

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

FORM S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

**Redwood Trust, Inc.**  
**Redwood Capital Trust II**

(Exact names of registrants as specified in their charters)

**Redwood Trust, Inc.**  
**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**68-0329422**  
(I.R.S. Employer Identification Number)

**Redwood Capital Trust II**  
**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**27-6733708**  
(I.R.S. Employer Identification Number)

**One Belvedere Place, Suite 300**  
**Mill Valley, CA 94941**  
**(415) 389-7373**

(Address, including zip code, and telephone number, including area code, of each registrant's principal executive offices)

**Martin S. Hughes**  
**President and Chief Executive Officer**  
**Redwood Trust, Inc.**  
**One Belvedere Place, Suite 300**  
**Mill Valley, CA 94941**  
**(415) 389-7373**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*  
**Keith Benson, Esq.**  
**Latham & Watkins LLP**  
**505 Montgomery Street, Suite 2000**  
**San Francisco, CA 94111**  
**(415) 391-0600**

**Approximate date of commencement of proposed sale to the public:** At any time and from time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered<sup>(1)(2)</sup></b>	<b>Proposed Maximum Offering Price Per Unit<sup>(1)(2)</sup></b>	<b>Proposed Maximum Aggregate Offering Price<sup>(1)(2)</sup></b>	<b>Amount of Registration Fee<sup>(3)</sup></b>
Debt Securities, Common Stock, Preferred Stock, Warrants, Stockholder Rights, Units <sup>(4)</sup>				
Trust Preferred Securities				
Guarantees of Trust Preferred Securities				
Total				

(1) Omitted pursuant to Form S-3 General Instruction II.E.

(2) An unspecified number of the securities of each identified class of securities is being registered for possible issuance from time to time at indeterminate prices. Separate consideration may or may not be received for securities that are issuable on exercise, conversion or exchange of other securities or that are issued in units. In accordance with Rules 456(b) and 457(r) under the Securities Act, we are deferring payment of all applicable registration fees.

(3) Deferred in reliance upon Rule 456(b) and Rule 457(r).

(4) Debt Securities may be issued and sold to Redwood Capital Trust II, in which event such debt securities may later be distributed to the holders of trust preferred securities upon a dissolution of Redwood Capital Trust II and the distribution of its assets.

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**Redwood Trust, Inc.  
Debt Securities  
Common Stock  
Preferred Stock  
Warrants  
Stockholder Rights  
Units**

**Redwood Capital Trust II  
Trust Preferred Securities  
fully and unconditionally guaranteed by  
Redwood Trust, Inc.**

We may from time to time offer, in one or more classes or series, separately or together, and in amounts, at prices and on terms to be set forth in one or more supplements to this prospectus, the following securities:

- debt securities, which may consist of debentures, notes, or other types of debt;
- shares of our common stock;
- shares of our preferred stock;
- warrants to purchase shares of our common stock or preferred stock;
- rights issuable to our stockholders to purchase shares of our common stock or preferred stock, to purchase warrants exercisable for shares of our common stock or preferred stock, or to purchase units consisting of two or more of the foregoing;
- trust preferred securities; and
- units consisting of two or more of the foregoing.

We refer to the debt securities, common stock, preferred stock, warrants, rights, trust preferred securities and units registered hereunder collectively as the “securities” in this prospectus. The specific terms of each series or class of the securities will be set forth in the applicable prospectus supplement and will include, where applicable:

- in the case of debt securities, the specific title, aggregate principal amount, currency, form (which may be certificated or global), authorized denominations, maturity, rate (or manner of calculating the rate) and time of payment of interest, terms for redemption at our option or repayment at the holder’s option, terms for sinking payments, terms for conversion into shares of our common stock or preferred stock, covenants, and any initial public offering price;
- in the case of preferred stock, the specific designation, preferences, conversion and other rights, voting powers, restrictions, limitations as to transferability, dividends and other distributions, and terms and conditions of redemption and any initial public offering price;
- in the case of warrants or rights, the duration, offering price, exercise price, and detachability;
- in the case of trust preferred securities, the designation, annual distribution rate, distribution payment dates, whether distributions will be cumulative and compounding, amounts paid out of assets of the trust to holders upon dissolution, any repurchase, redemption or exchange provisions, any preference or subordination rights upon a default or liquidation, any voting rights, terms for any conversion or exchange, and any rights to defer distributions; and
- in the case of units, the constituent securities comprising the units, the offering price, and detachability.

In addition, the specific terms may include limitations on actual or constructive ownership and restrictions on transfer of the securities, in each case as may be appropriate to preserve the status of our company as a real estate investment trust, or REIT, for federal income tax purposes. The applicable prospectus supplement will also contain information, where applicable, about certain United States federal income tax consequences relating to, and any listing on a securities exchange of, the securities covered by such prospectus supplement. You should read this prospectus and any prospectus supplement carefully before you invest in any of our securities.

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The securities may be offered directly by us or by any selling security holder, through agents designated from time to time by us or to or through underwriters or dealers. If any agents, dealers, or underwriters are involved in the sale of any of the securities, their names, and any applicable purchase price, fee, commission, or discount arrangement between or among them will be set forth, or will be calculable from the information set forth, in the applicable prospectus supplement. See the sections entitled "Plan of Distribution" and "About This Prospectus" for more information. No securities may be sold without delivery of this prospectus and the applicable prospectus supplement describing the method and terms of the offering of such series of securities.

Our common stock currently trades on the New York Stock Exchange, or NYSE, under the symbol "RWT". On August 5, 2010, the last reported sale price of our common stock was \$14.70 per share.

**Investing in the securities involves risk. See "Risk Factors" beginning on page 1.**

This prospectus may not be used to offer or sell any securities unless accompanied by a prospectus supplement.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is August 6, 2010

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**You should rely only on the information contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. We have not authorized anyone else to provide you with different or additional information. We are offering to sell the securities and seeking offers to buy the securities only in jurisdictions where offers and sales are permitted.**

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**We have not authorized any dealer or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and any accompanying supplement to this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or any accompanying supplement to this prospectus. This prospectus and any accompanying supplement to this prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus and any accompanying supplement to this prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus and any accompanying supplement to this prospectus is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus and any accompanying supplement to this prospectus is delivered or securities are sold on a later date.**

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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a “shelf” registration process. Under this shelf registration process, we may sell the securities described in this prospectus in one or more offerings. This prospectus sets forth certain terms of the securities that we may offer.

Each time we offer securities, we will attach a prospectus supplement to this prospectus. The prospectus supplement will contain the specific description of the terms of the offering. The prospectus supplement will supersede this prospectus to the extent it contains information that is different from, or that conflicts with, the information contained in this prospectus.

It is important for you to read and consider all information contained in this prospectus and the applicable prospectus supplement, including the information incorporated by reference herein and therein, in making your investment decision. You should also read and consider the information contained in the documents identified under the heading “Where You Can Find More Information” in this prospectus.

We have not included separate financial statements of Redwood Capital Trust II, a special purpose entity, in this prospectus. We do not consider that such financial statements are material to holders of the trust preferred securities because:

- the trust has no operating history or independent operations; and
- the trust is not engaged in, nor will it engage in, any activity other than issuing trust preferred and trust common securities, investing in and holding our debt securities and engaging in related activities.

Furthermore, the combination of our obligations under the debt securities, the associated indentures, the trust agreement and the guarantees provide a full, irrevocable and unconditional guarantee of payments of distributions and other amounts due on the trust preferred securities. In addition, we do not expect that Redwood Capital Trust II will file reports with the SEC under the Securities Exchange Act of 1934.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to “we”, “us”, “our” or “Redwood” mean Redwood Trust, Inc. and our consolidated subsidiaries, except where it is made clear that the terms mean Redwood Trust, Inc. only.

Redwood Capital Trust II was formed solely for the purpose of issuing trust preferred securities and has no operating history or independent operations. Redwood Capital Trust II was created under the Delaware Statutory Trust Act and will be governed by a trust agreement (as it may be amended and restated from time to time) among the trustees of Redwood Capital Trust II and us. The trust agreement will be qualified under the Trust Indenture Act of 1939, as amended.

When Redwood Capital Trust II issues its trust preferred securities, the holders of the trust preferred securities will own all of the issued and outstanding trust preferred securities of Redwood Capital Trust II. We will acquire all of the issued and outstanding trust common securities of Redwood Capital Trust II, representing an undivided beneficial interest in the assets of Redwood Capital Trust II of at least 3%.

Redwood Capital Trust II exists primarily for the purpose of:

- issuing its trust preferred and trust common securities;
- investing the proceeds from the sale of its securities in our debt securities; and
- engaging in only such other activities as are necessary or incidental to issuing its securities and purchasing and holding our debt securities.

When Redwood Capital Trust II issues its trust preferred securities, the number of trustees of Redwood Capital Trust II will initially be four. Two of the trustees will be individuals who are officers or employees of Redwood. The third trustee will be Wells Fargo Bank, N.A., which will serve as the property trustee under the trust agreement for purposes of the Trust Indenture Act of 1939, as amended. The fourth trustee will be Wells Fargo Delaware Trust Company, N.A., which has its principal place of business in the State of Delaware.

Wells Fargo Bank, N.A., acting in its capacity as guarantee trustee, will hold for your benefit a trust preferred securities guarantee, which will be separately qualified under the Trust Indenture Act of 1939, as amended.

Unless otherwise provided in the applicable prospectus supplement, because we will own all of the trust common securities of Redwood Capital Trust II, we will have the exclusive right to appoint, remove or replace trustees and to increase or decrease the number of trustees. In most cases, there will be at least four trustees. The term of Redwood Capital Trust II's amended and restated trust agreement will be described in the applicable prospectus supplement, but may dissolve earlier as provided in the trust agreement.

The rights of holders of the trust preferred securities of Redwood Capital Trust II, including economic rights, rights to information and voting rights and the duties and obligations of the trustees of Redwood Capital Trust II, will be contained in and governed by the trust agreement of Redwood Capital Trust II (as it may be amended and restated from time to time), the Delaware Statutory Trust Act and the Trust Indenture Act of 1939.

Our executive offices are located at One Belvedere Place, Suite 300, Mill Valley, California 94941; our telephone number is (415) 389-7373.

## **RISK FACTORS**

You should carefully consider any specific risks set forth under the caption "Risk Factors" in the applicable prospectus supplement and under the caption "Risk Factors" in our most recent annual report on Form 10-K and subsequent quarterly reports on Form 10-Q, incorporated into this prospectus by reference, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act. You should consider carefully those risk factors together with all of the other information included and incorporated by reference in this prospectus before you decide to purchase our securities.



## CAUTIONARY STATEMENT

This prospectus and the documents incorporated by reference herein contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as “anticipate,” “estimate,” “will,” “should,” “expect,” “believe,” “intend,” “seek,” “plan,” and similar expressions or their negative forms, or by references to strategy, plans, or intentions. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in this prospectus and any accompanying prospectus supplement under the caption “Risk Factors.” Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected are summarized below and described from time to time in reports we file with the SEC, including under the heading “Risk Factors” in our most recent annual report on Form 10-K and subsequent quarterly reports on Form 10-Q and current reports on Form 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Important factors, among others, that may affect our actual results include: general economic trends, the performance of the housing, mortgage, credit, and broader financial markets, and their effects on the prices of earning assets and the credit status of borrowers; federal and state legislative and regulatory developments, and the actions of governmental authorities, including those affecting the mortgage industry or our business; our exposure to credit risk and the timing of credit losses within our portfolio; the concentration of the credit risks we are exposed to, including due to the structure of assets we hold and the geographical concentration of real estate underlying assets we own; our exposure to adjustable-rate and negative amortization mortgage loans; the efficacy and expense of our efforts to manage or hedge credit risk, interest rate risk, and other financial and operational risks; changes in credit ratings on assets we own and changes in the rating agencies’ credit rating methodologies; changes in interest rates; changes in mortgage prepayment rates; the availability of high-quality assets for purchase at attractive prices and our ability to reinvest cash we hold; changes in the values of assets we own; changes in liquidity in the market for real estate securities; our ability to finance the acquisition of real estate-related assets with short-term debt; the ability of counterparties to satisfy their obligations to us; our involvement in securitization transactions and the risks we are exposed to in executing securitization transactions; exposure to litigation arising from our involvement in securitization transactions; whether we have sufficient liquid assets to meet short-term needs; our ability to successfully compete for and retain or attract key personnel; our ability to adapt our business model and strategies to changing circumstances; changes in our investment, financing, and hedging strategies and new risks we may be exposed to if we expand our business activities; exposure to environmental liabilities and the effects of global climate change; failure to comply with applicable laws and regulations; our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures; changes in accounting principles and tax rules; our ability to maintain our status as a real estate investment trust (REIT) for tax purposes; limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940; decisions about raising, managing, and distributing capital; and other factors not presently identified.

## REDWOOD TRUST, INC.

Redwood Trust, Inc., together with its subsidiaries, is a financial institution that seeks to invest in real estate-related assets that have the potential to provide attractive cash flows over a long period of time and support our goal of distributing attractive levels of dividends to our stockholders. For tax purposes, we are structured as a real estate investment trust, or REIT. We are able to pass through substantially all of our earnings generated at our REIT to our stockholders without paying income tax at the corporate level. We pay income tax on the REIT taxable income we retain and on the income we earn at our taxable subsidiaries.

Our primary source of income is typically net interest income, which consists of the interest income we earn from our investments less the interest expenses we incur on our borrowed funds and other liabilities. Our primary real estate investments include investments in real estate loans and securities, an investment in a private fund that we sponsor – Redwood Opportunity Fund, LP (the Fund) – and investments in securitization entities that we sponsor – the Sequoia entities and the Acacia entities (which we may collectively refer to as Sequoia and Acacia, respectively). We assume a range of risks in our investments and the level of risk is influenced by the manner in which we finance our purchases of, and derive income from, our investments.

Our direct investments in residential, commercial, and collateralized debt obligations (CDO) securities are currently financed with equity and long-term debt, although we may use short-term debt financing from time to time, and we may pledge our securities to borrow short-term to fund loans to the extent our securities are more liquid collateral. These investments are primarily senior and subordinate mortgage-backed securities backed by residential and commercial real estate loans. The long term focus of our operations is to invest in subordinate securities (often below investment grade) that have concentrated structural credit risk. More recently, we have been investing in senior securities (often investment-grade), which have the first right to cash flows in a securitization and therefore have less concentrated credit risk than subordinate securities.

The entities that we sponsor — the Fund, Sequoia, and Acacia — invest in real estate assets. Assets held at the Fund include senior securities backed by non-prime residential and CDO collateral, which were funded through the sale of limited partnership interests to us and to third party investors. Assets held at the Sequoia entities include residential real estate loans, which are funded through the issuance of ABS to us and to third party investors. Assets held at the Acacia entities include real estate securities, and some loans and other mortgage related investments, which are funded through the issuance of ABS and equity to us and to third party investors.

Our investments in Sequoia and Acacia entities are currently financed with equity and long-term debt. Our capital at risk is limited to our investments in these entities as each entity is independent of Redwood and of each other and the assets and liabilities are not owned by and are not obligations of Redwood. For financial reporting purposes, we are generally required to consolidate these entities' and the Fund's assets, liabilities, and non-controlling interests.

Redwood was incorporated in the State of Maryland on April 11, 1994, and commenced operations on August 19, 1994. Our executive offices are located at One Belvedere Place, Suite 300, Mill Valley, California 94941.

## USE OF PROCEEDS

Unless otherwise specified in the applicable prospectus supplement for any offering of securities, we intend to use the net proceeds from the sale of securities for the acquisition of real estate assets and for general corporate purposes. Pending such uses, we may use the net proceeds from the sale of any securities to reduce short-term indebtedness.

## ACCOUNTING TREATMENT RELATING TO TRUST PREFERRED SECURITIES

The financial statements of Redwood Capital Trust II will be consolidated with our financial statements. Following the issuance of trust preferred securities by Redwood Capital Trust II, our financial statements will include a footnote that discloses, among other things, that the assets of the trust consist of our debt securities and will specify the designation, principal amount, interest rate and maturity date of the debt securities.

## RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Our ratio of earnings to fixed charges and ratio of earnings to fixed charges and preferred stock dividends for the six months ended June 30, 2010 and each of the previous five years ended December 31 were as follows:

	Six Months Ended June 30, 2010	Year Ended December 31,				
		2009	2008	2007	2006	2005
Ratio of earnings to fixed charges	2.92x	1.26x	(0.08)x	(0.69)x	1.20x	1.29x
Ratio of earnings to fixed charges and preferred stock dividends	2.92x	1.26x	(0.08)x	(0.69)x	1.20x	1.29x

The ratio of earnings to fixed charges represents the number of times “fixed charges” are covered by “earnings.” “Fixed charges” consist of interest on outstanding asset backed securities issued and debt and amortization of debt discount and expense. The proportion deemed representative of the interest factor of operating lease expense has not been deducted as the total operating lease expense in itself was de minimis and did not affect the ratios in a material way. “Earnings” consist of consolidated income before income taxes and fixed charges.

For the year ended December 31, 2007, consolidated income before income taxes was insufficient to cover fixed charges by approximately \$1.1 billion. For the year ended December 31, 2008, consolidated income before income taxes was insufficient to cover fixed charges by approximately \$450 million.

## GENERAL DESCRIPTION OF SECURITIES

The following is a brief description of the material terms of our securities that may be offered under this prospectus. This description does not purport to be complete and is subject in all respects to applicable Maryland law and to the provisions of our charter and bylaws, including any amendments or supplements thereto, copies of which are on file with the SEC as described under “Where You Can Find Information” and are incorporated by reference herein.

We, directly or through agents, dealers, or underwriters designated from time to time, may offer, issue, and sell, together or separately:

- debt securities, which may consist of debentures, notes, or other types of debt;
- shares of our common stock;
- shares of our preferred stock;
- warrants to purchase shares of our common stock or preferred stock;
- rights issuable to our stockholders to purchase shares of our common stock or preferred stock, to purchase warrants exercisable for shares of our common stock or preferred stock, or to purchase units consisting of two or more of the foregoing;
- trust preferred securities; and
- units consisting of two or more of the foregoing.

We may issue the debt securities as exchangeable for or convertible into shares of common stock, preferred stock, or other securities. The preferred stock may also be exchangeable for and/or convertible into shares of common stock, another series of preferred stock, or other securities. The debt securities, the preferred stock, the common stock, the warrants, the rights, the trust preferred securities and the units are collectively referred to in this prospectus as the securities. When a particular series of securities is offered, a supplement to this prospectus will be delivered with this prospectus, which will set forth the terms of the offering and sale of the offered securities.

Our charter provides that we have authority to issue up to 100,000,000 shares of stock, par value \$0.01 per share, all of which is currently classified as common stock. Our common stock is listed on the New York Stock Exchange, and we intend to so list any additional shares of our common stock which are issued and sold hereunder. We may elect to list any future class or series of our securities issued hereunder on an exchange, but we are not obligated to do so. Under Maryland law, our stockholders generally are not liable for our debts or obligations.

## DESCRIPTION OF DEBT SECURITIES

The debt securities covered by this prospectus will be our debt securities issued under an indenture to be entered into between us and a trustee to be identified in the applicable prospectus supplement. This prospectus, together with the applicable prospectus supplement, will describe all the material terms of a particular series of debt securities. Unless otherwise specified in a supplement to this prospectus, the debt securities will be our direct, unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness.

The following is a summary of the most important provisions and definitions of the form of indenture we intend to enter into with a trustee. The summary is not complete. The form of the indenture has been filed as an exhibit to the registration statement and you should read the indenture for provisions that may be important to you. Capitalized terms used in the summary have the meaning specified in the indenture.

In this description of debt securities, the words “we”, “us”, or “our” refer only Redwood Trust, Inc. and not to any of our subsidiaries.

## General

Debt securities may be issued in separate series without limitation as to aggregate principal amount. We may specify a maximum aggregate principal amount for the debt securities of any series.

The prospectus supplement will set forth:

- whether the debt securities will be senior or subordinated;
- the offering price;
- the form and terms of any guarantee of any debt securities;
- the title;
- any limit on the aggregate principal amount;
- the person who shall be entitled to receive interest, if other than the record holder on the record date;
- the date the principal will be payable;
- the interest rate, if any, the date interest will accrue, the interest payment dates, and the regular record dates;
- the place where payments may be made;
- any mandatory or optional redemption provisions;
- if applicable, the method for determining how the principal, premium, if any, or interest will be calculated by reference to an index or formula;
- if other than U.S. currency, the currency or currency units in which principal, premium, if any, or interest will be payable, whether we or the holder may elect payment to be made in a different currency and the manner in which the exchange rate with respect to these payments will be determined;
- the denominations in which the debt securities will be issued, if other than denominations of \$1,000 and any integral multiple thereof;
- whether the debt securities will be issued in bearer or fully registered form (and if in fully registered form, whether the debt securities will be issuable, in whole or in part, as global debt securities);
- the portion of the principal amount that will be payable upon acceleration of stated maturity, if other than the entire principal amount;
- if the principal amount payable at stated maturity will not be determinable as of any date prior to stated maturity, the amount which will be deemed to be the principal amount;
- any defeasance provisions if different from those described below under "Satisfaction and Discharge; Defeasance";
- any conversion or exchange provisions;
- any obligation to redeem or purchase the debt securities pursuant to a sinking fund;
- whether the debt securities will be issuable in the form of a global security;
- any subordination provisions;
- any deletions of, or changes or additions to, the events of default or covenants; and
- any other specific terms of such debt securities.

Unless otherwise specified in the prospectus supplement:

- the debt securities will be registered debt securities; and
- registered debt securities denominated in U.S. dollars will be issued in denominations of \$2,000 and an integral multiple of \$1,000 thereafter.

Debt securities may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at the time of issuance is below market rates.

## Exchange and Transfer

Debt securities may be transferred or exchanged at the office of the security registrar or at the office of any transfer agent designated by us.

We will not impose a service charge for any transfer or exchange, but we may require holders to pay any tax or other governmental charges associated with any transfer or exchange.

In the event of any potential redemption of debt securities of any series, we will not be required to:

- issue, register the transfer of, or exchange, any debt security of that series during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption and ending at the close of business on the day of the mailing; or
- register the transfer of or exchange any debt security of that series selected for redemption, in whole or in part, except the unredeemed portion being redeemed in part.

We may initially appoint the trustee as the security registrar. Any transfer agent, in addition to the security registrar, initially designated by us will be named in the prospectus supplement. We may designate additional transfer agents or change transfer agents or change the office of the transfer agent. However, we will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

## Global Securities

The debt securities of any series may be represented, in whole or in part, by one or more global securities. Each global security will:

- be registered in the name of a depository that we will identify in a prospectus supplement;
- be deposited with the depository or nominee or custodian; and
- bear any required legends.

No global security may be exchanged in whole or in part for debt securities registered in the name of any person other than the depository or any nominee unless:

- the depository has notified us that it is unwilling or unable to continue as depository or has ceased to be qualified to act as depository;
- an event of default is continuing; or
- any other circumstances described in a prospectus supplement occurs.

As long as the depository, or its nominee, is the registered owner of a global security, the depository or nominee will be considered the sole owner and holder of the debt securities represented by the global security for all purposes under the indenture. Except in the above limited circumstances, owners of beneficial interests in a global security:

- will not be entitled to have the debt securities registered in their names;
- will not be entitled to physical delivery of certificated debt securities; and
- will not be considered to be holders of those debt securities under the indenture.

Payments on a global security will be made to the depository or its nominee as the holder of the global security. Some jurisdictions have laws that require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

Institutions that have accounts with the depository or its nominee are referred to as "participants." Ownership of beneficial interests in a global security will be limited to participants and to persons that may hold beneficial interests through participants. The depository will credit, on its book-entry registration and transfer system, the respective principal amounts of debt securities represented by the global security to the accounts of its participants.

Ownership of beneficial interests in a global security will be shown on and effected through records maintained by the depositary, with respect to participants' interests, or any participant, with respect to interests of persons held by participants on their behalf.

Payments, transfers, and exchanges relating to beneficial interests in a global security will be subject to policies and procedures of the depositary.

The depositary policies and procedures may change from time to time. Neither we nor the trustee will have any responsibility or liability for the depositary's or any participant's records with respect to beneficial interests in a global security.

#### **Payment and Paying Agent**

The provisions of this paragraph will apply to the debt securities unless otherwise indicated in the prospectus supplement. Payment of interest on a debt security on any interest payment date will be made to the person in whose name the debt security is registered at the close of business on the regular record date. Payment on debt securities of a particular series will be payable at the office of a paying agent or paying agents designated by us. However, at our option, we may pay interest by mailing a check to the record holder. The corporate trust office will be designated as our sole paying agent.

We may also name any other paying agents in the prospectus supplement. We may designate additional paying agents, change paying agents, or change the office of any paying agent. However, we will be required to maintain a paying agent in each place of payment for the debt securities of a particular series.

All moneys paid by us to a paying agent for payment on any debt security which remain unclaimed at the end of two years after such payment was due will be repaid to us. Thereafter, the holder may look only to us for such payment.

#### **Consolidation, Merger, and Sale of Assets**

Except as otherwise set forth in the applicable prospectus supplement, we may not consolidate with or merge into any other person in a transaction in which we are not the surviving corporation, or convey, transfer, or lease our properties and assets substantially as an entirety to any person, unless:

- the successor, if any, is a U.S. corporation, limited liability company, partnership, trust, or other entity;
- the successor assumes our obligations on the debt securities and under the indenture;
- immediately after giving effect to the transaction, no default or event of default shall have occurred and be continuing; and
- certain other conditions are met.

#### **Events of Default**

Unless we inform you otherwise in the prospectus supplement, the indenture will define an event of default with respect to any series of debt securities as one or more of the following events:

- (1) failure to pay principal of or any premium on any debt security of that series when due;
- (2) failure to pay any interest on any debt security of that series for 30 days when due;
- (3) failure to deposit any sinking fund payment within 30 days of when due;
- (4) failure to perform any other covenant in the indenture continued for 90 days after being given the notice required in the indenture;
- (5) our bankruptcy, insolvency, or reorganization; and
- (6) any other event of default specified in the prospectus supplement.

An event of default of one series of debt securities is not necessarily an event of default for any other series of debt securities.

If an event of default, other than an event of default described in clause (5) above, shall occur and be continuing, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding securities of that series may declare the principal amount of the debt securities of that series to be due and payable immediately.

If an event of default described in clause (5) above shall occur, the principal amount of all the debt securities of that series will automatically become immediately due and payable.

After acceleration the holders of a majority in aggregate principal amount of the outstanding securities of that series may, under certain circumstances, rescind and annul such acceleration if all events of default, other than the non-payment of accelerated principal, or other specified amount, have been cured or waived.

Other than the duty to act with the required care during an event of default, the trustee will not be obligated to exercise any of its rights or powers at the request of the holders unless the holders shall have offered to the trustee reasonable indemnity. Generally, the holders of a majority in aggregate principal amount of the outstanding debt securities of any series will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

A holder will not have any right to institute any proceeding under the indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the indenture, unless:

- (1) the holder has previously given to the trustee written notice of a continuing event of default with respect to the debt securities of that series;
- (2) the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made a written request and have offered reasonable indemnity to the trustee to institute the proceeding; and
- (3) the trustee has failed to institute the proceeding and has not received direction inconsistent with the original request from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series within 60 days after the original request.

Holders may, however, sue to enforce the payment of principal, premium, or interest on any debt security on or after the due date or to enforce the right, if any, to convert any debt security without following the procedures listed in (1) through (3) above.

We will furnish the trustee an annual statement by our officers as to whether or not we are in default in the performance of the indenture and, if so, specifying all known defaults.

#### **Modification and Waiver**

Except as provided in the next two succeeding paragraphs, we and the trustee may make modifications and amendments to the indenture (including, without limitation, through consents obtained in connection with a purchase of, or tender offer or exchange offer for, outstanding securities) and may waive any existing default or event of default (including, without limitation, through consents obtained in connection with a purchase of, or tender offer or exchange offer for, outstanding securities) with the consent of the holders of a majority in aggregate principal amount of the outstanding securities of each series affected by the modification or amendment.

However, neither we nor the trustee may make any modification or amendment without the consent of the holder of each outstanding security of that series affected by the modification or amendment if such modification or amendment would:

- change the stated maturity of any debt security;
- reduce the principal of, premium, if any, on or interest on any debt security;
- reduce the principal of an original issue discount security or any other debt security payable on acceleration of maturity;
- reduce the rate of or extend the time for payment of interest on any debt security;
- change the currency in which any debt security is payable;
- impair the right to enforce any payment after the stated maturity or redemption date;



- waive any default or event of default in payment of the principal of, premium on or interest on any debt security;
- waive a redemption payment or modify any of the redemption provisions of any debt security;
- adversely affect the right, if any, to convert any debt security; or
- change the provisions in the indenture that relate to modifying or amending the indenture.

Notwithstanding the preceding, without the consent of any holder of outstanding securities, we and the trustee may amend or supplement the indenture:

- to cure any ambiguity, defect, or inconsistency;
- to provide for uncertificated securities in addition to or in place of certificated securities;
- to provide for the assumption of our obligations to holders of any debt security in the case of a merger or consolidation or sale of all or substantially all of our assets;
- to make any change that would provide any additional rights or benefits to the holders of securities or that does not adversely affect the legal rights under the indenture of any such holder;
- to comply with requirements of the SEC in order to effect or maintain the qualification of an indenture under the Trust Indenture Act;
- to conform the text of the indenture to any provision of the Description of Debt Securities to the extent that such provision in the Description of Debt Securities was intended to be a verbatim recitation of a provision of the indenture;
- to provide for the issuance of additional securities in accordance with the limitations set forth in the indenture as of the date of the indenture;
- to allow any guarantor to execute a supplemental indenture with respect to debt securities and to release guarantors in accordance with the terms of the indenture;
- or
- to add additional obligors under the indenture and the securities.

The consent of holders is not necessary under the indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

### **Satisfaction and Discharge; Defeasance**

*Legal Defeasance.* The indenture provides that, unless otherwise provided by the terms of the applicable series of debt securities, we may be discharged from any and all obligations in respect of the debt securities of any series (except for certain obligations to register the transfer or exchange of debt securities of such series, to replace stolen, lost, or mutilated debt securities of such series, and to maintain paying agencies and certain provisions relating to the treatment of funds held by paying agents). We will be so discharged upon the deposit with the trustee, in trust, of money and/or U.S. government obligations or, in the case of debt securities denominated in a single currency other than U.S. dollars, foreign government obligations, that, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants to pay and discharge each installment of principal, premium, and interest on and any mandatory sinking fund payments in respect of the debt securities of that series on the stated maturity of those payments in accordance with the terms of the indenture and those debt securities.

This discharge may occur only if, among other things, we have delivered to the trustee an opinion of counsel stating that we have received from, or there has been published by, the United States Internal Revenue Service a ruling or, since the date of execution of the indenture, there has been a change in the applicable United States federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the holders of the debt securities of that series will not recognize income, gain, or loss for United States federal income tax purposes as a result of the deposit, defeasance, and discharge and will be subject to United States federal income tax on the same amounts and in the same manner and at the same times as would have been the case if the deposit, defeasance, and discharge had not occurred.

*Defeasance of Certain Covenants.* The indenture provides that, unless otherwise provided by the terms of the applicable series of debt securities, upon compliance with certain conditions:

- we may omit to comply with the covenant described under the heading “Consolidation, Merger, and Sale of Assets” and certain other covenants set forth in the indenture, as well as any additional covenants which may be set forth in the applicable prospectus supplement; and
- any omission to comply with those covenants will not constitute a default or an event of default with respect to the debt securities of that series, or covenant defeasance.

The conditions include:

- depositing with the trustee money and/or U.S. government obligations or, in the case of debt securities denominated in a single currency other than U.S. dollars, foreign government obligations, that, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants to pay and discharge each installment of principal of, premium and interest on and any mandatory sinking fund payments in respect of the debt securities of that series on the stated maturity of those payments in accordance with the terms of the indenture and those debt securities; and
- delivering to the trustee an opinion of counsel to the effect that the holders of the debt securities of that series will not recognize income, gain, or loss for United States federal income tax purposes as a result of the deposit and related covenant defeasance and will be subject to United States federal income tax on the same amounts and in the same manner and at the same times as would have been the case if the deposit and related covenant defeasance had not occurred.

*Covenant Defeasance and Events of Default.* In the event we exercise our option to effect covenant defeasance with respect to any series of debt securities and the debt securities of that series are declared due and payable because of the occurrence of any event of default, the amount of money and/or U.S. government obligations or foreign government obligations on deposit with the trustee will be sufficient to pay amounts due on the debt securities of that series at the time of their stated maturity but may not be sufficient to pay amounts due on the debt securities of that series at the time of the acceleration resulting from the event of default. However, we shall remain liable for those payments.

#### **Notices**

Notices to holders will be given by mail to the addresses of the holders in the security register.

#### **Governing Law**

The indenture and the debt securities will be governed by, and construed under, the laws of the State of New York.

#### **Regarding the Trustee**

The indenture limits the right of the trustee, should it become a creditor of us, to obtain payment of claims or secure its claims.

The trustee is permitted to engage in certain other transactions. However, if the trustee acquires any conflicting interest, and there is a default under the debt securities of any series for which they are trustee, the trustee must eliminate the conflict or resign.

## DESCRIPTION OF COMMON STOCK

All shares of common stock offered by this prospectus will be duly authorized, fully paid, and nonassessable. Holders of our common stock are entitled to receive dividends if, as, and when authorized by our board of directors and declared by us out of assets legally available for the payment of dividends. They are also entitled to share ratably in our assets legally available for distribution to our stockholders in the event of our liquidation, dissolution, or winding up, after payment of or adequate provision for all of our known debts and liabilities. These rights are subject to the preferential rights of any other class or series of our stock and to the provisions of our charter regarding restrictions on transfer of our stock.

Subject to our charter restrictions on transfer of our stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess the exclusive voting power. There is no cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors then standing for election, and the holders of the remaining shares will not be able to elect any directors.

Holders of our common stock have no preference, conversion, exchange, sinking fund, redemption, or, if listed on the New York Stock Exchange, appraisal rights and have no preemptive rights to subscribe for any of our securities. Subject to our charter restrictions on transfer of our stock, all shares of common stock will have equal dividend, liquidation, and other rights.

### **Transfer Agent, Registrar, and Dividend Disbursing Agent**

The transfer agent and registrar for our common stock is currently Computershare Trust Company, N.A. and its affiliate, Computershare Inc., acts as dividend disbursing agent.

### **Power to Reclassify Shares of Our Stock; Issuance of Additional Shares**

Our charter authorizes our board of directors to classify and reclassify from time to time any unissued shares of our stock into other classes or series of stock, including preferred stock, and to cause the issuance of such shares. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set, subject to our charter restrictions on transfer of our stock, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. We believe that the power to issue additional shares of common stock or preferred stock and to classify or reclassify unissued shares of common or preferred stock and thereafter to issue the classified or reclassified shares provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. These actions can be taken without stockholder approval, unless stockholder approval is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although we have no present intention of doing so, we could issue a class or series of stock that could delay, defer, or prevent a transaction or a change in control of Redwood Trust that might involve a premium price for holders of common stock or otherwise be in their best interest. We have no shares of preferred stock presently outstanding.

## DESCRIPTION OF PREFERRED STOCK

Our charter authorizes our board of directors to classify from time to time any unissued shares of stock in one or more classes or series of preferred stock and to reclassify any previously classified but unissued preferred stock of any class or series in one or more classes or series. If we offer preferred stock pursuant to this prospectus in the future, the applicable prospectus supplement will describe the terms of such preferred stock, including the following, where applicable:

- the designation of the shares and the number of shares that constitute the class or series;
- the dividend rate (or the method of calculating dividends), if any, on the shares of the class or series and the priority as to payment of dividends with respect to other classes or series of our shares of stock;
- whether dividends will be cumulative or non-cumulative and, if cumulative, the date from which dividends on the preferred stock will accumulate;
- the dividend periods (or the method of calculating the dividend periods);
- the voting rights of the preferred stock, if any;
- the liquidation preference and the priority as to payment of the liquidation preference with respect to other classes or series of our stock and any other rights of the shares of the class or series upon our liquidation or winding-up;
- whether or not and on what terms the shares of the class or series will be subject to redemption or repurchase at our option;
- whether the shares of the class or series of preferred stock will be listed on a securities exchange or quoted on an inter-dealer quotation system;
- any limitations on direct or beneficial ownership and restrictions on transfer applicable to the preferred stock, in addition to those already set forth in our charter, that may be necessary to preserve our status as a real estate investment trust; and
- the other rights and privileges and any qualifications, limitations, or restrictions of the rights or privileges of the class or series.

### **Transfer Agent, Registrar, and Dividend Disbursing Agent**

The transfer agent and registrar for our preferred stock is currently Computershare Trust Company, N.A. and its affiliate, Computershare Inc., acts as dividend disbursing agent. If different, we will specify in the applicable prospectus supplement the transfer agent, registrar, and dividend disbursing agent for any series of preferred stock offered by that prospectus supplement.

## DESCRIPTION OF SECURITIES WARRANTS

We may issue securities warrants for the purchase of common stock or preferred stock, respectively referred to as common stock warrants and preferred stock warrants. Securities warrants may be issued independently or together with any other securities offered by this prospectus and any accompanying prospectus supplement and may be attached to or separate from such other securities. Each issuance of the securities warrants will be issued under a separate securities warrant agreement to be entered into by us and a bank or trust company, as securities warrant agent, all as set forth in the prospectus supplement relating to the particular issue of offered securities warrants. Each issue of securities warrants will be evidenced by securities warrant certificates. The securities warrant agent will act solely as an agent of ours in connection with the securities warrant certificates and will not assume any obligation or relationship of agency or trust for or with any holder of securities warrant certificates or beneficial owners of securities warrants.

If we offer securities warrants pursuant to this prospectus in the future, the applicable prospectus supplement will describe the terms of such securities warrants, including the following, where applicable:

- the offering price;
- the aggregate number of shares purchasable upon exercise of such securities warrants, and in the case of securities warrants for preferred stock, the designation, aggregate number, and terms of the class or series of preferred stock purchasable upon exercise of such securities warrants;
- the designation and terms of the securities with which such securities warrants are being offered, if any, and the number of such securities warrants being offered with each such security;
- the date on and after which such securities warrants and any related securities will be transferable separately;
- the number of shares of preferred stock or shares of common stock purchasable upon exercise of each of such securities warrants and the price at which such number of shares of preferred stock or common stock may be purchased upon such exercise;
- the date on which the right to exercise such securities warrants shall commence and the expiration date on which such right shall expire;
- U.S. federal income tax considerations; and
- any other material terms of such securities warrants.

Holders of future securities warrants, if any, will not be entitled by virtue of being such holders, to vote, to consent, to receive dividends, to receive notice with respect to any meeting of stockholders for the election of our directors or any other matter, or to exercise any rights whatsoever as stockholders of Redwood Trust.

**DESCRIPTION OF  
RIGHTS TO PURCHASE SHARES OF COMMON OR PREFERRED STOCK**

We may issue, as a dividend at no cost, to holders of record of our securities or any class or series thereof on the applicable record date, rights to purchase shares of our common stock or preferred stock, to purchase warrants exercisable for shares of our common stock or preferred stock, or to purchase units consisting of two or more of the foregoing. In this prospectus, we refer to such rights as "stockholder rights." If stockholders rights are so issued to existing holders of securities, each stockholder right will entitle the registered holder thereof to purchase the securities issuable upon exercise of the rights pursuant to the terms set forth in the applicable prospectus supplement.

If stockholder rights are issued, the applicable prospectus supplement will describe the terms of such stockholder rights including the following where applicable:

- record date;
- subscription price;
- subscription agent;
- aggregate number of shares of preferred stock, shares of common stock, warrants, or units purchasable upon exercise of such stockholder rights and in the case of stockholder rights for preferred stock or warrants exercisable for preferred stock, the designation, aggregate number, and terms of the class or series of preferred stock purchasable upon exercise of such stockholder rights or warrants;
- the date on which the right to exercise such stockholder rights shall commence and the expiration date on which such right shall expire;
- U.S. federal income tax considerations; and
- other material terms of such stockholder rights.

In addition to the terms of the stockholder rights and the securities issuable upon exercise thereof, the prospectus supplement may describe, for a holder of such stockholder rights who validly exercises all stockholder rights issued to such holder, how to subscribe for unsubscribed securities, issuable pursuant to unexercised stockholder rights issued to other holders, to the extent such stockholder rights have not been exercised.

Holders of stockholder rights will not be entitled by virtue of being such holders to vote, to consent, to receive dividends, to receive notice with respect to any meeting of stockholders for the election of our directors or any other matter, or to exercise any rights whatsoever as stockholders of Redwood Trust, except to the extent described in the related prospectus supplement.

## DESCRIPTION OF TRUST PREFERRED SECURITIES

Redwood Capital Trust II will only issue trust preferred securities and will not issue debt securities, common stock, preferred stock, warrants, stockholder rights or units. The terms of the trust preferred securities will include those stated in the trust agreement (as it may be amended and restated from time to time) and those made a part of that trust agreement by the Trust Indenture Act of 1939, as amended. The statements made in this prospectus relating to the trust agreement and the trust preferred securities are summaries of certain anticipated provisions of the trust agreement and the trust preferred securities and are not complete. This summary is subject to and qualified by reference to the description of the particular terms of the trust preferred securities described in the applicable prospectus supplement. The form of trust agreement has been filed as an exhibit to the registration statement and you should read the form of trust agreement for provisions that may be important to you. The actual trust agreement and the terms of any trust preferred securities may differ materially from the form of trust agreement. We will describe in the applicable prospectus supplement any material differences between the actual trust agreement and trust preferred securities and the form of trust agreement and the description of the trust preferred securities below.

The prospectus supplement relating to the trust preferred securities will include specific terms relating to the offering. These terms will include some or all of the following:

- the designation of the trust preferred securities;
- the number of trust preferred securities issued by the trust;
- the annual distribution rate and any conditions upon which distributions are payable, the distribution payment dates, the record dates for distribution payments and the additional amounts, if any, that may be payable with respect to the trust preferred securities;
- whether distributions will be cumulative and compounding and, if so, the dates from which distributions will be cumulative or compounded;
- the amounts that will be paid out of the assets of the trust, after the satisfaction of liabilities to creditors of the trust, to the holders of trust preferred securities upon dissolution;
- any repurchase, redemption or exchange provisions;
- any preference or subordination rights upon a default or liquidation of the trust;
- any voting rights of the trust preferred securities in addition to those required by law;
- terms for any conversion or exchange of the debt securities or the trust preferred securities into other securities;
- any rights to defer distributions on the trust preferred securities by extending the interest payment period on the debt securities; and
- any other relevant terms, rights, preferences, privileges, limitations or restrictions of the trust preferred securities.

The trust preferred securities may not be convertible into other securities that have not been registered under this registration statement unless the trust preferred securities convertible into such other securities are not legally convertible immediately or within one year of the date of sale of such trust preferred securities.

Except as otherwise set forth in the applicable prospectus supplement, the trustees, on behalf of the trust and pursuant to the trust agreement, will issue one class of trust preferred securities and one class of trust common securities. The trust securities will represent undivided beneficial ownership interests in the assets of the trust.

Except as otherwise set forth in the applicable prospectus supplement, the trust preferred securities will rank equally in right of payment, and payments will be made thereon proportionately, with the trust common securities. Except as otherwise set forth in the prospectus supplement, the property trustee of the trust will hold legal title to the debt securities in trust for the benefit of the holders of the trust securities. Except as otherwise set forth in the prospectus supplement, we will execute a guarantee agreement for the benefit of the holders of the trust preferred securities. The guarantee will guarantee the payment of distributions (as defined below) or any amounts payable on redemption or liquidation of the trust preferred securities when the trust does not have funds on hand available to make such payments.

In the prospectus supplement, we will also describe certain material U.S. federal income tax consequences and special considerations applicable to the trust preferred securities.

#### **The Trust Preferred Securities Guarantee**

Except as otherwise set forth in the prospectus supplement, we will fully and unconditionally guarantee payments on the trust preferred securities as described in this section. The guarantee covers the following payments:

- periodic cash distributions on the trust preferred securities out of funds held by the property trustee of the trust;
- payments on dissolution of each trust; and
- payments on redemption of trust preferred securities of each trust.

Wells Fargo Bank, N.A., as guarantee trustee, will hold the guarantee for the benefit of the holders of trust preferred securities.

We have summarized selected provisions of the guarantee below. This summary is not complete. For a complete description, we encourage you to read the guarantee, the form of which we have filed as an exhibit to the registration statement.

Except as otherwise set forth in the prospectus supplement, we will irrevocably and unconditionally agree to pay holders of the trust preferred securities in full the following amounts to the extent not paid by the trust:

- any accumulated and unpaid distributions and any additional amounts with respect to the trust preferred securities and any redemption price for trust preferred securities called for redemption by the trust, if and to the extent that we have made corresponding payments on the debt securities to the property trustee of the trust; and
- payments upon the dissolution of the trust equal to the less of (i) the liquidation amount plus all accumulated and unpaid distributions and additional amounts on the trust preferred securities to the extent the trust has funds legally available for those payments and (ii) the amount of assets of the trust remaining legally available for distribution to the holders of trust preferred securities in liquidation of the trust.

We will not be required to make these liquidation payments if:

- the trust distributes the debt securities to the holders of trust preferred securities in exchange for their trust preferred securities; or
- the trust redeems the trust preferred securities in full upon the maturity or redemption of the debt securities.

Except as otherwise set forth in the prospectus supplement, each guarantee is a guarantee from the time of issuance of the trust preferred securities. EXCEPT AS OTHERWISE SET FORTH IN THE APPLICABLE PROSPECTUS SUPPLEMENT, THE GUARANTEE ONLY COVERS DISTRIBUTIONS AND OTHER PAYMENTS ON TRUST PREFERRED SECURITIES IF AND TO THE EXTENT THAT WE HAVE MADE CORRESPONDING PAYMENTS ON THE DEBT SECURITIES TO THE APPLICABLE PROPERTY TRUSTEE. EXCEPT AS OTHERWISE SET FORTH IN THE PROSPECTUS SUPPLEMENT, IF WE DO NOT MAKE THOSE CORRESPONDING PAYMENTS ON THE DEBT SECURITIES, THE TRUST WILL NOT HAVE FUNDS AVAILABLE FOR PAYMENTS AND WE WILL HAVE NO OBLIGATION TO MAKE A GUARANTEE PAYMENT.



Our obligations under the trust agreement, the guarantee, the debt securities and the associated indenture taken together will provide a full and unconditional guarantee of payments due on the trust preferred securities. We will describe the specific terms of the guarantee in a prospectus supplement.

### ***Covenants of Redwood***

Except as otherwise set forth in the prospectus supplement, in the guarantee, we will agree that, as long as any trust preferred securities issued by the trust are outstanding, we will not make the payments and distributions described below if:

- we are in default on our guarantee payments or other payment obligations under the guarantee;
- any trust enforcement event under the trust agreement has occurred and is continuing; or
- we have elected to defer payments of interest on the related debt securities by extending the interest payment period and that deferral period is continuing.

Except as otherwise set forth in the prospectus supplement, in these circumstances, we will agree that we will not:

- declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock, except to the extent required in order to maintain our qualification as a REIT; or
- make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank equally with or junior in right of payment to the debt securities or make any guarantee payments with respect to any guarantee by us of the debt of any of our subsidiaries if such guarantee ranks equally with or junior in right of payment to the debt securities.

However, except as otherwise set forth in the prospectus supplement, even during such circumstances, we may:

- purchase or acquire our capital stock in connection with the satisfaction by us of our obligations under any employee benefit plans or pursuant to any contract or security outstanding on the first day of any extension period requiring us to purchase our capital stock;
- reclassify our capital stock or exchange or convert one class or series of our capital stock for another class or series of our capital stock;
- purchase fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged;
- declare dividends or distributions payable solely in shares of our capital stock;
- redeem or repurchase any rights pursuant to a rights agreement; and
- make payments under the guarantee related to the trust preferred securities.

In addition, as long as trust preferred securities issued by any trust are outstanding and except as otherwise set forth in the prospectus supplement, we will agree that we will:

- remain the sole direct or indirect owner of all the outstanding common securities of that trust, except as permitted by the applicable trust agreement;
- permit the trust common securities of that trust to be transferred only as permitted by the trust agreement; and

- use reasonable efforts to cause that trust to continue to be treated as a grantor trust for U.S. federal income tax purposes, except in connection with a distribution of debt securities to the holders of trust preferred securities as provided in the trust agreement, in which case the trust would be dissolved.

#### ***Amendments and Assignment***

Except as otherwise set forth in the prospectus supplement, we and the guarantee trustee may amend each guarantee without the consent of any holder of trust preferred securities if the amendment does not adversely affect the rights of the holders in any material respect or in order to conform the text of the guarantee to any provision of this prospectus or the applicable prospectus supplement to the extent such provision in this prospectus or the applicable prospectus supplement was intended to be a verbatim recitation of the guarantee. In all other cases and except as otherwise set forth in the prospectus supplement, we and the guarantee trustee may amend the guarantee only with the prior approval of the holders of at least a majority of outstanding trust preferred securities issued by the applicable trust.

Except as otherwise set forth in the prospectus supplement, we may assign our obligations under the guarantee only in connection with a consolidation, merger or asset sale involving us permitted under the indenture governing the debt securities.

#### ***Termination of the Guarantee***

Except as otherwise set forth in the prospectus supplement, the guarantee will terminate upon:

- full payment of the redemption price of all trust preferred securities of the trust;
- distribution of the related debt securities, or any securities into which those debt securities are convertible, to the holders of the trust preferred securities and trust common securities of the trust in exchange for all the securities issued by the trust; or
- full payment of the amounts payable upon liquidation of the trust.

The guarantee will, however, continue to be effective or will be reinstated if any holder of trust preferred securities must repay any amounts paid on those trust preferred securities or under the guarantee.

#### ***Status of the Guarantee***

Except as otherwise set forth in the prospectus supplement, our obligations under the guarantee will be unsecured and effectively junior in right of payment to all debt and preferred stock of our subsidiaries. BY YOUR ACCEPTANCE OF THE TRUST PREFERRED SECURITIES, YOU AGREE TO ANY SUBORDINATION PROVISIONS AND OTHER TERMS OF THE RELATED GUARANTEE. We will specify in a prospectus supplement the ranking of the guarantee with respect to our capital stock and other liabilities, including other guarantees.

Except as otherwise set forth in the prospectus supplement, the guarantee will be deposited with the guarantee trustee to be held for your benefit. The guarantee trustee will have the right to enforce the guarantee on your behalf. In most cases, the holders of a majority of outstanding trust preferred securities issued by the applicable trust will have the right to direct the time, method and place of:

- conducting any proceeding for any remedy available to the applicable guarantee trustee; or
- exercising any trust or other power conferred upon that guarantee trustee under the applicable guarantee.

The guarantee will constitute a guarantee of payment and not merely of collection. This means that the guarantee trustee may institute a legal proceeding directly against us to enforce the payment rights under the guarantee without first instituting a legal proceeding against any other person or entity.

Except as otherwise set forth in the prospectus supplement, if the guarantee trustee fails to enforce the guarantee or we fail to make a guarantee payment, you may institute a legal proceeding directly against us to enforce your rights under that guarantee without first instituting a legal proceeding against the applicable trust, the guarantee trustee or any other person or entity.

***Periodic Reports Under Guarantee***

Except as otherwise set forth in the prospectus supplement, we will be required to provide annually to the guarantee trustee a statement as to our performance of our obligations and our compliance with all conditions under the guarantees.

***Duties of Guarantee Trustee***

Except as otherwise set forth in the prospectus supplement, the guarantee trustee normally will perform only those duties specifically set forth in the applicable guarantee. The guarantee does not contain any implied covenants. If a default occurs on the guarantee, the guarantee trustee will be required to use the same degree of care and skill in the exercise of its powers under the guarantee as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. Except as otherwise set forth in the prospectus supplement, the guarantee trustee will exercise any of its rights or powers under the guarantee at the request or direction of holders of the applicable series of trust preferred securities only if it is offered security and indemnity satisfactory to it.

***Governing Law***

New York law will govern the guarantee.

## DESCRIPTION OF UNITS

We may issue units consisting of two or more other constituent securities. These units may be issuable as, and for a specified period of time may be transferable only as, a single security, rather than as the separate constituent securities comprising such units. The statements made in this section relating to the units are summaries only. These summaries are not complete. When we issue units, we will provide the specific terms of the units in a prospectus supplement. To the extent the information contained in the prospectus supplement differs from this summary description, you should rely on the information in the prospectus supplement.

When we issue units, we will provide in a prospectus supplement the following terms of the units being issued:

- the title of any series of units;
- identification and description of the separate constituent securities comprising the units;
- the price or prices at which the units will be issued;
- the date, if any, on and after which the constituent securities comprising the units will be separately transferable;
- information with respect to any book-entry procedures;
- a discussion of any material or special United States federal income tax consequences applicable to an investment in the units; and
- any other terms of the units and their constituent securities.

## RESTRICTIONS ON OWNERSHIP AND TRANSFER AND REPURCHASE OF SHARES

In order that we may meet the requirements for qualification as a REIT at all times, among other purposes, our charter prohibits any person from acquiring or holding beneficial ownership of shares of our common stock or preferred stock (collectively, "capital stock") in excess of 9.8%, in number of shares or value, of the outstanding shares of the related class of capital stock. For this purpose, the term "beneficial ownership" means beneficial ownership, as determined under Rule 13d-3 under the Exchange Act, of capital stock by a person, either directly or constructively under the constructive ownership provisions of Section 544 of the Internal Revenue Code of 1986, as amended (the Code), and related provisions.

Under the constructive ownership rules of Section 544 of the Code, a holder of a warrant generally will be treated as owning the number of shares of capital stock into which such warrant may be converted. In addition, the constructive ownership rules generally attribute ownership of securities owned by a corporation, partnership, estate, or trust proportionately to its stockholders, partners, or beneficiaries, respectively. The rules may also attribute ownership of securities owned by family members to other members of the same family and may treat an option to purchase securities as actual ownership of the underlying securities by the optionholder. The rules further provide when securities constructively owned by a person will be considered to be actually owned for the further application of such attribution provisions. To determine whether a person holds or would hold capital stock in excess of the 9.8% ownership limit, a person will be treated as owing not only shares of capital stock actually owned, but also any shares of capital stock attributed to that person under the attribution rules described above. Accordingly, a person who directly owns less than 9.8% of the shares outstanding may nevertheless be in violation of the 9.8% ownership limit.

Any acquisition or transfer of shares of capital stock or warrants that would cause us to be disqualified as a REIT or that would create a direct or constructive ownership of shares of capital stock in excess of the 9.8% ownership limit, or result in the shares of capital stock being beneficially owned, within the meaning of Section 856(a) of the Code, by fewer than 100 persons, determined without any reference to any rules of attribution, or result in our being closely held within the meaning of Section 856(h) of the Code, will be null and void, and the intended transferee will acquire no rights to those shares or warrants. These restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to continue to qualify as a REIT.

Any purported transfer of shares of capital stock or warrants that would result in a purported transferee owning, directly or constructively, shares in excess of the 9.8% ownership limit due to the unenforceability of the transfer restrictions described above will constitute excess securities. Excess securities will be transferred by operation of law to Redwood Trust as trustee for the exclusive benefit of the person or persons to whom the excess securities are ultimately transferred, until such time as the purported transferee retransfers the excess securities. While the excess securities are held in trust, a holder of such securities will not be entitled to vote or to share in any dividends or other distributions with respect to such securities and will not be entitled to exercise or convert such securities into shares of capital stock. Excess securities may be transferred by the purported transferee to any person (if such transfer would not result in excess securities) at a price not to exceed the price paid by the purported transferee (or, if no consideration was paid by the purported transferee, the fair market value of the excess securities on the date of the purported transfer), at which point the excess securities will automatically be exchanged for the stock or warrants, as the case may be, to which the excess securities are attributable. If a purported transferee receives a higher price for designating an ultimate transferee, such purported transferee shall pay, or cause the ultimate transferee to pay, such excess to us. In addition, such excess securities held in trust are subject to purchase by us at a purchase price equal to the lesser of (a) the price per share or per warrant, as the case may be, in the transaction that created such excess securities (or, in the case of a devise or gift, the market price at the time of such devise or gift), reduced by the amount of any distributions received in violation of the charter that have not been repaid to us, and (b) the market price as reflected in the last reported sales price of such shares of stock or warrants on the trading day immediately preceding the date of the purchase by us as reported on any exchange or quotation system over which such shares of stock or warrants may be traded, or if not then traded over any exchange or quotation system, then the market price of such shares of stock or warrants on the date of the purported transfer as determined in good faith by our board of directors, reduced by the amount of any distributions received in violation of the charter that have not been repaid to us.

Upon a purported transfer of excess securities, the purported transferee shall cease to be entitled to distributions, voting rights, and other benefits with respect to the shares of capital stock or warrants except the right to payment of the purchase price for the shares of capital stock or warrants on the retransfer of securities as provided above. Any dividend or distribution paid to a purported transferee on excess securities prior to our discovery that shares of capital stock have been transferred in violation of our charter shall be repaid to us upon demand. If these transfer restrictions are determined to be void, invalid, or unenforceable by a court of competent jurisdiction, then the purported transferee of any excess securities may be deemed, at our option, to have acted as an agent on our behalf in acquiring the excess securities and to hold the excess securities on our behalf.

All certificates representing shares of capital stock and warrants will bear a legend referring to the restrictions described above.

Any person who acquires shares or warrants in violation of our charter, or any person who is a purported transferee such that excess securities result, must immediately give written notice or, in the event of a proposed or attempted transfer that would be void as set forth above, give at least 15 days prior written notice to us of such event and shall provide us such other information as we may request in order to determine the effect, if any, of the transfer on our status as a REIT. In addition, as required under the REIT provisions of the Code, every record owner of more than 5.0%, during any period in which the number of record stockholders is 2,000, or 1.0%, during any period in which the number of record stockholders is greater than 200 but less than 2,000, or 1/2%, during any period in which the number of record stockholders is 200 or less, of the number or value of our outstanding shares will receive a questionnaire from us by January 30 requesting information as to how the shares are held. In addition, our charter requires that such stockholders must provide written notice to us by January 30 stating the name and address of the record stockholder, the number of shares beneficially owned and a description of how the shares are held. In practice, we have generally permitted our stockholders to comply with the foregoing charter requirement by responding to our annual REIT questionnaire. Further, each stockholder upon demand is required to disclose to us in writing such information with respect to the direct and constructive ownership of shares and warrants as our board of directors deems reasonably necessary to comply with the REIT provisions of the Code, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

Our board of directors may increase or decrease the 9.8% ownership limit. In addition, to the extent consistent with the REIT provisions of the Code, our board of directors may, pursuant to our charter, waive the 9.8% ownership limit for a purchaser of our stock. As a condition to such waiver the intended transferee must give written notice to the board of directors of the proposed transfer no later than the fifteenth day prior to any transfer which, if consummated, would result in the intended transferee owning shares in excess of the ownership limit. Our board of directors may also take such other action as it deems necessary or advisable to protect our status as a REIT. Pursuant to our charter, our board of directors has, from time to time, waived the ownership limit for certain of our stockholders.

The provisions described above may inhibit market activity and the resulting opportunity for the holders of our capital stock and warrants to receive a premium for their shares or warrants that might otherwise exist in the absence of such provisions. Such provisions also may make us an unsuitable investment vehicle for any person seeking to obtain ownership of more than 9.8% of the outstanding shares of our capital stock.

#### **CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS**

We have summarized certain terms and provisions of the Maryland General Corporation Law and our charter and bylaws. This summary is not complete and is qualified by the provisions of our charter and bylaws, and the Maryland General Corporation Law. See “Where You Can Find More Information.”

For restrictions on ownership and transfer of our capital stock contained in our charter, see “Restrictions on Ownership and Transfer and Repurchase of Shares.”

#### **Maryland Business Combination Act**

Under the Maryland Business Combination Act, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder, as such terms are defined in the Act, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. The statute permits various exemptions from its provisions, including business combinations that are exempted by provision in the charter of the corporation. Our charter provides that we elect not to be governed by the provisions of the Maryland Business Combination Act.

#### **Maryland Control Share Acquisition Act**

The Maryland Control Share Acquisition Act causes persons who acquire beneficial ownership of stock at levels of 10%, 33%, and more than 50% (control share acquisitions) to lose the voting rights of such stock unless voting rights are restored by the stockholders at a meeting by vote of two-thirds of all the votes entitled to be cast on the matter (excluding stock held by the acquiring stockholder or the corporation’s officers or employee directors). The Maryland Control Share Acquisition Act affords a cash-out election for stockholders other than the acquiring stockholder, at an appraised value (but not less than the highest price per share paid by the acquiring person in the control share acquisition), payable by the corporation, if voting rights for more than 50% of the outstanding stock are approved for the acquiring person. Under certain circumstances, the corporation may redeem shares acquired in a control share acquisition if voting rights for such shares have not been approved. The statute does not apply (a) to shares acquired in a merger, consolidation, or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation. A corporation’s board of directors has an “opt-out” power, exercisable through amendment of the corporation’s bylaws (which could be changed by the stockholders), to exempt in advance any control share acquisition from the Maryland Control Share Acquisition Act. Our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act acquisitions by certain persons of shares of our common stock in accordance with waivers from the ownership limit in our charter granted to such persons by our board of directors.

The Maryland Control Share Acquisition Act could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers.

#### **Classification of Board of Directors, Vacancies, and Removal of Directors**

Our charter and bylaws provide for a board of directors with staggered terms divided into three classes, with terms of three years each. The number of directors in each class and the expiration of each class term, as of the date of this prospectus, are as follows:

Class I	3 Directors	Expires 2013
Class II	3 Directors	Expires 2011
Class III	3 Directors	Expires 2012

At each annual meeting of our stockholders, successors of the class of directors whose term expires at that meeting will be elected to serve for a three-year term and until their successors are elected and qualify, and the directors in the other two classes will continue in office. A board of directors with staggered terms may delay, defer, or prevent a change in our control or other transaction that might involve a premium over the then prevailing market price for our common stock or other attributes that our stockholders may consider desirable. In addition, a board of directors with staggered terms could prevent stockholders who do not agree with the policies of our board of directors from replacing a majority of the board of directors in two years.

Pursuant to our election to be subject to certain provisions of the Maryland General Corporation Law, any vacancy on our board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which such vacancy occurred and until a successor is elected and qualifies. Under the Maryland General Corporation Law, if the directors have been divided into classes, unless the charter provides otherwise (which our charter does not), a director may be removed only for cause by the affirmative vote of a majority of all the votes entitled to be cast generally for the election of directors.

#### **Charter Amendments and Extraordinary Corporate Actions**

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange, or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter provides for approval of these matters by the affirmative vote of the holders of a majority of the total number of shares entitled to vote on the matter.

#### **Advance Notice of Director Nominations and New Business**

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (i) pursuant to our notice of the meeting, (ii) by the board of directors or (iii) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of our bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting.



## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of the material U.S. federal income tax considerations relevant to our status as a REIT and to your investment in our common stock.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to a particular stockholder in light of his or her personal investment circumstances or to certain types of investors subject to special tax rules (including financial institutions, insurance companies, broker-dealers and, except to the limited extent discussed below, tax-exempt entities and foreign taxpayers) and it does not discuss any aspects of state, local, or foreign country tax law. This discussion assumes that you hold your common stock as a "capital asset" (generally, property held for investment) under the Internal Revenue Code. This summary is for general information only and is not tax advice.

The information in this summary is based upon current law, including the Internal Revenue Code, existing Treasury Department regulations, revenue rulings, revenue procedures, proposed regulations and case law, all of which are subject to change both prospectively or retroactively. Moreover, relevant laws or other legal authorities may change in a manner that could adversely affect the tax considerations contained in this discussion. This summary does not discuss any state, local, or foreign tax consequences associated with our election to be taxed as a REIT.

### **You are urged to consult your tax advisors regarding the specific tax consequences to you of:**

- the acquisition, ownership, and/or sale or other disposition of our common stock, including the federal, state, local, foreign, and other tax consequences; and
- potential changes in the applicable tax laws and regulations described below.

### **Taxation of Redwood Trust**

We have elected to be taxed as a REIT under the Internal Revenue Code, commencing with our taxable year ended December 31, 1994. We believe that we have been organized and have operated in a manner that has allowed us to qualify for taxation as a REIT under the Internal Revenue Code commencing with our taxable year ended December 31, 1994, and we intend to continue to be organized and operate in this manner.

In reading the discussion set forth below, it should be noted that although Redwood is combined with all of its subsidiaries for financial accounting purposes, for U.S. federal income tax purposes only Redwood and those subsidiaries designated as qualified REIT subsidiaries (and their assets and income) constitute the REIT (see "Qualified REIT subsidiaries" below) and references in this section to "we," "us," or "our," unless otherwise indicated, refer only to such entities. Redwood's remaining domestic corporate subsidiaries constitute taxable entities subject to regular corporate income taxes, while Redwood's non-corporate subsidiaries and foreign taxable REIT subsidiaries are generally not subject to U.S. corporate income taxes (see "Taxable REIT subsidiaries" below).

In connection with the filing of our registration statement of which this prospectus is a part, our tax counsel, Chapman and Cutler LLP, has rendered an opinion to the effect that (i) we have been organized and operated in conformity with the requirements for qualification as a REIT under the Code commencing with our taxable year ended December 31, 1994 and continuing through the fiscal quarter ended June 30, 2010 (the date of our most recent interim financial statements and REIT compliance reports) and (ii) our current and proposed methods of operation in periods subsequent to such date will enable us to continue to qualify as a REIT under the Code. It must be emphasized that the opinion of Chapman and Cutler LLP is based on various assumptions relating to our organization and operation, including that all factual representations and statements set forth in documents, records, and instruments provided to them are true and correct, all actions described in this prospectus supplement and the accompanying prospectus are completed in a timely fashion and that we will at all times operate in accordance with the methods of operation described in our organizational documents and this prospectus supplement and accompanying prospectus, and is conditioned upon factual representations and covenants made by our officers, regarding our organization, assets, income, distributions, stock ownership, the present and future conduct of our business operations, the fair market value of our investments and other items regarding our ability to meet the various requirements for qualification as a REIT, and assumes that such representations and covenants are accurate and complete and that we will take no action inconsistent with our qualification as a REIT. While we believe that we are organized and operated so that we qualify as a REIT, given the highly complex nature of the rules governing REITs, the fact that certain aspects of our operations have not been considered by the courts or the Internal Revenue Service (IRS) in connection with determining compliance with the requirements for REIT status, the ongoing importance of factual determinations and the possibility of future changes in our circumstances or applicable law, no assurance can be given by Chapman and Cutler LLP or us that we so qualify for any particular year. Chapman and Cutler LLP will have no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed or of any subsequent change in the applicable law. You should be aware that opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not challenge the conclusions set forth in such opinions.

In any year in which we qualify as a REIT, we generally are not subject to U.S. federal income tax on that portion of our taxable income that is distributed to our stockholders. We are, however, subject to U.S. federal income tax at normal corporate income tax rates upon any undistributed taxable income or capital gain.

In addition, notwithstanding our qualification as a REIT, we may also be subject to tax in certain other circumstances. As discussed below, if we fail to satisfy the REIT Gross Income Tests, as described below, but nonetheless maintain our qualification as a REIT because certain other requirements are met, we will generally be subject to a 100% tax on an amount equal to (a) the greater of (1) the amount by which we fail the 75% Gross Income Test or (2) the amount by which we fail the 95% Gross Income Test, multiplied by (2) a fraction intended to reflect our profitability. If we fail to satisfy any of the REIT Asset Tests, as described below, other than a failure of the 5% or 10% REIT Asset Tests that do not exceed a statutory de minimis amount as more fully described below, but our failure is due to reasonable cause and not willful neglect, and we nonetheless maintain our REIT status because of specified cure provisions, we will be required to pay a tax equal to the greater of \$50,000 or the highest corporate rate (currently 35%) of the net income generated by the nonqualifying assets during the period in which we failed to satisfy the REIT Asset Tests.

We will also be subject to a tax of 100% on net income we derive from any “prohibited transaction,” which refers to dispositions of property held by the REIT classified as “property held for sale to customers in the ordinary course of business” of the REIT (i.e., “dealer” property). We do not believe that we have or will engage in transactions that would result in the us being classified as a dealer or deemed to have disposed of dealer property. However, whether property is held as dealer property or “primarily for sale to customers in the ordinary course of a trade or business” will depend on particular facts and circumstances and no assurance can be given that the IRS will agree with our determinations as to whether assets constitute dealer property.

If we have (i) net income from the sale or other disposition of “foreclosure property” which is held primarily for sale to customers in the ordinary course of business or (ii) other non-qualifying income from foreclosure property, we will be subject to U.S. federal income tax on such income at the highest corporate income tax rate. In addition, a nondeductible excise tax, equal to 4% of the excess of required distributions over the amounts actually distributed, will be imposed on us for each calendar year to the extent that dividends paid during the year, or declared during the last quarter of the year and paid during January of the succeeding year, are less than the sum of (1) 85% of our REIT “ordinary income,” plus (2) 95% of our REIT capital gain net income, plus (3) any undistributed income remaining from earlier years. We may also be subject to the corporate alternative minimum tax, as well as other taxes in certain situations not presently contemplated.

We will generally be subject to tax on the portion of any “excess inclusion income” derived by us from a residual interest in a real estate mortgage investment conduit (REMIC) or taxable mortgage pool to the extent our stock is held in record name by specified tax-exempt organizations not subject to tax on unrelated business taxable income. We do not currently expect to hold such assets.

We may also voluntarily revoke our election to be taxed as a REIT, although we have no intention of doing so, in which event we will be prohibited from electing REIT status for the year to which the revocation relates and the following four tax years.

If we failed to qualify as a REIT in any particular year, we would be subject to U.S. federal income tax as a regular, domestic corporation, and our stockholders would be subject to tax in the same manner as stockholders of a regular corporation. In such event, we could be subject to potentially substantial income tax liability in respect of each tax year that we fail to qualify as a REIT as well as the four tax years following the year of the failure and, as a result, the amount of earnings and cash available for distribution to our stockholders could be significantly reduced.

We intend to monitor on an ongoing basis our compliance with the requirements for qualifying as a REIT. In order to maintain our REIT status, we may be required to limit the types of assets that we might otherwise acquire, or hold certain assets at times when we might otherwise have determined that the sale or other disposition of such assets would have been more prudent.

### **REIT Qualification**

The following is a brief summary of certain technical requirements that we must meet on an ongoing basis in order to qualify, and remain qualified, as a REIT under the Internal Revenue Code.

#### *Stock Ownership Tests*

Our capital stock must be held by at least 100 persons for at least 335 days of a twelve-month year, or a proportionate part of a short tax year. In addition, no more than 50% of the value of our capital stock may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of the tax year. Under the Internal Revenue Code, most tax-exempt entities, including employee benefit trusts and charitable trusts (but excluding trusts described in Section 401(a) and exempt under Section 501(a) of the Internal Revenue Code), are generally treated as individuals for these purposes. We must satisfy these stock ownership requirements each tax year. We must solicit information from certain of our stockholders to verify ownership levels and must maintain records regarding those who do not respond. Our charter imposes certain repurchase obligations and restrictions regarding the transfer of our shares in order to aid in meeting the stock ownership requirements. If we were to fail either of the stock ownership tests, we would generally be disqualified from REIT status, unless, in the case of the “five or fewer” requirement, a statutory “good faith” exemption is available.

#### *Asset Tests*

We must generally meet the following asset tests (the REIT Asset Tests) at the close of each quarter of each tax year:

- at least 75% of the value of our total assets, as determined in accordance with generally accepted accounting principles, must consist of qualified real estate assets, government securities, cash, and cash items (the 75% Asset Test);
- the value of our assets consisting of securities (other than those includible under the 75% Asset Test) must not exceed 25% of the total value of the REIT's assets;
- the value of our assets consisting of securities of one or more taxable REIT subsidiaries must not exceed 25% (20% with respect to our taxable years beginning before January 1, 2009) of the value of the REIT's total assets; and
- the value of securities held by us, other than securities of a taxable REIT subsidiary or securities taken into account for purposes of the 75% Asset Test, must not exceed (i) 5% of the value of our total assets in the case of securities of any one non-government issuer, and (ii) 10% of the outstanding vote or value of any such issuer's securities.

For purposes of the above tests, qualified real estate assets generally include interests in real property, such as land, buildings, leasehold interests in real property, stock of other corporations that qualify as REITs, mortgage loans, and certain mortgage backed securities. The term “value” generally means, with respect to securities for which market quotations are readily available, the market value of such securities, and with respect to other securities and assets, fair value as determined by us in good faith.

In applying the above tests, we are generally required to re-value all of our assets at the end of any quarter in which we acquire a substantial amount of new securities or other property other than qualified real estate assets. We intend to closely monitor the purchase, holding, and disposition of our assets in order to comply with the REIT Asset Tests. We expect that substantially all of our assets, other than our interests in our taxable REIT subsidiaries, will be qualified real estate assets and intend to limit, or hold through taxable REIT subsidiaries, any assets not qualifying as qualified real estate assets so as to comply with the above REIT Asset Tests. If it is anticipated that the above limits would be exceeded, we intend to take appropriate measures to avoid exceeding such limits, including the disposition of non-qualifying assets within the permitted time periods for cure.

Due to the fact that our assets are not subject to precise determination or valuation, no assurance can be given that we have satisfied or will be able to continue to satisfy the REIT asset tests at all times. If we discover that we failed one or more of the REIT Asset Tests, we may nonetheless avoid losing our REIT status if we satisfy either (i) a de minimis exception or (ii) certain reasonable cause and disclosure requirements and pay certain penalties. The de minimis exception applies only to the last REIT Asset Test described above and is limited to violations not exceeding the lesser of 1% of our total assets at the end of such quarter or \$10 million. The reasonable cause exception requires that we make certain disclosures to the IRS, establish that the failure was due to reasonable cause and not willful neglect, and pay a penalty equal to the greater of \$50,000 or an amount equal to tax at the highest corporate tax rate on the income derived from such non-qualifying assets during period from identification to cure. Both exceptions also require that we dispose of the related assets within six months after the last day of the quarter in which we identify the failure or that we otherwise cure the failure within the same time period by, for instance, increasing our percentage ownership of other qualified assets. In the event these relief provisions were not applicable to a particular set of circumstances involving an asset test failure, we could fail to qualify as a REIT. See “Failure to qualify” below.

#### *Gross Income Tests*

We must generally meet the following gross income tests (the REIT Gross Income Tests) for each tax year:

- at least 75% of our gross income, excluding gross income from prohibited transactions, if any, must be derived from certain specified real estate sources, including interest income on mortgages secured by real property or interests therein and gain from the disposition of qualified real estate assets, foreclosure property or “qualified temporary investment income” (i.e., income derived from “new capital” within one year of the receipt of such capital) (the 75% Gross Income Test); and
- at least 95% of the REIT’s gross income for each tax year must be derived from sources of income qualifying for the 75% Gross Income Test, or from dividends, interest, and gains from the sale of stock or other securities not held for sale in the ordinary course of business (the 95% Gross Income Test).

We intend to maintain our REIT status by carefully monitoring our income, including income from hedging transactions and sales of mortgage assets, to comply with the REIT Gross Income Tests. In computing compliance with the Gross Income Tests, we must evaluate whether and how income generated by interest rate caps and other hedging instruments undertaken by us fit within these tests. Generally speaking, to the extent an interest rate cap or other hedging instrument was acquired to reduce the interest rate risks with respect to any indebtedness incurred or to be incurred by the REIT to acquire or carry real estate assets and was properly identified at inception (“qualified hedging income”), we can exclude such income for purposes of computing compliance with the 95% Gross Income Test. Recent legislation expanded this exclusion so that it also applies for purposes of the 75% Gross Income Test and expanded the definition of qualified hedging income to also include income from transactions entered into after July 30, 2008 primarily to manage the risk of currency fluctuations with respect to any item of income or gain that would constitute qualifying income under the 75% and 95% Gross Income Tests.

It should be noted that under certain circumstances, for example, (i) the sale of a substantial amount of assets to repay borrowings in the event that other credit is unavailable or (ii) an unanticipated decrease in qualifying income which results in our non-qualifying income exceeding 5% of our gross income, we may be unable to comply with certain of the REIT Gross Income Tests. Inadvertent failures to comply with the REIT Gross Income Tests will not result in disqualification of the REIT if certain disclosure and reasonable cause criteria are met and a 100% tax on the amount equal to the qualified income shortfall multiplied by a fraction intended to reflect our profitability is paid. See “—Taxation of Redwood Trust” above for a discussion of the tax consequences of failure to comply with the REIT Gross Income Tests. It is not possible to state whether we would be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions were not applicable to a particular set of circumstances involving a failure to satisfy the Gross Income Tests, we could fail to qualify as a REIT. See “Failure to qualify” below.

## **Distribution Requirements**

We generally are required to distribute to our stockholders an amount equal to at least 90% of our REIT taxable income determined before applying the deduction for dividends paid and by excluding net capital gains. Such distributions must be made in the tax year to which they relate or, if declared before the timely filing of our tax return for such year and paid not later than the first regular dividend payment after such declaration, in the following tax year.

The IRS has ruled generally that if a REIT's dividend reinvestment plan allows stockholders of the REIT to elect to have cash distributions reinvested in shares of the REIT at a purchase price equal to at least 95% of the fair market value of such shares on the distribution date, then such distributions generally qualify towards this distribution requirement. We maintain a Direct Stock Purchase and Dividend Reinvestment Plan (DSPP) and intend that the terms of our DSPP will comply with the IRS public rulings regarding such plans.

If we earn material amounts of non-cash income, it might be necessary, in order to meet the distribution requirements, to arrange for short-term, or possibly long-term, borrowings or to pay dividends in the form of taxable in-kind distributions of property, including taxable stock dividends. In the case of a taxable stock dividend, stockholders would be required to include the dividend as income and would be required to satisfy the tax liability associated with the distribution with cash from other sources including sales of our common stock. Both a taxable stock distribution and sale of common stock resulting from such distribution could adversely affect the price of our common stock.

If we fail to meet the distribution test as a result of a retroactive adjustment to our REIT taxable income, we may be able to avoid disqualification as a REIT by paying a "deficiency" dividend within a specified time period and in accordance with other requirements set forth in the Code. We would be liable for interest based on the amount of the deficiency dividend. A deficiency dividend is not permitted if the deficiency is due to fraud with intent to evade tax or to a willful failure to file a timely tax return.

## **Qualified REIT Subsidiaries**

A qualified REIT subsidiary is any corporation in which a REIT owns 100% of the stock issued by such corporation and for which no election has been made to classify it as a taxable REIT subsidiary. From time to time, we form wholly-owned subsidiaries that are treated as qualified REIT subsidiaries, including, but not limited to Sequoia Mortgage Funding Corporation. As such, their assets, liabilities, and income are generally treated as assets, liabilities, and income of the REIT for purposes of each of the above REIT qualification tests.

In addition, if we hold an equity interest in an entity that is classified as a partnership or disregarded entity under the Internal Revenue Code, such as Redwood Opportunity Fund, L.P. or its general partner, RWT LLC, for U.S. federal income tax purposes the REIT will generally be treated as earning directly its allocable share of the income and losses of such entity and owning its allocable share of the assets of the entity. Such income and assets generally have the same tax character as in the hands of the partnership. However, legislation has been proposed that, if enacted, would characterize taxable income earned in the form of a carried interest in an investment fund as compensation for services. If this legislation is enacted and does not contain a carve out for carried interests earned by REITs, certain of the income that we earn from the investment funds we sponsor may have a character different than that in the hands of the actual investment fund and may not qualify as good income under the REIT income tests.

## **Taxable REIT Subsidiaries**

A taxable REIT subsidiary is any corporation in which a REIT owns stock (directly or indirectly) and for which the REIT and such corporation make a joint election to classify the corporation as a taxable REIT subsidiary. Effective January 1, 2001, RWT Holdings, Inc. ("Holdings"), and Redwood Trust elected to treat Holdings, Sequoia Residential Funding, and Holdings' other subsidiaries as taxable REIT subsidiaries of Redwood. Since 2001, Redwood Trust has made taxable REIT subsidiary elections together with various other subsidiaries, including but not limited to, Redwood Asset Management, Inc., Redwood Mortgage Funding, Inc., the Acacia entities and certain other entities in which it has made minority equity investments. As taxable REIT subsidiaries, these subsidiaries are not subject to the REIT asset, income, and distribution requirements nor are their assets, liabilities, or income treated as assets, liabilities, or income of the REIT for purposes of each of the above REIT qualification tests.

We generally engage in securitization transactions (other than certain non-REMIC, debt-for-tax securitizations) through our taxable REIT subsidiaries. In addition, we generally intend to make a taxable REIT subsidiary election with respect to any other corporation in which we acquire equity or equity-like securities constituting more than 10% by vote or value of such corporation's equity and that is not otherwise a qualified REIT subsidiary. However, the aggregate value of all of our taxable REIT subsidiaries must be limited to 25% (20% with respect to our taxable years beginning prior to January 1, 2009) of the total value of our assets. In addition, we will be subject to a 100% penalty tax on any rent, interest, or other charges that we impose on any taxable REIT subsidiary in excess of an arm's-length price for comparable services. We expect that any rents, interest, or other charges imposed on Holdings or any other taxable REIT subsidiary will be at arm's-length prices.

We generally expect to derive income from our taxable REIT subsidiaries by way of distributions of the earnings of such taxable REIT subsidiaries. To the extent such distributions constitute dividend income, such income is not real estate source income for purposes of the 75% Gross Income Test. Therefore, when aggregated with our other non-real estate source income, such income (together with any other income we have earned that is not qualifying income for the 75% Gross Income Test) must be limited to 25% of our gross income each year. We will monitor the value of our investment in, and the distributions from, our taxable REIT subsidiaries for purposes of compliance with all applicable REIT income and asset tests.

Taxable REIT subsidiaries doing business in the United States are generally subject to corporate level tax on their net income and generally will be able to distribute only net after-tax earnings to their stockholders, including Redwood, as dividend distributions. The Acacia entities are considered foreign subsidiaries not engaged in trade or business in the United States for tax purposes and therefore are not subject to U.S. corporate income taxation. However, the Acacia entities are characterized as controlled foreign corporations (CFCs) under the Internal Revenue Code and therefore we are required to recognize income equal to the net income derived from our investment in these entities without regard to whether distributions are made to us. Income that we earn from the Acacia CFCs is generally taxed as ordinary income and any losses that we might recognize on our equity investments in the CFCs will generally be treated as capital losses. Certain of the offshore investment fund entities that we sponsor have made elections to be classified as corporations for U.S. federal income tax purposes. Those entities are classified as passive foreign investment companies (PFICs) and to the extent that we make equity investments directly in such PFICs, we typically make an election so that our investment is taxed similar to that described above for CFCs.

There can be no assurance that the IRS will not assert that the Acacia entities or other offshore entities that we sponsor are doing business in the United States, which position, if sustained, would subject the such entities to corporate level tax on their effectively connected U.S. trade or business income. If this were to occur, then our investments in such offshore entities would generally only be able to contribute net after-tax earnings to our dividend distributions.

In addition, it should be noted that we have treated and intend to continue to treat income inclusions from our CFC and PFIC investments as qualifying income for purposes of the 95% Gross Income Test but not the 75% Gross Income Test. Income inclusions from equity investments in CFCs and PFICs are not specifically enumerated as includible for purposes of the 95% Gross Income Test, and there is no clear precedent with respect to the treatment of such income for the 95% Gross Income Test. However, such income inclusions have been treated as dividend income for other tax purposes and based on advice of counsel, we have treated and intend to continue to treat such income inclusions as qualifying income for purposes of the 95% Gross Income Test. Nevertheless, because such income is not specifically addressed by the REIT provisions, it is possible that the IRS could successfully take the position that such income is not qualifying income for this purpose. In the event that such income was determined not to qualify for the 95% Gross Income Test, we would be subject to a penalty tax with respect to such income to the extent it and our other nonqualifying income exceeds 5% of our gross income and/or we could fail to qualify as a REIT. See "REIT Qualification" above and "Failure to Qualify" below. Such penalty tax, if applicable, would be equal to the amount by which we were determined to fail the 95% Gross Income Test multiplied by a fraction intended to reflect our profitability.

## Failure to Qualify

In addition to those provisions already described, we can also cure REIT qualification failures if we establish that such failure was due to reasonable cause and not willful neglect and we pay a penalty of \$50,000 for each such failure. However, if we fail any of the REIT qualification tests described previously in any tax year and the cure provisions provided by the Internal Revenue Code do not apply, we would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on our taxable income at the regular U.S. federal corporate income tax rates. Distributions to stockholders in any year in which we fail to qualify as a REIT would not be deductible by us, nor would distributions generally be required to be made under the Internal Revenue Code. Further, unless entitled to relief under certain other provisions of the Internal Revenue Code, we would also be disqualified from re-electing REIT status for the four tax years following the year in which we became disqualified.

## Tax Treatment Generally of U.S. Persons Investing in Our Common Stock

The discussion under this heading only applies to stockholders that are "U.S. persons." A U.S. person is a person who is:

- A citizen or resident of the United States;
- A corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- An estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- A trust, if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust, or (2) the trust was in existence on August 26, 1996, was treated as a domestic trust before such date, and has made an election to continue to be treated as a U.S. person.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our stock, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner of a partnership holding our common stock should consult its tax advisor regarding the federal income tax consequences to the partner of the acquisition, ownership and disposition of our stock by the partnership.

Unless you are a tax-exempt entity, for any tax year in which we are treated as a REIT for U.S. federal income tax purposes, distributions (including constructive or in-kind distributions) made to you (and not designated as capital gain dividends) will generally be subject to tax as ordinary income to the extent of our current and accumulated earnings and profits as determined for U.S. federal income tax purposes. If the amount distributed exceeds your allocable share of such earnings and profits, the excess will be treated as a return of capital to the extent of your tax basis in the common stock, which will not be subject to tax, and thereafter as a taxable gain from the sale or exchange of a capital asset.

Distributions designated by us as capital gain dividends will generally be subject to tax as long-term capital gain to you, to the extent that the distribution does not exceed our actual net capital gain for the tax year. Alternatively, we can also elect by written notice to our stockholders to designate a portion of our net capital gain income as being retained and pay directly the tax on such net capital gains. In that instance, generally if you are required to include the deemed capital gains dividend in income, you will be entitled to claim a credit or refund on your tax return for the tax paid by us with respect to such deemed dividend, and you will be entitled to increase your tax basis in our shares by an amount equal to the excess of the deemed capital gain dividend over the tax you are deemed to have paid.

Distributions by us, whether characterized as ordinary income or as capital gain, are not eligible for the corporate dividends received deduction that exists under current law. Furthermore, distributions by us characterized as ordinary income generally will not be subject to the reduced 15% and 5% tax rates otherwise effective for certain types of dividends as of January 1, 2003. However, dividend distributions by us characterized as capital gain distributions will be subject to the reduced 5% and 15% tax rates effective through 2010.

In the event that we realize a loss for a tax year, you will not be permitted to deduct any share of that loss. Further, if we (or a portion of our assets) were to be treated as a taxable mortgage pool, or if we were to hold residual interests in REMICs, any “excess inclusion” income derived therefrom and allocated to you would not be allowed to be offset by any net operating losses.

Dividends declared during the last quarter of a tax year and actually paid during January of the following tax year are generally treated as if received on December 31 of the tax year in which they are declared and not on the date actually received. In addition, we may elect to treat certain other dividends distributed after the close of the tax year as having been paid during such tax year, but you will be treated as having received such dividend in the tax year in which the distribution is made.

Upon a sale or other disposition of our common stock, you would generally recognize a capital gain or loss in an amount equal to the difference between the amount realized and your tax basis in such stock, which gain or loss generally will be long-term if the stock was held for more than twelve months. Any loss on the sale or exchange of common stock held by you for six months or less will generally be treated as a long-term capital loss to the extent of any designated capital gain dividends received by you. If common stock is sold after a record date but before a payment date for declared dividends on such stock, you will nonetheless be required to include such dividend in income in accordance with the rules above for distributions, whether or not such dividend is required to be paid over to the purchaser.

We are required under Treasury Department regulations to demand annual written statements from the record holders of designated percentages of our stock disclosing the actual and constructive ownership of such stock and to maintain permanent records showing the information we have received as to the actual and constructive ownership of such stock and a list of those persons failing or refusing to comply with such demand.

In any year in which we do not qualify as a REIT, distributions made to you would be taxable in the same manner discussed above, except that no distributions could be designated as capital gain dividends, distributions would be eligible for the corporate dividends received deduction and may be eligible for the reduced tax rates on dividends (if paid out of previously-taxed earnings), the excess inclusion income rules would not apply, and you would not receive any share of our tax preference items. In such event, however, we would be subject to potentially substantial U.S. federal income tax liability, and the amount of earnings and cash available for distribution to you could be significantly reduced or eliminated.

#### **Information Reporting and Backup Withholding with Respect to Our Common Stock**

We will report to our U.S. stockholders and the IRS the amount of distributions paid or deemed paid during each calendar year, and the amount of tax withheld, if any. Under the backup withholding rules, a stockholder may be subject to backup withholding with respect to distributions paid (at the rate generally equal to the fourth lowest rate of U.S. federal income tax then in effect (currently 28%)) unless such holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates that fact; or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. A stockholder that does not provide us with its correct taxpayer identification number may also be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the stockholder's income tax liability. In addition, we may be required to withhold a portion of dividends and capital gain distributions to any stockholders that do not certify under penalties of perjury their non-foreign status to us.

#### **Tax Treatment Generally of Tax-Exempt Entities Investing in Our Common Stock**

The discussion under this heading only applies to you if you are a tax-exempt entity. Subject to the discussion below regarding a “pension-held REIT,” a tax-exempt stockholder is generally not subject to tax on distributions from us or gain realized on the sale of the common stock or preferred stock, provided that:

- you do not incur indebtedness to purchase or hold our common stock;
- your shares are not otherwise used in an unrelated trade or business; and
- we do not distribute dividends to you that are treated as “excess inclusion” income as defined under the Code.



It should be emphasized that if we were to hold a residual interest in a REMIC, or if a pool of the REIT's assets were to be treated as a "taxable mortgage pool," a portion of the dividends paid to a tax-exempt stockholder may be subject to tax as "unrelated business taxable income," or UBTI. Although we do not intend to acquire such residual interests at the REIT level or believe that we, or any portion of our assets, will be treated as a taxable mortgage pool, no assurance can be given that the IRS might not successfully maintain that such a taxable mortgage pool exists.

If a qualified pension trust (i.e., any pension or other retirement trust that qualifies under Section 401(a) of the Code) holds more than 10% by value of the interests in a "pension-held REIT" at any time during a tax year, a substantial portion of the dividends paid to the qualified pension trust by such REIT may constitute UBTI. For these purposes, a "pension-held REIT" is a REIT (i) that would not have qualified as a REIT but for the provisions of the Internal Revenue Code which look through qualified pension trust stockholders in determining ownership of stock of the REIT and (ii) in which at least one qualified pension trust holds more than 25% by value of the equity interest of such REIT or one or more qualified pension trusts (each owning more than a 10% interest by value in the REIT) hold in the aggregate more than 50% by value of the equity interests in such REIT. Assuming compliance with the ownership limit provisions in our charter, it is unlikely that pension plans will accumulate sufficient stock to cause us to be treated as a pension-held REIT.

Distributions to certain types of tax-exempt stockholders exempt from U.S. federal income taxation under Sections 501 (c)(7), (c)(9), (c)(17), and (c)(20) of the Internal Revenue Code may also constitute UBTI, and such prospective investors should consult their tax advisors concerning the applicable "set aside" and reserve requirements.

#### **U.S. Tax Treatment Generally of Foreign Persons Investing in Our Common Stock**

The discussion under this heading only applies to you if you are not a "U.S. person" as defined above under "Tax treatment generally of U.S. persons investing in our common stock" (hereinafter, a "foreign stockholder").

This discussion provides only a brief summary of certain U.S. federal tax consequences that apply to you, but does not consider any specific facts or circumstances that may apply to you and your particular situation. Therefore, we urge you to consult your tax advisor regarding the U.S. federal income tax consequences of acquiring, holding, and disposing of our stock, or any tax consequences that may arise under the laws of any foreign, state, local, or other taxing jurisdiction.

Distributions paid by us out of our earnings and profits, as determined for U.S. federal income tax purposes, to a foreign stockholder will generally be subject to withholding of U.S. federal income tax at the rate of 30%, unless reduced or eliminated by an applicable tax treaty or unless such dividends are treated as effectively connected with a U.S. trade or business. In the case of a taxable stock dividend with respect to which any withholding tax is imposed, we may have to withhold or dispose of part of the shares otherwise distributable in such dividend and use shares or the proceeds of such disposition to satisfy the withholding tax imposed. Distributions paid by us in excess of our earnings and profits will be treated as a tax-free return of capital to the extent of the holder's adjusted basis in his shares of stock, and thereafter as gain from the sale or exchange of a capital asset as described below. If it cannot be determined at the time a distribution is made whether such distribution will exceed our earnings and profits, the distribution will be subject to withholding at the same rate as dividends. Amounts so withheld, however, will be refundable or creditable against the foreign stockholder's U.S. federal tax liability if it is subsequently determined that such distribution was, in fact, in excess of our earnings and profits. If the receipt of the dividend is treated as being effectively connected with the conduct of a trade or business within the United States by a foreign stockholder, the dividend received by such holder will be subject to the U.S. federal income tax on net income that applies to United States persons generally (and, with respect to corporate holders and under certain circumstances, to the branch profits tax).

Certain capital gains distributions by a REIT to a foreign stockholder that are attributable to gain from the sales or exchanges by us of "United States real property interests" will be treated as if such gain were effectively connected with a U.S. business and will thus be subject to tax at the normal capital gain rates applicable to U.S. stockholders (subject to applicable alternative minimum tax) under the provisions of the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA). Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax in the hands of a foreign corporate stockholder not entitled to a treaty exemption. We are required to withhold 35% of any distribution that could be designated by us as a capital gains dividend. This amount may be credited against the foreign stockholder's FIRPTA tax liability. FIRPTA does not apply, however, to REIT capital gain distributions (so long as they are made with respect to a class of REIT stock that is regularly traded on an established securities market in the United States) to a foreign investor that does not own more than 5% of the REIT's stock any time during the one year period ending on the date of such distribution. Such distributions are instead treated by the investor as a regular, rather than capital gain, dividends. It should also be noted that mortgage loans without substantial equity or with shared appreciation features generally would not be classified as "United States real property interests."

A foreign stockholder will generally not be subject to U.S. federal income tax on gain recognized on a sale or other disposition of its shares of either common or preferred stock unless (i) the gain is effectively connected with the conduct of a trade or business within the United States by the foreign stockholder, (ii) in the case of a foreign stockholder who is a nonresident alien individual and holds such shares as a capital asset, such holder is present in the United States for 183 or more days in the tax year and certain other requirements are met, or (iii) the foreign stockholder is subject to tax under the FIRPTA rules because we are not domestically controlled. Gain that is effectively connected with the conduct of a business in the United States by a foreign stockholder will be subject to the U.S. federal income tax on net income that applies to U.S. persons generally (and, with respect to corporate holders and under certain circumstances, to the branch profits tax) but will not be subject to withholding. Foreign stockholders should consult applicable treaties, which may provide for different rules.

Gain recognized by a foreign stockholder upon a sale of either common stock or preferred stock will generally not be subject to tax under FIRPTA if we are a “domestically-controlled REIT,” which is defined generally as a REIT in which at all times during a specified testing period less than 50% in value of its shares were held directly or indirectly by non-U.S. persons. Because only a minority of our stockholders are believed to be foreign stockholders, we anticipate that we will qualify as a “domestically-controlled REIT.” Accordingly, a foreign stockholder should not be subject to U.S. federal income tax from gains recognized upon disposition of its shares.

On July 30, 2010, the House of Representatives passed H.R. 5901, which would increase from 5 percent to 10 percent the amount of REIT stock that a foreign entity can hold without being subject to FIRPTA. However, comparable legislation has not yet been introduced in the Senate and it is unclear whether this change will be enacted into law.

#### **State, Local, and Foreign Tax Consequences**

State, local, and foreign income tax laws may differ substantially from the corresponding federal income tax laws, and this discussion does not purport to describe any aspect of the tax laws of any state, local or foreign jurisdiction. Consequently, we urge you to consult your tax advisor regarding the effect of state, local, and/or foreign tax laws with respect to our treatment as a REIT and an investment in Redwood.

#### **PLAN OF DISTRIBUTION**

We may sell the securities offered pursuant to any applicable prospectus supplement directly to one or more purchasers or through dealers, agents, or underwriters. We may sell the securities offered pursuant to any applicable prospectus supplement in at-the-market equity offerings or on a negotiated or competitive bid basis through underwriters or dealers or directly to other purchasers or through agents. We will name any underwriter, dealer, or agent involved in the offer and sale of the securities in the applicable prospectus supplement. We reserve the right to sell the securities directly to investors on our own behalf in those jurisdictions where and in such manner as we are authorized to do so.

We may distribute the securities from time to time in one or more transactions:

- at a fixed price or prices, which may be changed;
- at market prices prevailing at the time of sale;
- at prices related to prevailing market prices; or
- at negotiated prices.

We may also, from time to time, authorize underwriters, dealers, or other persons, acting as our agents, to offer and sell the securities upon the terms and conditions as are set forth in the applicable prospectus supplement. In connection with the sale of the securities, underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the securities for whom they may act as agent. Underwriters may sell the securities to or through dealers, and dealers may receive compensation in the form of discounts, concessions, or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent.

We will describe in the applicable prospectus supplement any underwriting compensation we pay to underwriters or agents in connection with the offering of the securities, and any discounts, concessions, or commissions allowed by underwriters to participating dealers. Dealers and agents participating in the distribution of the securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions. We may enter into agreements with any underwriters, dealers, and agents which may entitle them to indemnification against and contribution toward certain civil liabilities, including liabilities under the Securities Act of 1933, as amended, or the Securities Act, and to reimbursement for certain expenses. We will describe any indemnification agreements in the applicable prospectus supplement.

Unless we specify otherwise in the applicable prospectus supplement, any securities issued hereunder other than shares of our common stock will be a new issue with no established trading market. We may elect to list any of the securities issued hereunder on any exchange, but we are not obligated to do so. It is possible that one or more underwriters or agents may make a market in the securities issued hereunder, including our common stock, but will not be obligated to do so and may discontinue any market making at any time without notice. Therefore, we cannot assure you as to the liquidity of the trading market for the securities.

If indicated in the applicable prospectus supplement, we may authorize underwriters, dealers, or other persons acting as our agents to solicit offers by certain institutions or other suitable persons to purchase the securities from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on the date or dates stated in the prospectus supplement. We may make delayed delivery with various institutions, including commercial and savings banks, insurance companies, pension funds, investment companies, and educational and charitable institutions. Delayed delivery contracts will be subject to the condition that the purchase of the securities covered by the delayed delivery contracts will not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which the purchaser is subject. The underwriters and agents will not have any responsibility with respect to the validity or performance of these contracts.

To facilitate an offering of the securities, certain persons participating in the offering may engage in transactions that stabilize, maintain, or otherwise affect the price of the securities. This may include over-allotments or short sales of the securities, which involves the sale by persons participating in the offering of more securities than we sold to them. In these circumstances, these persons would cover the over-allotments or short positions by making purchases in the open market or by exercising their over-allotment option. In addition, these persons may stabilize or maintain the price of the securities by bidding for or purchasing securities in the open market or by imposing penalty bids, whereby selling concessions allowed to dealers participating in the offering may be reclaimed if securities sold by them are repurchased in connection with stabilization transactions. The effect of these transactions may be to stabilize or maintain the market price of the securities at a level above that which might otherwise prevail in the open market. These transactions may be discontinued at any time.

Certain of the underwriters, dealers, or agents and their respective associates may be customers of, and/or engage in transactions with, and perform services for us in the ordinary course of business.

#### **VALIDITY OF THE SECURITIES**

The validity of certain securities will be passed upon for us by Venable LLP, Baltimore, Maryland. The validity of the debt securities will be passed upon for us by Latham & Watkins LLP. Certain tax matters will be passed upon for us by Chapman and Cutler LLP, San Francisco, California. Certain matters relating to Delaware law regarding the validity of the trust preferred securities will be passed upon for us by Richards, Layton & Finger, P.A.

## EXPERTS

The consolidated financial statements as of and for the years ended December 31, 2009 and 2008 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2009 incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2009 (as amended by Amendment No. 1 on Form 10-K/A) have been so incorporated in reliance on the reports of Grant Thornton LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

### INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with them which means that we can disclose important information to you by referring you to those documents instead of having to repeat the information in this prospectus. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the following documents:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed with the SEC on February 25, 2010;
- Amendment No.1 on Form 10-K/A to Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed with the SEC on February 26, 2010;
- Quarterly Reports on Form 10-Q for the quarter ended March 31, 2010, which was filed with the SEC on May 5, 2010, and for the quarter ended June 30, 2010, which was filed with the SEC on August 4, 2010;
- Amendment No. 1 on Form 10-Q/A for the quarter ended June 30, 2010, which was filed with the SEC on August 6, 2010;
- Current Reports on Form 8-K, filed with the SEC on January 26, 2010, March 18, 2010, and May 19, 2010;
- Proxy Statement with respect to the 2010 Annual Meeting of Stockholders, which was filed with the SEC on April 2, 2010;
- The description of our common stock contained in our Registration Statement on Form 8-A, which was filed with the SEC on January 7, 1998; and
- All documents filed by Redwood Trust, Inc. with the SEC pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act, after the date of this prospectus and prior to the termination of the offering (but excluding any items, documents, or portions of items or documents which are deemed "furnished" and not filed with the SEC).

This prospectus is part of a registration statement on Form S-3 we have filed with the SEC under the Securities Act. This prospectus does not contain all of the information in the registration statement. We have omitted certain parts of the registration statement, as permitted by the rules and regulations of the SEC. You may inspect and copy the registration statement, including exhibits, at the SEC's Public Reference Room or on our website at <http://www.redwoodtrust.com>.

Information contained on our website is not and should not be deemed a part of this prospectus or any other report or filing filed with the SEC. Our statements in this prospectus about the contents of any contract or other document are not necessarily complete. You should refer to the copy of each contract or other document we have filed as an exhibit to the registration statement for complete information.

We will furnish without charge to you, upon written or oral request, a copy of any or all of the documents incorporated by reference, including exhibits to these documents. You should direct any requests for documents to:

Redwood Trust, Inc.  
Attn: Investor Relations  
One Belvedere Place, Suite 300  
Mill Valley, CA 94941  
(415) 389-7373

#### WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our filings with the SEC are also available to the public at the SEC's website at <http://www.sec.gov>. You may also obtain copies of the documents at prescribed rates by writing to the SEC's Public Reference Section at 100 F Street, N.E., Washington, D.C. 20549. Certain of our filings with the SEC are available on our website at <http://www.redwoodtrust.com>. Information contained on our website is not and should not be deemed a part of this prospectus or any other report or filing filed with the SEC.

**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 14. Other Expenses of Issuance and Distribution.**

The following table itemizes the expenses incurred by the Registrant in connection with the issuance and registration of the securities being registered hereunder. All amounts shown are estimates except the Securities and Exchange Commission registration fee.

SEC registration fee	\$	(1)
Printing and engraving expenses	\$	(2)
Legal fees and expenses	\$	(2)
Accounting fees and expenses	\$	(2)
Blue Sky fees and expenses	\$	(2)
Fees of rating agencies	\$	(2)
Trustee fees and expenses	\$	(2)
Miscellaneous fees and expenses	\$	(2)
Total	\$	(2)

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(1) Under SEC Rules 456(b) and 457(r), the SEC registration fee will be paid at the time of any particular offering of securities under the registration statement, and is therefore not currently determinable.

(2) These fees are calculated based on the securities offered and the number of issuances and accordingly cannot be estimated at this time.

**Item 15. Indemnification of Directors and Officers.**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property, or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. The charter of the registrant contains such a provision which eliminates such liability to the maximum extent permitted by Maryland law.

The charter and bylaws of the registrant require it, to the maximum extent permitted by Maryland law, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any present or former director or officer or (b) any individual who, while a director or officer of the registrant and at the request of the registrant, serves or has served as a director, officer, partner, or trustee of another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan, or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in any such capacity. The bylaws of the registrant establish certain procedures for indemnification and advance of expenses pursuant to applicable law and the registrant's charter. The charter and bylaws also permit the registrant to indemnify and advance expenses to any person who served a predecessor of the registrant in any of the capacities described above and to any employee or agent of the registrant or a predecessor of the registrant.

The MGCL requires a corporation (unless its charter provides otherwise, which the registrant's charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property, or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under the MGCL, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it shall ultimately be determined that the standard of conduct was not met.

**Item 16. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
1.1	Underwriting Agreement <sup>(1)</sup>
4.1	Articles of Amendment and Restatement of the Registrant, effective July 6, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1, filed on August 6, 2008)
4.1.1	Articles Supplementary of the Registrant, effective August 10, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.1, filed on August 6, 2008)
4.1.2	Articles Supplementary of the Registrant, effective August 11, 1995 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.2, filed on August 6, 2008)
4.1.3	Articles Supplementary of the Registrant, effective August 9, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.3, filed on August 6, 2008)
4.1.4	Certificate of Amendment of the Registrant, effective June 30, 1998 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.4, filed on August 6, 2008)
4.1.5	Articles Supplementary of the Registrant, effective April 7, 2003 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.5, filed on August 6, 2008)
4.1.6	Articles Supplementary of the Registrant, effective June 12, 2008 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.6, filed on August 6, 2008)
4.1.7	Articles of Amendment effective May 19, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2009)
4.2	Amended and Restated Bylaws, as adopted on March 5, 2008 (incorporated by reference to Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on March 11, 2008)
4.3	Form of Common Stock Certificate (incorporated by reference to the Registrant's Registration Statement on Form S-11 (No. 333-08363), Exhibit 4.3, filed on August 6, 1996)
4.4	Form of Preferred Stock Certificate <sup>(1)</sup>
4.5	Form of Debt Security <sup>(1)</sup>
4.6	Form of Indenture (incorporated by reference to the Registrant's Registration Statement on Form S-3 (No. 333-147604), Exhibit 4.6, filed on November 23, 2007)
4.7	Form of Warrant <sup>(1)</sup>
4.8	Form of Warrant Agreement <sup>(1)</sup>
4.9	Certificate of Trust of Redwood Capital Trust II
4.10	Trust Agreement of Redwood Capital Trust II by and between Redwood Trust, Inc., as sponsor, and Wells Fargo Delaware Trust Company, N.A., as Delaware trustee
4.11	Form of Amended and Restated Trust Agreement of Redwood Capital Trust II among Redwood Trust, Inc., as depositor, Wells Fargo Bank, N.A., as property trustee, Wells Fargo Delaware Trust Company, N.A., as Delaware trustee, and the Regular Trustees named therein, as regular trustees
4.12	Form of Trust Preferred Security of Redwood Capital Trust II (included in Exhibit 4.11)
4.13	Form of Guarantee Agreement for Redwood Capital Trust II by and between Redwood Trust, Inc., as guarantor, and Wells Fargo Bank, N.A., as trustee.
5.1	Opinion of Venable LLP
5.2	Opinion of Latham & Watkins LLP
5.3	Opinion of Richards, Layton & Finger, P.A.
8.1	Opinion of Chapman and Cutler LLP



12.1	Statement of Computation of Ratios
23.1	Consent of Grant Thornton LLP
23.2	Consent of Venable LLP (contained in Exhibit 5.1)
23.3	Consent of Latham & Watkins LLP (contained in Exhibit 5.2)
23.4	Consent of Richards, Layton & Finger, P.A. (contained in Exhibit 5.3)
23.5	Consent of Chapman and Cutler LLP (contained in Exhibit 8.1)
24.1	Power of Attorney (included on signature page to this Registration Statement)
25.1	Statement of Eligibility of Trustee on Form T-1 <sup>(1)</sup>

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(1) To be filed by amendment or incorporated by reference in connection with the offering of securities.

## Item 17. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

*Provided, however,* that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the registration statement is on Form S-3 or Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the SEC by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) The undersigned registrant hereby undertakes to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of section 310 of the Trust Indenture Act ("Act") in accordance with the rules and regulations prescribed by the Commission under section 305(b)(2) of the Act.

(d) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, Redwood Trust, Inc. certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Mill Valley, State of California, on this 6th day of August 2010.

REDWOOD TRUST, INC.

By: /s/ Martin S. Hughes

Name: Martin S. Hughes

Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, Redwood Capital Trust II certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Mill Valley, State of California, on this 6th day of August 2010.

REDWOOD CAPITAL TRUST II

By: Redwood Trust, Inc.,  
as Sponsor

By: /s/ Martin S. Hughes

Name: Martin S. Hughes

Title: President and Chief Executive Officer

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Martin S. Hughes, Brett D. Nicholas, Harold F. Zagunis, and each or either of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) increasing the number of securities for which registration is sought) to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.



## EXHIBIT INDEX

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25.1	Statement of Eligibility of Trustee on Form T-1 <sup>(1)</sup>

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(1) To be filed by amendment or incorporated by reference in connection with the offering of securities.



Certificate of Trust  
of  
Redwood Capital Trust II

This Certificate of Trust of Redwood Capital Trust II (the “**Trust**”), is being duly executed and filed by the undersigned, as trustee, to form a statutory trust under the Delaware Statutory Trust Act (12 Del. Code, § 3801 *et seq.*) (the “**Act**”).

1. Name. The name of the statutory trust formed hereby is Redwood Capital Trust II.
2. Delaware Trustee. The name and business address of the trustee of the Trust having its principal place of business in the State of Delaware are Wells Fargo Delaware Trust Company, N.A., 919 North Market Street, Suite 1600, Wilmington, Delaware, 19801.
3. Effective Date. This Certificate of Trust shall be effective upon its filing with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Trust in accordance with Section 3811(a)(1) of the Act.

WELLS FARGO DELAWARE TRUST  
COMPANY, N.A., not in its individual  
capacity but solely as trustee

By: /s/ Tracy M. McLamb

Name: Tracy M. McLamb

Title: Vice President

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## TRUST AGREEMENT

This TRUST AGREEMENT, dated as of July 29, 2010, by and between Redwood Trust Inc., a Maryland corporation (the "Sponsor"), and Wells Fargo Delaware Trust Company, N.A., a national banking association, as Delaware trustee (the "Delaware Trustee").

The Sponsor and the Delaware Trustee hereby agree as follows:

1. The trust created hereby (the "Trust") shall be known as Redwood Capital Trust II, in which name the Sponsor or the Delaware Trustee, to the extent provided herein, may engage in the transactions contemplated hereby, make and execute contracts, and sue and be sued.

2. The Sponsor hereby assigns, transfers, conveys and sets over to the Delaware Trustee the sum of One Dollar (\$1.00). The Delaware Trustee hereby acknowledges receipt of such amount in trust from the Sponsor, which amount shall constitute the initial trust estate. The Delaware Trustee hereby declares that they will hold the trust estate in trust for the Sponsor. It is the intention of the parties hereto that the Trust created hereby constitutes a statutory trust under Chapter 38 of Title 12 of the Delaware Code, 12 Del. C. § 3801, et seq. (the "Statutory Trust Act"), and that this document constitutes the governing instrument of the Trust. The Delaware Trustee is hereby authorized and directed to execute and file a certificate of trust with the Delaware Secretary of State in accordance with the provisions of the Statutory Trust Act.

3. The Sponsor and the Delaware Trustee will enter into an Amended and Restated Trust Agreement (herein the "Amended and Restated Trust Agreement"), satisfactory to each such party, to provide for the contemplated operation of the Trust created hereby and the issuance of capital securities of the Trust (the "Capital Securities") and common securities of the Trust (the "Common Securities"). Prior to the execution and delivery of such Amended and Restated Trust Agreement, the Delaware Trustee shall not have any duty or obligation hereunder or with respect to the trust estate, except as otherwise required by this Trust Agreement, applicable law or as the Sponsor directs in order to obtain, prior to such execution and delivery, any licenses, consents or approvals required by applicable law or otherwise including, but not limited to, the filing of the certificate of trust in accordance with Section 2 hereof. Notwithstanding the foregoing, the Delaware Trustee may take all actions deemed proper and necessary to effect the transactions contemplated herein.

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4. The Sponsor is hereby authorized (i) to file with the Securities and Exchange Commission (the "Commission") and execute, in each case on behalf of the Trust, (a) the Registration Statement on Form S-3 (the "1933 Act Registration Statement") (including any post-effective amendments to the 1933 Act Registration Statement) relating to the registration under the Securities Act of 1933, as amended (the "1933 Act"), of the Capital Securities of the Trust and certain other securities of the Sponsor; (b) any preliminary prospectus or prospectus or supplement thereto relating to the Capital Securities required to be filed pursuant to Rule 424 under the 1933 Act; and (c) to the extent deemed advisable by the Sponsor, a Registration Statement on Form 8-A (the "1934 Act Registration Statement") (including all pre-effective and post-effective amendments thereto) relating to the registration of the Capital Securities of the Trust under the Exchange Act of 1934, as amended; (ii) to the extent deemed advisable by the Sponsor, to file with one or more national securities exchanges (each, an "Exchange") or the Financial Industry Regulatory Authority ("FINRA") and execute on behalf of the Trust a listing application or applications and all other applications, statements, certificates, agreements and other instruments as shall be necessary or desirable to cause the Capital Securities to be listed on any such Exchange or the Nasdaq National Market ("NASDAQ"); (iii) to file and execute on behalf of the Trust such applications, reports, surety bonds, irrevocable consents, appointments of attorney for service of process and other papers and documents as shall be necessary or desirable to register the Capital Securities under the securities or blue sky laws of such jurisdictions as the Sponsor, on behalf of the Trust, may deem necessary or desirable; and (iv) to execute on behalf of the Trust any agreements relating to the issuance of the Capital Securities. In the event that any filing referred to in clauses (i), (ii) and (iii) above is required by the rules and regulations of the Commission, any Exchange, FINRA or state securities or blue sky laws to be executed on behalf of the Trust by one or more trustees, the Sponsor shall appoint an administrative trustee (the "Administrative Trustee"), and in its or his capacity as a trustee of the Trust, any such Administrative Trustee is hereby authorized and, to the extent so required, directed to join in any such filing and to execute on behalf of the Trust any and all of the foregoing, it being understood that the Delaware Trustee, in its capacity as a trustee of the Trust, shall not be required to join in any such filing or execute on behalf of the Trust any such document. In connection with the filings referred to above, the Sponsor and the Trust hereby constitute and appoint any such Administrative Trustee as its and their true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for the Sponsor or Trust or in the Sponsor's or the Trust's name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to the 1933 Act Registration Statement and the 1934 Act Registration Statement and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Commission, any Exchange, FINRA and administrators of the State securities or blue sky laws, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as the Sponsor or the Trust might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their respective substitute or substitutes, shall do or cause to be done by virtue hereof.

5. The number of trustees initially shall be one (1) and thereafter the number of trustees shall be such number as shall be fixed from time to time by a written instrument signed by the Sponsor, which may increase or decrease the number of trustees; provided, however, that to the extent required by the Statutory Trust Act, one of the trustees of the Trust shall either be a natural person who is a resident of the State of Delaware or, if not a natural person, an entity which has its principal place of business in the State of Delaware and otherwise meets the requirements of applicable Delaware law. Subject to the foregoing, the Sponsor is entitled to appoint or remove without cause any trustee at any time. The Delaware Trustee may resign upon thirty (30) days' prior notice to the Sponsor.

6. (a) The Delaware Trustee and its officers, directors, agents and servants (collectively, the "Fiduciary Indemnified Persons") shall not be liable, responsible or accountable in damages or otherwise to the Trust, the Sponsor or any holder of the Capital Securities (the Trust, the Sponsor and any holder of the Capital Securities being a "Covered Person") for any loss, damage or claim incurred by reason of any act or omission performed or omitted by the Fiduciary Indemnified Persons in good faith on behalf of the Trust and in a manner the Fiduciary Indemnified Persons reasonably believed to be within the scope of authority conferred on the Fiduciary Indemnified Persons by this Trust Agreement or by law, except that the Fiduciary Indemnified Persons shall be liable for any such loss, damage or claim incurred by reason of the Fiduciary Indemnified Person's gross negligence or willful misconduct with respect to such acts or omissions.

(b) The Fiduciary Indemnified Persons shall be fully protected in relying in good faith upon the records of the Trust and upon such information, opinions, reports or statements presented to the Trust by any person as to matters the Fiduciary Indemnified Persons reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Trust, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses, or any other facts pertinent to the existence and amount of assets from which distributions to holders of Capital Securities might properly be paid.

(c) The Sponsor agrees, to the fullest extent permitted by applicable law, (i) to indemnify and hold harmless each Fiduciary Indemnified Person from and against any loss, damage, liability, tax, penalty, expense or claim of any kind or nature whatsoever incurred by or asserted against the Fiduciary Indemnified Persons by reason of the creation, operation or termination of the Trust or the transactions contemplated by this Trust Agreement in a manner the Fiduciary Indemnified Persons reasonably believe to be within the authority conferred on the Fiduciary Indemnified Persons by this Trust Agreement or by law, except that no Fiduciary Indemnified Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by the Fiduciary Indemnified Persons by reason of gross negligence or willful misconduct with respect to such acts or omissions, (ii) to advance expenses (including legal fees) incurred by a Fiduciary Indemnified Person in defending any claim, demand, action, suit or proceeding, from time to time, prior to the final disposition of such claim, demand, action, suit or proceeding, upon receipt by the Trust of an undertaking by or on behalf of such Fiduciary Indemnified Persons to repay such amount if it shall be determined that such Fiduciary Indemnified Person is not entitled to be indemnified as authorized in the preceding subsection, and (iii) to reimburse the Delaware Trustee for all other reasonable expenses (including reasonable fees and expenses of counsel and other experts) incurred in connection with this Trust Agreement and the Trust.

(d) The provisions of this Section 6 shall survive the termination of this Trust Agreement or the earlier resignation or removal of the Fiduciary Indemnified Persons.

7. This Trust Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware (without regard to conflict of laws principles).

8. This Trust Agreement may be executed in one or more counterparts.

9. The Trust may dissolve, wind-up and terminate at the election of the Sponsor.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be duly executed as of the day and year first above written.

REDWOOD TRUST INC., as Sponsor

By: /s/ Andrew P. Stone  
Name: Andrew P. Stone  
Title: General Counsel & Secretary

WELLS FARGO DELAWARE TRUST  
COMPANY, N.A., as Delaware Trustee

By: /s/ Tracy M. McLamb  
Name: Tracy M. McLamb  
Title: Vice President

Amended and Restated  
Trust Agreement for Redwood Capital Trust II

among

Redwood Trust, Inc.  
(as Sponsor)

[REDACTED]  
(as Property Trustee)

[REDACTED]  
(as Delaware Trustee)

and

THE REGULAR TRUSTEES NAMED HEREIN

and

THE SEVERAL HOLDERS AS DEFINED HEREIN

Dated as of

\_\_\_\_\_, \_\_\_\_

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Redwood Capital Trust II

Certain Sections of this Trust Agreement relating to Sections 310 through 318  
of the Trust Indenture Act of 1939

Trust Indenture Act Section	Trust Agreement Section
Section 310(a)(1)	7.07
(a)(2)	7.07
(a)(3)	7.09
(a)(4)	2.07(a)(2)
(b)	7.08
Section 311 (a)	7.13
(b)	7.13
Section 312(a)	5.07
(b)	5.07
(c)	5.07
Section 313(a)	7.14
(b)	7.14
(c)	7.14
(d)	7.14
Section 314 (a)	7.15
(b)	Not Applicable
(c)(1)	7.16, 7.17
(c)(2)	7.16, 7.17
(c)(3)	Not Applicable
(d)	Not Applicable
(e)	7.17
Section 315(a)	7.01(a), 7.03(a)
(b)	7.02, 10.09
(c)	7.01(a)
(d)	7.01, 7.03
(e)	Not Applicable
Section 316(a)	Not Applicable
(a)(1)(A)	Not Applicable
(a)(1)(B)	Not Applicable
(a)(2)	Not Applicable
(b)	Not Applicable
(c)	Not Applicable
Section 317(a)(1)	Not Applicable
(a)(2)	Not Applicable
(b)	5.09
Section 318(a)	10.10

Note: This reconciliation and tie sheet shall not, for any purpose, be deemed to be a part of the Trust Agreement.

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AMENDED AND RESTATED TRUST AGREEMENT of Redwood Capital Trust II (the "Trust"), dated as of \_\_\_\_\_, \_\_\_\_\_, among (i) Redwood Trust, Inc., a Maryland corporation (the "Sponsor" or "Redwood"), (ii) [REDACTED], a national banking association, as trustee (the "Property Trustee"), (iii) [REDACTED], a national banking association, as Delaware trustee (the "Delaware Trustee"), (iv) \_\_\_\_\_, individuals whose address is c/o Redwood Trust, Inc., One Belvedere Place, Suite 300, Mill Valley, California, 94941 (the "Regular Trustees") (the Property Trustee, the Delaware Trustee and the Regular Trustees are referred to collectively as the "Trustees"), and (v) the several Holders (as defined herein).

**WITNESSETH:**

WHEREAS, the Sponsor has heretofore duly declared and established a statutory trust pursuant to the Delaware Statutory Trust Act by entering into a Trust Agreement, dated as of July 29, 2010 (the "Original Trust Agreement"), with the Delaware Trustee, and by executing and filing with the Secretary of State of the State of Delaware a Certificate of Trust on July 29, 2010, a copy of which is attached hereto as Exhibit A; and

WHEREAS, the Sponsor and the Trustees desire to amend and restate the Original Trust Agreement in its entirety as set forth herein to provide for, among other things, (i) the issuance and sale by the Trust of the Trust Common Securities (as defined herein) by the Trust to the Sponsor, (ii) the issuance and sale by the Trust of the Trust Preferred Securities (as defined herein) by the Trust pursuant to the Underwriting Agreement (as defined herein) and (iii) the acquisition by the Trust from the Sponsor of the Debentures (as defined herein).

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, each party, for the benefit of the other parties and for the benefit of the Securityholders (as defined herein) hereby amends and restates the Original Trust Agreement in its entirety and agrees as follows:

**ARTICLE 1  
DEFINED TERMS**

Section 1.01 Definitions.

- (a) For all purposes of this Trust Agreement, except as otherwise expressly provided or unless the context otherwise requires:
- (1) each capitalized term or phrase defined in this Article 1 has the meaning assigned to it in this Article 1 and includes the plural as well as the singular;
  - (2) each of the other terms used herein that is defined in the Trust Indenture Act, either directly or by reference therein, has the meaning assigned to it therein;
  - (3) unless the context otherwise requires, any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Trust Agreement; and
-

(4) the words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or other subdivision.

(b) As used herein:

“Act” has the meaning specified in Section 6.08.

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Bankruptcy Event” means, with respect to any Person, the occurrence any of the following events:

- (A) Such Person, pursuant to or within the meaning of any Bankruptcy Law:
  - (i) commences a voluntary case or proceeding;
  - (ii) consents to the entry of an order for relief against it in an involuntary case or proceeding;
  - (iii) consents to the appointment of a Custodian (as defined herein) of it or for all or substantially all of its property, and such Custodian is not discharged within 60 days;
  - (iv) makes a general assignment for the benefit of its creditors; or
  - (v) admits in writing its inability to pay its debts generally as they become due; or
- (B) A court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:
  - (i) is for relief against such Person in an involuntary case or proceeding;
  - (ii) appoints a Custodian of such Person for all or substantially all of its properties; or
  - (iii) orders the liquidation of such Person;

and in each case the order or decree remains unstayed and in effect for 60 days.

“Bankruptcy Laws” means Title 11 of the United States Code, or similar or state law for the relief of debtors.

“Board Resolution” means (i) a copy of a resolution certified by the Secretary or an Assistant Secretary of the Sponsor to have been duly adopted by the Sponsor’s Board of Directors or a committee duly established thereby and to be in full force and effect on the date of such certification or (ii) a certificate signed by the authorized officer or officers of the Sponsor to whom the Sponsor’s Board of Directors or a committee duly established thereby has delegated its authority, and in each case, delivered to the Trustees.

“Book-Entry Trust Preferred Securities Certificates” means certificates representing Trust Preferred Securities issued in global, fully registered form with a Depository as described in Section 5.11.

“Business Day” means a day other than (a) a Saturday or Sunday, (b) a day on which banking institutions in the City of New York are authorized or required by law or executive order to remain closed or (c) a day on which the principal corporate trust office of the Property Trustee or the Debenture Trustee is closed for business.

“Certificate Depository Agreement” means the agreement among the Trust, the Property Trustee and The Depository Trust Company, as the initial Depository, dated as of the Closing Date, relating to the Book-Entry Trust Preferred Securities Certificates, as the same may be amended and supplemented from time to time.

“Closing Date” means the time and date of delivery of Book-Entry Trust Preferred Securities Certificates and payment therefor pursuant to the Underwriting Agreement.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commission” means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the execution of this Trust Agreement such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

“Corporate Trust Office” means the principal corporate trust office of the Property Trustee located in the State of \_\_\_\_ which at the date hereof is \_\_\_\_\_.

“Creditor” has the meaning specified in Section 2.03.

“Custodian” means any receiver, trustee, assignee, liquidator, sequestrator, custodian or similar official under any Bankruptcy Law.

“Debenture Event of Default” means an “Event of Default” as defined in the Indenture.

“Debt Redemption Date” means “Redemption Date” as defined in the Indenture or the Debentures.

“Debt Trustee” means [REDACTED], a national banking association, in its capacity as trustee under the Indenture, or any successor thereto appointed in accordance with the terms and provisions of the Indenture.

“Debentures” means the [ ]% Junior Subordinated Debentures of the Sponsor issued pursuant to the Indenture.

“Definitive Trust Preferred Securities Certificates” means certificates representing Trust Preferred Securities issued in certificated, fully registered form as described in Section 5.12.

“Delaware Statutory Trust Act” means Chapter 38 of Title 12 of the Delaware Code, 12 Del. C. (S) 3801, et seq., as it may be amended from time to time.

“Delaware Trustee” means the entity identified as the “Delaware Trustee” in the preamble to this Trust Agreement solely in its capacity as Delaware Trustee of the Trust created and continued hereunder (and not in its individual capacity), or its successor in interest in such capacity, or any successor trustee appointed as herein provided.

“Depository” means an organization registered as a “clearing agency” pursuant to Section 17A of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. The Depository Trust Company, New York, New York, will be the initial Depository.

“Depository Participant” means a broker, lender, bank or other financial institution or other Person for whom from time to time the Depository effects book-entry transfers and pledges of interests in securities deposited with the Depository.

“Distributable Debentures” means the Debentures to be distributed to Holders of the Trust Securities pursuant to Section 8.04(a).

“Distribution Date” has the meaning specified in Section 4.01(a).

“Distributions” means amounts payable in respect of the Trust Securities as provided in Section 4.01.

“Event of Default” means with respect to the Trust Preferred Securities (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), (i) the occurrence of a Debt Event of Default, (ii) default by the Property Trustee in the payment of any Distribution when it becomes due and payable, and continuation of such default for a period of 30 days, (iii) default by the Property Trustee in the payment of any Redemption Price of any Trust Preferred Security or Trust Common Security when it becomes due and payable, (iv) default in the performance, or breach, in any material respect, of any covenant or warranty of the Trustees herein (other than a covenant or warranty a default in the performance of which or the breach of which is covered by clause (ii) or (iii) above), and continuation of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the defaulting Trustee or Trustees by the Holders of at least [REDACTED]% in Liquidation Preference of the Outstanding Trust Preferred Securities, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” under this Trust Agreement, or (v) the occurrence of a Bankruptcy Event with respect to the Property Trustee and the failure by Redwood to appoint a successor Property Trustee within 60 days thereof.

“Expiration Date” has the meaning specified in Section 8.01.

“Extension Period” means the period or periods in which pursuant to the Indenture payments of interest on the Debentures are deferred by the Sponsor electing to extend the interest payment periods thereof for a period (including any extensions thereof) not exceeding 20 consecutive quarters with respect to each such deferral period.

“Holder” or “Securityholder” means a Person in whose name a Trust Security or Securities is registered in the Securities Register; any such Person is a beneficial owner within the meaning of the Delaware Statutory Trust Act.

“Indemnified Person” means any of the Trustees, Affiliates of any Trustee, or any officers, directors, shareholders, members, partners, employees, representatives or agents of any Trustee, or any employee or agent of the Trust or its Affiliates.

“Indenture” means the Junior Indenture, dated as of \_\_\_\_\_, \_\_\_\_, between the Sponsor and the Debenture Trustee, as trustee thereunder, as amended or supplemented from time to time.

“Investment Company Event” means the receipt by the Trust or Redwood of an opinion of counsel, rendered by a law firm having a recognized federal securities practice, to the effect that, as a result of the occurrence of a change in law or regulation or a change (including a prospective change) in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority (a “Change in 1940 Act Law”), there is more than an insubstantial risk that the Trust is or will be considered an “investment company” that is required to be registered under the 1940 Act, which Change in 1940 Act Law becomes effective on or after the date of original issuance of the Trust Preferred Securities.

“Lien” means any lien, pledge, charge, encumbrance, mortgage, deed of trust, adverse ownership interest, hypothecation, assignment, security interest or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever.

“Like Amount” means (i) with respect to a redemption of Trust Securities, Trust Securities having an aggregate Liquidation Preference equal to the aggregate principal amount of Debentures to be contemporaneously redeemed or repaid in accordance with the Indenture and the proceeds of which will be used to pay the Redemption Price of such Trust Securities and (ii) with respect to a distribution of Distributable Debentures to Holders of Trust Securities in connection with the dissolution and liquidation of the Trust, Distributable Debentures having an aggregate principal amount equal to the aggregate Liquidation Preference of the Trust Securities of the Holders to whom such Distributable Debentures are distributed.



“Liquidation Date” means the date on which Distributable Debentures are to be distributed to Holders of Trust Securities in connection with a dissolution and liquidation of the Trust pursuant to Section 8.04(a).

“Liquidation Distribution” has the meaning specified in Section 8.04(d).

“Liquidation Preference” means the stated liquidation preference of \$ [ ] per Trust Security.

“Majority in Liquidation Preference” means, with respect to the Trust Securities, or either class thereof, as the context may require, except as provided in the terms of the Trust Preferred Securities or by the Trust Indenture Act, Holders of Outstanding Trust Securities voting together as a single class or Holders of Outstanding Trust Preferred Securities voting separately as a class, who are the record owners of more than 50% of the aggregate Liquidation Preference (including the stated amount that would be paid on redemption, liquidation or otherwise, plus accumulated and unpaid Distributions to the date upon which the voting percentages are determined) of all Outstanding Trust Securities or all Outstanding Trust Preferred Securities, as the case may be.

“Maturity Date of the Debentures” means \_\_\_\_\_, \_\_\_\_\_, as such date may be shortened or extended in accordance with the provisions of the Indenture.

“1940 Act” means the Investment Company Act of 1940, as amended.

“Officer’s Certificate” means a certificate signed by any one of the Chairman, the President, any Vice President, the Treasurer, any Assistant Treasurer or the Secretary of the Sponsor.

“Opinion of Counsel” means a written opinion of counsel, who may be counsel for the Trust, the Property Trustee or the Sponsor or an Affiliate of the Sponsor, but not an employee of any thereof, and who shall be acceptable to the Property Trustee.

“Original Trust Agreement” has the meaning specified in the recitals to this Trust Agreement.

“Outstanding”, when used with respect to Trust Securities, means, as of the date of determination, all Trust Securities theretofore issued under this Trust Agreement, except:

(A) Trust Securities theretofore cancelled by the Regular Trustees or delivered to the Regular Trustees for cancellation;

(B) Trust Securities for whose redemption money in the necessary amount has been theretofore deposited with the Property Trustee or any Paying Agent for the Holders of such Trust Securities; provided that, if such Trust Securities are to be redeemed, either irrevocable notice of such redemption has been duly given pursuant to this Trust Agreement or, if notice conditioned on the deposit of the Redemption Price shall have been given, such condition shall have been satisfied;

(C) Trust Securities which have been paid or in exchange for or in lieu of which other Trust Securities have been executed and delivered pursuant to Section 5.05, other than any such Trust Securities in respect of which there shall have been presented to the Property Trustee proof satisfactory to it that such Trust Securities are held by a bona fide purchaser; and

(D) as provided in Section 8.04(c);

provided, however, that in determining whether the Holders of the requisite Liquidation Preference of the Outstanding Trust Preferred Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Trust Preferred Securities owned by the Sponsor, any Trustee or any Affiliate of the Sponsor or any Trustee shall be disregarded and deemed not to be Outstanding, except that (a) in determining whether any Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Trust Preferred Securities that such Trustee actually knows to be so owned shall be so disregarded and (b) the foregoing shall not apply at any time when all of the Outstanding Trust Preferred Securities are owned by the Sponsor, one or more of the Trustees and/or any such Affiliate. Trust Preferred Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Property Trustee and the Regular Trustees the pledgee's right so to act with respect to such Trust Preferred Securities and that the pledgee is not the Sponsor or any Affiliate of the Sponsor.

"Paying Agent" means initially the Property Trustee and any co-paying agent appointed pursuant to Section 5.09.

"Payment Account" means a segregated non-interest-bearing corporate trust account maintained by the Property Trustee in its trust department for the benefit of the Securityholders in which all amounts paid to the Property Trustee in respect of the Debentures or the Trust Guarantee will be held and from which the Property Trustee or such other Paying Agent shall make payments to the Securityholders in accordance with Article 4.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Property Trustee" means the commercial bank or trust company identified as the "Property Trustee" in the preamble to this Trust Agreement solely in its capacity as Property Trustee of the Trust heretofore created and continued hereunder (and not in its individual capacity), or its successor in interest in such capacity, or any successor property trustee appointed as herein provided.

"Redemption Date" means, with respect to any Trust Security to be redeemed, the date fixed for such redemption by or pursuant to this Trust Agreement; provided that each Debenture Redemption Date and the Maturity Date of the Debentures shall be a Redemption Date for a Like Amount of Trust Securities.

“Redemption Price” means, with respect to any Trust Security, the Liquidation Preference of such Trust Security, plus accumulated and unpaid Distributions thereon to the Redemption Date.

“Regular Trustees” means the individuals identified as the “Regular Trustees” in the preamble to this Trust Agreement, solely in their respective capacities as Regular Trustees of the Trust created and continued hereunder and not their individual capacities, or such Regular Trustees’ successors in interest in such capacity, or any successor regular trustee appointed as herein provided.

“Representatives” means \_\_\_\_\_, as representatives of the several underwriters named in Schedule I to the Underwriting Agreement (the “Underwriters”).

“Securities Register” and “Securities Registrar” have the respective meanings specified in Section 5.04.

“Securityholder” or “Holder” means a Person in whose name a Trust Security or Securities is registered in the Securities Register; any such Person is a beneficial owner within the meaning of the Delaware Statutory Trust Act.

“Special Event” means a Tax Event or an Investment Company Event.

“Sponsor” has the meaning specified in the preamble to this Trust Agreement.

“Successor Securities” has the meaning specified in Section 9.01.

“Tax Action” means (a) any amendment to or change (including any announced prospective change) in the laws (or any regulations thereunder) of the United States, or of any State or the District of Columbia, or of any political subdivision or taxing authority thereof or therein, (b) any judicial decision interpreting, applying or clarifying such laws or regulations or (c) any administrative pronouncement or action that represents an official position (including a clarification of an official position) of the governmental authority or regulatory body making such administrative pronouncement or taking such action, in each such case that occurs on or after the date of original issuance of the Trust Preferred Securities.

“Tax Event” means the receipt by Redwood or the Trust of an opinion of counsel (which may be regular counsel to Redwood or an Affiliate, but not an employee thereof and which must be acceptable to the Property Trustee), rendered by a law firm having a recognized federal and state tax and securities practice, to the effect that, as a result of a Tax Action, there is more than an insubstantial risk that (i) the Trust is, or will be within 90 days of the date thereof, subject to United States federal income tax with respect to income received or accrued on the Debentures, (ii) interest payable by on the Debentures is not, or within 90 days of the date thereof will not be, deductible by the Sponsor, in whole or in part, for United States federal income tax purposes, or (iii) the Trust is, or will be within 90 days of the date thereof, subject to more than a de minimis amount of other taxes, duties or other governmental charges.

“Trust” means the Delaware statutory trust created and continued hereby and identified in the preamble to this Trust Agreement.

“Trust Agreement” means this Amended and Restated Trust Agreement, as the same may be modified, amended or supplemented in accordance with the applicable provisions hereof, including all exhibits hereto, including, for all purposes of this Trust Agreement and any such modification, amendment or supplement, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this Trust Agreement and any such modification, amendment or supplement, respectively.

“Trust Common Security” means a [ ]% Trust Common Security (Liquidation Preference \$[ ] per Trust Common Security) issued by the Trust representing an undivided beneficial interest in the assets of the Trust having a Liquidation Preference of \$[ ] and having the rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

“Trust Common Securities Certificate” means a certificate evidencing ownership of Trust Common Securities, substantially in the form attached hereto as Exhibit B.

“Trust Guarantee” means the Trust Guarantee Agreement executed and delivered by the Sponsor to [ ], a national banking association, as trustee thereunder, contemporaneously with the execution and delivery of this Trust Agreement, for the benefit of the Holders of the Trust Preferred Securities, as amended from time to time.

“Trust Indenture Act” means the Trust Indenture Act of 1939 as in force at the date as of which this Trust Agreement was executed; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, “Trust Indenture Act” means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

“Trust Preferred Security” means a [ ]% Preferred Security (Liquidation Preference \$[ ] per Trust Preferred Security) issued by the Trust representing an undivided preferred beneficial interest in the assets of the Trust and having rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

“Trust Preferred Securities Beneficial Owner” means a Person who is the beneficial owner of a book-entry interest, as reflected in the books of the Depository or on the books of a Person maintaining an account with the Depository (directly as a Depository Participant or as an indirect participant or otherwise, in each case in accordance with the rules of the Depository).

“Trust Preferred Securities Certificate” means a certificate evidencing ownership of Trust Preferred Securities, substantially in the form attached hereto as Exhibit C.

“Trust Property” means (i) the Debentures, (ii) any cash on deposit in, or owing to, the Payment Account and (iii) all proceeds and rights in respect of the foregoing and any other property and assets for the time being held or deemed to be held by the Property Trustee pursuant to the terms of this Trust Agreement.

“Trust Security” means any one of the Trust Common Securities or the Trust Preferred Securities.

“Trust Securities Certificate” means any one of the Trust Common Securities Certificates or the Trust Preferred Securities Certificates.

“[ ]% in Liquidation Preference” means with respect to the Trust Securities, or either class thereof, as the context may require, except as provided in the terms of the Trust Preferred Securities or by the Trust Indenture Act, Holders of Outstanding Trust Securities voting together as a single class or Holders of Outstanding Trust Preferred Securities voting separately as a class, who are the record owners of [ ]% of the aggregate Liquidation Preference (including the stated amount that would be paid on redemption, liquidation or otherwise, plus accumulated and unpaid Distributions to the date upon which the voting percentages are determined) of all Outstanding Trust Securities or all Outstanding Trust Preferred Securities, as the case may be.

“Underwriting Agreement” means the Underwriting Agreement, dated \_\_\_\_\_, \_\_\_\_, among the Trust, the Sponsor and the Representatives.

ARTICLE 2  
CONTINUATION OF THE TRUST

Section 2.01 Name.

The Trust created and continued hereby shall be known as “Redwood Capital Trust II” as such name may be modified from time to time by the Regular Trustees following written notice to the Holders of Trust Securities and the other Trustees, in which name the Trustees may conduct the business of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued.

Section 2.02 Office of the Delaware Trustee; Principal Place of Business.

The address of the Delaware Trustee in the State of Delaware is [ ], or such other address in the State of Delaware as the Delaware Trustee may designate by written notice to the Property Trustee, Securityholders and the Sponsor. The principal place of business of the Trust is c/o Redwood Trust, Inc., One Belvedere Place, Suite 300, Mill Valley, California, 94941.

Section 2.03 Initial Contribution of Trust Property; Expenses of the Trust.

(a) The Property Trustee acknowledges receipt in trust from the Sponsor in connection with the Original Trust Agreement of the sum of \$ [ ], which constituted the initial Trust Property.

(b) The Sponsor shall be responsible for and shall pay for all obligations (other than with respect to the Trust Securities) and all costs and expenses of the Trust (including, but not limited to, costs and expenses relating to the organization of the Trust, the issuance and sale of the Trust Preferred Securities, the fees and expenses (including reasonable counsel fees and expenses) of the Trustees as provided in Section 7.06, the costs and expenses of accountants, attorneys, statistical or bookkeeping services, expenses for printing and engraving and computing or accounting equipment, Paying Agent(s), Securities Registrar, duplication, travel and telephone and other telecommunications expenses and costs and expenses incurred in connection with the disposition of Trust assets).

(c) The Sponsor will pay any and all taxes (other than United States withholding taxes attributable to the Trust or its assets) and all liabilities, costs and expenses with respect to such taxes of the Trust.

(d) The Sponsor's obligations under this Section 2.03 shall be for the benefit of, and shall be enforceable by, the Property Trustee and any Person to whom any such obligations, costs, expenses and taxes are owed (a "Creditor") whether or not such Creditor has received notice hereof. The Property Trustee and any such Creditor may enforce the Sponsor's obligations under this Section 2.03 directly against the Sponsor and the Sponsor irrevocably waives any right or remedy to require that the Property Trustee or any such Creditor take any action against the Trust or any other Person before proceeding against the Sponsor. The Sponsor agrees to execute such additional agreements as may be necessary or desirable in order to give full effect to the provisions of this Section 2.03.

(e) The Sponsor shall make no claim upon the Trust Property for the payment of such expenses.

Section 2.04 Issuance of the Trust Securities.

The Sponsor, on behalf of the Trust, executed and delivered the Underwriting Agreement. Contemporaneously with the execution and delivery of this Trust Agreement, not less than two Regular Trustees, on behalf of the Trust, shall execute in accordance with Section 5.02 and cause the Property Trustee to authenticate and deliver to the Representatives pursuant to Section [ ] of the Underwriting Agreement a Book-Entry Trust Preferred Securities Certificate or Certificates, registered in the name of the nominee of the Depository, representing \_\_\_\_\_ Trust Preferred Securities having an aggregate Liquidation Preference of \$\_\_\_\_\_, against payment by the Representatives, on behalf of the Underwriters, and receipt by the Property Trustee of the aggregate purchase price of such Trust Preferred Securities of \$\_\_\_\_\_. Contemporaneously therewith, not less than two Regular Trustees, on behalf of the Trust, shall execute in accordance with Section 5.02 and deliver to the Sponsor a Trust Common Securities Certificate, registered in the name of the Sponsor, representing \_\_\_\_\_ Trust Common Securities having an aggregate Liquidation Preference of \$\_\_\_\_\_, against payment by the Sponsor and receipt by the Property Trustee of the purchase price of such Trust Common Sponsor of \$\_\_\_\_\_.

Section 2.05 Purchase of Debentures.

Contemporaneously with the execution and delivery of this Trust Agreement, the Regular Trustees, on behalf of the Trust, shall purchase \$ \_\_\_\_\_ aggregate principal amount of Debentures from Redwood, \$ \_\_\_\_\_, which Debentures shall be registered in the name of the Property Trustee on behalf of the Trust, and in satisfaction of the purchase price for such Debentures, shall cause the Property Trustee, on behalf of the Trust, to deliver the sum of \$ \_\_\_\_\_ to the Sponsor, representing the proceeds of the Trust Securities.

Section 2.06 Trust Agreement.

The exclusive purposes and functions of the Trust are (i) to issue and sell Trust Securities and use the proceeds from such sale to acquire the Debentures, (ii) to make Distributions and other payments on the Trust Securities, (iii) to maintain the status of the Trust as a grantor trust for United States federal income tax purposes, and (iv) except as otherwise limited herein, to engage in only those other activities necessary, convenient or incidental thereto. The Sponsor hereby appoints the Trustees as trustees of the Trust, to have all the rights, powers and duties to the extent set forth herein, and the Trustees hereby accept such appointment. The Property Trustee hereby declares that it will hold the Trust Property in trust upon and subject to the conditions set forth herein for the benefit of the Securityholders. The Regular Trustees shall have all rights, powers and duties set forth herein. The Delaware Trustee shall not be entitled to exercise any powers, nor shall the Delaware Trustee have any of the duties and responsibilities of the Property Trustee or the Regular Trustees set forth herein. The Delaware Trustee shall be one of the Trustees of the Trust for the sole and limited purpose of fulfilling the requirements of Section 3807 of the Delaware Statutory Trust Act.

The powers and duties of the Delaware Trustee shall be limited to (i) accepting legal process served on the Trust in the State of Delaware and (ii) the execution of any certificates required to be filed with the Delaware Secretary of State which the Delaware Trustee is required to execute under Section 3811 of the Delaware Statutory Trust Act. To the extent that, at law or in equity, the Delaware Trustee has duties (including fiduciary duties) and liabilities relating thereto to the Trust or the Holders, it is hereby understood and agreed by the other parties hereto that such duties and liabilities are replaced by the duties and liabilities of the Delaware Trustee expressly set forth in this Agreement. The Delaware trustee shall have no liability for the acts or omissions of the other Trustees. The Delaware Trustee shall be entitled to all of the same benefits, protections, indemnities and immunities under this Agreement and with respect to the Trust as the other Trustees.

Section 2.07 Authorization to Enter into Certain Transactions.

(a) The Trustees shall conduct the affairs of the Trust in accordance with the terms of this Trust Agreement. Subject to the limitations set forth in paragraph (b) of this Section 2.07 and Article VII, and in accordance with the following provisions (1) and (2), the Trustees shall have the authority to enter into all transactions and agreements determined by the Trustees to be appropriate in exercising the authority, express or implied, otherwise granted to the Trustees under this Trust Agreement, and to perform all acts in furtherance thereof, including without limitation, the following:

- (1) As among the Trustees, the Regular Trustees shall have the power and authority to act on behalf of the Trust with respect to the following matters:
  - (A) issuing and selling the Trust Securities in accordance with this Trust Agreement, and executing and delivering (after countersignature of the Trust Preferred Securities by the Property Trustee) Trust Securities Certificates representing the Trust Securities; provided, however, that the Trust may issue no more than one series of Trust Preferred Securities and no more than one series of Trust Common Securities, and, provided further, that there shall be no interests in the Trust other than the Trust Securities, and the issuance of Trust Securities shall be limited to a one-time, simultaneous issuance of both Trust Preferred Securities and Trust Common Securities on the Closing Date;

- (B) causing the Trust to enter into, and executing, delivering and performing on behalf of the Trust, the Expense Agreement, the Certificate Depository Agreement and such other agreements as may be necessary or desirable in connection with the purposes and function of the Trust, including the appointment of a successor Depository;
- (C) assisting in registering the Trust Preferred Securities under the Securities Act of 1933, as amended, and under state securities or blue sky laws, and qualifying this Trust Agreement as a trust indenture under the Trust Indenture Act;
- (D) assisting in the listing of the Trust Preferred Securities upon such securities exchange or exchanges as the Sponsor shall determine and the registration of the Trust Preferred Securities under the Securities Exchange Act of 1934, as amended, and the preparation and filing of all periodic and other reports and other documents pursuant to the foregoing;
- (E) acquiring the Debentures with the proceeds of the sale of the Trust Securities and causing the Property Trustee to deliver payment of the purchase price therefor; provided, however, that the Regular Trustees shall cause legal title to the Debentures to be held of record in the name of the Property Trustee for the benefit of the Holders of the Trust Securities;
- (F) bringing or defending, paying, collecting, compromising, arbitrating, resorting to legal action, or otherwise adjusting claims or demands of or against the Trust unless the Property Trustee has the exclusive power to so act;
- (G) employing or otherwise engaging employees and agents (who may be designated as officers with titles) and managers, contractors, advisors, and consultants and paying reasonable compensation for such services;
- (H) causing the Trust to comply with the Trust's obligations under the Trust Indenture Act;
- (I) giving the certificate required by Section 314(a)(4) of the Trust Indenture Act to the Property Trustee, which certificate may be executed by any Regular Trustee;
- (J) incurring expenses that are necessary or incidental to carry out any of the purposes of the Trust;
- (K) appointing a Person to act as Securities Registrar in accordance with this Trust Agreement for the Trust Securities;



(L) taking all actions that may be necessary or appropriate for the preservation and the continuation of the Trust's valid existence, rights, franchises and privileges as a statutory trust under the laws of the State of Delaware and of each other jurisdiction in which such existence is necessary to protect the limited liability of the Holders of the Trust Preferred Securities or to enable the Trust to effect the purposes for which the Trust was created;

(M) to the extent provided in this Trust Agreement, winding up the affairs of the Trust and dissolving the Trust and preparing, executing and filing the certificate of cancellation with the Secretary of State of the State of Delaware (provided that 10 business days advance notice of the filing of any such certificate of cancellation shall be provided to the Property Trustee and the Delaware Trustee);

(N) establishing a record date with respect to all actions to be taken hereunder that require a record date be established, including and with respect to, for the purposes of Section 316(c) of the Trust Indenture Act, Distributions, voting rights, redemptions and exchanges;

(O) sending notices (other than notices of default) or assisting the Property Trustee in sending notices and other information regarding the Trust Securities and the Debentures to Securityholders in accordance with this Trust Agreement;

(P) qualifying the Trust to do business in any jurisdiction as may be necessary or desirable; provided, that no such qualification may be made in any jurisdiction if the effect of such qualification may be to diminish the limited liability of the Holders of Trust Preferred Securities as provided by this Trust Agreement and the Delaware Statutory Trust Act;

(Q) registering transfers of the Trust Securities in accordance with this Trust Agreement if the Property Trustee is not the Securities Registrar; and

(R) executing all documents or instruments, performing all duties and powers and taking any actions incidental to the foregoing as the Regular Trustees may from time to time determine are necessary or advisable pursuant to the terms of the Trust Securities or to give effect to the terms of this Trust Agreement for the benefit of the Securityholders (without consideration of the effect of any such action on any particular Securityholder).

(2) As among the Trustees, the Property Trustee shall have the power, duty and authority to act on behalf of the Trust with respect to the following matters:

(A) establishing and maintaining the Payment Account and appointing Paying Agents (subject to Section 5.09);

(B) receiving payment of the purchase price of the Trust Securities;

(C) delivering payment of the purchase price of the Debentures to Redwood, as applicable, and receiving and holding the Debentures in its name for the benefit of the Trust;

(D) collecting interest, principal and any other payments on the Debentures and depositing them in the Payment Account;

(E) making Distributions and other payments to the Securityholders in respect of the Trust Securities, so long as the Property Trustee is acting as Paying Agent, whether solely or with any co-paying agent;

(F) exercising all of the rights, powers and privileges of a holder under each Indenture and, if any Event of Default has occurred and is continuing, for the benefit of the Holders of the Trust Securities, in its discretion protecting and enforcing its rights as holder of the Debentures subject to the rights of the Holders pursuant to the terms of this Trust Agreement;

(G) sending notices of defaults, redemptions, Extension Periods, dissolutions, liquidations and other information regarding the Trust Securities and the Debentures to the Securityholders in accordance with this Trust Agreement;

(H) distributing the Trust Property in accordance with the terms of this Trust Agreement;

(I) taking any ministerial action incidental to the foregoing as the Property Trustee may from time to time determine is necessary or advisable to give effect to the terms of this Trust Agreement and protect and conserve the Trust Property for the benefit of the Securityholders (without consideration of the effect of any such action on any particular Securityholder); and

(J) registering transfers and exchanges of the Trust Preferred Securities in accordance with this Trust Agreement (but only if at such time the Property Trustee shall be the Securities Registrar).

(b) So long as this Trust Agreement remains in effect, the Trust (or the Trustees acting on behalf of the Trust) shall not undertake any business, activities or transaction except as expressly provided herein or contemplated hereby. In particular, the Trustees acting on behalf of the Trust shall not (i) acquire any assets or investments (other than the Debentures), reinvest the proceeds derived from investments, possess any power or otherwise act in such a way as to vary the Trust Property or engage in any activities not authorized by this Trust Agreement, (ii) sell, assign, transfer, exchange, mortgage, pledge, set-off or otherwise dispose of any of the Trust Property or interests therein, including to Securityholders, except as expressly provided herein, (iii) take any action that would cause the Trust to fail or cease to qualify as a grantor trust for United States federal income tax purposes, (iv) incur any indebtedness for borrowed money or issue any other debt, (v) issue any securities or other evidences of beneficial ownership of, or beneficial interests in, the Trust other than the Trust Securities, or (vi) take or consent to any action that would result in the placement of a Lien on any of the Trust Property. The Regular Trustees shall defend all claims and demands of all Persons at any time claiming any Lien on any of the Trust Property adverse to the interest of the Trust or the Securityholders in their capacity as Securityholders.

(c) In connection with the issue and sale of the Trust Preferred Securities, the Sponsor shall have the right and responsibility to assist the Trust with respect to, or effect on behalf of the Trust, the following (and any actions taken by the Sponsor in furtherance of the following prior to the date of this Trust Agreement are hereby ratified and confirmed in all respects):

(1) preparing for filing with the Commission and executing on behalf of the Trust a registration statement on Form S-3 in relation to the Trust Preferred Securities, the Trust Guarantee and certain related obligations, including any amendments thereto;

(2) determining the States in which to take appropriate action to qualify or register for sale all or part of the Trust Preferred Securities and doing any and all such acts, other than actions which must be taken by or on behalf of the Trust, and advising the Trustees of actions they must take on behalf of the Trust, and preparing for execution and filing any documents to be executed and filed by the Trust or on behalf of the Trust, as the Sponsor deems necessary or advisable in order to comply with the applicable laws of any such States;

(3) preparing for filing and executing on behalf of the Trust an application to the New York Stock Exchange or any other national stock exchange or The Nasdaq National Market for listing upon notice of issuance of any Trust Preferred Securities;

(4) preparing for filing with the Commission and executing on behalf of the Trust a registration statement on Form 8-A relating to the registration of the Trust Preferred Securities and the Trust Guarantee under Section 12(b) of the Securities Exchange Act of 1934, as amended, including any amendments thereto;

(5) negotiating the terms of, and executing and delivering on behalf of the Trust, the Underwriting Agreement providing for the sale of the Trust Preferred Securities and such other agreements as may be necessary or desirable in connection with the consummation thereof;

(6) using reasonable efforts to obtain any necessary federal or state authorizations or approvals; and

(7) executing all documents or instruments, or performing all duties and powers, and doing all things for or on behalf of the Trust in all matters necessary or incidental to the foregoing.

(d) Notwithstanding anything herein to the contrary, the Regular Trustees and the Sponsor are authorized and directed to conduct the affairs of the Trust and to operate the Trust so that (1) the Trust will not be deemed to be an "investment company" required to be registered under the 1940 Act, or classified as an association taxable as a corporation, a partnership or other than as a grantor trust for United States federal income tax purposes and (ii) the Debentures will be treated as indebtedness of the Sponsor for United States federal income tax purposes. In this connection, the Regular Trustees and the Sponsor are authorized to take any action, not inconsistent with applicable law, the certificate of trust filed with the Secretary of State of the State of Delaware with respect to the Trust (as amended or restated from time to time, the "Certificate of Trust"), or this Trust Agreement, that the Regular Trustees and the Sponsor determine in their discretion to be necessary or desirable for such purposes.

Section 2.08 Assets of Trust.

The assets of the Trust shall consist of the Trust Property.

Section 2.09 Title to Trust Property.

Legal title to all Trust Property shall be vested at all times in the Property Trustee (in its capacity as such) and shall be held and administered by the Property Trustee for the benefit of the Securityholders in accordance with this Trust Agreement.

ARTICLE 3  
PAYMENT ACCOUNT

Section 3.01 Payment Account.

(a) On or prior to the Closing Date, the Property Trustee shall establish the Payment Account. All monies and other property deposited or held from time to time in the Payment Account shall be held by the Property Trustee for the exclusive benefit of the Securityholders and for distributions as provided herein, including (and subject to) any priority of payments provided for herein. The Property Trustee shall have exclusive control of the Payment Account for the purpose of making deposits in and withdrawals from the Payment Account in accordance with this Trust Agreement; provided that any Paying Agent shall have the right of withdrawal with respect to the Payment Account solely for the purpose of making the payments contemplated under Article 4.

(b) The Property Trustee shall deposit in the Payment Account, promptly upon receipt, all payments of principal of or interest on, and any other payments or proceeds with respect to, the Debentures and any amounts paid to the Property Trustee pursuant to the Trust Guarantee. Amounts held in the Payment Account shall not be invested by the Property Trustee pending distribution thereof.

ARTICLE 4  
DISTRIBUTIONS; REDEMPTION

Section 4.01 Distributions.

(a) Distributions on the Trust Securities shall be cumulative, and will accumulate whether or not there are funds of the Trust available for the payment of Distributions. Distributions shall accumulate from \_\_\_\_\_, \_\_\_\_ and, except during an Extension Period for the Debentures pursuant to the applicable Indenture, shall be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on \_\_\_\_\_, \_\_\_\_\_. In the event that any date on which Distributions are otherwise payable on the Trust Securities is not a Business Day, then payment of such Distributions shall be made on the next succeeding day that is a Business Day (and without any additional Distributions or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, payment of such Distributions shall be made on the immediately preceding Business Day (without any reduction in Distributions in respect of such early payment), in each case with the same force and effect as if made on the date such payment was originally payable (each date on which Distributions are payable in accordance with this Section 4.01 (a) is referred to as a "Distribution Date").

(b) Within two Business Days after receipt by the Property Trustee of notice of an Extension Period pursuant to Section \_\_\_ of any Indenture, the Property Trustee shall give notice thereof to the Securityholders in the manner and to the extent provided in Section 10.07.

(c) The Trust Securities represent undivided beneficial interests in the Trust Property, and, subject to Sections 4.03 and 4.06 hereof, all Distributions will be made pro rata on each of the Trust Securities. Distributions on the Trust Securities shall be payable at a rate of [ ]% per annum of the Liquidation Preference of the Trust Securities. The amount of Distributions payable for any full quarterly period shall be computed on the basis of a 360-day year of twelve 30-day months, except for any period shorter than a full calendar month, in which case the amount shall be computed on the basis of the actual number of days elapsed in such period. During an Extension Period for the Debentures, the rate per annum at which Distributions on the Trust Securities accumulate shall be increased by an amount such that the aggregate amount of Distributions that accumulate on all Trust Securities during any such Extension Period is equal to the aggregate amount of interest (including interest payable on unpaid interest at the rate per annum set forth above, compounded quarterly) that accrues during any such Extension Period on the Debentures.

(d) Distributions on the Trust Securities shall be made from the Payment Account by the Property Trustee or any Paying Agent and shall be payable on each Distribution Date only to the extent that the Trust has funds then available in the Payment Account for the payment of such Distributions.

(e) Distributions on the Trust Securities on each Distribution Date shall be payable to the Holders thereof as they appear on the Securities Register for the Trust Securities on the relevant record date, which, as long as the Trust Preferred Securities are in book-entry-only form, shall be one Business Day prior to such Distribution Date; provided, however, that in the event that the Trust Preferred Securities are not in book-entry-only form, the relevant record date shall be the day that is 15 days prior to the relevant Distribution Date, whether or not a Business Day.

(f) If Distributions are not paid when scheduled, such accumulated Distributions shall be paid to the Holders of record of Trust Securities as they appear on the books and records of the Trust on the record date as determined under Section 4.01(e) above with respect to the actual payment date for such accumulated Distributions.

#### Section 4.02 Redemption.

(a) On each Debenture Redemption Date and the Maturity Date of the Debentures, the Property Trustee will be required to redeem a Like Amount of Trust Securities at the Redemption Price.

(b) Notice of redemption shall be given by the Property Trustee by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date to each Holder of Trust Securities to be redeemed, at such Holder's address appearing in the Securities Register. All notices of redemption shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) the CUSIP number;

(4) the place or places where Trust Securities Certificates are to be surrendered for payment of the Redemption Price;

(5) that on the Redemption Date the Redemption Price will become payable upon each such Trust Security to be redeemed and that Distributions thereon will cease to accumulate on and after such date; and

(6) if less than all of the Outstanding Trust Securities are to be redeemed, the identification and total Liquidation Preference of the particular Trust Securities to be redeemed.

(c) Any notice of redemption may state that such redemption shall be conditional upon the receipt by the Property Trustee not later than the close of business on the Business Day next preceding the Redemption Date of moneys sufficient to pay in full the Redemption Price. If the redemption notice states that it is conditional and such moneys shall not be so received by the close of business on the Business Day next preceding the Redemption Date (i) such notice of redemption shall be of no force and effect, (ii) the Property Trustee shall not redeem such Trust Securities, and (iii) the Property Trustee shall give notice, in the manner in which the notice of redemption was given, that such moneys were not so received and that such redemption did not occur. In such event, the Property Trustee shall promptly return Trust Securities which it has received to the registered owners thereof.

(d) The Trust Securities redeemed on each Redemption Date shall be redeemed at the Redemption Price with the proceeds from the contemporaneous redemption or repayment on the Debenture Redemption Date or the Maturity Date of the Debentures, as the case may be. Redemptions of the Trust Securities shall be made and the Redemption Price shall be payable on each Redemption Date only to the extent that the Trust has funds then available in the Payment Account for the payment of such Redemption Price.

(e) If the Trust, by action of the Property Trustee, gives a notice of redemption in respect of any Trust Preferred Securities, then, by 12:00 noon, New York time, on the Redemption Date, subject to Section 4.02(c), the Property Trustee will, to the extent funds are available therefor, (1) so long as the Trust Preferred Securities are in book-entry-only form, deposit irrevocably with the Depository funds sufficient to pay the applicable Redemption Price and will give the Depository irrevocable instructions and authority to pay the applicable Redemption Price to the Holders thereof or (2) if the Trust Preferred Securities are not in book-entry-only form, deposit irrevocably with the Paying Agent funds sufficient to pay the applicable Redemption Price and will give the Paying Agent irrevocable instructions and authority to pay the applicable Redemption Price to the Holders thereof upon surrender of their Trust Preferred Securities Certificates. Notwithstanding the foregoing, Distributions payable on or prior to the Redemption Date for any Trust Securities called for redemption shall be payable to the Holders of such Trust Securities as they appear on the Securities Register for the Trust Securities on the relevant record dates for the related Distribution Dates. If notice of redemption shall have been given and funds irrevocably deposited as required, then upon the date of such deposit, all rights of Securityholders holding Trust Securities so called for redemption will cease, except the right of such Securityholders to receive the Redemption Price, but without interest on such Redemption Price, and such Trust Securities will cease to be Outstanding. In the event that any Redemption Date is not a Business Day, then payment of the Redemption Price payable on such Redemption Date will be made on the next succeeding day which is a Business Day (and without any additional Distributions or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, such payment will be made on the immediately preceding Business Day (without any reduction in Distributions in respect of such early payment), in each case with the same force and effect as if made on such Redemption Date. In the event that payment of the Redemption Price in respect of any Trust Securities called for redemption is improperly withheld or refused, and not paid either by the Trust or by the Sponsor pursuant to the Trust Guarantee, Distributions on such Trust Securities will continue to accumulate, at the then applicable rate, from the Redemption Date originally established by the Trust for such Trust Securities to the date such Redemption Price is actually paid, in which case the actual payment date will be the date fixed for redemption for purposes of calculating the Redemption

(f) Payment of the Redemption Price on the Trust Securities shall be made to the Holders thereof as they appear on the Securities Register for the Trust Securities on the relevant record date, which as long as the Trust Preferred Securities are in book-entry-only form, shall be one Business Day prior to the Redemption Date; provided, however, that in the event that the Trust Securities are not in book-entry-only form, the relevant record date shall be the date that is 15 days prior to the Redemption Date.

(g) If less than all the Outstanding Trust Securities are to be redeemed on a Redemption Date, then the aggregate Liquidation Preference of Trust Securities to be redeemed shall be allocated on a pro rata basis (based on Liquidation Preference) among the Trust Common Securities and the Trust Preferred Securities. The particular Trust Preferred Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Property Trustee from the Outstanding Trust Preferred Securities not previously called for redemption, by lot or by such method as the Property Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to \$[ ] or an integral multiple of \$[ ] in excess thereof) of the Liquidation Preference of Trust Preferred Securities of a denomination larger than \$[ ], provided that, in respect of Trust Preferred Securities registered in the name of and held of record by the Depository or its nominee (or any successor Depository or its nominee), the distribution of the proceeds of such redemption will be made in accordance with the procedures applied by such Depository or nominee. The Trust may not redeem fewer than all of the Outstanding Trust Preferred Securities unless all accumulated and unpaid Distributions have been paid on all Trust Preferred Securities for all quarterly distribution periods terminating on or prior to the Redemption Date. The Property Trustee shall promptly notify the Securities Registrar in writing of the Trust Preferred Securities selected for redemption and, in the case of any Trust Preferred Securities selected for partial redemption, the Liquidation Preference thereof to be redeemed. If fewer than all of the Trust Securities represented by a Trust Securities Certificate are redeemed, not less than two Regular Trustees shall execute for the Holder a new Trust Securities Certificate representing the unredeemed Trust Securities. For all purposes of this Trust Agreement, unless the context otherwise requires, all provisions relating to the redemption of Trust Preferred Securities shall relate, in the case of any Trust Preferred Securities redeemed or to be redeemed only in part, to the portion of the Liquidation Preference of Trust Preferred Securities which has been or is to be redeemed.

Section 4.03 Subordination of Trust Common Securities.

(a) Payment of Distributions on, and the Redemption Price of, the Trust Securities, as applicable, shall be made pro rata based on the Liquidation Preference of the Trust Securities; provided, however, that if on any Distribution Date or Redemption Date, a Debenture Event of Default shall have occurred and be continuing, no payment of any Distribution on, or Redemption Price of, any Trust Common Security, and no other payment on account of the redemption, liquidation or other acquisition of Trust Common Securities, shall be made unless payment in full in cash of all accumulated and unpaid Distributions on all Outstanding Trust Preferred Securities for all distribution periods terminating on or prior thereto, or in the case of payment of the Redemption Price, the full amount of such Redemption Price on all Outstanding Trust Preferred Securities then being redeemed, shall have been made or provided for, and all funds immediately available to the Property Trustee shall first be applied to the payment in full in cash of all Distributions on, the Redemption Price of, Trust Preferred Securities then due and payable.

(b) In the case of any Event of Default under this Trust Agreement resulting from a Debenture Event of Default, the Holder of Trust Common Securities will be deemed to have waived any right to act with respect to any such Event of Default until the effect of such Event of Default has been cured, waived or otherwise eliminated. Until any such Event of Default has been so cured, waived or otherwise eliminated, the Property Trustee shall act solely for the benefit of the Holders of the Trust Preferred Securities and not the Holders of the Trust Common Securities, and only the Holders of the Trust Preferred Securities will have the right to direct the Property Trustee to act for their benefit.

Section 4.04 Payment Procedures.

Payments of Distributions pursuant to Section 4.01 in respect of the Trust Preferred Securities shall be made by check mailed by the Paying Agent to the address of the Holder thereof as such address shall appear on the Securities Register or, if the Trust Preferred Securities are held by a Depository or its nominee, such Distributions shall be made to the Depository by wire transfer in immediately available funds. Payment of the Redemption Price of or Liquidation Distribution on the Trust Preferred Securities shall be made in immediately available funds upon surrender of the Trust Preferred Securities Certificates representing such Trust Preferred Securities at the Corporate Trust Office of the Property Trustee or, if the Trust Preferred Securities are held by a Depository or its nominee, such Redemption Price or Liquidation Distribution shall be made to the Depository by wire transfer in immediately available funds. Payments of Distributions pursuant to Section 4.01 in respect of the Trust Common Securities, and payment of the Redemption Price of or Liquidation Payment on the Trust Common Securities, shall be made in such manner as shall be mutually agreed between the Property Trustee and the Holder of the Trust Common Securities.



Section 4.05 Tax Returns and Reports.

The Regular Trustees shall prepare (or cause to be prepared), at the Sponsor's expense, and file all Federal, State and local tax and information returns and reports required to be filed by or in respect of the Trust. In this regard, the Regular Trustees shall (i) prepare and file (or cause to be prepared or filed) the appropriate Internal Revenue Service Form required to be filed in respect of the Trust in each taxable year of the Trust and (ii) prepare and furnish (or cause to be prepared and furnished) to each Securityholder the applicable Internal Revenue Service Form 1099, or any successor form or the information required to be provided on such form. The Regular Trustees shall provide the Sponsor and the Property Trustee with a copy of all such returns, reports and schedules promptly after such filing or furnishing. The Trustees shall comply with United States Federal withholding and backup withholding tax laws and information reporting requirements with respect to any payments to Securityholders under the Trust Securities.

Section 4.06 Payments under the Indenture.

Any amount payable hereunder to any Holder of Trust Preferred Securities shall be reduced by the amount of any corresponding payment such Holder has directly received pursuant to Section \_\_\_ of the Indenture or pursuant to the Trust Guarantee. Notwithstanding the provisions hereunder to the contrary, Securityholders acknowledge that any Holder of Trust Preferred Securities that receives payment under Section \_\_\_ of the Indenture may receive amounts greater than the amount such Holder may be entitled to receive pursuant to the other provisions of this Trust Agreement.

Section 4.07 Payments of Taxes, Duties, Etc. of the Trust.

Upon receipt under the Debentures of Additional Sums (as defined in the Indenture), the Property Trustee at the direction of an Regular Trustee or the Sponsor shall promptly pay any taxes, duties or governmental charges of whatsoever nature (other than withholding taxes) imposed on the Trust by the United States or any other taxing authority.

ARTICLE 5  
TRUST SECURITIES CERTIFICATES

Section 5.01 Initial Ownership.

Upon the creation of the Trust and the contribution by the Sponsor pursuant to Section 2.03 and until the issuance of the Trust Securities, and at any time during which no Trust Securities are Outstanding, the Sponsor shall be the sole beneficial owner of the Trust.

Section 5.02 The Trust Securities Certificates.

The Trust Securities Certificates shall be issued in denominations of \$[ ] Liquidation Preference and integral multiples thereof. Trust Preferred Securities Certificates representing fractional interests shall not be issued. Trust Common Securities Certificates shall be executed on behalf of the Trust by manual or facsimile signatures of not less than two Regular Trustees. Trust Preferred Securities Certificates shall be executed on behalf of the Trust by manual or facsimile signatures of not less than two Regular Trustees and shall be authenticated by the countersignature of the Property Trustee. Trust Securities Certificates bearing the manual or facsimile signatures of individuals who were, at the time when such signatures shall have been affixed, authorized to sign on behalf of the Trust, shall be validly issued and entitled to the benefits of this Trust Agreement, notwithstanding that such individuals or any of them shall have ceased to be so authorized prior to the delivery of such Trust Securities Certificates or did not hold such offices at the date of delivery of such Trust Securities Certificates. A transferee of a Trust Securities Certificate shall become a Securityholder, and shall be entitled to the rights and subject to the obligations of a Securityholder hereunder, upon due registration of such Trust Securities Certificate in such transferee's name pursuant to Section 5.04.

Section 5.03 Execution and Delivery of Trust Securities Certificates.

On the Closing Date, the Regular Trustees shall cause Trust Securities Certificates, in an aggregate Liquidation Preference as provided in Section 2.04, to be executed on behalf of the Trust as provided in Section 5.02 and delivered in accordance with the provisions of Section 2.04.

Section 5.04 Registration of Transfer and Exchange of Trust Preferred Securities Certificates.

(a) A registrar appointed by the Regular Trustees (the "Securities Registrar") shall keep or cause to be kept, at the office or agency maintained pursuant to Section 5.08, a register (the "Securities Register") in which, subject to such reasonable regulations as it may prescribe, the Securities Registrar shall provide for the registration of Trust Securities Certificates (subject to Section 5.10 in the case of the Trust Common Securities Certificates) and registration of transfers and exchanges of Trust Preferred Securities Certificates as herein provided. The Property Trustee shall be the initial Securities Registrar; any successor Securities Registrar shall be appointed by the Regular Trustees.

(b) Upon surrender for registration of transfer of any Trust Preferred Securities Certificate at the office or agency maintained pursuant to Section 5.08, not less than two Regular Trustees shall execute and deliver, in the name of the designated transferee or transferees, one or more new Trust Preferred Securities Certificates representing the same number of Trust Preferred Securities dated the date of execution by the Regular Trustees. At the option of a Holder, Trust Preferred Securities Certificates may be exchanged for other Trust Preferred Securities Certificates upon surrender of the Trust Preferred Securities Certificates to be exchanged at the office or agency maintained pursuant to Section 5.08. The Securities Registrar shall not be required to register or cause to be registered the transfer of any Trust Preferred Securities after such Trust Preferred Securities have been called for redemption, during the period from 15 days before mailing of notice of redemption and ending on such notice date or after the Liquidation Date.

(c) Trust Preferred Securities presented or surrendered for registration of transfer or exchange shall be accompanied by a written instrument of transfer in form satisfactory to the Regular Trustees and the Securities Registrar duly executed by the Holder or such Holder's attorney duly authorized in writing.

Each Trust Preferred Securities Certificate surrendered for registration of transfer or exchange shall be cancelled and subsequently disposed of by the Property Trustee in accordance with its customary practice.

(d) No service charge shall be made for any registration of transfer or exchange of Trust Preferred Securities, but the Securities Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of Trust Preferred Securities.

Section 5.05 Mutilated, Destroyed, Lost or Stolen Trust Securities Certificates.

If (i) any mutilated Trust Securities Certificate shall be surrendered to the Securities Registrar, or if the Securities Registrar shall receive evidence to its satisfaction of the destruction, loss or theft of any Trust Securities Certificate, and (ii) there shall be delivered to the Securities Registrar and the Regular Trustees such security or indemnity as may be required by them to hold the Securities Registrar, the Trustees and the Trust harmless, then in the absence of notice that such Trust Securities Certificate shall have been acquired by a bona fide purchaser, not less than two of the Regular Trustees, on behalf of the Trust shall execute and make available for delivery, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Trust Securities Certificate, a new Trust Securities Certificate of like tenor. In connection with the issuance of any new Trust Securities Certificate under this Section 5.05, the Regular Trustees or the Securities Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. Any duplicate Trust Securities Certificate issued pursuant to this Section 5.05 shall constitute conclusive evidence of an undivided beneficial interest in the assets of the Trust, as if originally issued, whether or not the lost, stolen or destroyed Trust Securities Certificate shall be found at any time.

Section 5.06 Persons Deemed Securityholders.

Prior to due presentation of a Trust Security Certificate for registration of transfer, the Regular Trustees or the Securities Registrar shall treat the Person in whose name any Trust Securities Certificate shall be registered in the Securities Register as the owner and Holder of such Trust Securities Certificate for the purpose of receiving Distributions and for all other purposes whatsoever, and neither the Trustees nor the Securities Registrar shall be bound by any notice to the contrary.

Section 5.07 Access to List of Securityholders' Names and Addresses.

In the event that the Property Trustee is no longer the Securities Registrar, the Regular Trustees or the Sponsor shall furnish or cause to be furnished (i) to the Property Trustee, quarterly not later than 10 days prior to a Distribution Date, and (ii) to the Property Trustee, promptly after receipt by the Regular Trustees or the Sponsor of a request therefor from the Property Trustee in order to enable the Paying Agent to pay Distributions in accordance with Section 4.01 hereof, a list, in such form as the Property Trustee may reasonably require, of the names and addresses of the Securityholders as of the most recent record date, in each case to the extent such information is in the possession or control of the Regular Trustees or the Sponsor and is not identical to a previously supplied list or has not otherwise been received by the Property Trustee. The rights of Securityholders to communicate with other Securityholders with respect to their rights under this Trust Agreement or under the Trust Securities, and the corresponding rights of the Property Trustee, shall be as provided in the Trust Indenture Act. Each Holder, by receiving and holding a Trust Securities Certificate, shall be deemed to have agreed not to hold the Sponsor or the Trustees accountable by reason of the disclosure of its name and address, regardless of the source from which such information was derived.

Section 5.08 Maintenance of Office or Agency.

The Property Trustee shall maintain in [insert city and state], an office or offices or agency or agencies where Trust Preferred Securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Trustees in respect of the Trust Securities Certificates may be served. The Property Trustee shall give prompt written notice to the Sponsor and to the Securityholders of any change in the location of the Securities Register or any such office or agency, which shall initially be at the Corporate Trust Office of the Property Trustee.

Section 5.09 Appointment of Paying Agent.

The Paying Agent shall make Distributions to Securityholders from the Payment Account and shall report the amounts of such Distributions to the Property Trustee and the Regular Trustees. Any Paying Agent shall have the revocable power to withdraw funds from the Payment Account for the purpose of making Distributions. The Regular Trustees may revoke such power and remove the Paying Agent, provided that such revocation and removal with respect to the sole Paying Agent shall not become effective until the appointment of a successor. The Paying Agent shall initially be the Property Trustee and any co-paying agent chosen by the Property Trustee and approved by the Regular Trustees and the Sponsor. Any Person acting as Paying Agent shall be permitted to resign as Paying Agent upon 30 days' written notice to the Regular Trustees and the Sponsor, and, if applicable, the Property Trustee, provided that such resignation with respect to the sole Paying Agent shall not become effective until the appointment of a successor. In the event that the Property Trustee shall no longer be the Paying Agent or a successor Paying Agent shall resign or its authority to act be revoked, the Regular Trustees shall appoint a successor that is acceptable to the Property Trustee (in the case of any other Paying Agent) and the Sponsor to act as Paying Agent (which shall be a bank or trust company and have a combined capital and surplus of at least \$50,000,000). The Regular Trustees shall cause such successor Paying Agent or any additional Paying Agent approved by the Regular Trustees to execute and deliver to the Trustees an instrument in which such successor Paying Agent or additional Paying Agent shall agree with the Trustees that as Paying Agent, such successor Paying Agent or additional Paying Agent will hold all sums, if any, held by it for payment to the Securityholders in trust for the benefit of the Securityholders entitled thereto until such sums shall be paid to such Securityholders. The Paying Agent shall return all of such sums remaining unclaimed to the Property Trustee and upon removal of a Paying Agent such Paying Agent shall also return such sums in its possession to the Property Trustee. The provisions of Sections 7.01, 7.03 and 7.06 shall apply to the Property Trustee also in its role as Paying Agent, for so long as the Property Trustee shall act as Paying Agent and, to the extent applicable, to any other Paying Agent appointed hereunder. Any reference in this Trust Agreement to the Paying Agent shall include any co-paying agent unless the context requires otherwise.

Section 5.10 No Transfer of Trust Common Securities by Sponsor.

To the fullest extent permitted by law, any attempted transfer of the Trust Common Securities shall be void, except for transfers permitted by Article \_\_ of the Indenture. The Regular Trustees shall cause each Trust Common Securities Certificate issued to the Sponsor to contain a legend stating "THIS CERTIFICATE IS NOT TRANSFERABLE EXCEPT TO THE EXTENT PROVIDED IN THE TRUST AGREEMENT (AS DEFINED BELOW)". By execution of this Trust Agreement, the Sponsor agrees to the foregoing restrictions.

Section 5.11 Book-Entry Trust Preferred Securities Certificates; Trust Common Securities Certificate.

(a) A single Trust Common Securities Certificate representing the Trust Common Securities shall be issued to the Sponsor in the form of a definitive Trust Common Securities Certificate.

(b) The Trust Preferred Securities, upon original issuance on the Closing Date, will not be engraved but will be issued in the form of one printed or typewritten Book-Entry Trust Preferred Securities Certificate, to be delivered to The Depository Trust Company, the initial Depository, by, or on behalf of, the Trust. Such Book-Entry Trust Preferred Securities Certificate shall initially be registered on the Securities Register in the name of Cede & Co., the nominee of the initial Depository. No Trust Preferred Securities Beneficial Owner will receive a Definitive Trust Preferred Securities Certificate representing such Trust Preferred Securities Beneficial Owner's interest in such Book-Entry Trust Preferred Securities Certificate, except as provided in Section 5.12. Unless and until Definitive Trust Preferred Securities Certificates have been issued to the Trust Preferred Securities Beneficial Owners pursuant to Section 5.12:

(1) the provisions of this Section 5.11(b) shall be in full force and effect;

(2) the Trust and the Trustees shall be entitled to deal with the Depository for all purposes of this Trust Agreement (including the payment of Distributions on the Trust Preferred Securities and receiving approvals, votes or consents hereunder) as the sole Holder of the Trust Preferred Securities and shall have no obligation to the Trust Preferred Securities Beneficial Owners;

(3) to the extent that the provisions of this Section 5.11(b) conflict with any other provisions of this Trust Agreement, the provisions of this Section 5.11(b) shall control; and

(4) the rights of the Trust Preferred Securities Beneficial Owners shall be exercised only through the Depository and shall be limited to those established by law and agreements between such Trust Preferred Securities Beneficial Owners and the Depository and/or the Depository Participants and pursuant to the Certificate Depository Agreement the Depository shall receive and transmit payments of Distributions to such Depository Participants. The Depository will make book-entry transfers among the Depository Participants; provided, that solely for the purposes of determining whether the Holders of the requisite amount of Trust Preferred Securities have voted on any matter provided for in this Trust Agreement, so long as Definitive Trust Preferred Securities Certificates have not been issued, the Trustees may conclusively rely on, and shall be fully protected in relying on, any written instrument (including a proxy) delivered to the Trustees by the Depository setting forth the Trust Preferred Securities Beneficial Owners' votes or assigning the right to vote on any matter to any other Person either in whole or in part.

Section 5.12 Definitive Trust Preferred Securities Certificates.

If (i) the Sponsor advises the Trustees in writing that the Depository is no longer willing or able to properly discharge its responsibilities with respect to the Trust Preferred Securities Certificates or the Depository is no longer registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and the Sponsor is unable to locate a qualified successor within 90 days, (ii) the Sponsor at its option advises the Trustees in writing that it elects to dissolve the book-entry system through the Depository or (iii) an Event of Default occurs and is continuing and the Holders of a Majority in Liquidation Preference of Trust Preferred Securities determine to discontinue the system of book-entry transfers through the Depository by so notifying the Property Trustee, then the Regular Trustees shall issue Definitive Trust Preferred Securities Certificates. Upon surrender to the Regular Trustees of the Book-Entry Trust Preferred Securities Certificates by the Depository, accompanied by registration instructions, the Regular Trustees shall execute and deliver the Definitive Trust Preferred Securities Certificates pursuant to this Trust Agreement in accordance with the instructions of the Depository. Neither the Securities Registrar nor the Trustees shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. The Definitive Trust Preferred Securities Certificates shall be printed, lithographed or engraved or may be produced in any other manner as is reasonably acceptable to the Regular Trustees, as evidenced by the execution thereof by not less than two Regular Trustees.

Section 5.13 Rights of Securityholders.

The Securityholders shall not have any right or title to the Trust Property other than the undivided beneficial interest in the assets of the Trust conferred by their Trust Securities and they shall have no right to call for any partition or division of property, profits or rights of the Trust except as described below. The Trust Securities shall be personal property giving only the rights specifically set forth therein and in this Trust Agreement. The Trust Preferred Securities shall have no preemptive or similar rights and when issued and delivered to the Holders of the Trust Preferred Securities against payment of the purchase price therefor will be fully paid and nonassessable interests in the Trust. The Holders of the Trust Preferred Securities, in their capacities as such, shall be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Delaware.

ARTICLE 6  
ACTS OF SECURITYHOLDERS; MEETINGS; VOTING

Section 6.01 Limitations on Voting Rights.

(a) Except as provided herein, in the Trust Guarantee and in the Indenture and as otherwise required by law, no Holder of Trust Securities shall have any right to vote or in any manner otherwise control the administration, operation and management of the Trust or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the Trust Securities Certificates, be construed so as to constitute the Securityholders from time to time as partners or members of an association.

(b) So long as any Debentures are held by the Property Trustee, the Trustees shall not (i) direct the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee or executing any trust or power conferred on the Property Trustee with respect to the Debentures, waive any past default which may be waived under Section \_\_\_\_ of the Indenture, (iii) exercise any right to rescind or annul a declaration that the principal of the Debentures is due and payable or (iv) consent to any amendment, modification or termination of any of the Indenture, where such consent shall be required, without, in each case, obtaining the prior consent of the Holders of at least a Majority in Liquidation Preference of the Outstanding Trust Preferred Securities; provided, however, that where such consent under the applicable Indenture would require the consent of each holder of Debentures issued thereunder affected thereby, no such consent shall be given by the Property Trustee without the prior written consent of each Holder of Outstanding Trust Preferred Securities. The Trustees shall not revoke any action previously authorized or approved by a vote of the Holders of Trust Preferred Securities, except by a subsequent vote of the Holders of Trust Preferred Securities. The Property Trustee shall notify all Holders of the Trust Preferred Securities of any notice received from the Debenture Trustee as a result of the Trust being the holder of the Debentures. In addition to obtaining the consent of the Holders of the Trust Preferred Securities, prior to taking any of the foregoing actions, the Trustees shall, at the expense of the Sponsor, obtain an Opinion of Counsel experienced in such matters to the effect that the Trust will not be classified as an association taxable as a corporation or partnership for United States federal income tax purposes on account of such action and will continue to be classified as a grantor trust for United States federal income tax purposes.

(c) Subject to Section 10.02(c) hereof, if any proposed amendment to the Trust Agreement provides for, or the Trustees otherwise propose to effect, any action that would adversely affect in any material respect the powers, preferences or special rights of the Trust Preferred Securities, whether by way of amendment to this Trust Agreement or otherwise, or (ii) the dissolution or liquidation of the Trust, other than pursuant to the terms of this Trust Agreement, then the Holders of Outstanding Trust Preferred Securities will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of the Holders of at least a Majority in Liquidation Preference of the Outstanding Trust Preferred Securities.

Section 6.02 Notice of Meetings.

Notice of all meetings of the Trust Preferred Security Holders, stating the time, place and purpose of the meeting, shall be given by the Property Trustee pursuant to Section 10.07 to each Trust Preferred Security Holder of record, at his/her registered address, at least 15 days and not more than 90 days before the meeting. At any such meeting, any business properly before the meeting may be so considered whether or not stated in the notice of the meeting. Any adjourned meeting may be held as adjourned without further notice.

Section 6.03 Meetings of Trust Preferred Security Holders.

(a) No annual meeting of Securityholders is required to be held. The Regular Trustees, however, shall call a meeting of Securityholders to vote on any matter upon the written request of the Holders of at least [ ]% in Liquidation Preference of the Outstanding Trust Preferred Securities and the Regular Trustees or the Property Trustee may, at any time in their discretion, call a meeting of Trust Preferred Security Holders to vote on any matters as to which the Trust Preferred Security Holders are entitled to vote.

(b) Holders of at least a Majority in Liquidation Preference of the Outstanding Trust Preferred Securities, present in person or by proxy, shall constitute a quorum at any meeting of Securityholders.

(c) If a quorum is present at a meeting, an affirmative vote of the Holders of at least a Majority in Liquidation Preference of the Outstanding Trust Preferred Securities present, either in person or by proxy, at such meeting shall constitute the action of the Securityholders, unless this Trust Agreement requires a greater number of affirmative votes.

Section 6.04 Voting Rights.

A Securityholder shall be entitled to one vote for each Trust Security in respect of any matter as to which such Securityholder is entitled to vote.

Section 6.05 Proxies, etc.

At any meeting of Securityholders, any Securityholder entitled to vote thereat may vote by proxy, provided that no proxy shall be voted at any meeting unless it shall have been placed on file with the Regular Trustees, or with such other officer or agent of the Trust as the Regular Trustees may direct, for verification prior to the time at which such vote shall be taken. Pursuant to a resolution of the Property Trustee, proxies may be solicited in the name of the Property Trustee or one or more officers of the Property Trustee. Only Securityholders of record shall be entitled to vote. When Trust Securities are held jointly by several Persons, any one of them may vote at any meeting in person or by proxy in respect of such Trust Securities, but if more than one of them shall be present at such meeting in person or by proxy, and such joint owners or their proxies so present disagree as to any vote to be cast, such vote shall not be received in respect of such Trust Securities. A proxy purporting to be executed by or on behalf of a Securityholder shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger. No proxy shall be valid more than three years after its date of execution.



Section 6.06 Securityholder Action by Written Consent.

Any action which may be taken by Securityholders at a meeting may be taken without prior notice and a meeting if Holders of the proportion of the Outstanding Trust Preferred Securities required to approve such action shall consent to the action in writing. Prompt notice of the taking of any action by written consent shall be provided to the Holders who did not consent to the taking of such action.

Section 6.07 Record Date for Voting and Other Purposes.

For the purposes of determining the Securityholders who are entitled to notice of and to vote at any meeting or who are entitled to vote by written consent, or for the purpose of any other action, the Regular Trustees may from time to time fix as a record date for the determination of the identity of the Securityholders for such purposes, (i) in the case of a meeting, a date not more than 90 days prior to the date of the meeting of Securityholders, or (ii) in the case of a written consent, a date that shall not precede the date upon which the action fixing the record date is adopted by the Regular Trustees and which date shall not be more than 10 days after the date upon which the action fixing the record date is adopted by the Regular Trustees.

Section 6.08 Acts of Securityholders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Trust Agreement to be given, made or taken by Securityholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders in person or by an agent duly appointed in writing; and, except as otherwise expressly provided herein, such action shall become effective when such instrument or instruments are delivered to the Regular Trustees. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Securityholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Trust Agreement and (subject to Section 7.02) conclusive, if made in the manner provided in this Section 6.08.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him/her the execution thereof. Where such execution is by a signer acting in a capacity other than his/her individual capacity, such certificate or affidavit shall also constitute sufficient proof of his/her authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which any Trustee receiving the same deems sufficient.

(c) The ownership of Trust Preferred Securities shall be proved by the Securities Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other act of the Securityholder of any Trust Security shall bind every future Securityholder of the same Trust Security and the Securityholder of every Trust Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustees or the Trust in reliance thereon, whether or not notation of such action is made upon such Trust Security.

(e) Without limiting the foregoing, a Securityholder entitled hereunder to take any action hereunder with regard to any particular Trust Security may do so with regard to all or any part of the Liquidation Preference of such Trust Security or by one or more duly appointed agents, each of which may do so pursuant to such appointment with regard to all or any part of such Liquidation Preference.

(f) If any dispute shall arise between the Securityholders and the Regular Trustees or among such Securityholders or Trustees with respect to the authenticity, validity or binding nature of any request, demand, authorization, direction, consent, waiver or other Act of such Securityholder or Trustee under this Article 6, then the determination of such matter by the Property Trustee shall be conclusive with respect to such matter.

Section 6.09 Inspection of Records.

Upon reasonable notice to the Regular Trustees and the Property Trustee, the records of the Trust shall be open to inspection by Securityholders during normal business hours for any purpose reasonably related to such Securityholder's interest as a Securityholder.

ARTICLE 7  
THE TRUSTEES

Section 7.01 Certain Duties and Responsibilities.

(a) The duties and responsibilities of the Trustees shall be as provided by this Trust Agreement and, in the case of the Property Trustee, also by the Trust Indenture Act. The Property Trustee, other than during the occurrence and continuance of an Event of Default, undertakes to perform only such duties as are specifically set forth in this Trust Agreement and, upon an Event of Default, must exercise the same degree of care and skill as a prudent person would exercise or use in the conduct of his/her own affairs. The Trustees shall have all the privileges, rights and immunities provided by the Delaware Statutory Trust Act.

Notwithstanding the foregoing, no provision of this Trust Agreement shall require the Trustees to expend or risk their own funds or otherwise incur any financial liability in the performance of any of their duties hereunder, or in the exercise of any of their rights or powers, if they shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Trust Agreement relating to the conduct or affecting the liability of or affording protection to the Trustees shall be subject to the provisions of this Section 7.01. No Indemnified Person shall be liable, responsible or accountable in damages or otherwise to the Trust or any employee or agent of the Trust or its Affiliates for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Indemnified Person in good faith on behalf of the Trust and in a manner such Indemnified Person reasonably believed to be within the scope of the authority conferred on such Indemnified Person by this Trust Agreement or by law, except that an Indemnified Person shall be liable for any such loss, damage or claim incurred by reason of such Indemnified Person's gross negligence (but, in the case of the Property Trustee, nothing in this Trust Agreement shall be construed to release the Property Trustee from liability for its own negligent action or its own negligent failure to act) or willful misconduct with respect to such acts or omissions. To the extent that, at law or in equity, the Regular Trustees have duties (including fiduciary duties) and liabilities relating thereto to the Trust or to the Securityholders, the Regular Trustees shall not be liable to the Trust or to any Securityholder for the Regular Trustees' good faith reliance on the provisions of this Trust Agreement. The provisions of this Trust Agreement, to the extent that they restrict the duties and liabilities of the Regular Trustees otherwise existing at law or in equity, are agreed by the Sponsor and the Securityholders to replace such other duties and liabilities of the Regular Trustees.

(b) All payments made by the Property Trustee or any other Paying Agent in respect of the Trust Securities shall be made only from the income and proceeds from the Trust Property. Each Securityholder, by its acceptance of a Trust Security, agrees that (i) it will look solely to the income and proceeds from the Trust Property to the extent available for distribution to it as herein provided and (ii) the Trustees are not personally liable to it for any amount distributable in respect of any Trust Security or for any other liability in respect of any Trust Security. This Section 7.01(b) does not limit the liability of the Trustees expressly set forth elsewhere in this Trust Agreement or, in the case of the Property Trustee, in the Trust Indenture Act.

Section 7.02 Notice of Defaults; Direct Action by Securityholders.

Within 90 days after the occurrence of any Event of Default actually known to the Property Trustee, the Property Trustee shall transmit, in the manner and to the extent provided in Section 10.07, notice of such Event of Default to the Securityholders, the Regular Trustees and the Sponsor, unless such Event of Default shall have been cured or waived. If the Property Trustee has failed to enforce its rights under this Trust Agreement or the Indenture, any Securityholder may to the fullest extent permitted by law and subject to the terms of this Trust Agreement and the Indenture institute a legal proceeding directly against any Person to enforce the Property Trustee's rights under this Trust Agreement or the applicable Indenture with respect to Debentures having a principal amount equal to the aggregate Liquidation Preference of the Trust Preferred Securities of such Securityholder without first instituting a legal proceeding against the Property Trustee or any other Person. To the extent that any action under the Indenture is entitled to be taken by the holders of at least a specified percentage of the principal amount of the outstanding Debentures, Holders of at least the same percentage of the Liquidation Preference of the Outstanding Trust Preferred Securities may, to the fullest extent permitted by law, also take such action in the name of the Trust if such action has not been taken by the Property Trustee. Notwithstanding the foregoing, if a Debenture Event of Default relating to the Sponsor's failure to pay the principal of or interest on the Debentures has occurred and is continuing thereby resulting in an Event of Default hereunder, then each Holder of Trust Preferred Securities may institute a legal proceeding directly against the Sponsor for enforcement of payment to such Holder of interest on or principal of the Debentures equal to the aggregate Liquidation Preference of the Trust Preferred Securities of such Holder, as provided in Section \_\_\_ of the Indenture.

Section 7.03 Certain Rights of Property Trustee.

Subject to the provisions of Section 7.01:

(a) the Property Trustee may rely and shall be protected in acting or refraining from acting in good faith upon any resolution, Opinion of Counsel, certificate, written representation of a Holder or transferee, certificate of auditors or any other certificate, statement, instrument, opinion, report, notice, request, consent, order, appraisal, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) if, other than during the occurrence and continuance of an Event of Default, (i) in performing its duties under this Trust Agreement, the Property Trustee is required to decide between alternative courses of action or (ii) in construing any of the provisions in this Trust Agreement, the Property Trustee finds the same ambiguous or inconsistent with any other provisions contained herein or (iii) the Property Trustee is unsure of the application of any provision of this Trust Agreement, then, except as to any matter as to which the Trust Preferred Security Holders are entitled to vote under the terms of this Trust Agreement, the Property Trustee shall deliver a notice to the Sponsor requesting written instructions of the Sponsor as to the course of action to be taken. The Property Trustee shall take such action, or refrain from taking such action, as the Property Trustee shall be instructed in writing to take, or to refrain from taking, by the Sponsor; provided, however, that if the Property Trustee does not receive such instructions of the Sponsor within ten Business Days after it has delivered such notice, or such reasonably shorter period of time set forth in such notice (which to the extent practicable shall not be less than five Business Days), it may, but shall be under no duty to, take or refrain from taking such action not inconsistent with this Trust Agreement as it shall deem advisable and in the best interests of the Securityholders, in which event the Property Trustee shall have no liability except for its own negligent action, its own negligent failure to act or its own willful misconduct;

(c) the Property Trustee may consult with counsel or other experts of its selection and the advice or opinion of such counsel or other experts with respect to legal matters or advice within the scope of such experts' area of expertise shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(d) the Property Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Trust Agreement at the request or direction of any of the Securityholders pursuant to this Trust Agreement, unless such Securityholders shall have offered to the Property Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(e) the Property Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture, note or other evidence of indebtedness or other paper or document, but the Property Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit; and

(f) the Property Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through its agents or attorneys and the Property Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 7.04 Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Trust Securities Certificates shall be taken as the statements of the Trust, and the Trustees do not assume any responsibility for their correctness. The Trustees shall not be accountable for the use or application by the Sponsor of the proceeds of the Debentures.

Section 7.05 May Hold Securities.

Any Trustee or any other agent of any Trustee or the Trust, in its individual or any other capacity, may become the owner or pledgee of Trust Securities and, subject to Sections 7.08 and 7.13 and, except as provided in the definition of the term "Outstanding" in Article 1, may otherwise deal with the Trust with the same rights it would have if it were not a Trustee or such other agent.

Section 7.06 Compensation; Indemnity; Fees.

The Sponsor agrees:

(a) to pay to the Trustees from time to time such compensation as shall have been agreed in writing with the Sponsor for all services rendered by them hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided herein, to reimburse the Trustees upon request for all reasonable expenses, disbursements and advances incurred or made by the Trustees in accordance with any provision of this Trust Agreement (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its own grossly negligent action, its own grossly negligent failure to act or its own willful misconduct (or, in the case of the Property Trustee, any such expense, disbursement or advance as may be attributable its own negligent action, its own negligent failure to act or its own willful misconduct); and

(c) to the fullest extent permitted by applicable law, to indemnify and hold harmless each Indemnified Person from and against any loss, damage or claim incurred by such Indemnified Person by reason of any act or omission performed or omitted by such Indemnified Person in good faith on behalf of the Trust and in a manner such Indemnified Person reasonably believed to be within the scope of authority conferred on such Indemnified Person by the Trust Agreement, except that no Indemnified Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Indemnified Person by reason of gross negligence or willful misconduct (or, in the case of the Property Trustee, negligence or willful misconduct) with respect to such acts or omissions. To the fullest extent permitted by applicable law, the Trust shall advance, from time to time, expenses (including legal fees) incurred by an Indemnified Person in defending any claim, demand, action, suit or proceeding prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Trust of an undertaking by or on behalf of the Indemnified Person to repay such amount if it shall be determined that the Indemnified Person is not entitled to be indemnified for the underlying cause of action as authorized by this Trust Agreement. No Trustee may claim any Lien or charge on any Trust Property as a result of any amount due pursuant to this Section 7.06. The provisions of this Section 7.06 shall survive the termination of this Trust Agreement.

When the Property Trustee incurs expenses or renders services in connection with a Debenture Event of Default relating to certain bankruptcy events, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

#### Section 7.07 Certain Trustees Required; Eligibility of Trustees.

(a) There shall at all times be a Property Trustee hereunder. The Property Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least \$50,000,000. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Property Trustee with respect to the Trust Securities shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

(b) There shall at all times be two or more Regular Trustees hereunder.

Each Regular Trustee shall be either a natural person who is at least 21 years of age or a legal entity that shall act through one or more persons authorized to bind that entity.

(c) There shall at all times be a Delaware Trustee. The Delaware Trustee shall either be (i) a natural person who is at least 21 years of age and a resident of the State of Delaware or (ii) a legal entity with its principal place of business in the State of Delaware and that otherwise meets the requirements of applicable Delaware law that shall act through one or more persons authorized to bind such entity.

#### Section 7.08 Conflicting Interests.

If the Property Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Property Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Trust Agreement.

Section 7.09 Co-Trustees and Separate Trustee.

(a) Unless an Event of Default shall have occurred and be continuing, at any time or times, for the purpose of meeting the legal requirements of the Trust Indenture Act or of any jurisdiction in which any part of the Trust Property may at the time be located, the Sponsor and the Regular Trustees shall have the power (i) to appoint, and upon the written request of the Regular Trustees the Sponsor shall for such purpose join with the Regular Trustees in the execution, delivery, and performance of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Property Trustee either to act as cotrustee, jointly with the Property Trustee, of all or any part of such Trust Property, or to the extent required by law to act as separate trustee of any such Trust Property, in either case with such powers as may be provided in the instrument of appointment, and (ii) to vest in such Person or Persons in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section 7.09(a). If the Sponsor does not join in such appointment within 15 days after the receipt by it of a request so to do, or in case a Debenture Event of Default has occurred and is continuing, the Property Trustee alone shall have power to make such appointment. Any co-trustee or separate trustee appointed pursuant to this Section shall either be (i) a natural person who is at least 21 years of age and a resident of the United States or (ii) a legal entity with its principal place of business in the United States that shall act through one or more persons authorized to bind such entity.

(b) Should any written instrument from the Sponsor be required by any co-trustee or separate trustee so appointed for more fully confirming to such co-trustee or separate trustee such property, title, right, or power, any and all such instruments shall, on request, be executed, acknowledged, and delivered by the Sponsor.

(c) Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to each of the following terms:

(1) The Trust Securities shall be executed and delivered and all rights, powers, duties, and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Trustees specified hereunder, shall be exercised solely by such Trustees and not by such co-trustee or separate trustee.

(2) The rights, powers, duties, and obligations hereby conferred or imposed upon the Property Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed by the Property Trustee or by the Property Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed, the Property Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such cotrustee or separate trustee.

(3) The Property Trustee at any time, by an instrument in writing executed by it, with the written concurrence of the Sponsor, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section 7.09, and, in case a Debenture Event of Default has occurred and is continuing, the Property Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Sponsor. Upon the written request of the Property Trustee, the Sponsor shall join with the Property Trustee in the execution, delivery, and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section 7.09.

(4) No co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Property Trustee, or any other trustee hereunder.

(5) The Property Trustee shall not be liable by reason of any act of a co-trustee or separate trustee.

(6) Any Act of Holders delivered to the Property Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

Section 7.10 Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of any Trustee and no appointment of a successor Trustee pursuant to this Article 7 shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 7.11.

(b) Subject to the immediately preceding paragraph, any Trustee may resign at any time with respect to the Trust Securities by giving written notice thereof to the Securityholders.

(c) Unless an Event of Default shall have occurred and be continuing, any Trustee may be removed at any time by Act of the Holder of the Trust Common Securities. If an Event of Default shall have occurred and be continuing, the Property Trustee or the Delaware Trustee, or both of them, may be removed at such time only by Act of the Holders of at least a Majority in Liquidation Preference of the Outstanding Trust Preferred Securities, delivered to such Trustee (in its individual capacity and on behalf of the Trust). The Regular Trustees may only be removed by the Holder of Trust Common Securities at any time.

(d) If the instrument of acceptance by the successor Trustee required by Section 7.11 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation or removal, the Trustee may petition, at the expense of the Sponsor, any court of competent jurisdiction for the appointment of a successor Trustee.



(e) If any Trustee shall resign, be removed or become incapable of acting as Trustee, or if a vacancy shall occur in the office of any Trustee for any cause, at a time when no Event of Default shall have occurred and be continuing, the Holder of Trust Common Securities, by Act of the Holder of Trust Common Securities delivered to the retiring Trustee, shall promptly appoint a successor Trustee or Trustees and the Trust and the retiring Trustee shall comply with the applicable requirements of Section 7.11. If the Property Trustee or the Delaware Trustee shall resign, be removed or become incapable of continuing to act as the Property Trustee or the Delaware Trustee, as the case may be, at a time when an Event of Default has occurred and is continuing, the Holders of Trust Preferred Securities, by Act of the Securityholders of at least a Majority in Liquidation Preference of the Outstanding Trust Preferred Securities delivered to the retiring Trustee, shall promptly appoint a successor Trustee or Trustees, and such successor Trustee shall comply with the applicable requirements of Section 7.11. If any Regular Trustee shall resign, be removed or become incapable of acting as an Regular Trustee at a time when an Event of Default shall have occurred and be continuing, the Holder of Trust Common Securities shall appoint a successor Regular Trustee. If no successor Trustee shall have been so appointed by the Holder of Trust Common Securities or the Holders of Trust Preferred Securities and accepted appointment in the manner required by Section 7.11, any Securityholder who has been a Securityholder of Trust Securities for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Property Trustee shall give notice of each resignation and each removal of a Trustee and each appointment of a successor Trustee to all Securityholders in the manner provided in Section 10.07 and shall give notice to the Sponsor. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office if it is the Property Trustee.

(g) Notwithstanding the foregoing or any other provision of this Trust Agreement, in the event any Regular Trustee or Delaware Trustee who is a natural person dies or becomes, in the opinion of the Sponsor, incompetent or incapacitated, the vacancy created by such death, incompetence or incapacity may be filled by (i) the unanimous act of the remaining Regular Trustees if there are at least two of them or (ii) otherwise by the Sponsor (with the successor in each case being a Person who satisfies the eligibility requirements for an Regular Trustee or for the Delaware Trustee, as the case may be, set forth in Section 7.07).

#### Section 7.11 Acceptance of Appointment by Successor.

(a) In case of the appointment hereunder of a successor Trustee, the retiring Trustee and each successor Trustee shall execute and deliver to the Trust and the retiring Trustee an amendment hereto wherein each successor Trustee shall accept such appointment and which (i) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee and (ii) shall add to or change any of the provisions of this Trust Agreement as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such amendment shall constitute such Trustees as cotrustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee and upon the execution and delivery of such amendment the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee and the Trust; but, on request of the Trust or any successor Trustee, such retiring Trustee shall, upon payment of its charges, duly assign, transfer and deliver to such successor Trustee all Trust Property, all proceeds thereof and money held by such retiring Trustee hereunder.

(b) Upon request of any such successor Trustee, the Trust shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in the first or second preceding paragraph, as the case may be.

(c) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 7.12 Merger, Conversion, Consolidation or Succession to Business.

Any Person into which any of the Trustees that is not a natural person may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which such Trustee shall be a party, or any Person succeeding to all or substantially all the corporate trust business of such Trustee, shall be the successor of such Trustee hereunder, provided such Person shall be otherwise qualified and eligible under Article 7, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

Section 7.13 Preferential Collection of Claims Against Sponsor or Trust.

If and when the Property Trustee or the Delaware Trustee shall be or become a creditor (whether directly or indirectly, secured or unsecured) of the Sponsor or the Trust (or any other obligor upon the Debentures or the Trust Securities), including under the terms of Section 7.05 hereof, the Property Trustee or the Delaware Trustee, as the case may be, shall be subject to and shall take all actions necessary in order to comply with the provisions of the Trust Indenture Act regarding the collection of claims against the Sponsor or Trust (or any such other obligor).

Section 7.14 Reports by Property Trustee.

(a) The Property Trustee shall transmit to Holders such reports concerning the Property Trustee and its actions under this Trust Agreement as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the Property Trustee shall, within 60 days after each May 31 following the date of this Trust Agreement deliver to Holders a brief report, dated as of such May 31, which complies with the provisions of such Section 313(a).

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Property Trustee with each stock exchange upon which any Trust Preferred Securities are then listed, with the Commission and with the Trust. The Trust will promptly notify the Property Trustee when any Trust Preferred Securities are listed on any stock exchange.

Section 7.15 Reports to the Property Trustee.

The Sponsor and the Regular Trustees on behalf of the Trust shall provide to the Property Trustee such documents, reports and information as required by Section 314 of the Trust Indenture Act (if any) and the compliance certificate required by Section 314(a) of the Trust Indenture Act in the form, in the manner and at the times required by Section 314 of the Trust Indenture Act. Delivery of such reports, information and documents to the Property Trustee is for informational purposes only and the Property Trustee's receipt of such shall not constitute constructive notice of any information contained therein, including the Sponsor's or the Trust's compliance with any of its covenants hereunder (as to which the Property Trustee is entitled to rely exclusively on Officer's Certificates).

Section 7.16 Evidence of Compliance with Conditions Precedent.

The Sponsor and the Regular Trustees on behalf of the Trust shall provide to the Property Trustee evidence of compliance with the conditions precedent, if any, provided for in this Trust Agreement that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act.

Section 7.17 Statements Required in Officer's Certificate and Opinion of Counsel.

Each Officer's Certificate and Opinion of Counsel with respect to compliance with a covenant or condition provided for in this Trust Agreement shall include:

- (a) a statement that each Person making such Officer's Certificate or Opinion of Counsel has read such covenant or condition;
- (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such Officer's Certificate or Opinion of Counsel are based;
- (c) a statement that, in the opinion of each such Person, such Person has made such examination or investigation as is necessary to enable such Person to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (d) a statement that, in the opinion of such Person, such covenant or condition has been complied with; provided, however, that with respect to matters of fact not involving any legal conclusion, an Opinion of Counsel may rely on an Officer's Certificate or certificates of public officials.

Section 7.18 Number of Regular Trustees.

- (a) The initial number of Regular Trustees shall be two, provided that the Holder of all of the Trust Common Securities by written instrument may, subject to the requirements of Section 7.07(b), increase and/or decrease the number of Regular Trustees.
- (b) If an Regular Trustee ceases to hold office for any reason and the number of Regular Trustees is not reduced pursuant to Section 7.18(a), or if the number of Regular Trustees is increased pursuant to Section 7.18(a), a vacancy shall occur. The vacancy shall be filled with an Regular Trustee appointed in accordance with Section 7.10.
- (c) The death, resignation, retirement, removal, bankruptcy, incompetence or incapacity to perform the duties of an Regular Trustee shall not operate to annul, dissolve or terminate the Trust. Whenever a vacancy shall occur, until such vacancy is filled by the appointment of an Regular Trustee in accordance with Section 7.10, the Regular Trustee or Trustees in office, regardless of their number (and notwithstanding any other provision of this Trust Agreement), shall have all the powers granted to the Regular Trustees and shall discharge all the duties imposed upon the Regular Trustees by this Trust Agreement.

Section 7.19 Delegation of Power.

(a) Any Regular Trustee may, by power of attorney consistent with applicable law, delegate to any natural person over the age of 21 his/her power for the purpose of executing any documents contemplated in Section 2.07(a), including any registration statement or amendment thereto filed with the Commission, or making any other governmental filing.

(b) The Regular Trustees shall have power to delegate from time to time to such of their number, if there is more than one Regular Trustee, or to the Sponsor the doing of such things and the execution of such instruments either in the name of the Trust or the names of the Regular Trustees or otherwise as the Regular Trustees may deem expedient, to the extent such delegation is not prohibited by applicable law or contrary to the provisions of the Trust, as set forth herein.

Section 7.20 Voting.

Except as otherwise provided in this Trust Agreement, the consent or vote of the Regular Trustees shall be approved by not less than a majority of the Regular Trustees.

Section 7.21 Delaware Trustee

(a) The Delaware Trustee shall not be personally liable under any circumstances, except for its own willful misconduct, bad faith or gross negligence. In particular, but not by way of limitation:

(i) the Delaware Trustee shall not be personally liable for any error of judgment made in good faith, except to the extent such error of judgment constitutes gross negligence on its part;

(ii) no provision of this Agreement shall require the Delaware Trustee to expend or risk its personal funds or otherwise incur any financial liability in the performance of its rights or powers hereunder, if the Delaware Trustee shall have reasonable grounds for believing that the payment of such funds or adequate indemnity against such risk or liability is not reasonably assured or provided to it;

(iii) under no circumstances shall the Delaware Trustee be personally liable for any representation, warranty, covenant, agreement, or indebtedness of the Trust, except for such representations, warranties, covenants or agreements made by it in connection with performing the functions described herein

(iv) the Delaware Trustee shall not be personally responsible for or in respect of the validity or sufficiency of this Agreement or for the due execution hereof by the Custodial Trustee or the Investment Manager;

(v) the Delaware Trustee shall incur no liability to anyone in acting upon any signature, instrument, notice, resolution, request, consent, order, certificate, report, opinion, bond or other document or paper reasonably believed by it to be genuine and reasonably believed by it to be signed by the proper party or parties. The Delaware Trustee may accept a certified copy of a resolution of the board of directors or other governing body of any corporate party as conclusive evidence that such resolution has been duly adopted by such body and that the same is in full force and effect. As to any fact or matter the manner of ascertainment of which is not specifically prescribed herein, the Delaware Trustee may for all purposes hereof rely on a certificate, signed by the Custodial Trustee, as to such fact or matter, and such certificate shall constitute full protection to the Delaware Trustee for any action taken or omitted to be taken by it in good faith in reliance thereon;

(vi) in the exercise or administration of the trust hereunder, the Delaware Trustee (a) may act directly or through agents or attorneys pursuant to agreements entered into with any of them, and the Delaware Trustee shall not be liable for the default or misconduct of such agents or attorneys if such agents or attorneys shall have been selected by the Delaware Trustee in good faith and with due care and (b) may consult with counsel, accountants and other skilled persons to be selected by it in good faith and with due care and employed by it, and it shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons; and

(vii) except as expressly provided in this Section 7.21, in accepting and performing the trust hereby created the Delaware Trustee acts solely as trustee hereunder and not in its individual capacity, and all persons having any claim against the Delaware Trustee by reason of the transactions contemplated by this Agreement or the Trust Agreement shall look only to the Trust's property for payment or satisfaction thereof.

(b) The Delaware Trustee (or any successor Trustee) shall be entitled to receive compensation from the Trust or from the Investment Manager for its services in accordance with such schedules as shall have been separately agreed to from time to time by the Delaware Trustee and the Investment Manager. The Delaware Trustee may consult with counsel (who may be counsel for the Investment Manager or for the Delaware Trustee). The reasonable legal fees incurred in connection with such consultation shall be reimbursed to the Delaware Trustee pursuant to this Section 7.21(b), provided that (i) the Delaware Trustee shall have notified the Investment Manager in advance of incurring such fees, of the name of counsel and the extent of its representation, and (ii) no such fees shall be payable to the extent that they are incurred as a result of the Delaware Trustee's gross negligence, bad faith or willful misconduct.

(c) The Delaware Trustee shall serve for the duration of the Trust and until the earlier of (i) the effective date of the Delaware Trustee's resignation, or (ii) the effective date of the removal of the Delaware Trustee. The Delaware Trustee may resign at any time by giving thirty (30) days written notice to the Investment Manager; provided, however, said resignation shall not be effective until such time as a successor Delaware Trustee has accepted such appointment. The Delaware Trustee may be removed at any time by the Investment Manager by providing thirty (30) days written notice to the Delaware Trustee; provided, however, such removal shall not be effective until such time as a successor Delaware Trustee has accepted such appointment. Upon the resignation or removal of the Delaware Trustee, the Investment Manager or the Custodial Trustee shall appoint a successor Delaware Trustee. If no successor Delaware Trustee shall have been appointed and shall have accepted such appointment within forty-five (45) days after the giving of such notice of resignation or removal, the Delaware Trustee may petition any court of competent jurisdiction for the appointment of a successor Delaware Trustee. Any successor Delaware Trustee appointed in accordance with the terms hereof shall be eligible to act in such capacity in accordance with this Agreement and, following compliance with this Section, shall become fully vested with the rights, powers, duties and obligations of its predecessor under this Agreement, with like effect as if originally named as Delaware Trustee.

(d) The Delaware Trustee or any officer, affiliate, director, employee, or agent of the Delaware Trustee each an "Indemnified Person") shall be entitled to indemnification from the Investment Manager or the Trust, to the fullest extent permitted by law, from and against any and all losses, claims, taxes, damages, reasonable expenses, and liabilities (including liabilities under state or federal securities laws) of any kind and nature whatsoever (collectively, "Expenses"), to the extent that such Expenses arise out of or are imposed upon or asserted against such Indemnified Persons with respect to the creation, operation or termination of the Trust, the execution, delivery or performance of this Agreement or the transactions contemplated hereby; provided, however, that the Investment Manager and the Trust shall not be required to indemnify any Indemnified Person for any Expenses which are a result of the willful misconduct, bad faith or gross negligence of such Indemnified Person. The obligations of the Investment Manager and the Trust to indemnify the Indemnified Persons as provided herein shall survive the termination of this Agreement.

## ARTICLE 8 DISSOLUTION AND LIQUIDATION

### Section 8.01 Dissolution Upon Expiration Date.

Unless earlier dissolved, the Trust shall automatically dissolve on December 31, \_\_\_\_ (the "Expiration Date"), following the distribution of the Trust Property in accordance with Section 8.04.

### Section 8.02 Early Dissolution.

The earliest to occur of any of the following events is an "Early Dissolution Event":

- (a) the occurrence of a Bankruptcy Event in respect of, or the dissolution or liquidation of, the Sponsor;
- (b) upon 30 days' prior written notice to the Holders of the Trust Preferred Securities, the delivery of written direction to the Property Trustee by the Sponsor (which direction is wholly optional and within the discretion of the Sponsor) to dissolve the Trust and cause the distribution of a Like Amount of Distributable Debentures to the Securityholders in exchange for the Trust Preferred Securities in accordance with Section 8.04;
- (c) the redemption of all of the Trust Securities; and
- (d) an order for dissolution or liquidation of the Trust shall have been entered by a court of competent jurisdiction.

### Section 8.03 Termination of Obligations.

The respective obligations and responsibilities of the Trustees and the Trust created and continued hereby shall terminate upon the latest to occur of the following: (i) the distribution by the Property Trustee to Securityholders upon the liquidation of the Trust pursuant to Section 8.04, or upon the redemption of all of the Trust Securities pursuant to Section 4.02, of all amounts required to be distributed hereunder upon the final payment of the Trust Securities; (ii) the payment of any expenses owed by the Trust; and (iii) the discharge of all administrative duties of the Regular Trustees, including the performance of any tax reporting obligations with respect to the Trust or the Securityholders.

### Section 8.04 Dissolution and Liquidation.

(a) If an Early Dissolution Event specified in clause (a), (b) or (d) of Section 8.02 occurs or upon the Expiration Date, the Trust shall be liquidated by the Regular Trustees and the Property Trustee as expeditiously as they determine to be possible by distributing, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, to each Securityholder a Like Amount of Distributable Debentures, subject to Sections 2.05(b) and 8.04(d). Notice of liquidation shall be given by the Property Trustee by first-class mail, postage prepaid, mailed not later than 30 nor more than 60 days prior to the Liquidation Date to each Holder of Trust Securities at such Holder's address appearing in the Securities Register. All notices of liquidation shall:

- (1) state the Liquidation Date;
- (2) state that from and after the Liquidation Date, the Trust Securities will no longer be deemed to be Outstanding and any Trust Securities Certificates not surrendered for exchange will be deemed to represent the right to receive a Like Amount of Distributable Debentures, as the case may be; and
- (3) provide such information with respect to the mechanics by which Holders may exchange Trust Securities Certificates for certificates evidencing Distributable Debentures, or, if Section 8.04(d) applies, receive a Liquidation Distribution, as the Regular Trustees or the Property Trustee shall deem appropriate.

(b) In order to effect the liquidation of the Trust and distribution of the Distributable Debentures to Securityholders, the Property Trustee shall establish a record date for such distribution (which shall be one Business Day prior to the Liquidation Date; provided, however, that in the event that the Trust Preferred Securities are not in book-entry-only form, such record date shall be the date that is 15 days prior to the Liquidation Date) and either itself acting as exchange agent or through the appointment of a separate exchange agent, shall establish such procedures as it shall deem appropriate to effect the distribution of such Debentures in exchange for the Outstanding Trust Securities Certificates.

(c) Except where Section 8.02(c) or 8.02(d) applies, on or after the Liquidation Date (i) the Trust Securities will no longer be deemed to be Outstanding, (ii) certificates representing a Like Amount of the Distributable Debentures will be issued to Holders of Trust Securities Certificates, upon surrender of such certificates to the Regular Trustees or their agent for exchange, (iii) the Sponsor shall use its best efforts to have the Distributable Debentures listed on the New York Stock Exchange or such other exchange as the Trust Preferred Securities are then listed and shall take any reasonable action necessary to effect the distribution of such Distributable Debentures, (iv) any Trust Securities Certificates not so surrendered for exchange will be deemed to represent a Like Amount of Distributable Debentures, accruing interest at the rate provided for in the Distributable Debentures from the last Distribution Date on which a Distribution was made on such Trust Certificates until such certificates are so surrendered (and until such certificates are so surrendered, no payments or interest or principal will be made to Holders of Trust Securities Certificates with respect to such Distributable Debentures) and (v) all rights of Securityholders holding Trust Securities will cease, except the right of such Securityholders to receive Distributable Debentures upon surrender of Trust Securities Certificates.

(d) In the event that, notwithstanding the other provisions of this Section 8.04, whether because of the occurrence of a Bankruptcy Event in respect of the Sponsor, an order for termination entered by a court of competent jurisdiction or otherwise, distribution of the Distributable Debentures in the manner provided herein is determined by the Property Trustee not to be practicable, the Trust Property shall be liquidated, and the Trust shall be terminated, by the Property Trustee in such manner as the Property Trustee determines. In such event, on the date of the dissolution of the Trust, Securityholders will be entitled to receive out of the assets of the Trust available for distribution to Securityholders, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, an amount equal to \$[ ] per Trust Security plus accumulated and unpaid Distributions thereon to the date of payment (such amount being the "Liquidation Distribution"). If, upon any such termination, the Liquidation Distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate Liquidation Distribution, then, subject to the next succeeding sentence, the amounts payable by the Trust on the Trust Securities shall be paid on a pro rata basis (based upon Liquidation Preferences). The Holder of the Trust Common Securities will be entitled to receive Liquidation Distributions upon any such termination pro rata (determined as aforesaid) with Holders of Trust Preferred Securities, except that, if a Debenture Event of Default has occurred and is continuing, the Trust Preferred Securities shall have a priority over the Trust Common Securities, and no Liquidation Distribution will be paid to the Holders of the Trust Common Securities unless and until receipt by all Holders of the Trust Preferred Securities of the entire Liquidation Distribution payable in respect thereof.

#### ARTICLE 9 MERGERS, ETC.

Section 9.01 Mergers, Consolidations, Conversions, Amalgamations or Replacements of the Trust.

The Trust may not merge with or into, consolidate, convert, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any Person, except as described below or as described in this Article 9. The Trust may, at the request of the Sponsor, with the consent of the Regular Trustees and without the consent of the Holders of the Trust Preferred Securities, merge with or into, consolidate, convert, amalgamate, be replaced by or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to a trust organized as such under the laws of any state; provided, that (i) such successor entity either (a) expressly assumes all of the obligations of the Trust with respect to the Trust Preferred Securities or (b) substitutes for the Trust Preferred Securities other securities having substantially the same terms as the Trust Preferred Securities (the "Successor Securities") so long as the Successor Securities rank the same as the Trust Preferred Securities rank with respect to the payment of Distributions and payments upon liquidation, redemption and otherwise, (ii) the Sponsor expressly appoints a trustee of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the Debentures, the Successor Securities are listed, or any Successor Securities will be listed upon notification of issuance, on any national securities exchange or other organization on which the Trust Preferred Securities are then listed, if any, (iv) such merger, consolidation, conversion, amalgamation, replacement, conveyance, transfer or lease does not cause the Trust Preferred Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization, (v) such merger, consolidation, conversion, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Trust Preferred Securities (including any Successor Securities) in any material respect, (vi) such successor entity has a purpose substantially similar to that of the Trust, (vii) prior to such merger, consolidation, conversion, amalgamation, replacement, conveyance, transfer or lease, the Sponsor has received an Opinion of Counsel to the effect that (a) such merger, consolidation, conversion, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Trust Preferred Securities (including any Successor Securities) in any material respect, and (b) following such merger, consolidation, conversion, amalgamation, replacement, conveyance transfer or lease, neither the Trust nor such successor entity will be required to register as an investment company under the 1940 Act and (viii) the Sponsor or any permitted successor or assignee owns all of the common securities of such successor entity and guarantees the obligations of such successor entity under the Successor Securities at least to the extent provided by the Trust Guarantee and this Trust Agreement. Notwithstanding the foregoing, the Trust shall not, except with the consent of all Holders of the Trust Preferred Securities, merge with or into, consolidate, convert, amalgamate, be replaced by or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to, any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it if such consolidation, conversion, amalgamation, merger, replacement, conveyance, transfer or lease would cause the Trust or the successor entity to be classified as other than a grantor trust for United States federal income tax purposes.

ARTICLE 10  
MISCELLANEOUS PROVISIONS

Section 10.01 Limitation of Rights of Securityholders.

The death, incapacity, dissolution, termination, liquidation or bankruptcy of any Person having an interest, beneficial or otherwise, in Trust Securities shall not operate to annul, dissolve or terminate the Trust or this Trust Agreement, nor entitle the legal representatives or heirs of such Person or any Securityholder for such Person, to claim an accounting, take any action or bring any proceeding in any court for a partition or winding-up of the arrangements contemplated hereby, nor otherwise affect the rights, obligations and liabilities of the parties hereto or any of them.

Section 10.02 Amendment.

(a) This Trust Agreement may be amended from time to time by the Regular Trustees and the Sponsor, without the consent of any Securityholders, to cure any ambiguity, to correct or supplement any provisions in this Trust Agreement that may be inconsistent with any other provision, or to include any other provisions with respect to matters or questions arising under this Trust Agreement that shall not be inconsistent with the other provisions of this Trust Agreement, or (ii) to modify, eliminate or add to any provisions of this Trust Agreement to such extent as shall be necessary to ensure that the Trust will be classified for United States federal income tax purposes as a grantor trust at all times that any Trust Preferred Securities and Trust Common Securities are Outstanding, to ensure that the Debentures will be treated as indebtedness of the Companies or to ensure that the Trust will not be required to register as an investment company under the 1940 Act; provided, however, that in the case of clause (i) above, such action shall not adversely affect in any respect the interests of any Holder of Trust Preferred Securities or Trust Common Securities. Any amendments of this Trust Agreement pursuant to this Section 10.02(a) shall become effective when notice thereof is given to the Securityholders.

(b) Except as provided in Section 10.02(a) and 10.02(c) hereof, any provision of this Trust Agreement may be amended by the Regular Trustees and the Sponsor with the consent of Holders of at least a Majority in Liquidation Preference of the Outstanding Trust Preferred Securities.

(c) In addition to and notwithstanding any other provision in this Trust Agreement, without the consent of each affected Securityholder, this Trust Agreement may not be amended to (i) change the amount, timing or currency of any Distribution or Liquidation Distribution on the Trust Securities or otherwise adversely affect the method of payment of any Distribution or Liquidation Distribution required to be made in respect of the Trust Securities as of a specified date; (ii) change the redemption provisions of the Trust Securities; (iii) restrict the right of a Securityholder to institute suit for the enforcement of any such payment contemplated in (i) or (ii) above on or after the related payment date; (iv) modify the first sentence of Section 2.06 hereof, (v) authorize or issue any beneficial interest in the Trust other than as contemplated by this Trust Agreement as of the date hereof; (vi) change the conditions precedent for the Sponsor to elect to dissolve the Trust and distribute the Distributable Debentures to Holders of Trust Preferred Securities as set forth in Section 8.02; or (vii) affect the limited liability of any Holder of Trust Preferred Securities, and, notwithstanding any other provision herein, without the unanimous consent of the Securityholders, paragraphs (b) and

(d) of this Section 10.02 may not be amended.

(e) Notwithstanding any other provisions of this Trust Agreement, no amendment to this Trust Agreement shall be made without receipt by the Trust of an Opinion of Counsel experienced in such matters to the effect that such amendment or the exercise of any power granted to the Trustees in accordance with such amendments will not affect the Trust's status as a grantor trust for United States federal income tax purposes or its exemption from regulation as an "investment company" under the 1940 Act.



(f) Notwithstanding anything in this Trust Agreement to the contrary, without the consent of the Sponsor, this Trust Agreement may not be amended in a manner which imposes any additional obligation on the Sponsor.

(g) In the event that any amendment to this Trust Agreement is made, the Regular Trustees shall promptly provide to the Sponsor a copy of such amendment.

(h) In executing any amendment to the Trust Agreement, the Property Trustee shall be entitled to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Officer's Certificate and Opinion of Counsel stating that the execution of such amendment is authorized or permitted by this Trust Agreement. Except as contemplated by Section 7.11, any Trustee may, but shall not be obligated to, enter into any amendment to this Trust Agreement which affects the Trustee's own rights, duties or immunities under this Trust Agreement or otherwise.

Section 10.03 Severability.

In case any provision in this Trust Agreement or in the Trust Securities Certificates shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.04 Governing Law.

THIS TRUST AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF EACH OF THE SECURITYHOLDERS, THE TRUST AND THE TRUSTEES WITH RESPECT TO THIS TRUST AGREEMENT AND THE TRUST SECURITIES SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.

Section 10.05 Successors and Assigns.

This Trust Agreement shall be binding upon and shall inure to the benefit of any successor to the Trust or successor Trustee or both, including any successor by operation of law. Except in connection with a consolidation, merger, conversion or sale involving the Sponsor that is permitted under Article \_\_ of the Indenture and pursuant to which the assignee agrees in writing to perform the Sponsor's obligations hereunder, the Sponsor shall not assign its obligations hereunder.

Section 10.06 Headings.

The Article and Section headings are for convenience only and shall not affect the construction of this Trust Agreement .

Section 10.07 Reports, Notices and Demands.

(a) Any report, notice, demand or other communication which by any provision of this Trust Agreement is required or permitted to be given or served to or upon any Securityholder or the Sponsor may be given or served in writing by deposit thereof, first-class postage prepaid in the United States mail, hand delivery or facsimile transmission, in each case, addressed, (i) in the case of a Holder of a Trust Preferred Security, to such Holder of a Trust Preferred Security as such Securityholder's name and address may appear on the Securities Register; and (ii) in the case of the Holder of a Common Security or the Sponsor, to Redwood Trust, Inc., One Belvedere Place, Suite 300, Mill Valley, California, 94941, Attention: \_\_\_\_\_, facsimile no.: \_\_\_\_\_. Such notice, demand or other communication to or upon a Securityholder shall be deemed to have been sufficiently given or made, for all purposes, upon hand delivery, mailing or transmission.

(b) Any notice, demand or other communication which by any provision of this Trust Agreement is required or permitted to be given or served to or upon the Trust, the Property Trustee or the Regular Trustees shall be given in writing addressed (until another address is published by the Trust) as follows: with respect to the Property Trustee to [REDACTED], [REDACTED]; (ii) with respect to the Delaware Trustee, to [REDACTED], [REDACTED]; and (iii) with respect to the Regular Trustees, to the address above for notices to the Sponsor, marked "Attention: Regular Trustees of Redwood Capital Trust II." Such notice, demand or other communication to or upon the Trust or the Property Trustee shall be deemed to have been sufficiently given or made only upon actual receipt of the writing by the Trust or the Property Trustee.

Section 10.08 Agreement Not to Petition.

Each of the Trustees and the Sponsor agree for the benefit of the Securityholders that, until at least one year and one day after the Trust has been dissolved in accordance with Article 8, they shall not file, or join in the filing of, a petition against the Trust under any Bankruptcy Laws or otherwise join in the commencement of any proceeding against the Trust under any Bankruptcy Law. In the event the Sponsor or any of the Trustees takes action in violation of this Section 10.08, the Property Trustee agrees, for the benefit of Securityholders, that at the expense of the Sponsor, it shall file an answer with the bankruptcy court or otherwise properly contest the filing of such petition by the Sponsor or any of the Trustees, as applicable, against the Trust or the commencement of such action and raise the defense that the Sponsor has agreed in writing not to take such action and should be estopped and precluded therefrom and such other defenses, if any, as counsel for the Property Trustee or the Trust may assert. The provisions of this Section 10.08 shall survive the dissolution of this Trust Agreement.

Section 10.09 Trust Indenture Act; Conflict with Trust Indenture Act.

(a) This Trust Agreement is subject to the provisions of the Trust Indenture Act that are required to be part of this Trust Agreement and shall, to the extent applicable, be governed by such provisions.

(b) The Property Trustee shall be the only Trustee which is a trustee for the purposes of the Trust Indenture Act.

(c) If any provision hereof limits, qualifies or conflicts with another provision hereof which is required to be included in this Trust Agreement by any of the provisions of the Trust Indenture Act, such required provision shall control. If any provision of this Trust Agreement modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Trust Agreement as so modified or excluded, as the case may be.

(d) The application of the Trust Indenture Act to this Trust Agreement shall not affect the nature of the Trust Securities as equity securities representing undivided beneficial interests in the assets of the Trust.

Section 10.10 Acceptance of Terms of Trust Agreement, Guarantees and the Indenture.

THE RECEIPT AND ACCEPTANCE OF A TRUST SECURITY OR ANY INTEREST THEREIN BY OR ON BEHALF OF A SECURITYHOLDER OR ANY BENEFICIAL OWNER, WITHOUT ANY SIGNATURE OR FURTHER MANIFESTATION OF ASSENT, SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE SECURITYHOLDER AND ALL OTHERS HAVING A BENEFICIAL INTEREST IN SUCH TRUST SECURITY OF ALL THE TERMS AND PROVISIONS OF THIS TRUST AGREEMENT AND AGREEMENT TO THE SUBORDINATION PROVISIONS AND OTHER TERMS OF THE TRUST GUARANTEE, THE INDENTURE AND THE SUBSIDIARY GUARANTEES, AND SHALL CONSTITUTE THE AGREEMENT OF THE TRUST, SUCH SECURITYHOLDER AND SUCH OTHERS THAT THE TERMS AND PROVISIONS OF THIS TRUST AGREEMENT SHALL BE BINDING, OPERATIVE AND EFFECTIVE AS BETWEEN THE TRUST AND SUCH SECURITYHOLDER AND SUCH OTHERS.

IN WITNESS WHEREOF, the parties have caused this Trust Agreement to be duly executed, all as of the day and year first above written.

REDWOOD TRUST, INC.,  
as Sponsor

By: \_\_\_\_\_

By: \_\_\_\_\_

[REDACTED],  
as Property Trustee

By: \_\_\_\_\_

Name:  
Title:

[REDACTED],  
as Delaware Trustee

By: \_\_\_\_\_

Name:  
Title:

\_\_\_\_\_  
[REDACTED]  
as Regular Trustee

\_\_\_\_\_  
[REDACTED]  
as Regular Trustee

---

Certificate of Trust  
of  
Redwood Capital Trust II

This Certificate of Trust of Redwood Capital Trust II (the "Trust"), is being duly executed and filed by the undersigned, as trustee, to form a statutory trust under the Delaware Statutory Trust Act (12 Del. Code, § 3801 *et seq.*) (the "Act").

- 1. Name. The name of the statutory trust formed hereby is Redwood Capital Trust II.
- 2. Delaware Trustee. The name and business address of the trustee of the Trust having its principal place of business in the State of Delaware are Wells Fargo Delaware Trust Company, N.A., 919 North Market Street, Suite 1600, Wilmington, Delaware, 19801.
- 3. Effective Date. This Certificate of Trust shall be effective upon its filing with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Trust in accordance with Section 3811(a)(1) of the Act.

WELLS FARGO DELAWARE TRUST COMPANY, N.A.,  
not in its individual capacity but solely as trustee

By: /s/ Tracy M. McLamb  
Name: Tracy M. McLamb  
Title: Vice President



THIS CERTIFICATE IS NOT TRANSFERABLE EXCEPT TO THE EXTENT PROVIDED IN THE TRUST AGREEMENT (AS DEFINED BELOW)

CERTIFICATE NO.  
TC-1

NO. OF TRUST  
COMMON SECURITIES  
[ ]

CERTIFICATE EVIDENCING TRUST COMMON SECURITIES

OF

REDWOOD CAPITAL TRUST II  
[ ]% TRUST COMMON SECURITIES  
(LIQUIDATION PREFERENCE \$[ ] PER COMMON SECURITY)

Redwood Capital Trust II, a statutory trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that Redwood Trust, Inc. (the "Holder") is the registered owner of [ ] common securities of the Trust representing undivided beneficial interests in the assets of the Trust and designated as the [ ]% Trust Common Securities (Liquidation Preference \$[ ] per Common Security) (the "Trust Common Securities"). Except as provided in Section 5.10 of the Trust Agreement (as defined below), the Trust Common Securities are not transferable and any attempted transfer hereof shall be void. The designations, rights, privileges, restrictions, preferences and other terms and provisions of the Trust Common Securities are set forth in, and this certificate and the Trust Common Securities represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Trust Agreement of the Trust dated as of \_\_\_\_\_, \_\_\_\_\_, as the same may be amended from time to time (the "Trust Agreement"). The Trust will furnish a copy of the Trust Agreement to the Holder without charge upon written request to the Trust at its principal place of business or registered office.

Upon receipt of this certificate, the Holder is bound by the Trust Agreement and is entitled to the benefits thereunder.

IN WITNESS WHEREOF, the undersigned Regular Trustees of the Trust have executed this certificate this [ ] day of [ ], [ ] .

REDWOOD CAPITAL TRUST II

By: \_\_\_\_\_ By: \_\_\_\_\_  
Name: \_\_\_\_\_ Name: \_\_\_\_\_  
Regular Trustee Regular Trustee

\_\_\_\_\_

This Trust Preferred Security is a Book-Entry Trust Preferred Securities Certificate within the meaning of the Trust Agreement hereinafter referred to and is registered in the name of The Depository Trust Company (the "Depository") or a nominee of the Depository. This Trust Preferred Security is exchangeable for Trust Preferred Securities registered in the name of a person other than the Depository or its nominee only in the limited circumstances described in the Trust Agreement referred to herein and no transfer of this Trust Preferred Security (other than a transfer of this Trust Preferred Security as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository) may be registered except in limited circumstances.

Unless this Trust Preferred Security is presented by an authorized representative of The Depository Trust Company, a New York corporation (55 Water Street, New York) to Redwood Capital Trust II or its agent for registration of transfer, exchange or payment, and any Trust Preferred Security issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment hereon is made to Cede & Co. or to such other entity as is requested by an authorized representative of The Depository Trust Company, ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

THIS CERTIFICATE IS NOT TRANSFERABLE EXCEPT TO THE EXTENT PROVIDED IN THE TRUST AGREEMENT (AS DEFINED BELOW)

<u>CERTIFICATE NO.</u> TP-1	<u>NO. OF TRUST COMMON SECURITIES</u> [       ]
<u>CUSIP NO.</u>	<u>AGGREGATE LIQUIDATION PREFERENCE</u> \$[       ]

CERTIFICATE EVIDENCING TRUST PREFERRED SECURITIES

OF

REDWOOD CAPITAL TRUST II

[ ]% TRUST PREFERRED SECURITIES,  
(LIQUIDATION PREFERENCE \$[ ] PER PREFERRED SECURITY)



Redwood Capital Trust II, a statutory trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that Cede & Co. (the "Holder") is the registered owner of [ ] preferred securities of the Trust representing undivided preferred beneficial interests in the assets of the Trust and designated the Redwood Capital Trust II [ ]% Trust Preferred Securities (Liquidation Preference \$[ ] per Preferred Security) (the "Trust Preferred Securities"). Subject to the terms of Section 5.11 of the Trust Agreement (as defined herein), the Trust Preferred Securities are freely transferable on the books and records of the Trust, in person or by a duly authorized attorney, upon surrender of this certificate duly endorsed and in proper form for transfer as provided in Section 5.04 of the Trust Agreement. The designations, rights, privileges, restrictions, preferences and other terms and provisions of the Trust Preferred Securities are set forth in, and this certificate and the Trust Preferred Securities represented hereby are issued under and shall in all respects be subject to the terms and provisions of, the Amended and Restated Trust Agreement of the Trust dated as of \_\_\_\_\_, \_\_\_\_\_, as the same may be amended from time to time (the "Trust Agreement"). The Holder is entitled to the benefits of the Trust Guarantee Agreement entered into by Redwood Trust, Inc., a Maryland corporation ("Redwood"), and [ ], as trust guarantee trustee, dated as of \_\_\_\_\_, \_\_\_\_\_ (the "Trust Guarantee") to the extent provided therein, together with the benefits resulting from the obligations of Redwood under the Trust Agreement, its [ ]% Junior Subordinated Debentures, (the "Debentures") and the Indenture. The Property Trustee will furnish a copy of the aforementioned agreements and instruments to the Holder without charge upon written request to the Trust at its principal place of business.

Upon receipt of this certificate, the Holder is bound by the Trust Agreement and is entitled to the benefits thereunder.

Holders of Trust Preferred Securities shall be entitled to receive cumulative cash distributions at a rate per annum of [ ]% of the stated liquidation preference of \$[ ] per Trust Preferred Security. Distributions on the Trust Preferred Securities shall, from the date of original issue, accumulate and be cumulative and shall be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on \_\_\_\_\_, \_\_\_\_\_. Amounts available to the Trust for distribution to the Holders of the Trust Preferred Securities will be limited to payments received by the Trust on the Debentures. Distributions not paid on the scheduled payment date will accumulate and compound quarterly (to the extent permitted by applicable law) at the rate of [ ]% per annum.

The amount of Distributions payable for any period will be computed for any full quarterly Distribution period on the basis of a 360-day year of twelve 30-day months, except for any period shorter than a full calendar month, in which case the amount shall be computed on the basis of the actual number of days elapsed in such period. If the Trust Preferred Securities are in book-entry only form, Distributions will be payable to the holders of record of the Trust Preferred Securities as they appear on the books and records of the Trust on the Business Day prior to the relevant payment dates. If the Trust Preferred Securities are not in book-entry only form, the relevant record date shall be the date which is 15 days prior to the relevant payment date, whether or not a Business Day. If Distributions are not paid when scheduled, the accumulated Distributions shall be paid to the holders of record of the Trust Preferred Securities as they appear on the books and records of the Trust on the relevant record date as determined under the Trust Agreement with respect to the actual payment date for such Distributions. In the event that any date on which a Distribution is payable is not a Business Day, payment of such Distribution shall be made on the next succeeding day which is a Business Day (without any additional Distributions or other payment in respect of any such delay) except that, if such Business Day falls in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day (without any reduction of Distributions or other payments in respect of such early payment), in each case with the same force and effect as if made on the date such payment was originally payable.



The Trust Preferred Securities shall be redeemable as provided in the Trust Agreement.

Unless otherwise expressly provided or unless the context otherwise requires, capitalized terms or phrases used herein and not otherwise defined herein shall have the meaning or meanings assigned to such terms or phrases in the Trust Agreement.

IN WITNESS WHEREOF, the undersigned Regular Trustees of the Trust have executed this certificate this [ ] day of [ ], [ ].

REDWOOD CAPITAL TRUST II

By: \_\_\_\_\_  
Name:  
Regular Trustee

By: \_\_\_\_\_  
Name:  
Regular Trustee

\_\_\_\_\_

CERTIFICATE OF AUTHENTICATION

This Certificate is one of the issue of Trust Preferred Securities described in the Trust Agreement.

Date of Authentication: [                    ], [    ].

[                    ],  
as Property Trustee

By:

\_\_\_\_\_

Authorized Signatory

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ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers to:

\_\_\_\_\_  
\_\_\_\_\_  
(Insert assignee's social security or tax identification number)

\_\_\_\_\_  
\_\_\_\_\_  
(Insert address and zip code of assignee)

\_\_\_\_\_ Trust Preferred Securities represented by this Trust Preferred  
Securities Certificates and irrevocably appoints

\_\_\_\_\_  
agent to transfer said Trust Preferred Securities on the books of the Trust. The agent may substitute another to act for him or her.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_  
(Sign exactly as your name appears in this Trust Preferred Securities Certificates)

\_\_\_\_\_

GUARANTEE AGREEMENT

BETWEEN

REDWOOD TRUST, INC.

(AS GUARANTOR)

[REDACTED]

(as Trustee)

dates as of \_\_\_\_\_

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CROSS-REFERENCE TABLE\*

SECTION OF TRUST INDENTURE ACT OF 1939, AS AMENDED	SECTION OF GUARANTEE AGREEMENT
310(a)	4.1 (a)
310(b)	4.1(c), 2.7
310(c)	Inapplicable
311(a)	2.2(b)
311(b)	2.2(b)
311(c)	Inapplicable
312(a)	2.2(a)
312(b)	2.2(b)
313	2.3
314(a)	2.4
314(b)	Inapplicable
314(c)	2.5
314(d)	Inapplicable
314(e)	1.1, 2.5, 3.2
314(f)	2.1, 3.2
315(a)	3.1(d)
315(b)	2.6(a)
315(c)	3.1
315(d)	3.1(d)
316(a)	1.1, 2.6, 5.4
316(b)	5.3
316(c)	8.2
317(a)	Inapplicable
317(b)	Inapplicable
318(a)	2.1(b)
318(b)	2.1
318(c)	2.1(a)

\* This Cross-Reference Table does not constitute part of the Guarantee Agreement and shall not affect the interpretation of any of its terms or provisions.

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## GUARANTEE AGREEMENT

GUARANTEE AGREEMENT, dated as of \_\_\_\_ (this "Guarantee Agreement"), entered into between Redwood Trust, Inc., a Maryland corporation having its principal office at One Belvedere Place, Suite 300, Mill Valley, California, 94941 (the "Guarantor"), and [REDACTED], as trustee (the "Guarantee Trustee"), for the benefit of the Holders (as defined herein) from time to time of the Preferred Securities (as defined herein) of REDWOOD CAPITAL TRUST II, a Delaware statutory trust (the "Issuer").

WHEREAS, pursuant to an Amended and Restated Trust Agreement, dated as of \_\_\_\_ (the "Trust Agreement"), among Redwood Trust, Inc., a Maryland corporation (the "Company"), as Sponsor, the Property Trustee named therein, the Delaware Trustee named therein, the Regular Trustees named therein and the several Holders as defined therein, the Issuer is issuing \$ \_\_\_\_ aggregate Liquidation Amount (as defined in the Trust Agreement) of its \_\_\_\_% \_\_\_\_ Preferred Securities, Series \_\_\_\_ (Liquidation Amount \$ \_\_\_\_ per Preferred Security) (the "Preferred Securities"), representing undivided beneficial interests in the assets of the Issuer and having the terms set forth in the Trust Agreement;

WHEREAS, the Preferred Securities will be issued by the Issuer and the proceeds thereof, together with the proceeds from the issuance of the Common Securities (as defined in the Trust Agreement), will be used to purchase the Subordinated Debt Securities (as defined in the Trust Agreement) of the Company which will be deposited with [REDACTED], as Property Trustee under the Trust Agreement, as trust assets; and

WHEREAS, as incentive for the Holders to purchase Preferred Securities the Guarantor desires irrevocably and unconditionally to agree, to the extent set forth herein, to pay to the Holders of the Preferred Securities the Guarantee Payments (as defined herein) and to make certain other payments on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the purchase by each Holder of Preferred Securities, which purchase the Guarantor hereby agrees shall benefit the Guarantor, the Guarantor executes and delivers this Guarantee Agreement for the benefit of the Holders from time to time of the Preferred Securities.

### ARTICLE I. DEFINITIONS

Section 1.1 Definitions. As used in this Guarantee Agreement, the terms set forth below shall, unless the context otherwise requires, have the following meanings. Capitalized or otherwise defined terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Trust Agreement as in effect on the date hereof.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

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“Event of Default” means (i) a default by the Guarantor on any of its payment obligations under this Guarantee Agreement and (ii) a default by the Guarantor on any other obligation hereunder that remains uncured after 30 days from the occurrence thereof.

“Guarantee Payments” means the following payments or distributions, without duplication, with respect to the Preferred Securities, to the extent not paid or made by or on behalf of the Issuer: (i) any accumulated and unpaid Distributions (as defined in the Trust Agreement) required to be paid on the Preferred Securities, to the extent the Issuer shall have funds on hand available therefor at such time, (ii) the redemption price, including all accumulated and unpaid Distributions to the date of redemption (the “Redemption Price”), with respect to any Preferred Securities called for redemption by the Issuer, to the extent the Issuer shall have funds on hand available therefor at such time, and (iii) upon a voluntary or involuntary termination, winding-up or liquidation of the Issuer, unless Subordinated Debt Securities are distributed to the Holders, the lesser of (a) the aggregate of the Liquidation Amount of \$ \_\_\_\_\_ per \_\_\_\_\_ Preferred Security plus accumulated and unpaid Distributions on the Preferred Securities to the date of payment, to the extent the Issuer shall have funds on hand available therefor at such time and (b) the amount of assets of the Issuer remaining available for distribution to Holders in liquidation of the Issuer (in either case, the “Liquidation Distribution”).

“Guarantee Trustee” has the meaning set forth in the preamble to this Guarantee Agreement.

“Holder” means any holder, as registered on the books and records of the Issuer, of any Preferred Securities; provided, however, that in determining whether the holders of the requisite percentage of Preferred Securities have given any request, notice, consent or waiver hereunder, “Holder” shall not include the Guarantor, the Guarantee Trustee, or any Affiliate of the Guarantor or the Guarantee Trustee.

“Indenture” means the Subordinated Indenture dated as of [ ] among the Company and [ ], as trustee thereunder.

“List of Holders” has the meaning specified in Section 2.2(a).

“Majority in Liquidation Amount of the Preferred Securities” means, except as provided in the Trust Agreement and by the Trust Indenture Act, Holder(s) of Preferred Securities voting separately as a class, who vote Preferred Securities and the aggregate liquidation amount (including the stated amount that would be paid on redemption, liquidation or otherwise, plus accrued and unpaid Distributions to the date upon which the voting percentage is determined) of the Preferred Securities voted by such Holders represents more than 50% of the above stated aggregate liquidation amount of all Preferred Securities.

“Officer’s Certificate” means a certificate signed by any one of the Chairman of the Board, Chief Executive Officer, President, a Vice President, the Treasurer, an Associate Treasurer, an Assistant Treasurer, the Controller, the Secretary or an Assistant Secretary, of the Company, and delivered to the Guarantee Trustee. Any Officer’s Certificate delivered with respect to compliance with a condition or covenant provided for in this Guarantee Agreement shall include:

- (a) a statement that the officer signing the Officer's Certificate has read the covenant or condition and the definitions relating thereto;
- (b) a brief statement of the nature and scope of the examination or investigation undertaken by such officer in rendering the Officer's Certificate;
- (c) a statement that such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (d) a statement as to whether, in the opinion of such officer, such condition or covenant has been complied with.

"Person" means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated association, or government or any agency or political subdivision thereof, or any other entity of whatever nature.

"Record Date" means, with respect to Preferred Securities that are held in book-entry form, the date that is one Business Day before the relevant Distribution Date, and with respect to Preferred Securities that are held in definitive form, the 15th day, whether or not a Business Day, before the relevant Distribution Date.

"Responsible Officer" means, with respect to the Guarantee Trustee, any vice-president, any assistant vice-president, any assistant secretary, any assistant treasurer, any trust officer or assistant trust officer or any other officer of the Guarantee Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

"Successor Guarantee Trustee" means a successor Guarantee Trustee possessing the qualifications to act as Guarantee Trustee under Section 4.1.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended.

## **ARTICLE II. TRUST INDENTURE ACT**

### Section 2.1 Trust Indenture Act: Application

- (a) This Guarantee Agreement is subject to the provisions of the Trust Indenture Act that are required to be part of this Guarantee Agreement and shall, to the extent applicable, be governed by such provisions.
- (b) If and to the extent that any provision of this Guarantee Agreement limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control.

Section 2.2 List of Holders; Preferential Claims.

(a) The Guarantor shall furnish or cause to be furnished to the Guarantee Trustee (a) not later than 15 days after each Record Date of each year, a list, in such form as the Guarantee Trustee may reasonably require, containing all the information in the possession or control of the Guarantor, as to of the names and addresses of the Holders ("List of Holders") as of the preceding respective Record Date, and (b) at such other times as the Guarantee Trustee may request in writing, within 30 days after the receipt by the Guarantor of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished. The Guarantee Trustee shall preserve, in as current a form as is reasonably practicable, all information contained in Lists of Holders given to it, provided that the Guarantee Trustee may destroy any List of Holders previously given to it on receipt of a new List of Holders.

(b) The Guarantee Trustee shall comply with its obligations under Section 311(a), Section 311(b) and Section 312(b) of the Trust Indenture Act.

Section 2.3 Reports by the Guarantee Trustee

Not later than 60 days following \_\_\_\_\_ of each year, commencing \_\_\_\_\_, the Guarantee Trustee shall provide to the Holders such reports as are required by Section 313 of the Trust Indenture Act, if any, in the form and in the manner provided by Section 313 of the Trust Indenture Act. The Guarantee Trustee shall also comply with the requirements of Section 313(d) of the Trust Indenture Act.

Section 2.4 Periodic Reports to the Guarantee Trustee The Guarantor shall provide to the Guarantee Trustee such documents, reports and information, if any, as required by Section 314 of the Trust Indenture Act and the compliance certificate required by Section 314 of the Trust Indenture Act, in the form, in the manner and at the times required by Section 314(a)(4) of the Trust Indenture Act.

Section 2.5 Evidence of Compliance with Conditions Precedent The Guarantor shall provide to the Guarantee Trustee such evidence of compliance with such conditions precedent, if any, provided for in this Guarantee Agreement that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to such Section 314(c)(1) may be given in the form of an Officer's Certificate.

Section 2.6 Events of Default; Waiver. The Holders of a Majority in Liquidation Amount of the Preferred Securities may, by vote, on behalf of the Holders, waive any past Event of Default and its consequences. Upon such waiver, any such Event of Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Guarantee Agreement, but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent therefrom.

(a) Event of Default; Notice. The Guarantee Trustee shall, within 90 days after the occurrence of an Event of Default actually known to a Responsible Officer of the Guarantee Trustee, transmit by mail, first class postage prepaid, to the Holders, notices of all such defaults unless such defaults have been cured before the giving of such notice (the term “defaults” for the purposes of this Section 2.6(a) being hereby defined to be an Event of Default as, not including any periods of grace provided for therein and irrespective of the giving of any notice provided therein); provided, that, except in the case of a default in the payment of a Guarantee Payment, the Guarantee Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or Responsible Officers, of the Guarantee Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

Section 2.7 Conflicting Interests. The Trust Agreement and the Indenture shall be deemed to be specifically described in this Guarantee Agreement for the purposes of clause (i) of the first proviso contained in Section 310(b) of the Trust Indenture Act.

### **ARTICLE III. POWERS, DUTIES AND RIGHTS OF THE GUARANTEE TRUSTEE**

#### Section 3.1 Powers and Duties of the Guarantee Trustee

(a) This Guarantee Agreement shall be held by the Guarantee Trustee for the benefit of the Holders, and the Guarantee Trustee shall not transfer this Guarantee Agreement to any Person except a Holder exercising his or her rights pursuant to Section 5.4(iv) or to a Successor Guarantee Trustee on acceptance by such Successor Guarantee Trustee of its appointment to act as Successor Guarantee Trustee. The right, title and interest of the Guarantee Trustee shall automatically vest in any Successor Guarantee Trustee, upon acceptance by such Successor Guarantee Trustee of its appointment hereunder, and such vesting and cessation of title shall be effective whether or not conveying documents have been executed and delivered pursuant to the appointment of such Successor Guarantee Trustee.

(b) The Guarantee Trustee, before the occurrence of any Event of Default and after the curing or waiving of all Events of Default that may have occurred, shall undertake to perform only such duties as are specifically set forth in this Guarantee Agreement, and no implied covenants, duties or obligations shall be read into this Guarantee Agreement against the Guarantee Trustee. In case an Event of Default has occurred (that has not been cured or waived pursuant to Section 2.6), the Guarantee Trustee shall enforce this Guarantee Agreement for the benefit of the Holders and shall exercise such of the rights and powers vested in it by this Guarantee Agreement, and use the same degree of care and skill in its exercise thereof, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(c) No provision of this Guarantee Agreement shall be construed to relieve the Guarantee Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this Subsection shall not be construed to limit Subsection (b) of this Section;

(ii) the Guarantee Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Guarantee Trustee, unless it shall be proved that the Guarantee Trustee was negligent in ascertaining the pertinent facts upon which such judgment was made;

(iii) the Guarantee Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a Majority in Liquidation Amount of the Preferred Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee, or exercising any trust or power conferred upon the Guarantee Trustee under this Guarantee Agreement; and

(iv) no provision of this Guarantee Agreement shall require the Guarantee Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if the Guarantee Trustee shall have reasonable grounds for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Guarantee Agreement or indemnity reasonably satisfactory to it against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Guarantee Agreement relating to the conduct or affecting the liability of or affording protection to the Guarantee Trustee shall be subject to the provisions of this subsection.

Section 3.2 Certain Rights of Guarantee Trustee. Subject to the provisions of Section 3.1:

(a) the Guarantee Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by it to be genuine and to have been signed, sent or presented by the proper party or parties; but in the case of any such certificates or opinions that by any provision hereof or of the Trust Indenture Act are specifically required to be furnished to the Guarantee Trustee, the Guarantee Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Guarantee Agreement;

(b) any direction or act of the Guarantor contemplated by this Guarantee Agreement shall be sufficiently evidenced by an Officer's Certificate unless otherwise prescribed herein;

(c) whenever, in the administration of this Guarantee Agreement, the Guarantee Trustee shall deem it desirable that a matter be proved or established taking, suffering or omitting to take any action hereunder, the Guarantee Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and conclusively rely upon an Officer's Certificate which, upon receipt of such request from the Guarantee Trustee, shall be promptly delivered by the Guarantor;

(d) the Guarantee Trustee shall have no duty to see to any recording, filing or registration of any instrument (including any financing or continuation statement or any filing under tax or securities laws) or any rerecording, refiling or reregistration thereof;

(e) the Guarantee Trustee may consult with legal counsel of its selection, and the written advice of such legal counsel or any Opinion of Counsel with respect to legal matters shall be full and complete authorization and protection in respect of any action taken, suffered or omitted to be taken by it hereunder in good faith and in reliance thereon and in accordance with such advice or Opinion of Counsel. Such legal counsel may be legal counsel to the Guarantor or any of its Affiliates and may be one of its employees;

(f) the Guarantee Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Guarantee Agreement at the request or direction of any Holders, unless such Holders shall have provided to the Guarantee Trustee such adequate security and indemnity reasonably satisfactory to it, against the costs, expenses (including reasonable attorneys' fees and expenses) and liabilities that might be incurred by it in complying with such request or direction;

(g) the Guarantee Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Guarantee Trustee may make such further inquiry or investigation into such facts or matters as it considers reasonably necessary in order to carry out its obligations in the administration of this Guarantee Agreement, and if the Guarantee Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Guarantor, personally or by agent or attorney;

(h) the Guarantee Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through its agents or attorneys, and the Guarantee Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed with due care by it hereunder;

(i) whenever in the administration of this Guarantee Agreement the Guarantee Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Guarantee Trustee:

(i) may request written instructions from the Holders which written instructions may only be given by the Holders of the same proportion in aggregate Liquidation Amount of the Preferred Securities as would be entitled to direct the Guarantee Trustee under the terms of the Preferred Securities;

(ii) may refrain from enforcing such remedy or right or taking such other action until such written instructions are received; and

(iii) shall be protected in acting in accordance with such written instructions;

(j) except as otherwise expressly provided by this Guarantee Agreement, the Guarantee Trustee shall not be under any obligation to take any action that is discretionary under the provisions of this Guarantee Agreement;

(k) the Guarantee Trustee shall not be deemed to have notice of any default or Event of Default unless a Responsible Officer of the Guarantee Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Guarantee Trustee at the Corporate Trust Office of the Guarantee Trustee, and such notice references the Preferred Securities and this Guarantee Agreement; and

(l) the rights, privileges, protections, immunities and benefits given to the Guarantee Trustee, including, without limitation, its right to be indemnified, are extended to each agent, custodian or other Person employed by the Guarantee Trustee to act hereunder, and shall be enforceable by the Guarantee Trustee in each of its capacities hereunder.

No provision of this Guarantee Agreement shall be deemed to impose any duty or obligation on the Guarantee Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it in any jurisdiction in which it shall be illegal, or in which the Guarantee Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Guarantee Trustee shall be construed to be a duty to act in accordance with such power and authority.

Section 3.3 Compensation; Indemnity; Fees. The Guarantor agrees:

(a) to pay to the Guarantee Trustee from time to time such reasonable compensation as shall be agreed to in writing between the Guarantor and the Guarantee Trustee for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided herein, to reimburse the Guarantee Trustee upon request for all reasonable expenses, disbursements and advances incurred or made by the Guarantee Trustee in accordance with any provision of this Guarantee Agreement (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or willful misconduct; and

(c) to the fullest extent permitted by applicable law, to indemnify and hold harmless (i) the Guarantee Trustee, (ii) any Affiliate of the Guarantee Trustee, (iii) any officer, director, shareholder, employee, representative or agent of the Guarantee Trustee and (iv) any employee or agent of the Guarantee Trustee or its Affiliates (referred to herein as an "Indemnified Person") from and against any loss, damage, liability, tax, penalty, expense or claim of any kind or nature whatsoever incurred by such Indemnified Person by or in connection with the administration of this Guarantee Agreement and in a manner such Indemnified Person reasonably believed to be within the scope of authority conferred on such Indemnified Person by this Guarantee Agreement, except that no Indemnified Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Indemnified Person by reason of negligence or willful misconduct with respect to such acts or omissions.

The provisions of this Section 3.3 shall survive the termination of this Guarantee Agreement or the resignation or removal of the Guarantee Trustee.

The Guarantee Trustee may not claim any lien or charge on any Trust Property as a result of any amount due pursuant to this Section 3.3.



The Guarantor and the Guarantee Trustee (subject to Section 3.4) may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Guarantor, and neither the Guarantor nor the Holders shall have any rights by virtue of this Guarantee Agreement in and to such independent ventures or the income or profits derived therefrom, and the pursuit of any such venture, even if competitive with the business of the Guarantor, shall not be deemed wrongful or improper. The Guarantee Trustee shall not be obligated to present any particular investment or other opportunity to the Guarantor even if such opportunity is of a character that, if presented to the Guarantor, could be taken by the Guarantor, and the Guarantee Trustee shall have the right to take for its own account (individually or as a partner or fiduciary) or to recommend to others any such particular investment or other opportunity. The Guarantee Trustee may engage or be interested in any financial or other transaction with the Guarantor or any Affiliate of the Guarantor, or may act as depository for, trustee or agent for, or act on any committee or body of holders of, securities or other obligations of the Guarantor or its Affiliates.

Section 3.4 Conflicting Interests. If the Guarantee Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Guarantee Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Guarantee Agreement. The Guarantee Agreement is hereby excluded for purposes of Section 310(b)(1) of the Trust Indenture Act.

#### **ARTICLE IV. GUARANTEE TRUSTEE**

Section 4.1 Guarantee Trustee: Eligibility.

(a) There shall at all times be a Guarantee Trustee which shall:

(i) not be an Affiliate of the Guarantor; and

(ii) be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least \$50,000,000, and shall be a corporation meeting the requirements of Section 310(a) of the Trust Indenture Act. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the supervising or examining authority, then, for the purposes of this Section and to the extent permitted by the Trust Indenture Act, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) If at any time the Guarantee Trustee shall cease to be eligible to so act under Section 4.1(a), the Guarantee Trustee shall immediately resign in the manner and with the effect set out in Section 4.2(c).

(c) If the Guarantee Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Guarantee Trustee and Guarantor shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act.

Section 4.2 Appointment, Removal and Resignation of the Guarantee Trustee.

(a) Subject to Section 4.2(b), the Guarantee Trustee may be appointed or removed without cause at any time by the Guarantor.

(b) The Guarantee Trustee shall not be removed until a Successor Guarantee Trustee has been appointed and has accepted such appointment by written instrument executed by such Successor Guarantee Trustee and delivered to the Guarantor.

(c) The Guarantee Trustee appointed hereunder shall hold office until a Successor Guarantee Trustee shall have been appointed or until its removal or resignation. The Guarantee Trustee may resign from office (without need for prior or subsequent accounting) by an instrument in writing executed by the Guarantee Trustee and delivered to the Guarantor, which resignation shall not take effect until a Successor Guarantee Trustee has been appointed and has accepted such appointment by instrument in writing executed by such Successor Guarantee Trustee and delivered to the Guarantor and the resigning Guarantee Trustee.

(d) If no Successor Guarantee Trustee shall have been appointed and accepted appointment as provided in this Section 4.2 within 30 days after delivery to the Guarantor of an instrument of resignation or notice of removal pursuant to this Section 4.2, the Guarantee Trustee resigning or being removed, as the case may be, may petition, at the expense of the Guarantor, any court of competent jurisdiction for appointment of a Successor Guarantee Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper, appoint a Successor Guarantee Trustee.

**ARTICLE V.  
GUARANTEE**

Section 5.1 Guarantee. The Guarantor irrevocably and unconditionally agrees to pay in full to the Holders the Guarantee Payments (without duplication of amounts theretofore paid by or on behalf of the Issuer), as and when due, regardless of any defense, right of set-off or counterclaim which the Issuer may have or assert. The Guarantor's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Guarantor to the Holders or by causing the Issuer to pay such amounts to the Holders.

Section 5.2 Waiver of Notice and Demand. The Guarantor hereby waives notice of acceptance of this Guarantee Agreement and of any liability to which it applies or may apply, presentment, demand for payment, any right to require a proceeding first against the Guarantee Trustee, Issuer or any other Person before proceeding against the Guarantor, protest, notice of nonpayment, notice of dishonor, notice of redemption and all other notices and demands.

Section 5.3 Obligations Not Affected. The obligations, covenants, agreements and duties of the Guarantor under this Guarantee Agreement shall in no way be affected or impaired by reason of the happening from time to time of any of the following:

(a) the release or waiver, by operation of law or otherwise, of the performance or observance by the Issuer of any express or implied agreement, covenant, term or condition relating to the Preferred Securities to be performed or observed by the Issuer;

(b) the extension of time for the payment by the Issuer of all or any portion of the Distributions (other than an extension of time for payment of Distributions that results from the extension of any interest payment period on the Subordinated Debt Securities as provided in the Indenture), Redemption Price, Liquidation Distribution or any other sums payable under the terms of the Preferred Securities or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Preferred Securities;

(c) any failure, omission, delay or lack of diligence on the part of the Holders or the Guarantee Trustee to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the terms of the Preferred Securities, or any action on the part of the Issuer granting indulgence or extension of any kind;

(d) the voluntary or involuntary liquidation, dissolution, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Issuer or any of the assets of the Issuer;

(e) any invalidity of, or defect or deficiency in, the Preferred Securities;

(f) the settlement or compromise of any obligation guaranteed hereby or hereby incurred; or

(g) any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a guarantor, it being the intent of this Section 5.3 that the obligations of the Guarantor hereunder shall be absolute and unconditional under any and all circumstances.

There shall be no obligation of the Holders to give notice to, or obtain the consent of, the Guarantor with respect to the happening of any of the foregoing.

Section 5.4 Rights of Holders. The Guarantor expressly acknowledges that: (i) this Guarantee Agreement will be deposited with the Guarantee Trustee to be held for the benefit of the Holders; (ii) the Guarantee Trustee has the right to enforce this Guarantee Agreement on behalf of the Holders; (iii) the Holders of a Majority in Liquidation Amount of the Preferred Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of this Guarantee Agreement or exercising any trust or power conferred upon the Guarantee Trustee under this Guarantee Agreement; and (iv) any Holder may institute a legal proceeding directly against the Guarantor to enforce its rights under this Guarantee Agreement, without first instituting a legal proceeding against the Guarantee Trustee, the Issuer or any other Person.

Section 5.5 Guarantee of Payment. This Guarantee Agreement creates a guarantee of payment and not of performance or collection. This Guarantee Agreement will not be discharged except by payment of the Guarantee Payments in full (without duplication of amounts theretofore paid by the Issuer) or upon distribution of Subordinated Debt Securities to Holders as provided in the Trust Agreement.

Section 5.6 Subordination. The Guarantor shall be subrogated to all (if any) rights of the Holders against the Issuer, in respect of any amounts paid to the Holders by the Guarantor under this Guarantee Agreement, and shall have the right to waive payment by the Issuer pursuant to Section 5.1; provided, however, that the Guarantor shall not (except to the extent required by mandatory provisions of law) be entitled to enforce or exercise any rights which it may acquire against the Issuer by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of payment under this Guarantee Agreement, if, at the time of any such payment, any amounts are due and unpaid under this Guarantee Agreement. If any amount shall be paid to the Guarantor in violation of the preceding sentence, the Guarantor agrees to hold such amount in trust for the Holders and to pay over such amount to the Holders.

Section 5.7 Independent Obligations. The Guarantor acknowledges that its obligations hereunder are independent of the obligations of the Issuer with respect to the Preferred Securities and that the Guarantor shall be liable as principal and as debtor hereunder to make Guarantee Payments pursuant to the terms of this Guarantee Agreement notwithstanding the occurrence of any event referred to in subsections (a) through (g), inclusive, of Section 5.3 hereof.

#### **ARTICLE VI. COVENANTS AND SUBORDINATION**

The obligations of the Guarantor under this Guarantee Agreement will constitute unsecured obligations of the Guarantor and will rank:

- (a) pari passu with any other preferred securities guarantee similar to the guarantee under this Guarantee Agreement issued by the Guarantor on behalf of the holders of preferred securities issued by any trust established by the Guarantor or its Affiliates other than the Trust;
- (b) subordinate and junior in right of payment to all of the Guarantor's other liabilities, except those that rank pari passu or are subordinate by their terms;
- (c) pari passu with any guarantee now or hereafter issued by the Guarantor in respect of the most senior preferred or preference stock now or hereafter issued by the Guarantor, and with any guarantee now or hereafter issued by it in respect of any preferred or preference stock of any of its Affiliates; and
- (d) senior to the Guarantor's common stock.

#### **ARTICLE VII. TERMINATION**

Section 7.1 Termination. This Guarantee Agreement shall terminate and be of no further force and effect upon (i) full payment of the Redemption Price of all Preferred Securities, (ii) the distribution of Subordinated Debt Securities to the Holders in exchange for all of the Preferred Securities or (iii) full payment of the amounts payable in accordance with the Trust Agreement upon liquidation of the Issuer. Notwithstanding the foregoing, this Guarantee Agreement will continue to be effective or will be reinstated, as the case may be, if at any time any Holder must restore payment of any sums paid with respect to Preferred Securities or this Guarantee Agreement.

**ARTICLE VIII.  
MISCELLANEOUS**

Section 8.1 Successors and Assigns. All guarantees and agreements contained in this Guarantee Agreement shall bind the successors, assigns, receivers, trustees and representatives of the Guarantor and shall inure to the benefit of the Holders of the Preferred Securities from time to time outstanding. Except in connection with a consolidation, merger or sale involving the Guarantor that is permitted under the Indenture and pursuant to which the successor or assignee agrees in writing to perform the Guarantor's obligations hereunder, the Guarantor shall not assign its obligations hereunder.

Section 8.2 Amendments. Except with respect to any changes which do not adversely affect the rights of the Holders in any material respect (in which case no consent of the Holders will be required), this Guarantee Agreement may only be amended with the prior written approval of the Holders of a Majority in Liquidation Amount of the Preferred Securities. The provisions of Article VI of the Trust Agreement concerning meetings of the Holders shall apply to the giving of such approval.

Section 8.3 Notices. Any notice, request or other communication required or permitted to be given hereunder shall be in writing, duly signed by the party giving such notice, and delivered, telecopied or mailed by first class mail as follows:

(a) if given to the Guarantor, to the address set forth below or such other address, facsimile number or to the attention of such other Person as the Guarantor may give notice to the Holders:

Redwood Trust, Inc.  
One Belvedere Place, Suite 300  
Mill Valley, California 94941  
Attention: Treasurer

(b) if given to the Issuer, in care of the Guarantee Trustee, at the Issuer's (and the Guarantee Trustee's) respective addresses set forth below or such other address as the Guarantee Trustee on behalf of the Issuer may give notice to the Holders:

Redwood Capital Trust II  
[Address]  
Attention: Regular Trustees of Redwood Capital Trust II

with a copy to:

[Redacted]  
[address]  
Attention: Corporate Trust Administration

(c) if given to the Guarantee Trustee, at the Guarantee Trustee's address set forth below or such other address as the Guarantee Trustee may give notice to the Holders:

[REDACTED]

[Address]

Attention: Corporate Trust Administration

(d) if given to any Holder, at the address set forth on the books and records of the Issuer.

All notices hereunder shall be deemed to have been given when received in person, telecopied with receipt confirmed, or mailed by first class mail, postage prepaid, except that if a notice or other document is refused delivery or cannot be delivered because of a changed address of which no notice was given, such notice or other document shall be deemed to have been delivered on the date of such refusal or inability to deliver.

Section 8.4 Benefit. This Guarantee Agreement is solely for the benefit of the Holders and is not separately transferable from the Preferred Securities.

Section 8.5 Interpretation. In this Guarantee Agreement, unless the context otherwise requires:

- (a) capitalized terms used in this Guarantee Agreement but not defined in the preamble hereto have the respective meanings assigned to them in Section 1.1;
- (b) a term defined anywhere in this Guarantee Agreement has the same meaning throughout;
- (c) all references to "the Guarantee Agreement" or "this Guarantee Agreement" are to this Guarantee Agreement as modified, supplemented or amended from time to time;
- (d) all references in this Guarantee Agreement to Articles and Sections are to Articles and Sections of this Guarantee Agreement unless otherwise specified;
- (e) a term defined in the Trust Indenture Act has the same meaning when used in this Guarantee Agreement unless otherwise defined in this Guarantee Agreement or unless the context otherwise requires;
- (f) a reference to the singular includes the plural and vice versa; and
- (g) the masculine, feminine or neuter genders used herein shall include themasculine, feminine and neuter genders.

Section 8.6 Governing Law. THIS GUARANTEE AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

(Signatures follow)

THIS GUARANTEE AGREEMENT is executed as of the day and year first written above.

REDWOOD TRUST, INC.

By: \_\_\_\_\_

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_

[REDACTED].

as Guarantee Trustee By:

By: \_\_\_\_\_

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_



[LETTERHEAD OF VENABLE LLP]

August 5, 2010

Redwood Trust, Inc.  
Suite 300  
One Belvedere Place  
Mill Valley, California 94941

Re: Registration Statement on Form S-3

Ladies and Gentlemen:

We have served as Maryland counsel to Redwood Trust, Inc., a Maryland corporation (the "Company"), in connection with certain matters of Maryland law relating to the registration by the Company of: (a) debt securities of the Company (the "Debt Securities"); (b) shares of common stock (the "Common Shares") of the Company, \$0.01 par value per share ("Common Stock"); (c) shares of preferred stock (the "Preferred Shares") of the Company, \$0.01 par value per share ("Preferred Stock"); (d) warrants to purchase shares of Common Stock or Preferred Stock (the "Warrants"); (e) rights (the "Rights") to purchase other Securities (as defined herein) and (f) units comprised of two or more of the foregoing Securities (the "Units" and, together with the Debt Securities, Common Shares, Preferred Shares, Warrants and Rights, the "Securities"), covered by the above-referenced Registration Statement (the "Registration Statement"), filed by the Company and the co-registrant named therein with the United States Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "1933 Act"), on or about the date hereof.

In connection with our representation of the Company, and as a basis for the opinion hereinafter set forth, we have examined originals, or copies certified or otherwise identified to our satisfaction, of the following documents (hereinafter collectively referred to as the "Documents"):

1. The Registration Statement and the related form of prospectus included therein, substantially in the form to be transmitted to the Commission under the 1933 Act;
  2. The charter of the Company (the "Charter"), certified by the State Department of Assessments and Taxation of Maryland (the "SDAT");
  3. The Amended and Restated Bylaws of the Company, as amended (the "Bylaws"), certified as of the date hereof by an officer of the Company;
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4. Resolutions adopted by the Board of Directors of the Company (the "Board of Directors"), relating to, among other items, the approval of the filing of the Registration Statement, certified as of the date hereof by an officer of the Company;
5. A certificate of the SDAT as to the good standing of the Company, dated as of a recent date;
6. A certificate executed by an officer of the Company, dated as of the date hereof; and
7. Such other documents and matters as we have deemed necessary or appropriate to express the opinion set forth below, subject to the assumptions, limitations and qualifications stated herein.

In expressing the opinion set forth below, we have assumed the following:

1. Each individual executing any of the Documents, whether on behalf of such individual or another person, is legally competent to do so.
  2. Each individual executing any of the Documents on behalf of a party (other than the Company) is duly authorized to do so.
  3. Each of the parties (other than the Company) executing any of the Documents has duly and validly executed and delivered each of the Documents to which such party is a signatory, and such party's obligations set forth therein are legal, valid and binding and are enforceable in accordance with all stated terms.
  4. All Documents submitted to us as originals are authentic. The form and content of all Documents submitted to us as unexecuted drafts do not differ in any respect relevant to this opinion from the form and content of such Documents as executed and delivered. All Documents submitted to us as certified or photostatic copies conform to the original documents. All signatures on all Documents are genuine. All public records reviewed or relied upon by us or on our behalf are true and complete. All representations, warranties, statements and information contained in the Documents are true and complete. There has been no oral or written modification of or amendment to any of the Documents, and there has been no waiver of any provision of any of the Documents, by action or omission of the parties or otherwise.
  5. The issuance, and certain terms, of the Securities to be issued by the Company from time to time will be authorized and approved by the Board of Directors, or a duly authorized committee thereof, in accordance with the Maryland General Corporation Law, the Charter and the Bylaws and, with respect to Preferred Shares, Articles Supplementary setting forth the number of shares and the terms of any class or series of Preferred Shares (the "Articles Supplementary") to be issued by the Company will be filed with and accepted for record by the SDAT prior to their issuance (such approvals and, if applicable, acceptance for record, referred to herein as the "Corporate Proceedings").
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6. Upon the issuance of any Common Shares, including any Common Shares which may be issued upon conversion or exercise of any Securities that are convertible into or exercisable for Common Shares, the total number of shares of Common Stock issued and outstanding will not exceed the total number of shares of Common Stock that the Company is then authorized to issue under the Charter.

7. Upon the issuance of any Preferred Shares, including Preferred Shares which may be issued upon conversion or exercise of any other Securities convertible into or exercisable for Preferred Shares, the total number of shares of Preferred Stock issued and outstanding, and the total number of issued and outstanding shares of the applicable class or series of Preferred Stock designated pursuant to the Charter, will not exceed, respectively, the total number of shares of Preferred Stock or the number of shares of such class or series of Preferred Stock that the Company is then authorized to issue under the Charter.

8. None of the Securities will be issued in violation of the restrictions on ownership and transfer set forth in Article XI of the Charter or any comparable provision in the Articles Supplementary.

Based upon the foregoing, and subject to the assumptions, limitations and qualifications stated herein, it is our opinion that:

SDAT. 1. The Company is a corporation duly incorporated and existing under and by virtue of the laws of the State of Maryland and is in good standing with the

2. Upon the completion of all Corporate Proceedings relating to the Debt Securities, the issuance of the Debt Securities will be duly authorized.

3. Upon the completion of all Corporate Proceedings relating to the Common Shares, the issuance of the Common Shares will be duly authorized and, when and if issued and delivered against payment therefor in accordance with the Registration Statement and the Corporate Proceedings, the Common Shares will be validly issued, fully paid and nonassessable.

4. Upon the completion of all Corporate Proceedings relating to the Preferred Shares, the issuance of the Preferred Shares will be duly authorized and, when and if issued and delivered against payment therefor in accordance with the Registration Statement and the Corporate Proceedings, the Preferred Shares will be validly issued, fully paid and nonassessable.

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5. Upon the completion of all Corporate Proceedings relating to the Warrants, the issuance of the Warrants will be duly authorized.
6. Upon the completion of all Corporate Proceedings relating to the Rights, the issuance of the Rights will be duly authorized.
7. Upon the completion of all Corporate Proceedings relating to the Units, the issuance of the Units will be duly authorized.

The foregoing opinion is limited to the laws of the State of Maryland and we do not express any opinion herein concerning any other law. We express no opinion as to the applicability or effect of federal or state securities laws, including the securities laws of the State of Maryland, or as to federal or state laws regarding fraudulent transfers. To the extent that any matter as to which our opinion is expressed herein would be governed by the laws of any jurisdiction other than the State of Maryland, we do not express any opinion on such matter.

The opinion expressed herein is limited to the matters specifically set forth herein and no other opinion shall be inferred beyond the matters expressly stated. We assume no obligation to supplement this opinion if any applicable law changes after the date hereof or if we become aware of any fact that might change the opinion expressed herein after the date hereof.

This opinion is being furnished to you for submission to the Commission as an exhibit to the Registration Statement. We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the use of the name of our firm therein. In giving this consent, we do not admit that we are within the category of persons whose consent is required by Section 7 of the 1933 Act.

Very truly yours,

/s/ Venable LLP

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FIRM / AFFILIATE OFFICES

Abu Dhabi	Moscow
Barcelona	Munich
Beijing	New Jersey
Brussels	New York
Chicago	Orange County
Doha	Paris
Dubai	Riyadh
Frankfurt	Rome
Hamburg	San Diego
Hong Kong	San Francisco
Houston	Shanghai
London	Silicon Valley
Los Angeles	Singapore
Madrid	Tokyo
Milan	Washington, D.C.

August 6, 2010

Redwood Trust, Inc.  
One Belvedere Place, Suite 300  
Mill Valley, CA 94941

Re: Registration Statement on Form S-3

Ladies and Gentlemen:

We have acted as special counsel to Redwood Trust, Inc., a Maryland corporation (the "**Company**"), in connection with the filing on August 6, 2010 with the Securities and Exchange Commission (the "**Commission**") by the Company and Redwood Capital Trust II, a Delaware statutory trust (the "**Delaware Trust**"), of a registration statement on Form S-3 (the "**Registration Statement**") under the Securities Act of 1933, as amended (the "**Securities Act**"), pertaining to the registration of the issuance and sale by the Company from time to time of one or more series of debt securities of the Company, which may consist of debentures, notes, or other types of debt and which may be exchangeable for or convertible into shares of common stock, preferred stock, or other securities (the "**Debt Securities**"). The Debt Securities shall include any additional amounts of such securities registered by the Company pursuant to Rule 462(b) under the Securities Act in connection with the offering contemplated by the Registration Statement. This opinion is being furnished in connection with the requirements of Item 601(b)(5) of Regulation S-K under the Securities Act, and no opinion is expressed herein as to any matter pertaining to the contents of the Registration Statement, the base prospectus (the "**Prospectus**") or any supplements to the Prospectus (each, a "**Prospectus Supplement**"), or related prospectus, other than as expressly stated herein with respect to the issue of the Debt Securities.

As such counsel, we have examined such matters of fact and questions of law as we have considered appropriate for purposes of this letter. With your consent, we have relied upon certificates and other assurances of officers of the Company and others as to factual matters without having independently verified such factual matters. We are opining herein as to the internal laws of the State of New York, and we express no opinion with respect to the applicability thereto, or the effect thereon, of the laws of any other jurisdiction or as to any matters of municipal law or the laws of any local agencies within any state. Various matters concerning the validity of the securities and the laws of the State of Maryland are addressed in the opinion of Venable LLP, Maryland counsel for the Company; various matters concerning the laws of the State of Delaware regarding the validity of the trust preferred securities are addressed in the opinion of Richards, Layton & Finger, P.A., Delaware counsel for the Delaware Trust; and various tax-related matters are addressed in the opinion of Chapman and Cutler LLP, tax counsel for the Company, each of which have been separately provided to you. We express no opinion with respect to those matters herein.

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Subject to the foregoing and the other matters set forth herein, it is our opinion that, as of the date hereof, when an indenture has been duly authorized by all necessary corporate action of the Company and duly executed and delivered, and when the specific terms of a particular Debt Security have been duly established in accordance with such indenture and authorized by all necessary corporate action of the Company, and such Debt Security has been duly executed, authenticated, issued and delivered against payment therefor in accordance with such indenture and in the manner contemplated by the Registration Statement and the Prospectus and applicable Prospectus Supplement(s) and by such corporate action, such Debt Security will be a legally valid and binding obligation of the Company, enforceable against the Company in accordance with its terms.

Our opinions are subject to: (i) the effect of bankruptcy, insolvency, reorganization, preference, fraudulent transfer, moratorium or other similar laws relating to or affecting the rights and remedies of creditors; (ii) the effect of general principles of equity, whether considered in a proceeding in equity or at law (including the possible unavailability of specific performance or injunctive relief), concepts of materiality, reasonableness, good faith and fair dealing, and the discretion of the court before which a proceeding is brought; (iii) the invalidity under certain circumstances under law or court decisions of provisions providing for the indemnification of or contribution to a party with respect to a liability where such indemnification or contribution is contrary to public policy; and (iv) we express no opinion as to (a) any provision for liquidated damages, default interest, late charges, monetary penalties, make-whole premiums or other economic remedies to the extent such provisions are deemed to constitute a penalty, (b) consents to, or restrictions upon, governing law, jurisdiction, venue, arbitration, remedies or judicial relief, (c) waivers of rights or defenses, (d) any provision requiring the payment of attorneys' fees, where such payment is contrary to law or public policy, (e) any provision permitting, upon acceleration of any Debt Security, collection of that portion of the stated principal amount thereof which might be determined to constitute unearned interest thereon, (f) the creation, validity, attachment, perfection, or priority of any lien or security interest, (g) advance waivers of claims, defenses, rights granted by law, or notice, opportunity for hearing, evidentiary requirements, statutes of limitation, trial by jury or at law, or other procedural rights, (h) waivers of broadly or vaguely stated rights, (i) provisions for exclusivity, election or cumulation of rights or remedies, (j) provisions authorizing or validating conclusive or discretionary determinations, (k) grants of setoff rights, (l) proxies, powers and trusts, (m) provisions prohibiting, restricting, or requiring consent to assignment or transfer of any right or property, (n) provisions purporting to make a guarantor primarily liable rather than as a surety, (o) provisions purporting to waive modifications of any guaranteed obligation to the extent such modification constitutes a novation, (p) any provision to the extent it requires that a claim with respect to a security denominated in other than U.S. dollars (or a judgment in respect of such a claim) be converted into U.S. dollars at a rate of exchange at a particular date, to the extent applicable law otherwise provides, and (q) the severability, if invalid, of provisions to the foregoing effect.

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With your consent, we have assumed (i) that each of the Debt Securities and the respective indentures governing such securities (collectively, the "*Documents*") will be governed by the internal laws of the State of New York, (ii) that each of the Documents will be duly authorized, executed and delivered by the parties thereto, (iii) that each of the Documents will constitute legally valid and binding obligations of the parties thereto other than the Company, enforceable against each of them in accordance with their respective terms, and (iv) that the status of each of the Documents as legally valid and binding obligations of the parties will not be affected by any (a) breaches of, or defaults under, agreements or instruments, (b) violations of statutes, rules, regulations or court or governmental orders, or (c) failures to obtain required consents, approvals or authorizations from, or to make required registrations, declarations or filings with, governmental authorities.

This opinion is for your benefit in connection with the Registration Statement and may be relied upon by you and by persons entitled to rely upon it pursuant to the applicable provisions of the Securities Act. We consent to your filing this opinion as an exhibit to the Registration Statement and to the reference to our firm contained in the Prospectus under the heading "Validity of the Securities." We further consent to the incorporation by reference of this letter and consent into any registration statement or post-effective amendment to the Registration Statement filed pursuant to Rule 462(b) with respect to the Debt Securities. In giving such consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission thereunder.

Very truly yours,

/s/ Latham & Watkins LLP

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August 6, 2010

Redwood Capital Trust II  
c/o Redwood Trust, Inc.  
One Belvedere Place, Suite 300  
Mill Valley, California 94941

Re: Redwood Capital Trust II

Ladies and Gentlemen:

We have acted as special Delaware counsel to Redwood Capital Trust II (the "Trust"), a Delaware statutory trust, in connection with the matters set forth herein. At your request, this opinion is being furnished to you.

For purposes of giving the opinions hereinafter set forth, our examination of documents has been limited to the examination of originals or copies of the following:

- (a) The Certificate of Trust of the Trust, as filed in the office of the Secretary of State of the State of Delaware (the "Secretary of State") on July 29, 2010 (the "Certificate");
  - (b) The Trust Agreement, dated as of July 29, 2010, between Redwood Trust Inc., a Maryland corporation, as sponsor (the "Company") and Wells Fargo Delaware Trust Company, N.A., a national banking association, as Delaware trustee;
  - (c) The Registration Statement (the "Registration Statement") on Form S-3, including a prospectus (the "Prospectus"), relating to the Trust Preferred Securities of the Trust representing preferred undivided beneficial interests in the assets of the Trust (each, a "Trust Preferred Security" and collectively, the "Trust Preferred Securities"), as filed by the Company and the Trust with the Securities and Exchange Commission on the date hereof;
  - (d) The form of Amended and Restated Trust Agreement of the Trust (the "Trust Agreement"), among the Company and the trustees of the Trust named therein, attached as an exhibit to the Registration Statement; and
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(e) Certificate of Good Standing for the Trust, dated the date hereof, obtained from the Secretary of State.

Capitalized terms used herein and not otherwise defined are used as defined in the Trust Agreement.

For purposes of this opinion, we have not reviewed any documents other than the documents listed in paragraphs (a) through (e) above. In particular, we have not reviewed any document (other than the documents listed in paragraphs (a) through (e) above) that is referred to in or incorporated by reference into the documents reviewed by us. We have assumed that there exists no provision in any document that we have not reviewed that is inconsistent with the opinions stated herein. We have conducted no independent factual investigation of our own but rather have relied solely upon the foregoing documents, the statements and information set forth therein and the additional matters recited or assumed herein, all of which we have assumed to be true, complete and accurate in all material respects.

With respect to all documents examined by us, we have assumed (i) the authenticity of all documents submitted to us as authentic originals, (ii) the conformity with the originals of all documents submitted to us as copies or forms, and (iii) the genuineness of all signatures.

For purposes of this opinion, we have assumed (i) that the Trust Agreement and the Certificate are in full force and effect and have not been amended, (ii) except to the extent provided in paragraph 1 below, the due creation or due organization or due formation, as the case may be, and valid existence in good standing of each party to the documents examined by us under the laws of the jurisdiction governing its creation, organization or formation, (iii) the legal capacity of each natural person who is a party to the documents examined by us, (iv) that each of the parties to the documents examined by us has the power and authority to execute and deliver, and to perform its obligations under, such documents and that each party has complied with all of the obligations and satisfied all of the conditions on its part to be performed or satisfied pursuant to the documents examined by us, (v) the due authorization, execution and delivery by all parties thereto of all documents examined by us, (vi) the receipt by each Person to whom a Trust Preferred Security is to be issued by the Trust (collectively, the "Preferred Security Holders") of an interest in the Trust Preferred Securities Certificate for such Trust Preferred Security and the payment for the interest in the Trust Preferred Security acquired by it, in accordance with the Trust Agreement, and (vii) that the Trust Preferred Securities are issued and sold in accordance with the Trust Agreement. We have not participated in the preparation of the Registration Statement and assume no responsibility for its contents.

This opinion is limited to the laws of the State of Delaware (excluding the securities laws and blue sky laws of the State of Delaware), and we have not considered and express no opinion on the laws of any other jurisdiction, including federal laws and rules and regulations relating thereto. Our opinions are rendered only with respect to Delaware laws and rules, regulations and orders thereunder that are currently in effect.

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Based upon the foregoing, and upon our examination of such questions of law and statutes of the State of Delaware as we have considered necessary or appropriate, and subject to the assumptions, qualifications, limitations and exceptions set forth herein, we are of the opinion that:

1. The Trust has been duly created and is validly existing in good standing as a statutory trust under the Delaware Statutory Trust Act (12 Del. C. § 3801, et seq.).
2. The Trust Preferred Securities will represent valid and, subject to the qualifications set forth in paragraph 3 below, fully paid and nonassessable undivided beneficial interests in the assets of the Trust.
3. The Preferred Security Holders, as beneficial owners of the Trust, will be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Delaware. We note that the Preferred Security Holders may be obligated to make payments as set forth in the Trust Agreement.

We consent to the filing of this opinion with the Securities and Exchange Commission as an exhibit to the Registration Statement and consent to the use of our name under the heading "Validity of the Securities" therein. In giving the foregoing consents, we do not thereby admit that we come within the category of Persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder. Except as stated above, without our prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other Person for any purpose.

Very truly yours,

/s/ Richards, Layton & Finger, P.A.

TJH/rmc

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August 6, 2010

Redwood Trust, Inc.  
One Belvedere Place Suite  
300 Mill Valley, CA 94941

Re: Redwood Trust, Inc./Form S-3 Registration Statement

Ladies and Gentlemen:

We have acted as special tax counsel to Redwood Trust, Inc. (the "Company") in connection with the preparation of the above-reference registration statement filed on the date hereof by the Company and the co-registrant named therein with the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act"), (the "Registration Statement") including the Prospectus (the "Prospectus"), which forms a part of such Registration Statement. In connection with such filing, we have been requested to confirm our opinion regarding the accuracy of certain descriptions of material U.S. federal income tax consequences contained in the Registration Statement and the Prospectus.

**Scope of Review**

Our opinions are based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), Treasury regulations issued thereunder, administrative rulings, judicial decisions and other applicable authorities, all as in effect and available on the date hereof. We note that the statutory provisions, regulations, and interpretations on which our opinions are based are subject to change, possibly retroactively. In addition, there can be no complete assurance that the Internal Revenue Service will not take positions contrary to the conclusions stated in our opinions.

In formulating our opinions, we have reviewed:

- (i) the Registration Statement and the Prospectus filed by the Company with the SEC on or about the date hereof;
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- (ii) the Company's articles of incorporation and other organizational documents of the Company and its subsidiaries, as amended and supplemented to the date hereof;
- (iii) a certificate from an officer of the Company upon which we have relied, confirming various factual matters relevant to establishing the status and operation of the Company as a real estate investment trust ("REIT") under the Code and the Company's intentions regarding future methods of operation (the "Officer's Certificate");
- (iv) the opinion of Venable, LLP, dated the date hereof, with respect to certain matters regarding Maryland corporate law; and
- (v) such resolutions, certificate, records, and other documents provided by the Company and/or its subsidiaries as we have deemed necessary or appropriate as a basis for the opinions set forth below.

**Assumptions**

In rendering our opinions, we have made the following assumptions:

- (a) the factual records, reports and certifications of the Company provided to us as evidence of the Company's compliance with the stock ownership, income, asset and distribution requirements applicable to REITs under the Code are correct and complete in all material respects;
  - (b) each of the Company and its subsidiaries has been and will continue to be organized, capitalized and operated in the manner described to us, and as summarized in the Officer's Certificate and other periodic reports filed with the SEC;
  - (c) the Prospectus and other documents incorporated by reference into the Registration Statement accurately describes the factual information provided regarding the Company and its Common Stock;
  - (d) there are and will be no changes in the applicable laws of the State of Maryland regarding authorization for charter restrictions on ownership of the Company's shares and permitting enforcement of provisions intended to cure or prevent violation of such limitations; and
  - (e) we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed or other copies, and the authenticity of the originals of such copies.
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With respect to these assumptions, it should be noted that (x) the representations set forth in the Officer's Certificate are highly factual in nature and reflect an intention with respect to the future conduct of the business of the Company and its subsidiaries that may not be achievable if there are future changes in the circumstances of either and (y) statutes, regulations, judicial decisions, and administrative interpretations are subject to change at any time and, in some circumstances, with retroactive effect. Any material change after the date hereof of any of the foregoing bases for our opinions could adversely affect our conclusions.

### **Opinions**

Subject to the qualifications, assumptions and limitations set forth herein, we are of the opinion that:

1. The Company has been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code commencing with its tax year ended December 31, 1994 and continuing through the fiscal quarter ended June 30, 2010 (the date of its most recent interim financial statements and REIT compliance reports), and its current and proposed methods of operation in periods subsequent to such date, as represented to us by the Company in the Officer's Certificate and as described by the Company in the Prospectus, will enable it to continue to qualify as a REIT under the Code; and
2. Although the discussion set forth under the caption "Material U.S. Federal Income Tax Considerations" in the Prospectus, does not purport to discuss all possible U.S. federal income tax consequences of the acquisition, ownership and disposition of the Company's common stock, such discussion constitutes an accurate summary of the U.S. federal income tax considerations that are likely to be material to an investor in the Company's Common Stock as of the date hereof.

### **Limitations**

Other than as specifically stated above, we express no opinion on any issue relating to the Company or its subsidiaries, or any investment in any other series or class of securities issued by them, or under any law other than U.S. federal income tax laws.

We impose no limit on your disclosure of this opinion or the tax treatment of the Company or its Common Stock. However, we are furnishing this opinion to you solely in connection with the filing of the Prospectus Supplement and it cannot be relied upon by any person or for any other purpose without our express written permission.

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We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. In giving such consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act, as amended, or under the rules and regulations of the SEC promulgated thereunder.

Very truly yours,

/s/ Chapman and Cutler LLP

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Redwood Trust, Inc.  
 Computation of Earnings to Fixed Charges and  
 Earnings to Fixed Charges and Preferred Stock Dividends Ratios  
 (Dollars in thousands)

The ratio of earnings to fixed charges represents the number of times "fixed charges" are covered by "earnings." "Fixed charges" consist of interest on outstanding asset backed securities issued and debt and amortization of debt premiums and discount. The proportion deemed representative of the interest factor of operating lease expense has not been deducted as the total operating lease expense in itself was de minimis and did not affect the ratios in a material way. "Earnings" consist of consolidated income before income taxes and fixed charges.

(Dollars In Thousands)	Six Months Ended June 30, 2010	2009	2008	Years Ended December 31,			2006	2005
Earnings								
Net income before provision for income taxes and non-controlling interest	\$ 75,667	\$ 34,844	\$ (449,532)	\$ (1,103,445)	\$ 137,502	\$ 217,393		
Add:								
Fixed charges	39,346	132,003	416,669	651,762	701,704	757,270		
Earnings available to cover fixed charges	\$ 115,013	\$ 166,847	\$ (32,863)	\$ (451,683)	\$ 839,206	\$ 974,663		
Fixed charges								
Interest on indebtedness (including amortization of premium and financing costs)	39,346	132,003	416,669	651,762	701,704	757,270		
Total fixed charges: (1)	\$ 39,346	\$ 132,003	\$ 416,669	\$ 651,762	\$ 701,704	\$ 757,270		
Ratio of earnings to fixed charges	2.92	1.26	(0.08)	(0.69)	1.20	1.29		
Ratio of earnings to fixed charges and preferred stock dividends	2.92	1.26	(0.08)	(0.69)	1.20	1.29		
Deficiency amount for ratios less than one:			\$ 449,532	\$ 1,103,445				

(1) No preferred stock was outstanding during any of the period presented.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our reports dated February 25, 2010, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report on Form 10-K for the year ended December 31, 2009 (as amended by Amendment No. 1 on Form 10-K/A) of Redwood Trust, Inc. and subsidiaries, which are incorporated by reference in this Registration Statement. We consent to the incorporation by reference in the Registration Statement of the aforementioned reports, and to the use of our name as it appears under the caption "Experts."

/s/ Grant Thornton LLP

San Francisco, California  
August 6, 2010

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