assets, net[1] | 252 |
| Other | 1,004 |
| Total | $ 1,703 |

(1) At December 31, 2018, fixed assets are shown net of accumulated depreciation of $45,000.

## 9. OTHER ASSETS AND OTHER LIABILITIES (CONTINUED)

The following table summarizes the Company's other liabilities as of December 31, 2018:

| (In thousands) | | |
|---|---|---|
| Escrow deposits | $ | 20,765 |
| Derivative liabilities | | 1,880 |
| Total | $ | 22,645 |

## 10. RELATED PARTY TRANSACTIONS

CAFL has entered into a management and advisory services agreement with Investor II pursuant to which CAFL provides day-to-day management of the Company's operations and those of its subsidiaries. CAFL accrued $3.8 million in reimbursements from Investor II for its allocable share of these services for the period ended December 31, 2018, of which $14,000 was due to Investor II as of December 31, 2018. Reimbursements received from Investor II are presented as management fees in the consolidated statement of operations.

## 11. COMMITMENTS AND CONTINGENCIES

The Company may be required to fund additional amounts to borrowers pursuant to certain loan agreements following its approval of underwritten residential assets for the purchase of additional residential assets or for the renovation or construction element after the initial purchase. As of December 31, 2018, the Company had $629.6 million in unfunded loan commitments for the purchase of additional residential assets and $37.2 million in unfunded loan commitments for the renovation or construction element.

In the ordinary course of business, the Company may be involved in litigation which may result in legal costs and liability that could have a material effect on the Company's financial position and results of operations. At December 31, 2018, the Company was not subject to any pending litigation or other regulatory actions that either individually or in the aggregate would have a material effect on the consolidated financial statements.

*Leases*

As of December 31, 2018, the Company's future minimum lease payments under a non-cancelable lease with an initial term of one year or more for its offices in Irvine, California and Salt Lake City, Utah were as follows (in thousands):

| Year Ended December 31, | | |
|---|---|---|
| 2019 | $ | 462 |
| 2020 | | 407 |
| 2021 | | 140 |
| Thereafter | | – |
| Total | $ | 1,009 |

## 12. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 29, 2019, the date these financial statements were available to be issued and through December 23, 2019, the date the financial statements were reissued (see Note 13).

In April 2019, CoreVest I completed a fifth securitization transaction backed by 74 single-family residential term loans made to multiple borrowers. The Company sold $288.6 million of this issuance at a blended rate of 3.62%, as well as interest-only notes with a notional balance of $240.2 million at a blended rate of 2.03%.

## 12. SUBSEQUENT EVENTS (CONTINUED)

On March 13, 2019, the Company sold a portfolio of 56 single asset term loans with unpaid principal balance (UPB) of $10.9 million. Gross proceeds were used to repay outstanding secured financing debt of $8.8 million.

On March 29, 2019, the Company sold $52.0 million, notional value, of the XA interest strip of the 2018-2 Secured Notes and $54.2 million, notional value, of the XB interest strip of the 2018-2 Secured Notes.

On June 25, 2019, the Company sold a portfolio of 104 single asset term loans with UPB of $15.5 million. Gross proceeds were used to repay outstanding secured financing debt of $12.5 million.

In July 2019, CoreVest I completed a sixth securitization transaction backed by 83 single-family residential term loans made to multiple borrowers. The Company sold $221.2 million of this issuance at a blended rate of 3.15%, as well as interest-only notes with a notional balance of $213.1 million at a blended rate of 2.37%.

On September 27, 2019, the Company sold a portfolio of 118 single asset term loans with UPB of $17.3 million. Gross proceeds were used to repay outstanding secured financing debt of $13.4 million.

On October 14, 2019, Redwood Trust, Inc. and RWT Holdings, Inc., a wholly-owned subsidiary ("Redwood"), entered into an equity interests purchase agreement with CF CoreVest Parent I LLC, CF CoreVest Parent II LLC and CoreVest Management Partners LLC (collectively, the "Sellers"), and members of the CoreVest management team, pursuant to which Redwood acquired a 100% equity interest in CF CoreVest Holdings I LLC, CF CoreVest Holdings II LLC and several of its affiliates ("CoreVest"), including the promote interests in CF CoreVest UST Asset Investor I LLC and CF CoreVest UB Asset Investor II LLC. The acquisition included CoreVest's operating platform and a portfolio of business purpose loans and securities. The estimated aggregate consideration for CoreVest is approximately $492 million, subject to a customary post-closing reconciliation, including a net book value adjustment. The consideration consisted of $482 million, payable in cash, and approximately $10 million of Redwood shares issued to the CoreVest management team. The transaction closed on October 15, 2019.

In November 2019, the Company completed a seventh securitization transaction backed by 128 single-family residential term loans made to multiple borrowers. The Company issued $342.0 million in unpaid principal balance of secured notes at a blended rate of 2.92%, as well as interest-only notes with a notional balance of $332.0 million and a blended rate of 1.88%.

On December 20, 2019, the Company completed a reorganization in connection with the amendment of its secured financing facilities with Goldman Sachs and Morgan Stanley. Affiliates of the Company entered into an amended Master Repurchase Agreement with Goldman Sachs Bank USA to finance term and bridge loans on an uncommitted basis with a maximum facility amount of $450.0 million and entered into amended Master Repurchase Agreements with Morgan Stanley Bank N.A. to finance term and bridge loans on an uncommitted basis with maximum facility amounts of $175.0 million and $150.0 million, respectively

## 13. FINANCIAL STATEMENT REISSUANCE

As a result of the inclusion of the Company's financial statements in certain of Redwood's filings with the Securities and Exchange Commission, the Company is considered a public business entity ("PBE"). Accordingly, effective December 23, 2019, the Company's consolidated financial statements were reissued to reflect the adoption of certain accounting standards based upon the effective date for PBEs, including the adoption of ASU No. 2016-18 effective January 1, 2018. The application of the new standard resulted in restricted cash being presented separately from cash on the consolidated balance sheet and in changes to the previously reported statement of cash flows as follows:

| (In thousands) | As Previously Reported | After Adoption of ASU No. 2016-18 |
|---|---|---|
| Net cash provided by operating activities | $ 14,330 | $ 28,254 |
| Net cash used in investing activities | (613,079) | (613,201) |

**Exhibit 99.4**

Consolidated Financial Statements

CF CoreVest Holdings II LLC and Subsidiaries
For the Year Ended December 31, 2018
With Report of Independent Auditors

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**CF CoreVest Holdings II LLC and Subsidiaries**
**Consolidated Financial Statements**
**For the Year Ended December 31, 2018**

**Table of Contents**


| | |
|---|---|
| Report of Independent Auditors | 1 |
| Consolidated Financial Statements | |
| Consolidated Balance Sheet | 2 |
| Consolidated Statement of Operations | 3 |
| Consolidated Statement of Equity | 4 |
| Consolidated Statement of Cash Flows | 5 |
| Notes to Consolidated Financial Statements | 6 |

## Report of Independent Auditors

To the Members of
CF CoreVest Holdings II LLC

We have audited the accompanying consolidated financial statements of CF CoreVest Holdings II LLC, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CF CoreVest Holdings II LLC at December 31, 2018, and the consolidated results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
December 23, 2019

**CF CoreVest Holdings II LLC and Subsidiaries**
**Consolidated Balance Sheet**
**December 31, 2018**
**(In Thousands)**

| | | |
|---|---|---|
| **ASSETS** | | |
| Loans held for investment, at fair value (Note 4) | $ | 453,171 |
| Cash and cash equivalents | | 35 |
| Restricted cash | | 17,921 |
| Receivables | | 2,281 |
| Related party receivable | | 14 |
| Other assets, net | | 40 |
| **Total assets** | $ | 473,462 |
| | | |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| **Liabilities:** | | |
| Secured financing facilities, at fair value (Note 5) | $ | 406,837 |
| Accounts payable and accrued expenses | | 1,780 |
| Other liabilities | | 17,921 |
| **Total liabilities** | | 426,538 |
| Commitments and contingencies (Note 9) | | |
| **Equity:** | | |
| Members' equity | | 46,924 |
| **Total liabilities and equity** | $ | 473,462 |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings II LLC and Subsidiaries**
**Consolidated Statement of Operations**
**For the Year Ended December 31, 2018**
**(In Thousands)**

| | | |
|---|---|---|
| **Revenue** | | |
| Interest income | $ | 32,275 |
| Interest expense | | 17,491 |
| Net interest income | | 14,784 |
| Other fees | | 7,290 |
| Total revenue | | 22,074 |
| | | |
| **Expenses** | | |
| Management fees to related party | | 3,812 |
| Servicing fees | | 1,555 |
| General and administrative | | 803 |
| Total expenses | | 6,170 |
| | | |
| **Other income (expense)** | | |
| Net unrealized loss | | (11,274) |
| Total other income (expense) | | (11,274) |
| | | |
| **Net income** | **$** | **4,630** |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings II LLC and Subsidiaries**
**Consolidated Statement of Equity**
**For the Year Ended December 31, 2018**
**(In Thousands)**

| | Members' Equity |
|---|---|
| **Balance at December 31, 2017** | $ 58,559 |
| Contributions | - |
| Distributions | (16,265) |
| Net income | 4,630 |
| **Balance at December 31, 2018** | **$ 46,924** |

*See Notes to Consolidated Financial Statements*

**CF CoreVest Holdings II LLC and Subsidiaries**
**Consolidated Statement of Cash Flows**
**For the Year Ended December 31, 2018**
**(In thousands)**

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ | 4,630 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net unrealized loss | | 11,274 |
| Net change in: | | |
| Receivables | | 783 |
| Other assets | | (6) |
| Related party receivable | | (14) |
| Accounts payable and accrued expenses | | (565) |
| Related party payable | | (1,113) |
| Other liabilities | | (3,242) |
| **Net cash provided by operating activities** | | **11,747** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Repayments of principal on loans receivable | | 157,919 |
| Net proceeds from sale of real estate owned | | 2,429 |
| **Net cash provided by investing activities** | | **160,348** |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayments of secured financing | | (160,335) |
| Distributions to members | | (16,265) |
| **Net cash used in financing activities** | | **(176,600)** |
| | | |
| Net decrease in cash | | **(4,505)** |
| Cash and restricted cash, beginning of period | | **22,461** |
| Cash and restricted cash, end of period | **$** | **17,956** |
| | | |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash paid during the period for interest | $ | 17,850 |
| | | |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | | |
| Advance of principal repayments on loans receivable due to servicer | $ | 50 |
| Loans held for investment transferred to real estate owned | | 2,429 |
| | | |
| **RECONCILIATION OF CASH AND RESTRICTED CASH TO BALANCE SHEET** | | |
| Cash | $ | 35 |
| Restricted cash | | 17,921 |
| Total cash and restricted cash | **$** | **17,956** |

*See Notes to Consolidated Financial Statements*

## 1. ORGANIZATION

CF CoreVest Holdings II LLC (the "Company"), a Delaware limited liability company, was formed on May 31, 2017. On July 17, 2017, the Company was capitalized by contributions from its members and acquired a portfolio of term loans collateralized by single family residential real estate, along with related securitization debt and other assets and liabilities. The acquired assets and liabilities, which were recorded at fair value at acquisition, are summarized as follows (in thousands):

| | |
|---|---|
| **Assets acquired:** | |
| Loans held for investment | $ 662,328 |
| Receivables | 6,806 |
| Restricted cash and other assets | 21,522 |
| | 690,656 |
| **Liabilities assumed:** | |
| Secured notes | 578,793 |
| Accounts payable and accrued expenses | 1,184 |
| Borrower escrow deposits | 21,484 |
| | 601,461 |
| Cash paid, net of cash acquired | $ 89,195 |

The Company is managed and advised by CoreVest American Finance Lender LLC ("CAFL"), a Delaware limited liability company and wholly owned subsidiary of CF CoreVest Holdings I, an affiliate. CAFL provides all management and advisory functions for the Company, such as day-to-day operations and all strategic initiatives, in exchange for management fees.

## 2. SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"). The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Actual results could differ from those estimates.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Consolidation*

The Company consolidates entities in which it retains a controlling financial interest or entities that meet the definition of a variable interest entity ("VIE") for which the Company is the primary beneficiary. In performing its analysis of whether an entity is a VIE, the Company considers whether (i) the entity has sufficient equity to finance its activities without subordinated financial support; (ii) the equity holders of the entity have the characteristics of a controlling financial interest, including the power, through voting or similar rights, to direct the activities of the entity that most significantly affect its economic performance; or (iii) the entity is established with non-substantive voting rights and conducts substantially all of its activities on behalf of the equity holder with disproportionately few voting rights. In performing its analysis of whether it is the primary beneficiary, the Company considers whether it individually has the power to direct the activities of the VIE that most significantly affect its economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The determination of whether an entity is a VIE, and whether the Company is the primary beneficiary, which is performed at initial investment and each reporting period thereafter, involves significant judgments, including the determination of which activities most significantly affect the entities' economic performance, estimates about the current and future fair values and economic performance of assets held by the VIE, and general market conditions.

As more fully described in Note 5, the loans acquired by the Company were securitized in three separate transactions in October 2015, May 2016 and November 2016. In each securitization transaction, loans originated or acquired by Colony American Finance, LLC ("CAF") were transferred into trusts that issued and sold pass-through certificates approximating the principal amount of the notes. The trusts were determined to be VIEs as they did not have sufficient equity to finance their activities without subordinated financial support. CAF, as the sponsor, retained beneficial interests in the securitization vehicles in the form of subordinate securities. A third party was appointed to act as special servicer of the underlying collateral mortgage loans. The special servicer has the power to direct activities during the loan workout process on defaulted and delinquent loans as permitted by the underlying contractual agreements, which is subject to the consent of the Company, as the controlling class representative or directing holder who, under certain circumstances, has the right to unilaterally remove the special servicer. Because the Company's rights as the directing holder and controlling class representative provide it with the ability to direct activities that most significantly impact the economic performance of the VIEs, including responsibility over decisions related to loan modifications and workouts, the Company is deemed to be the primary beneficiary of the VIEs and consolidates securitization vehicles. Substantially all of the Company's assets and liabilities are comprised of assets and liabilities of the consolidated securitization vehicles. The Company's exposure to the obligations of the securitization vehicles is generally limited to its investments in the retained beneficial interests of the VIEs, valued at approximately $46.3 million as of December 31, 2018.

The Company has elected the fair value option for the loans held for investment and related secured notes of each consolidated securitization vehicle. The Company has also elected the measurement alternative for consolidated collateralized financing entities, which permits it to measure the financial assets and financial liabilities of the consolidated securitization trusts using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The Company has determined that the fair value of the financial liabilities is more observable. Accordingly, the secured notes of each consolidated securitization vehicle are measured at fair value and the loans held for investment are measured in consolidation as the sum of (i) the fair value of the related secured notes plus (ii) the fair value of the beneficial interests retained by the Company. The Company's fair value measurements and related disclosures are more fully described in Note 6.

If a legal entity fails to meet any of the three characteristics of a VIE, the Company then evaluates such entity under the voting model. Under the voting model, the Company consolidates the entity if it is determined that it, directly or indirectly, has greater than 50% of the voting shares and that other equity holders do not have substantive participating rights. If the Company has a variable interest in a VIE but it is not the primary beneficiary, or if it has the ability to exercise significant influence over a voting interest entity but do not have control, the Company accounts for its investment using the equity method of accounting.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Fair Value Option*

Upon certain specified events, including the acquisition of certain eligible financial assets and financial liabilities, GAAP provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for such eligible assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported as a component of net income or loss. The decision to elect the fair value option is determined on an instrument by instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in the consolidated balance sheet from those instruments using another accounting method.

The Company has elected the fair value option for the loans held for investment and related secured notes of its consolidated VIEs in order to mitigate accounting mismatches that may arise between the values of the securitized assets and related liabilities, which are generally recourse only to the securitized assets. The Company has not elected the fair value option for any other financial instruments, which are carried at cost with fair value disclosed where reasonably estimable (see Note 6).

*Cash and Cash Equivalents*

The Company considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The Company did not have any cash equivalents at December 31, 2018. The Company maintains its cash accounts in commercial banks. At various times during the year, the Company had deposits in excess of federally insured limits.

*Restricted Cash*

Restricted cash includes escrow deposits from borrowers for various purposes, including property taxes, insurance, replacement reserves and interest reserves, with a corresponding liability.

*Loans Held for Investment*

Loans that the Company has the intent and ability to hold for the foreseeable future are classified as held for investment. Interest income on performing loans is recognized based upon the contractual terms and outstanding principal balance of the loans. Since the Company has elected the fair value option, origination fees and direct loan costs are recorded directly in income and are not deferred. When a loan is prepaid, prepayment fees or yield maintenance fees and any excess of proceeds over the carrying amount of the loan are recognized as a component of other income in the consolidated statement of operations. For year ended December 31, 2018, the Company received fees of approximately $7.2 million.

*Past Due Loans*

The Company places loans on nonaccrual status when any portion of principal or interest is more than 90 days past due, or earlier when concern exists as to the ultimate collection of principal or interest. When a loan is placed on nonaccrual status, the Company reverses the accrual for unpaid interest and does not recognize interest income until the cash is received and the loan returns to accrual status. Generally, a loan may be returned to accrual status when all delinquent principal and interest are brought current in accordance with the terms of the loan agreement and the borrower has met certain performance criteria.

*Receivables*

The Company outsources the servicing of loans to third parties (the “Servicers”). Servicers collect interest income, fees and principal payoffs from borrowers and then remit payments to the Company per the contractual terms of the servicing agreements. Funds received by the Servicers, but not yet paid to the Company, are included in receivables on the accompanying consolidated balance sheets. The Company also has unpaid interest due from borrowers based on the contractual terms of the loan included in receivables on the accompanying consolidated balance sheets.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Real Estate Owned (REO) Assets*

REO assets acquired through foreclosure are recorded at fair value as of the date of foreclosure, typically using broker opinions of value or third-party appraisals of the underlying collateral. REO assets that are available for sale in their current condition and for which it is probable that a sale will occur within twelve months of the foreclosure date are classified as "held for sale." Subsequent to the foreclosure date, assets held for sale are carried at the lower of carrying value or fair value less estimated costs to sell, with decreases in estimated fair value included as a component of losses on real estate owned on the consolidated statement of operations.

If the Company intends to hold REO for more than twelve months, the asset is classified as "held for use" and the initial basis is allocated to the various components (principally land and building) based upon relative fair value. Held for use REO assets are subsequently carried at historical cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the REO assets, which is typically 40 years for buildings. Depreciation expense is included in general and administrative expense on the consolidated statement of operations.

Carrying costs incurred after the acquisition of REO, including property taxes and insurance, are expensed as incurred. During the year ended December 31, 2018, the Company foreclosed on 26 properties with an estimated fair value of $2.4 million based upon broker opinions of value and other market data. The properties were subsequently sold for amounts that approximated their fair values at foreclosure. The Company had no REO assets as of December 31, 2018.

*Transfers of Financial Assets*

Sale accounting for transfers of financial assets is limited to the transfer of an entire financial asset, a group of financial assets in their entirety, or if a component of the financial asset is transferred, when the component meets the definition of a participating interest.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. If the Company has any continuing involvement, rights or obligations with the transferred financial asset (outside of standard representations and warranties), sale accounting would require that the transfer meets the following sale conditions: (i) the transferred asset has been legally isolated; (ii) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset; and (iii) the Company does not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by the Company to repurchase or redeem the asset before its maturity, (b) the unilateral ability by the Company to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring the Company to repurchase the asset at a price so favorable to the transferee that it is probable the repurchase will occur.

If the criteria for sale accounting are met, the transferred financial asset is removed from the balance sheet and a net gain or loss is recognized upon sale, taking into account any retained interests. Transfers of financial assets that do not meet the criteria for sale are accounted for as financing transactions.

*Fair Value Measurement*

GAAP establishes a hierarchy for inputs used in measuring fair value which prioritizes such inputs based upon market observability, which are as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Level 3—Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

In instances where the determination of fair value is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

*Income Taxes*

Under federal and state income tax rules, limited liability companies are generally not subject to income tax. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements. Income or loss is includable in the income tax return of the Member. The Company periodically evaluates its tax positions, including its status as a pass-through entity, to evaluate whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of December 31, 2018, the Company had not established a liability for uncertain tax positions.

*Recent Accounting Updates*

***Revenue Recognition***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers,* which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. In July 2015, the FASB deferred the effective date of the new standard by one year to fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted but not before the original effective date. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect as of the date of initial application recognized in retained earnings. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

***Financial Instruments***

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* Changes to the current GAAP model primarily affect the accounting for equity investments (other than those accounted for using the equity method of accounting), financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. This ASU is effective for financial statements for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. All entities can early adopt the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of financial instruments. The main provisions of ASU 2016-13 include (1) replacing the "incurred loss" approach under current GAAP with an "expected loss" model for instruments measured at amortized cost, (2) requiring entities to record an allowance for available-for-sale debt securities rather than reduce the carrying amount of the investments, as required by the other-than-temporary-impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. The Company is currently assessing the impact of adoption of ASU 2016-13.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires that cash and cash equivalent balances in the statement of cash flows include restricted cash and restricted cash equivalent amounts, and therefore, changes in restricted cash and restricted cash equivalents be presented in the statement of cash flows. This eliminates the presentation of transfers between cash and cash equivalents with restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, this ASU requires disclosure of a reconciliation between the totals in the statement of cash flows and the related captions in the balance sheet. The guidance also requires disclosure of the nature of restricted cash and restricted cash equivalents, similar to existing requirements under Regulation S-X; however, it does not define restricted cash and restricted cash equivalents.. The Company adopted this guidance effective January 1, 2018.

## 3. SIGNIFICANT RISKS AND UNCERTAINTIES

The Company’s earnings are dependent on its ability to collect principal and interest as they come due. When loans become nonperforming or their ultimate collection is in doubt, income is adversely affected. The Company’s ability to sustain profitability will depend significantly on the management of the credit quality of the loan portfolio.

Risk management is a significant component of a Company’s strategy to deliver consistent risk-adjusted returns. Management closely monitors the Company’s portfolio and actively manages risks associated with, among other things, the Company’s assets and interest rates. In addition, management periodically reviews policies with respect to risk assessment and risk management, including key risks to which the Company is subjected, including credit risk, liquidity risk, interest rate risk, concentration risk and market risk. Management then implements steps to monitor and control such risks.

***Market Risk***. Market risk is the potential adverse changes in the values of the financial instruments due to unfavorable changes in the level or volatility of interest rates, foreign currency exchange rates, or other factors.

***Credit Risk***. The Company is subjected to credit risk which pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is renewed and periodically reviewed throughout the loan term. Management believes that loan credit quality is primarily determined by the borrowers' credit profiles and loan characteristics. Nevertheless, unanticipated credit losses could occur which could adversely impact operating results.

***Interest Rate Risk***. Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company’s control. In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to the Company which could materially and adversely affect the financial condition, liquidity and results of operations.

## 3. SIGNIFICANT RISKS AND UNCERTAINTIES (CONTINUED)

***Concentration Risk.*** Concentration of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. As of December 31, 2018, substantially all the Company's loan portfolio was collateralized by single family residential properties. The following table presents the geographic concentration of loans in the portfolio at December 31, 2018.

| **Geographic Concentration (by Principal)** | **% of Total** |
|---|---|
| Texas | 28% |
| Florida | 10% |
| Georgia | 8% |
| California | 6% |
| Alabama | 6% |
| Illinois | 5% |
| Ohio | 5% |
| Other states (none greater than 5%) | 32% |
| Total | 100% |

***Liquidity Risk***. Liquidity risk arises in the investments and the general financing of investing activities. It includes the risk of not being able to liquidate positions in a timely manner at a reasonable price, in addition to potential increases in collateral requirements during times of heightened market volatility. If the Company was forced to dispose of an illiquid investment at an inopportune time, management may be forced to do so at a substantial discount to the market value, resulting in a realized loss.

## 4. LOANS HELD FOR INVESTMENT

Loans held for investment are predominantly fixed-rate term loans with an original maturity of 5 or 10 years, secured by first mortgages on single family residential properties. Loans held for investment consisted of the following:

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Unpaid Principal Balance** | **Fair Value** | **Weighted Average Coupon** | **Weighted Average Maturity in Years** | **Number of Loans** |
| Security 2015-1 | $ 146,104 | $ 142,401 | 5.59% | 3.7 | 49 |
| Security 2016-1 | 151,336 | 148,888 | 5.68% | 3.3 | 67 |
| Security 2016-2 | 160,526 | 161,882 | 5.94% | 3.8 | 65 |
| Total | $ 457,966 | $ 453,171 | 5.74% | 3.6 | 181 |

The following table provides a summary of nonperforming loans that were 90 days or more past due and on nonaccrual status as of December 31, 2018:

| **(In thousands)** | **Unpaid Principal Balance** | **Unrealized Gains (Losses)** | **Fair Value** |
|---|---|---|---|
| Security 2015-1 | $ 3,205 | $ – | $ 3,205 |
| Security 2016-1 | 2,494 | (163) | 2,331 |
| Security 2016-2 | 6,145 | (557) | 5,588 |
| Total | $ 11,844 | $ (720) | $ 11,124 |

## 5. DEBT

*Secured Notes*

In October 2015, CAF completed its first securitization transaction backed by 69 single-family residential term loans made to multiple borrowers. The borrower issued, through a subsidiary, $224.3 million of five- and ten-year term non-recourse mortgage-backed notes with a blended rate of 3.44% (the "2015-1 Secured Notes"). The loan arranger for the 2015-1 Secured Notes subsequently transferred them into a trust that issued and sold pass-through certificates approximating the principal amount.

**5. DEBT (CONTINUED)**

In May 2016, CAF completed a second securitization transaction backed by 85 single-family residential term loans made to multiple borrowers. The borrower issued, through a subsidiary, $226.6 million of five- and ten-year term non-recourse mortgage-backed notes with a blended rate of 3.08% (the "2016-1 Secured Notes"). The loan arranger for the 2016-1 Secured Notes subsequently transferred them into a trust that issued and sold pass-through certificates approximating the principal amount.

In November 2016, CAF completed a third securitization transaction backed by 71 single-family residential term loans made to multiple borrowers. The borrower issued, through a subsidiary, $169.1 million of five- and ten-year term non-recourse mortgage-backed notes with a blended rate of 2.89% (the "2016-2 Secured Notes"). The loan arranger for the 2016-2 Secured Notes subsequently transferred them into a trust that issued and sold pass-through certificates approximating the principal amount.

Secured notes consisted of the following:

| | | | December 31, 2018 | | | | |
|---|---|---|---|---|---|---|---|
| **(In thousands)** | **Issuance Balance** | **Original Unpaid Principal Balance** | **Unpaid Principal Balance** | **Fair Value** | **Weighted Average Maturity in Years** | **Blended Rate** | **Number of Tranches** |
| Security 2015-1 | $ 252,018 | $ 224,296 | $ 126,886 | $ 126,789 | 3.6 | 4.02% | 6 |
| Security 2016-1 | 254,982 | 226,615 | 140,160 | 137,223 | 2.9 | 3.73% | 6 |
| Security 2016-2 | 187,918 | 169,126 | 145,946 | 142,825 | 3.3 | 3.11% | 5 |
| Total | $ 694,918 | $ 620,037 | $ 412,992 | $ 406,837 | 3.3 | 3.60% | 17 |

**6. FAIR VALUE MEASUREMENTS**

Considerable judgment may be necessary to interpret market data and develop estimated fair value. The use of different assumptions or methodologies could have a material effect on the estimated fair value amounts.

***Financial Instruments Reported at Fair Value***

The Company has elected the fair value option for loans held for investment and related securitization debt of consolidated VIEs. The following table presents the estimated fair values of the Company's financial instruments reported at fair value, aggregated by the level in the fair value hierarchy:

| | Fair Value Measurement Using | | | | |
|---|---|---|---|---|---|
| **(In thousands)<br>December 31, 2018** | **Quoted Prices in Active Markets for Identical Instruments (Level 1)** | **Other Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Fair Value** | **Unpaid Principal Balance** |
| **Assets** | | | | | |
| Loans held for investment | $ – | $ – | $ 453,171 | $ 453,171 | $ 457,966 |
| | | | | | |
| **Liabilities** | | | | | |
| Secured notes | $ – | $ – | $ 406,837 | $ 406,837 | $ 412,992 |

Activity in loans held for investment, at fair value, for the year ended December 31, 2018 is summarized below:

| **(In thousands)** | |
|---|---|
| Balance at December 31, 2017 | $ 624,650 |
| Principal repayments | (155,484) |
| Principal transferred to real estate owned | (2,429) |
| Changes in fair value | (13,566) |
| Balances at December 31, 2018 | $ 453,171 |

## 6. FAIR VALUE MEASUREMENTS (CONTINUED)

Activity in secured notes, at fair value, for the year ended December 31, 2018 is summarized below:

| (In thousands) | |
|---|---|
| Balance at December 31, 2017 | $ 569,464 |
| Principal repayments | (160,335) |
| Changes in fair value | (2,292) |
| Balances at December 31, 2018 | $ 406,837 |

The Company's retained interests in the securitization vehicles are valued using monthly quotes obtained from broker dealers. The Company seeks to obtain quotes from at least two brokers. In cases where broker quotes are not reflective of fair value, a secondary broker quote is unavailable, or no broker quotes are available, a comparison value made up of quotes for similar securities or discounted cash flow analysis may be used. Such investments are classified as Level 3 when the quoted prices are indicative in nature for securities that are in an illiquid market, are for similar securities, or require adjustment for investment-specific factors or restrictions. The Company evaluates the dealer quotes based on available market information, including trading activity of the subject or similar securities, or by performing a comparable security analysis to ensure that fair values are reasonable.

The Company's secured notes held by the consolidated securitization vehicles are valued using quotes obtained from broker dealers. In cases where broker quotes are not reflective of fair value, a secondary broker quote is unavailable, or no broker quotes are available, a comparison value made up of quotes for similar securities may be used.

The Company's loans held for investment held by consolidated securitization vehicles are measured based on the more observable fair value of the related secured notes. Accordingly, the loans held for investment of the consolidated securitization vehicles are measured as the sum of (i) the fair value of the related secured notes plus (ii) the fair value of the beneficial interests retained by the Company, in accordance with the measurement alternative for consolidated collateralized financing vehicles under ASC 810.

*Financial Instruments Reported at Historical Cost*

The carrying values of receivables, other assets, accounts payable, accrued expenses and other liabilities approximate their fair values due to their short-term nature.

## 7. MEMBERS' EQUITY

Contributions and distributions to the members are made in accordance with their percentage interests, which are equal to each member's aggregate capital contributions to the Company, divided by the aggregate amount of all capital contributions of all members to the Company.

During the year ended December 31, 2018, the Company received no contributions from its members and made $16.3 million of distributions to its members.

## 8. RELATED PARTY TRANSACTIONS

The Company has entered into a management and advisory services agreement with CAFL pursuant to which CAFL provides day-to-day management of the Company's operations and those of its subsidiaries. The Company paid $3.8 million in reimbursements to CAFL for its allocable share of these services for the year ended December 31, 2018, of which $14,000 was receivable from CAFL as a refund of prior expenses paid as of December 31, 2018. Reimbursements payable to CAFL are presented as management fees in the accompanying consolidated statement of operations.

## 9. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company may be involved in litigation which may result in legal costs and liability that could have a material effect on the Company's financial position and results of operations. At December 31, 2018, the Company was not subject to any pending litigation or other regulatory actions that either individually or in the aggregate would have a material effect on the consolidated financial statements.

## 10. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through December 23, 2019, the date these financial statements were available to be issued.

During the nine-month period ended September 30, 2019, the Company received principal repayments on loans of $80.2 million with proceeds used to repay outstanding secured financing facilities debt.

During the nine-month period ended September 30, 2019, the Company received no contributions from its members and made $8.7 million of distributions to its members.

On October 14, 2019, Redwood Trust, Inc. and RWT Holdings, Inc., a wholly-owned subsidiary ("Redwood"), entered into an equity interests purchase agreement with CF CoreVest Parent I LLC, CF CoreVest Parent II LLC and CoreVest Management Partners LLC (collectively, the "Sellers"), and members of the CoreVest management team, pursuant to which Redwood acquired a 100% equity interest in CF CoreVest Holdings I LLC, CF CoreVest Holdings II LLC and several of its affiliates ("CoreVest"), including the promote interests in CF CoreVest UST Asset Investor I LLC and CF CoreVest UB Asset Investor II LLC. The acquisition included CoreVest's operating platform and a portfolio of business purpose loans and securities. The estimated aggregate consideration for CoreVest is approximately $492 million, subject to a customary post-closing reconciliation, including a net book value adjustment. The consideration consisted of $482 million, payable in cash, and approximately $10 million of Redwood shares issued to the CoreVest management team. The transaction closed on October 15, 2019.

Exhibit 99.5

**REDWOOD AND COREVEST UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

On October 14, 2019, Redwood Trust, Inc. and its wholly-owned subsidiary RWT Holdings, Inc. ("Redwood" or the "Company"), entered into an equity interests purchase agreement with CF CoreVest Parent I LLC, CF CoreVest Parent II LLC and CoreVest Management Partners LLC (collectively, the "Sellers"), and members of the CoreVest management team, pursuant to which Redwood acquired a 100% equity interest in CF CoreVest Holdings I LLC, CF CoreVest Holdings II LLC and several of its affiliates ("CoreVest"), including the promote interests in CF CoreVest UST Asset Investor I LLC and CF CoreVest UB Asset Investor II LLC (the "Acquisition"). The Acquisition included CoreVest's operating platform and a portfolio of business purpose loans and securities, a significant portion of which Redwood will hold for investment in its investment portfolio. The aggregate consideration paid by Redwood was $492 million, subject to a customary post-closing reconciliation, including a net book value adjustment. The consideration consisted of $482 million, payable in cash, and approximately $10 million of Redwood shares issued to the CoreVest management team. Based on the terms of the equity interest purchase agreement, we determined that the $10 million of shares should be accounted for as compensation expense for post-combination services, and therefore, it is not included in the GAAP purchase price allocated to the assets and liabilities acquired.

The following presents the unaudited pro forma condensed combined balance sheets of Redwood and CoreVest, giving effect to the Acquisition and related financing, as described below, as if it had been consummated on September 30, 2019, and includes all adjustments that give effect to events that are directly attributable to the Acquisition and are factually supportable. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2019 and for the year ended December 31, 2018 present the historical consolidated statements of operations of Redwood and CoreVest, giving effect to the Acquisition as if it had been consummated on January 1, 2018, the beginning of the earliest period presented. The unaudited pro forma condensed combined statements of operations presented include all adjustments that give effect to events that are directly attributable to the Acquisition, are expected to have a continuing impact, and are factually supportable.

The historical consolidated financial statements of CoreVest have been adjusted to reflect certain reclassifications and accounting treatment conforming adjustments in order to conform with Redwood's financial statement presentation. For a description of these adjustments, see Note 3 to the unaudited pro forma condensed combined financial statements. The accounting policies of both Redwood and CoreVest are in the process of being reviewed. Upon completion of such review, additional conforming adjustments or financial statement reclassification may be determined.

The unaudited pro forma condensed combined financial statements were prepared using the acquisition method of accounting and in accordance with Regulation S-X Article 11, which gives effect to the Acquisition under Financial Accounting Standards Board Accounting Standards Codification Topic 805, Business Combinations, with Redwood considered as the accounting acquirer and CoreVest as the accounting acquiree. Accordingly, consideration paid by the Company to complete the Acquisition will be allocated to identifiable assets and liabilities of CoreVest based on their estimated fair values as of the closing date of the Acquisition.

The unaudited pro forma condensed combined financial statements do not reflect the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies or revenue synergies that may result from the Acquisition. In addition, the unaudited pro forma condensed combined statements of operations exclude non-recurring items that are directly attributable to the Acquisition and incurred by Redwood or CoreVest as those costs are not expected to have a continuing impact.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**
**AS OF SEPTEMBER 30, 2019**

| (In Thousands, except Share Data) | Redwood Historical | Condensed as Adjusted CoreVest (See Note 3) | Proforma Adjustments | See Note 2 | Proforma Combined |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Residential loans, held-for-sale, at fair value | $ 925,887 | $ - | $ - | | $ 925,887 |
| Residential loans, held-for-investment, at fair value | 7,755,916 | - | - | | 7,755,916 |
| Business purpose residential loans, at fair value | 336,035 | 2,581,765 | - | | 2,917,800 |
| Multifamily loans, held-for-investment, at fair value | 3,791,622 | - | - | | 3,791,622 |
| Real estate securities, at fair value | 1,285,426 | - | - | | 1,285,426 |
| Other investments | 347,707 | - | - | | 347,707 |
| Cash and cash equivalents | 394,628 | 19,811 | - | **(A)** | 414,439 |
| Restricted cash | 111,518 | 70,143 | - | | 181,661 |
| Goodwill and intangible assets | 49,121 | 874 | 133,634 | **(B)** | 183,629 |
| Accrued interest receivable | 57,464 | 13,577 | - | | 71,041 |
| Derivative assets | 43,649 | - | - | | 43,649 |
| Other assets | 377,310 | 15,825 | - | | 393,135 |
| **Total Assets** | **$ 15,476,283** | **$ 2,701,995** | **$ 133,634** | | **$ 18,311,912** |
| **LIABILITIES AND EQUITY** | | | | | |
| **Liabilities** | | | | | |
| Short-term debt, net | $ 1,980,817 | $ 623,091 | $ 482,311 | **(A)** | $ 3,086,219 |
| Accrued interest payable | 46,881 | 7,190 | - | | 54,071 |
| Derivative liabilities | 234,011 | - | - | | 234,011 |
| Accrued expenses and other liabilities | 129,742 | 79,684 | - | | 209,426 |
| Asset-backed securities issued, at fair value | 8,346,051 | 1,643,353 | - | | 9,989,404 |
| Long-term debt, net | 2,953,722 | - | - | | 2,953,722 |
| **Total liabilities** | **13,691,224** | **2,353,318** | **482,311** | | **16,526,853** |
| **Equity** | | | | | |
| Common stock, par value $0.01 per share, 270,000,000 shares authorized; 112,689,991 issued and outstanding | 1,121 | - | - | | 1,121 |
| Additional paid-in capital | 2,244,834 | 348,677 | (348,677) | **(C)** | 2,244,834 |
| Accumulated other comprehensive income | 38,124 | - | - | | 38,124 |
| Cumulative earnings | 1,529,981 | - | - | | 1,529,981 |
| Cumulative distributions to stockholders | (2,029,001) | - | - | | (2,029,001) |
| **Total equity** | **1,785,059** | **348,677** | **(348,677)** | | **1,785,059** |
| **Total Liabilities and Equity** | **$ 15,476,283** | **$ 2,701,995** | **$ 133,634** | | **$ 18,311,912** |

See accompanying notes to unaudited pro forma condensed combined financial statements, which are an integral part of these statements.

## REDWOOD TRUST, INC. AND SUBSIDIARIES
## UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

| (In Thousands, except Share Data) | Redwood Historical | Condensed as Adjusted CoreVest (See Note 3) | Proforma Adjustments | See Note 2 | Proforma Combined |
|---|---|---|---|---|---|
| **Interest Income** | | | | | |
| Residential loans | $ 230,308 | $ - | $ - | | $ 230,308 |
| Business purpose residential loans | 12,231 | 98,507 | - | | 110,738 |
| Multifamily loans | 94,134 | - | - | | 94,134 |
| Real estate securities | 72,514 | - | - | | 72,514 |
| Other interest income | 20,513 | - | - | | 20,513 |
| Total interest income | 429,700 | 98,507 | - | | 528,207 |
| **Interest Expense** | | | | | |
| Short-term debt | (70,732) | (18,699) | (12,661) | **(D)** | (102,092) |
| Asset-backed securities issued | (196,473) | (44,463) | - | | (240,936) |
| Long-term debt | (64,895) | - | - | | (64,895) |
| Total interest expense | (332,100) | (63,162) | (12,661) | | (407,923) |
| **Net Interest Income** | **97,600** | **35,345** | **(12,661)** | | **120,284** |
| **Non-interest Income** | | | | | |
| Mortgage banking activities, net | 40,984 | 29,699 | - | | 70,683 |
| Investment fair value changes, net | 34,741 | 245 | - | | 34,986 |
| Other income, net | 12,794 | - | - | | 12,794 |
| Realized gains, net | 18,227 | - | - | | 18,227 |
| Total non-interest income, net | 106,746 | 29,944 | - | | 136,690 |
| Operating expenses | (76,229) | (22,253) | (1,951) | **(E)** | (100,433) |
| Other expenses | (4,975) | | (7,879) | **(F)** | (12,854) |
| **Net Income before Provision for Income Taxes** | **123,142** | **43,036** | **(22,491)** | | **143,687** |
| Provision for income taxes | (3,102) | - | (178) | **(G)** | (3,280) |
| **Net Income** | **$ 120,040** | **$ 43,036** | **$ (22,669)** | | **$ 140,407** |
| | | | | | |
| Basic earnings per common share | $ 1.20 | | - | | $ 1.40 |
| Diluted earnings per common share | $ 1.09 | | - | | $ 1.23 |
| Basic weighted average shares outstanding | 97,214,064 | | 294,130 | **(H)** | 97,508,194 |
| Diluted weighted average shares outstanding | 131,202,689 | | 294,130 | **(H)** | 131,496,819 |

See accompanying notes to unaudited pro forma condensed combined financial statements, which are an integral part of these statements.

**REDWOOD TRUST, INC. AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| (In Thousands, except Share Data) | Redwood Historical | Condensed as Adjusted CoreVest (See Note 3) | Proforma Adjustments | See Note 2 | Proforma Combined |
|---|---|---|---|---|---|
| **Interest Income** | | | | | |
| Residential loans | $ 239,818 | $ - | $ - | | $ 239,818 |
| Business purpose residential loans | 4,333 | 90,757 | - | | 95,090 |
| Multifamily loans | 21,322 | - | - | | 21,322 |
| Real estate securities | 105,078 | - | - | | 105,078 |
| Other interest income | 8,166 | - | - | | 8,166 |
| Total interest income | 378,717 | 90,757 | - | | 469,474 |
| **Interest Expense** | | | | | |
| Short-term debt | (58,917) | (12,936) | (16,881) | **(D)** | (88,734) |
| Asset-backed securities issued | (99,429) | (36,376) | - | | (135,805) |
| Long-term debt | (80,693) | - | - | | (80,693) |
| Total interest expense | (239,039) | (49,312) | (16,881) | | (305,232) |
| **Net Interest Income** | **139,678** | **41,445** | **(16,881)** | | **164,242** |
| **Non-interest Income** | | | | | |
| Mortgage banking activities, net | 59,566 | 28,890 | - | | 88,456 |
| Investment fair value changes, net | (25,689) | (16,154) | - | | (41,843) |
| Other income, net | 12,874 | - | - | | 12,874 |
| Realized gains/(loss), net | 27,041 | - | - | | 27,041 |
| Total non-interest income, net | 73,792 | 12,736 | - | | 86,528 |
| Operating expenses | (82,782) | (22,797) | (4,847) | **(E)** | (110,426) |
| Other expenses | - | - | (10,505) | **(F)** | (10,505) |
| **Net Income before Provision for Income Taxes** | 130,688 | 31,384 | (32,233) | | 129,839 |
| Provision for income taxes | (11,088) | - | 1,474 | **(G)** | (9,614) |
| **Net Income** | **$ 119,600** | **$ 31,384** | **$ (30,759)** | | **$ 120,225** |
| | | | | | |
| Basic earnings per common share | $ 1.47 | $ - | - | | $ 1.47 |
| Diluted earnings per common share | $ 1.34 | $ - | - | | $ 1.34 |
| Basic weighted average shares outstanding | 78,724,912 | - | - | **(H)** | 78,724,912 |
| Diluted weighted average shares outstanding | 110,027,770 | - | - | **(H)** | 110,027,770 |

See accompanying notes to unaudited pro forma condensed combined financial statements, which are an integral part of these statements.

**Redwood Trust, Inc.**
**Notes to Unaudited Pro Forma Condensed Combined Financial Statements**
**(Unaudited)**

## 1. Basis of Presentation

The unaudited pro forma condensed combined financial information has been prepared in accordance with S-X Article 11, which gives effect to the Acquisition under Accounting Standards Codification Topic 805, *Business Combinations* ("ASC 805") using the acquisition method of accounting for the Acquisition involving Redwood and CoreVest, with Redwood as the acquirer. The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and is not necessarily indicative of the financial position had the Acquisition been consummated at September 30, 2019 or the results of operations had the Acquisition been consummated at January 1, 2018, nor is it necessarily indicative of the results of operations in future periods or the future financial position of the combined entities.

Under the acquisition method of accounting, the assets and liabilities of CoreVest will be recorded at the respective fair values on the Acquisition date. The fair value on the Acquisition date represents management's best estimates based on available information and facts and circumstances in existence on the Acquisition date. The pro forma allocation of purchase price reflected in the unaudited pro forma condensed combined financial information is preliminary and subject to adjustment. Adjustments may include, but not be limited to, changes in (i) the underlying values of assets and liabilities if market conditions differ from current assumptions; or (ii) if information unknown as of the completion of the Acquisition becomes known.

The accounting policies of both Redwood and CoreVest are in the process of being reviewed. Upon completion of such review, additional conforming adjustments or financial statement reclassification may be determined.

The unaudited pro forma condensed combined balance sheet has been adjusted to reflect the preliminary valuation of the net assets acquired, including intangibles and goodwill. The actual net assets acquired on October 15, 2019, their fair values, and the resulting goodwill will differ from the amounts presented in these pro forma financials. The valuation of the assets and liabilities in these unaudited pro forma condensed combined financial statements is based upon a GAAP purchase price of approximately $482 million, which excludes approximately $10 million in stock-based consideration that is treated as compensation under GAAP.

Redwood's and CoreVest's fiscal years end on December 31.

## 2. Pro Forma Adjustments

The following pro forma adjustments have been reflected in the unaudited pro forma condensed combined financial information. All adjustments are based on current assumptions and valuations, which are subject to change.

The unaudited pro forma condensed combined financial statements reflect the following adjustments:

**Balance Sheet**
**(In Thousands, except Useful Life)**

| | | |
|---|---|---|
| **(A) Adjustments to Cash and cash equivalents** | | |
| To reflect total cash consideration paid on the Closing Date for the Acquisition. | $ | (482,311) |
| To reflect the proceeds from additional short-term borrowings of $482 million incurred near Acquisition. | $ | 482,311 |
| | | - |

| | | |
|---|---|---|
| **(B) Adjustments to Goodwill and intangible assets** | | |
| To reflect the removal of CoreVest's historical goodwill. | $ | (874) |
| To reflect the excess purchase price over the fair value of the assets acquired and liabilities assumed, which has not been allocated. | $ | 78,008 |
| To reflect the adjustment to record the fair value of identifiable intangible assets and related amortization expense adjustments. See below for amortization schedule. | $ | 56,500 |
| | $ | 133,634 |

| | Fair Value | Average Remaining Useful Life (years) | Pro Forma Amortization Expense (Year Ended December 31, 2018) | Pro Forma Amortization Expense (Nine Months Ended September 30, 2019) |
|---|---|---|---|---|
| Borrower network | $ 45,300 | 7 years | $ 6,472 | $ 4,854 |
| Trade name | 2,800 | 3 years | 933 | 700 |
| Non-competition agreements | 6,600 | 3 years | 2,200 | 1,650 |
| Developed technology | 1,800 | 2 years | 900 | 675 |
| **Total** | $ 56,500 | | $ 10,505 | $ 7,879 |
| | | | | |
| **Increase to pro forma intangibles and amortization expense** | $ 56,500 | | $ 10,505 | $ 7,879 |

| | | |
|---|---|---|
| **(C) Adjustments to Stockholders' equity balances** | | |
| To reflect the elimination of CoreVest's historical members' equity balances. | $ | (348,677) |

**Statement of Operations**
**(In Thousands, except Share Data)**

| | Nine Months Ended September 30, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| **(D) Interest expense on short-term debt financing** | | |
| To reflect interest expense on short-term borrowings of $482 million at an interest rate of 3.5%, which represents the approximate average borrowing rate on our short-term loan warehouse lines as of September 30, 2019. Cash used to fund the Acquisition was generated through additional short-term borrowings incurred near the Acquisition. The pro forma statements of operations reflect these incremental borrowings occurring on January 1, 2018 and remaining outstanding during 2018 and the nine months ended September 30, 2019. | $ (12,661) | $ (16,881) |
| **(E) Adjustments to Operating expenses** | | |
| To reflect the elimination of Redwood's transaction-related expenses that are included in historical Operating expenses. CoreVest did not incur any transaction-related expenses. | $ 1,684 | $ - |
| To reflect $10 million of Redwood Trust shares granted to CoreVest executive management as consideration for the acquisition. Based on the terms of the Purchase Agreement, we determined that the consideration should be accounted for as compensation expense for post-combination services. The grant-date value of the shares granted is recognized on a straight-line basis into Operating expenses over the two-year vesting period. | $ (3,635) | $ (4,847) |
| | $ (1,951) | $ (4,847) |
| **(F) Adjustments to Other expenses** | | |
| To reflect amortization expense adjustments based on fair value estimates for acquired intangibles. Refer to adjustment (B) for further details. | $ (7,879) | $ (10,505) |
| **(G) Adjustments to Provision for income taxes** | | |
| In calculating the pro forma tax provision adjustment for the periods ended December 31, 2018 and September 30, 2019, we applied the federal statutory tax rate of 21% to the GAAP income or loss that would have been earned at our taxable subsidiaries during these periods. We generally do not book material tax provisions associated with income generated at our REIT, so no tax provision was recorded against income that would have been earned at our REIT for either period. Additionally, due to our significant state net operating loss carryforwards and the corresponding valuation allowance, no state tax provisions were recorded against any of the pro forma income. | $ (178) | $ 1,474 |
| **(H) Adjustments to basic and diluted weighted average shares outstanding** | | |
| To reflect the assumed vesting on January 1, 2019 of 50% of the 588,260 restricted Redwood Trust restricted shares granted to CoreVest executive management as consideration for the acquisition, assuming the acquisition was consummated on January 1, 2018. These restricted shares vest over a two-year period. | 294,130 | - |

**3. Reclassifications and Accounting Treatment Conforming Adjustments on the Condensed Historical Presentation for the CoreVest Balance Sheet and Statement of Operations**

The accounting policies of both Redwood and CoreVest are in the process of being reviewed. Certain accounting policies have been conformed and certain financial statement line items included in CoreVest's historical presentation have been reclassified to corresponding line items as included in Redwood's historical presentation for the purpose of preparing the unaudited pro forma condensed combined balance sheet and statements of operations as follows:

**Pro Forma Reclassifications and Accounting Treatment Conforming Adjustments on CoreVest Condensed Historical Balance Sheet As of September 30, 2019**

| (In Thousands, except Share Data) | Condensed Historical CF CoreVest Holdings I LLC | Condensed Historical CF CoreVest Holdings II LLC | Eliminations | Condensed Historical CoreVest Combined | Reclassification Adjustments | See Notes | Accounting Treatment Conforming Adjustments | See Notes | Condensed As Adjusted CoreVest Combined |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Loans held for investment, at fair value | $ 2,205,575 | $ 376,190 | $ - | $ 2,581,765 | $ - | | $ - | | $ 2,581,765 |
| Cash | 19,663 | 148 | - | 19,811 | - | | - | | 19,811 |
| Restricted cash | 52,238 | 17,905 | - | 70,143 | - | | - | | 70,143 |
| Goodwill and intangible assets | - | - | - | - | 874 | **1** | - | | 874 |
| Accrued interest receivable | - | - | - | - | 13,577 | **2** | - | | 13,577 |
| Receivables | 22,033 | 1,826 | - | 23,859 | (23,859) | **2** | - | | - |
| Related party receivable | 220 | - | (220) | - | - | | - | | - |
| Real estate owned | 2,916 | - | - | 2,916 | (2,916) | **3** | - | | - |
| Other assets, net | 2,039 | 40 | - | 2,079 | 12,324 | **1,2,3** | 1,422 | **4** | 15,825 |
| **Total Assets** | $ 2,304,684 | $ 396,109 | $ (220) | $ 2,700,573 | $ - | | $ 1,422 | | $ 2,701,995 |
| **LIABILITIES AND EQUITY** | | | | | | | | | |
| **Liabilities** | | | | | | | | | |
| Secured financing facilities, at fair value | $ 623,091 | $ - | $ - | $ 623,091 | $ (623,091) | **7** | - | | $ - |
| Secured notes, at fair value | 1,310,995 | 332,358 | - | 1,643,353 | (1,643,353) | **8** | - | | - |
| Short-term debt, net | - | - | - | - | 623,091 | **7** | - | | 623,091 |
| Accrued interest payable | - | - | - | - | 7,190 | **5** | - | | 7,190 |
| Accounts payable and accrued expenses | 18,171 | 1,926 | - | 20,097 | (20,097) | **5,6** | - | | - |
| Related Party Payable | - | 220 | (220) | - | - | | - | | - |
| Borrower Deposits | 3,339 | - | - | 3,339 | (3,339) | **6** | - | | - |
| Accrued expenses and other liabilities | - | - | - | - | 78,262 | **6** | 1,422 | **4** | 79,684 |
| Asset-backed securities issued, at fair value | - | - | - | - | 1,643,353 | **8** | - | | 1,643,353 |
| Other liabilities | 44,112 | 17,904 | - | 62,016 | (62,016) | **6** | - | | - |
| **Total liabilities** | 1,999,708 | 352,408 | (220) | 2,351,896 | - | | 1,422 | | 2,353,318 |
| **Equity** | | | | | | | | | |
| Member's equity | $ 302,922 | $ 43,701 | $ - | $ 346,623 | $ (346,623) | **9** | $ - | | $ - |
| Noncontrolling interest | 2,054 | - | - | 2,054 | (2,054) | **9** | - | | - |
| Additional paid-in capital | - | - | - | - | 348,677 | **9** | - | | 348,677 |
| Accumulated other comprehensive income | - | - | - | - | - | | - | | - |
| Cumulative earnings | - | - | - | - | - | | - | | - |
| Cumulative distributions to stockholders | - | - | - | - | - | | - | | - |
| **Total equity** | 304,976 | 43,701 | - | 348,677 | - | | - | | 348,677 |
| **Total Liabilities and Equity** | $ 2,304,684 | $ 396,109 | $ (220) | $ 2,700,573 | $ - | | $ 1,422 | | $ 2,701,995 |

## Pro Forma Reclassifications and Accounting Treatment Conforming Adjustments on CoreVest Condensed Historical Statement of Operations For the Nine Months Ended September 30, 2019

| (In Thousands, except Share Data) | Condensed Historical CF CoreVest Holdings I LLC | Condensed Historical CF CoreVest Holdings II LLC | Intercompany Eliminations | Condensed Historical CoreVest Combined | Reclassification Adjustments | See Notes | Accounting Treatment Conforming Adjustments | See Notes | Condensed As Adjusted CoreVest Combined |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | |
| Interest income | $ 79,249 | $ 17,854 | $ - | $ 97,103 | $ 5,423 | **10** | $ (4,019) | **11** | $ 98,507 |
| Other interest income | - | - | - | - | - | | - | | - |
| Total interest income | 79,249 | 17,854 | - | 97,103 | 5,423 | | (4,019) | | 98,507 |
| **Interest Expense** | | | | | | | | | - |
| Short-term debt | - | - | - | - | (18,699) | **12** | - | - | (18,699) |
| Asset-backed securities issued | - | - | - | - | (44,463) | **12** | - | | (44,463) |
| Interest expense | (52,913) | (10,249) | - | (63,162) | 63,162 | **12** | - | | - |
| Net Interest Income | 26,336 | 7,605 | - | 33,941 | 5,423 | | (4,019) | | 35,345 |
| Origination fees | 15,203 | - | - | 15,203 | (15,203) | **13** | - | | - |
| Asset management fees | 962 | - | (962) | - | - | | - | | - |
| Other fees | 3,730 | 2,628 | - | 6,358 | (6,358) | **10,13** | - | | - |
| Total revenue | 46,231 | 10,233 | (962) | 55,502 | (16,138) | | (4,019) | | 35,345 |
| **Expenses** | | | | | | | | | |
| Operating expenses | - | - | - | - | 22,253 | **16** | - | | 22,253 |
| Salaries and employee benefits | 12,563 | - | - | 12,563 | (12,563) | **16** | - | | - |
| Management fees | - | 962 | (962) | - | - | | - | | - |
| Loan servicing | 3,039 | 980 | - | 4,019 | - | | (4,019) | **11** | - |
| General and administrative | 9,479 | 211 | - | 9,690 | (9,690) | **16** | - | | - |
| Total expenses | 25,081 | 2,153 | (962) | 26,272 | - | | (4,019) | | 22,253 |
| **Other income (expense)** | | | | | | | | | |
| Mortgage banking activities, net | - | - | - | - | 29,699 | **13** | - | | 29,699 |
| Investment fair value changes, net | - | - | - | - | 245 | **14** | - | | 245 |
| Net realized gain on sales of loans | 1,769 | - | - | 1,769 | (1,769) | **13** | - | | - |
| Net realized gain on sales of real estate owned | 24 | - | - | 24 | (24) | **14** | - | | - |
| Net realized gain on sales of securities | 1,254 | - | - | 1,254 | (1,254) | **14** | - | | - |
| Net derivative loss on non-designated hedges | (15,647) | - | - | (15,647) | 15,647 | **13** | - | | - |
| Net unrealized gain (loss) | 28,972 | (2,566) | - | 26,406 | (26,406) | **13,14** | - | | - |
| Total other income (expense) | 16,372 | (2,566) | - | 13,806 | 16,138 | | - | | 29,944 |
| **Net Income** | $ 37,522 | $ 5,514 | $ - | $ 43,036 | $ - | | $ - | | $ 43,036 |
| **Net income attributable to noncontrolling interest** | $ 2,054 | $ - | - | 2,054 | (2,054) | **15** | - | | - |
| **Net income attributable to members** | $ 35,468 | $ 5,514 | $ - | $ 40,982 | $ 2,054 | **15** | $ - | | $ 43,036 |

## Pro Forma Reclassifications and Accounting Treatment Conforming Adjustments on CoreVest Condensed Historical Statement of Operations For the Year Ended December 31, 2018

| (In Thousands, except Share Data) | Condensed Historical CF CoreVest Holdings I LLC | Condensed Historical CF CoreVest Holdings II LLC | Intercompany Eliminations | Condensed Historical CoreVest Combined | Reclassification Adjustments | See Notes | Accounting Treatment Conforming Adjustments | See Notes | Condensed As Adjusted CoreVest Combined |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | |
| Interest income | $ 53,451 | $ 32,275 | | $ 85,726 | $ 9,877 | **10** | $ (4,846) | **11** | $ 90,757 |
| Other interest income | - | - | | - | - | | - | | - |
| Total interest income | 53,451 | 32,275 | - | 85,726 | 9,877 | | (4,846) | | 90,757 |
| **Interest Expense** | | | | | | | | | |
| Short-term debt | - | - | - | - | (12,936) | **12** | - | | (12,936) |
| Asset-backed securities issued | - | - | - | - | (36,376) | **12** | - | | (36,376) |
| Interest expense | (31,821) | (17,491) | - | (49,312) | 49,312 | **12** | - | | - |
| Net Interest Income | 21,630 | 14,784 | - | 36,414 | 9,877 | | (4,846) | | 41,445 |
| Origination fees | 10,916 | - | - | 10,916 | (10,916) | **13** | - | | - |
| Asset management fees | 3,812 | - | (3,812) | - | - | | - | | - |
| Other fees | 3,669 | 7,290 | - | 10,959 | (10,959) | **10,13** | - | | - |
| Total revenue | 40,027 | 22,074 | (3,812) | 58,289 | (11,998) | | (4,846) | | 41,445 |
| **Expenses** | | | | | | | | | |
| Operating expenses | - | - | - | - | 22,797 | **16** | - | | 22,797 |
| Salaries and employee benefits | 13,796 | - | - | 13,796 | (13,796) | **16** | - | | - |
| Management fees | - | 3,812 | (3,812) | - | - | | - | | - |
| Loan servicing | 3,292 | 1,554 | - | 4,846 | - | | (4,846) | **11** | - |
| General and administrative | 8,197 | 804 | - | 9,001 | (9,001) | **16** | | | - |
| Total expenses | 25,285 | 6,170 | (3,812) | 27,643 | - | | (4,846) | | 22,797 |
| **Other income (expense)** | | | | | | | | | |
| Mortgage banking activities, net | - | - | - | - | 28,890 | **13** | - | | 28,890 |
| Investment fair value changes, net | - | - | - | - | (16,154) | **14** | - | | (16,154) |
| Realized gains on sales of loans | 984 | - | - | 984 | (984) | **13** | - | | - |
| Loss on sales of real estate owned | (138) | - | - | (138) | 138 | **14** | - | | - |
| Loss on derivatives | (2,016) | - | - | (2,016) | 2,016 | **13** | - | | - |
| Net unrealized gain (loss) | 13,182 | (11,274) | - | 1,908 | (1,908) | **13,14** | - | | - |
| Total other income (expense) | 12,012 | (11,274) | - | 738 | 11,998 | | - | | 12,736 |
| | | | | | | | | | |
| **Net Income** | $ 26,754 | $ 4,630 | $ - | $ 31,384 | $ - | | $ - | | $ 31,384 |
| **Net income attributable to noncontrolling interest** | $ 692 | $ - | $ - | $ 692 | $ (692) | **15** | - | | $ - |
| **Net income attributable to members** | $ 26,062 | $ 4,630 | $ - | $ 30,692 | $ 692 | **15** | $ - | | $ 31,384 |

**Notes to Reclassifications and Accounting Treatment Conforming Adjustments on the Condensed Historical Presentation for the CoreVest Balance Sheet and Statement of Operations:**

**Balance Sheet**
**(In Thousands)**

| | Reclassification Adjustments | Accounting Treatment Conforming Adjustments |
|---|---|---|
| **1 Adjustments to Goodwill** | | |
| To reclassify goodwill from Other assets to Goodwill and intangible assets to conform to Redwood's balance sheet. | $ 874 | |
| | | |
| **2 Adjustments to Receivables** | | |
| To reclassify a portion of Receivables to Other assets to conform to Redwood's balance sheet. | $ (10,282) | |
| To reclassify the balance of Receivables to Accrued interest receivable to conform to Redwood's balance sheet. | $ (13,577) | |
| | $ (23,859) | |
| **3 Adjustment to Real estate owned** | | |
| To reclassify REO balance to Other assets to conform to conform to Redwood's balance sheet. | $ (2,916) | |
| **4 Adoption of ASC 842 Lease Standard** | | |
| To retrospectively adopt the new ASC 842 lease standard for CoreVest as of January 1, 2019 to conform to Redwood's adoption of the accounting standard. | | $ 1,422 |
| **5 Adjustment to Accounts payable and accrued expenses** | | |
| To reclassify accrued interest expense from Accounts payable and accrued expenses to Accrued interest payable to conform to Redwood's balance sheet. | $ (7,190) | |
| **6 Adjustment to Accrued expenses and other liabilities** | | |
| To reclassify certain balances to Accrued expenses and other liabilities to conform to Redwood's balance sheet. See below for the adjustments by CoreVest financial statement line item: | $ 78,262 | |
| Accounts payable and accrued expenses | $ (12,907) | |
| Borrower deposits | (3,339) | |
| Other liabilities | (62,016) | |
| Total adjustments to Accrued expenses and other liabilities | $ (78,262) | |
| **7 Adjustment to Secured financing facilities, at fair value** | | |
| To reclassify Secured financing facilities, at fair value to Short-term debt to conform to Redwood's balance sheet. | $ (623,091) | |
| **8 Adjustment to Secured notes, at fair value** | | |
| To reclassify Secured notes, at fair value to Asset-backed securities issued, at fair value to conform to Redwood's balance sheet. | $ (1,643,353) | |
| **9 Adjustment to Equity** | | |
| To reclassify Member's equity to Additional paid-in capital to conform to Redwood's balance sheet. | $ (346,623) | |
| To reclassify Noncontrolling interest to Additional paid-in capital to conform to Redwood's balance sheet. | $ (2,054) | |
| | $ (348,677) | |

**Statement of Operations**
**(In Thousands)**

| | Nine Months Ended September 30, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| **10 Adjustments to Interest income on Business purpose residential loans** | | |
| To reclassify a portion of Other fees for yield maintenance fees received to Interest income on Business purpose residential loans to conform to Redwood's statement of operations. | $ 5,423 | $ 9,877 |
| | | |
| **11 Accounting treatment conforming adjustments to Interest income on Business purpose residential loans** | | |
| To reclassify certain financing-related costs included in Operating expenses to Interest income on Business purpose residential loans to conform to Redwood's accounting treatment of financing costs on securitized loans accounted for under the collateralized finance entity (CFE) election. | $ (4,019) | $ (4,846) |
| | | |
| **12 Reclassify adjustments to Interest expense** | | |
| To reclassify Interest expense separately into Short-term debt interest expense line item to conform to Redwood's statement of operations. | $ (18,699) | $ (12,936) |
| To reclassify Interest expense separately into Asset-backed securities issued interest expense line item to conform to Redwood's statement of operations. | $ (44,463) | $ (36,376) |
| | $ (63,162) | $ (49,312) |
| | | |
| **13 Adjustments to Mortgage banking activities, net** | | |
| To reclassify certain balances into Mortgage banking activities, net to conform to Redwood's statement of operations. See below for the adjustments by CoreVest financial statement line item: | $ 29,699 | $ 28,890 |
| Origination fees | $ (15,203) | $ (10,916) |
| Other fees | (936) | (1,082) |
| Gain on sales of loans | (1,769) | (984) |
| Net derivative loss on non-designated hedges | 15,647 | 2,016 |
| Net unrealized gain (loss) | (27,438) | (17,924) |
| Total adjustments into Mortgage banking activities, net | $ (29,699) | $ (28,890) |
| | | |
| **14 Adjustments to Investment fair value changes, net** | | |
| To reclassify certain balances into Investment fair value changes, net to conform to Redwood's statement of operations. See below for the adjustments by CoreVest financial statement line item: | $ 245 | $ (16,154) |
| Gain (loss) on sales of real estate owned | $ (24) | $ 138 |
| Gain on sales of securities | (1,254) | - |
| Net unrealized gain (loss) | 1,033 | 16,016 |
| Total adjustments into Investment fair value changes, net | $ (245) | $ 16,154 |
| | | |
| **15 Adjustments to Net income attributable to noncontrolling interest** | | |
| To reflect the elimination of net income attributable to noncontrolling interest holders based on Redwood's purchase of the noncontrolling interest in CoreVest as of the acquisition date. | $ (2,054) | $ (692) |
| | | |
| **16 Adjustments to Expenses** | | |
| To reclassify certain balances into Operating expenses to conform to Redwood's statement of operations. See below for the adjustments by CoreVest financial statement line item: | $ 22,253 | $ 22,797 |
| Salaries and employee benefits | $ (12,563) | $ (13,796) |
| General and administrative | (9,690) | (9,001) |
| | $ (22,253) | $ (22,797) |

**4. Preliminary Purchase Price**

The following is a preliminary estimate of the assets to be acquired and the liabilities to be assumed by Redwood in the Acquisition, reconciled to the amount of consideration transferred:

**(In Thousands)**

| | | |
|---|---|---|
| **Total purchase price** | $ | 482,311 |
| **Fair value of assets acquired[1]:** | | |
| Business purpose residential loans, at fair value | | 2,581,765 |
| Cash and cash equivalents | | 19,811 |
| Restricted cash | | 70,143 |
| Other assets | | 29,402 |
| Intangible assets | | 56,500 |
| Goodwill | | 78,008 |
| Total assets acquired | | 2,835,629 |
| **Fair value of liabilities assumed[1]:** | | |
| Asset-backed securities issued, at fair value | | (1,643,353) |
| Short-term debt, net | | (623,091) |
| Accrued expenses and other liabilities | | (86,874) |
| Total liabilities assumed | | (2,353,318) |
| Fair value of net assets acquired | $ | 482,311 |

(1) Amounts presented above are as of September 30, 2019. The fair value of assets acquired and liabilities assumed on the Acquisition date, and the resulting goodwill, will differ from these amounts.