

REDWOOD TRUST INC
Form 424B2
September 05, 2012

**Filed Pursuant to Rule 424(b)(2)
Registration Statement No. 333-168617**

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered ⁽¹⁾	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee Previously Paid
Common Stock, par value \$0.01 per share ⁽²⁾	486,337	\$ 34.22	\$ 16,642,452.14	\$ 510.92
Common Stock, par value \$0.01 per share ⁽³⁾	10,000,000	\$ 24.71	\$ 247,100,000.00	\$ 9,711.03

This prospectus supplement relates to 10,486,337 unsold shares of common stock of Redwood Trust, Inc. issuable under the Redwood Trust, Inc. Direct Stock Purchase and Dividend Reinvestment Plan and any additional shares of common stock of Redwood Trust, Inc. which become issuable with respect thereto by reason of any stock dividend, stock split, recapitalization or other similar transaction, that were previously covered by registration statement No. 333-147604 initially filed on November 23, 2007 (the Prior Registration Statement) and (1) subsequently by registration statement No. 333-168617 initially filed on August 6, 2010, pursuant to a prospectus supplement thereunder filed on November 4, 2010 (the Prior Prospectus Supplement). The prospectus supplement filed hereby supersedes and replaces the Prior Registration Statement and the Prior Prospectus Supplement with respect to the registration of the unsold shares of common stock issuable under the Direct Stock Purchase and Dividend Reinvestment Plan.

Information provided represents the proposed maximum offering price per unit, the proposed maximum aggregate offering price, and the amount of registration fee previously paid at the time of the filing pursuant to Rule 424(b) on November 23, 2007 of a prospectus supplement and accompanying prospectus that formed a part of the Prior (2) Registration Statement with respect to 486,337 previously unsold shares of common stock of Redwood Trust, Inc. issuable under the Redwood Trust, Inc. Direct Stock Purchase and Dividend Reinvestment Plan. Pursuant to Rule 415(a)(6) under the Securities Act, the filing fees previously paid in connection with the unsold securities under the Prior Registration Statement will continue to be applied to such unsold securities.

Information provided represents the proposed maximum offering price per unit, the proposed maximum aggregate offering price, and the amount of registration fee previously paid at the time of the filing pursuant to Rule 424(b) on July 2, 2008 of a prospectus supplement and accompanying prospectus that formed a part of the Prior (3) Registration Statement with respect to 10,000,000 previously unsold shares of common stock of Redwood Trust, Inc. issuable under the Redwood Trust, Inc. Direct Stock Purchase and Dividend Reinvestment Plan. Pursuant to Rule 415(a)(6) under the Securities Act, the filing fees previously paid in connection with the unsold securities under the Prior Registration Statement will continue to be applied to such unsold securities.

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**PROSPECTUS SUPPLEMENT
(To Prospectus dated August 6, 2010)**

**Direct Stock Purchase and Dividend Reinvestment
Plan**

10,486,337 Shares

Redwood Trust, Inc.

**Please read this prospectus supplement and the
accompanying prospectus
carefully before investing and retain it for your future
reference.**

We are offering existing holders of our common stock and new investors the opportunity to participate in our Direct Stock Purchase and Dividend Reinvestment Plan. The Plan is designed to be an economical and convenient method for existing stockholders to increase their holdings of our common stock and for new investors to make an initial investment in our common stock. Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol RWT .

If you are currently enrolled in our Plan, you may withdraw by following the procedures described on page S-20 of this prospectus supplement. If you are not currently enrolled in our Plan but you are an existing holder of our common stock, you may elect to have all or a portion of your cash dividends automatically invested in additional shares of common stock. The shares purchased with your dividend reinvestments will be purchased on the open market or directly from us. We may, but will not be obligated to, establish a discount from market price for the purchases of up to 3%. If the shares are purchased on the open market, you will not be required to pay any brokerage commission or service charge to the extent the sum of the discount from market price, if any, brokerage commissions and service charges does not exceed 5% of the value of the common stock on the date of purchase.

If you are either an existing holder of our common stock, or a new investor, you may also purchase shares of common stock by making optional cash payments of at least \$100 for existing holders, or \$500 for new investors, and up to \$10,000 per month. The shares purchased with those optional cash payments will be purchased on the open market or directly from us. We may, but will not be obligated to, establish a discount from market price for the purchases of up to 3%. If the shares are purchased on the open market, you will not be required to pay any brokerage commission or service charge to the extent the sum of the discount from market price, if any, brokerage commissions and service charges does not exceed 5% of the value of the common stock on the date of purchase. Upon our approval of a request for a waiver of the \$10,000 monthly limit, you may also invest optional cash payments in the amount we have

Please read this prospectus supplement and the accompanying prospectus carefully before investing and retain it for

approved in shares purchased directly from us and we may, but will not be obligated to, provide for a discount from market price for the purchase of up to 5%. Our determination of whether to provide for a discount from market price for purchases made under the Plan will be made from time to time based on an assessment of various factors.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities issued under the Plan or has determined if this prospectus supplement and the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

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

This prospectus supplement supersedes and replaces our previous prospectus supplement with respect to the Plan, which previous prospectus supplement was dated November 4, 2010.

The date of this prospectus supplement is September 5, 2012

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About This Prospectus Supplement

You should read both this prospectus supplement and the accompanying prospectus, together with additional information described under the heading "Incorporation of certain information by reference" in this prospectus supplement and in the accompanying prospectus. This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 we have filed with the Securities and Exchange Commission, which we refer to as the SEC, under the Securities Act of 1933, as amended. This prospectus supplement and the accompanying prospectus do 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, on the SEC's website at www.sec.gov or at the SEC's public reference room. See "Where you can find more information" in the accompanying prospectus.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to Redwood, we, us, our or similar references mean Redwood Trust, Inc. and its subsidiaries.

If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement.

You should rely only on the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. This prospectus supplement may be used only for the purpose for which it has been prepared. No one is authorized to give information other than that contained in this prospectus supplement and the accompanying prospectus and in the documents incorporated by reference herein and in the accompanying prospectus.

We are not making an offer to sell our common stock in any jurisdiction where the offer or sale is not permitted. You should not assume that the information appearing in this prospectus supplement, the accompanying prospectus or any document incorporated by reference herein or therein is accurate as of any date other than the date of the applicable document. Our business, financial condition, results of operations, and prospects may have changed since that date.

Neither this prospectus supplement nor the accompanying prospectus constitutes an offer, or an invitation on our behalf, to subscribe for and purchase any of the securities, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

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Summary

The following summary description of our Direct Stock Purchase and Dividend Reinvestment Plan is qualified by reference to the full text of the Plan which appears in this prospectus supplement. Capitalized terms have the meanings given to them in the Plan, including the Glossary of the Plan.

Our Company

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. Our primary source of income is typically net interest income, which equals the interest income we earn from our investments in loans and securities less the interest expenses we incur from our borrowed funds and other liabilities.

Purpose of the Plan

The purpose of the Plan is to provide our existing stockholders and interested new investors with a convenient and less costly method of purchasing shares of our common stock and investing all or a percentage of their cash dividends in additional shares of our common stock. The Plan can also provide us with a means of raising additional capital through the sale of our common stock.

Source of Purchase of Shares

Shares of common stock purchased through the Plan with dividend reinvestments or Optional Cash Payments of \$10,000 or less will be either newly issued shares or shares acquired by the Plan Administrator on the open market or in privately negotiated transactions. Shares of common stock purchased through the Plan with pre-approved Optional Cash Payments in excess of \$10,000 will be newly issued shares.

Investment Options

You may choose from the following options:

Full Dividend Reinvestment: The Plan Administrator will apply all cash dividends paid on all shares of common stock registered in your name and all shares held for you under the Plan to the purchase of additional shares of our common stock.

Partial Dividend Reinvestment: The Plan Administrator will apply the cash dividends paid on the number of shares of common stock specified by you on shares registered in your name and held for you under the Plan to the purchase of additional shares of our common stock. The Plan Administrator will pay the dividends paid on the remaining shares of common stock to you in cash.

All Dividends Paid in Cash: You will continue to receive cash dividends paid on shares of common stock registered in your name and all shares held for you under the Plan in the usual manner. You may make Optional Cash Payments to invest in additional shares of our common stock, subject to monthly minimums and maximums. You may change your investment options at any time by contacting the Plan Administrator as indicated in Question 4 or by requesting a new enrollment form from the Plan Administrator, completing it, and returning it to the Plan Administrator.

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Withdrawal

You may withdraw from the Plan with respect to all or a portion of the shares held in your Plan account at any time by notifying the Plan Administrator in writing as indicated in Question 4.

Optional Cash Payments

Optional Cash Payments may only be made in a month when we have determined to permit Optional Cash Payments under the Plan for that month. Each Optional Cash Payment is subject to a minimum per month purchase of \$100 if you are an existing stockholder or \$500 per month if you are a new investor, and a maximum per month purchase of \$10,000. Optional Cash Payments in excess of \$10,000 may be made only with our prior approval.

Threshold Price

Pre-approved Optional Cash Payments in excess of \$10,000 will be used to purchase common stock directly from us, rather than in the open market. We may establish a Threshold Price in respect of any trading days, which is a minimum price applicable for purchases to be made on that trading day with pre-approved Optional Cash Payments in excess of \$10,000. Your investment will be reduced, and a proportional amount of your Optional Cash Payment will be returned to you, without interest, for each trading day during the Investment Period on which the Market Price for purchases does not equal or exceed the Threshold Price.

Maximum Price

As an investor in a pre-approved optional cash purchase that exceeds \$10,000, you may set a Maximum Price for the purchase. If the Market Price, less the applicable discount, if any, exceeds the Maximum Price specified by you, no purchase will be made and your Optional Cash Payment will be returned to you.

Cash Discounts

We may establish a discount of between 0% and 3% from the Market Price applicable to Optional Cash Payments of \$10,000 or less or dividend reinvestments used to purchase shares, or between 0% and 5% from the Market Price applicable to pre-approved Optional Cash Payments in excess of \$10,000. The discount may vary from time to time and may be different for Optional Cash Payments of \$10,000 or less, dividend reinvestments, and Optional Cash Payments in excess of \$10,000, but once established will apply uniformly to all purchases made with Optional Cash Payments of \$10,000 or less, dividend reinvestments, or Optional Cash Payments in excess of \$10,000, as the case may be, on any given Investment Date or for any given Investment Period.

Investment Date

With respect to dividend reinvestment:

The Investment Date will be the dividend payment date or such other date following the dividend payment date on which the Plan Administrator can, as promptly as practicable, purchase the shares with the cash dividends.

With respect to Optional Cash Payments of \$10,000 or less:

The Investment Date is generally on or about the 21st day of each month or, in the case of open market purchases, the 21st day of each month, as market conditions permit.

With respect to pre-approved Optional Cash Payments in excess of \$10,000:

The Investment Date will be each trading day during the Investment Period established by us, which may range from one to

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twelve days on which our shares of common stock trade on the New York Stock Exchange.
The Company may establish other Investment Dates, however, as provided in the Plan.

Market Price

Shares will be purchased for the Plan at the applicable discount, if any, from the Market Price. In no event will the price paid, less brokerage commissions and service fees, if any, paid by us, be less than the Minimum Price, which is 95% of the fair market value of our common stock on the date of purchase.

The Market Price, in the case of shares purchased directly from us, will be the volume-weighted average stock price on the date of purchase, computed to four decimal places, of our common stock on the NYSE or other applicable securities exchange for trading hours between 9:30 a.m. and 4:00 p.m., Eastern Time, up to and including the last trade as reported by the NYSE or other applicable securities exchange; provided that, with respect to pre-approved Optional Cash Payments in excess of \$10,000, we may establish as a condition to any such pre-approval an alternative means of determining the Market Price for all purchases made in respect of pre-approved Optional Cash Payments in excess of \$10,000 for an Investment Period, such as utilizing the NYSE last trade price on the Investment Date, computed to six decimal places, of our common stock on the NYSE, as reported by the NYSE. In the case of shares purchased on the open market, the Market Price will be the weighted average of the actual prices paid, computed to six decimal places, for all of the common stock purchased by the Plan Administrator with all Participants' reinvested dividends and Optional Cash Payments for the related investment.

Expenses

With respect to shares of common stock purchased directly from us with reinvested dividends or Optional Cash Payments, we will pay expenses incurred in connection with those purchases. With respect to shares of common stock purchased in the open market, we will pay the brokerage commissions and service fees so long as the brokerage commissions and service fees, together with any discount from the Market Price, do not exceed 5% of the fair market value of our common stock on the Investment Date. We will pay all other costs of administering the Plan. If you request that the Plan Administrator sell all or any portion of your shares, however, you must pay a nominal fee per transaction to the Plan Administrator, any related brokerage commissions, and applicable stock transfer taxes.

No Interest Pending Investment

No interest will be paid on cash dividends or Optional Cash Payments pending investment or reinvestment under the terms of the Plan.

Alternative Settlement

With respect to pre-approved Optional Cash Payments in excess of \$10,000, you may request that settlement of purchases of common stock be made on an alternative settlement cycle, such as settlement on a T+3 basis following an Investment Date, which request may be granted upon consent of the Company and the Plan Administrator in their sole discretion.

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Forward-Looking Statements

This prospectus supplement and the accompanying prospectus, including information incorporated into them by reference, contain forward-looking statements within the meaning of 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, 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 our Annual Report on Form 10-K for the year ended December 31, 2011 and in our subsequent filings under the Securities Exchange Act of 1934, as amended. 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, commercial real estate, 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 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 and loans; 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, the profitability of those transactions, and the risks we are exposed to in engaging in securitization transactions; exposure to claims and litigation, including litigation arising from our involvement in securitization transactions; whether we have sufficient liquid assets to meet short-term needs; our ability to successfully compete 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; the impact on our reputation that could result from our actions or omissions or from those of others; changes in accounting principles and tax rules; our ability to maintain our status as a 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.

This prospectus supplement and the accompanying prospectus, including information incorporated into them by reference, may contain statistics and other data that in some cases have been obtained from or compiled from information made available by servicers and other third-party service providers.

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Risk Factors

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

Risks Related to This Offering

Investing in our common stock may involve a high degree of risk. Investors in our common stock may experience losses, volatility, and poor liquidity, and we may reduce our dividends in a variety of circumstances.

An investment in our common stock may involve a high degree of risk, particularly when compared to other types of investments. Risks related to the economy, the financial markets, our industry, our investing activity, our other business activities, our financial results, the amount of dividends we distribute, the manner in which we conduct our business, and the way we have structured and limited our operations could result in a reduction in, or the elimination of, the value of our common stock. The level of risk associated with an investment in our common stock may not be suitable for the risk tolerance of many investors. Investors may experience volatile returns and material losses. In addition, the trading volume of our common stock (*i.e.*, its liquidity) may be insufficient to allow investors to sell their common stock when they want to or at a price they consider reasonable.

Our earnings, cash flows, book value, and dividends can be volatile and difficult to predict. Investors in our common stock should not rely on our estimates, projections, or predictions, or on management's beliefs about future events. In particular, the sustainability of our earnings and our cash flows will depend on numerous factors, including our level of investment activity, the returns we earn, the amount and timing of credit losses, prepayments, the expense of running our business, and other factors, including risk factors described herein and in documents incorporated by reference herein. As a consequence, although we seek to pay a regular common stock dividend rate that is sustainable, we may reduce our regular dividend rate, or stop paying dividends, in the future for a variety of reasons. We may not provide public warnings of dividend reductions prior to their occurrence. Although we have paid special dividends in the past, we did not pay a special dividend in 2008, 2009, 2010, 2011, or to date in 2012 and may not do so in the future. Changes to the amount of dividends we distribute may result in a reduction in the value of our common stock.

The actual price paid for shares acquired under the Plan may be higher than the price determined using the Market Price formula under the Plan.

Your taxable income attributable to discounts received under the Plan will be based on the value of our common stock as of the date of purchase, which value may differ from the Market Price determined under the Plan and may differ from the value of our stock on the dividend payment date or the date you elect to make an optional purchase under the Plan.

In addition, our Plan includes a requirement that all investments be made at a price that is at least equal to 95% of the fair market value of our stock on the date of purchase. If the fair market value of our stock on the Investment Date

significantly exceeds the value of our stock determined using the Market Price formula set forth in the Plan, the price paid under the Plan will be increased to ensure compliance with this requirement. The minimum pricing requirement is included in the Plan in order to ensure compliance with certain tax rules applicable to REITs. Under those rules, in order to maintain the deductibility of our dividends, the value of the discounts granted by us and the brokerage commissions and service fees paid by us cannot exceed 5% of the fair market value of our shares on the Investment Date.

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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. 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.

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.

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The Plan

The original Dividend Reinvestment Plan was adopted by our Board of Directors on September 15, 1995 and became effective on October 9, 1995. The Plan was amended by our Board of Directors as of December 13, 1996 to include the Stock Purchase Program and further amended as of September 30, 2002, January 6, 2005, November 23, 2007, and September 5, 2012.

The following series of questions and answers explains and constitutes the Plan in its entirety. Stockholders who do not participate in the Plan will receive cash dividends, as declared, and paid in the usual manner.

Purpose

1. What is the purpose of the Plan?

The primary purpose of the Plan is to provide eligible holders of shares of our common stock and interested new investors with a convenient and economical method of increasing their investment in us by investing cash dividends or Optional Cash Payments, or both, in additional shares of common stock. Shares purchased under the Plan may be purchased at a discount ranging from 0% to 3% from the Market Price for dividend reinvestments and for purchases made with Optional Cash Payments of \$10,000 or less, and from 0% to 5% of the Market Price for purchases made with pre-approved Optional Cash Payments in excess of \$10,000. We will pay any related brokerage commissions and service charges so long as they, together with any discount from Market Price applicable to the purchase, do not exceed, in the aggregate, 5% of the fair market value of the shares on the Investment Date.

We may also use the Plan to raise additional capital through the sale of shares under the Plan to owners of shares and interested new investors (including brokers or dealers) who, in connection with any resales of those shares, may be deemed to be underwriters. Our ability to waive limitations applicable to the amounts which Participants may purchase pursuant to the Plan's Optional Cash Payment feature will allow for these sales.

Under the Plan, if you purchase shares directly from us, the net proceeds of the sale of those shares will be used to invest in additional real estate loans and securities and for general corporate purposes.

The Plan is intended for the benefit of our investors and not for individuals or investors who engage in transactions which may cause aberrations in the price or trading volume of shares of common stock. From time to time, financial intermediaries may engage in positioning transactions to benefit from the discount from the Market Price of the shares of common stock acquired through the reinvestment of dividends or Optional Cash Payments under the Plan. Those transactions may cause fluctuations in the price or trading volume of the shares of our common stock. We reserve the right to monitor activity in all Plan accounts, and to modify, suspend, or terminate participation in the Plan by otherwise eligible holders of shares of common or preferred stock or interested new investors to eliminate practices which are, in our sole discretion, not consistent with the purposes or operation of the Plan, including investment limits per account, or which adversely affect the price of the shares of common stock or which could adversely affect our status as a REIT.

Available Options

2. What options are available under the Plan?

Stock Purchase Program. Each month, you may elect to invest Optional Cash Payments in shares of common stock, subject to a minimum per month purchase of \$100 if you are an existing stockholder at the time of election, or \$500 if you are not a stockholder at the time of election, and a maximum per month purchase of \$10,000. We may, in our sole discretion, waive the \$10,000 limit and permit purchases to be made in excess of that limit. You may make Optional Cash Payments each month even if you do not reinvest dividends. Optional Cash Payments may only be made in a month when we have determined to permit Optional Cash Payments under the Plan for that month. You may contact our investor relations department at (415) 389-7373 to ask whether we have determined to permit Optional Cash Payments for any particular month.

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Dividend Reinvestment Program. Holders of our stock who wish to participate in the Plan, whether Record Owners, Beneficial Owners, or interested new investors who make an initial investment through the Stock Purchase program described above may elect to have all, a portion, or none of the cash dividends paid on their shares of our stock automatically reinvested in additional shares of common stock through the Dividend Reinvestment Program. Cash dividends are paid on our common stock and on any other class of our equity securities that pays dividends, when and as authorized by our Board of Directors and declared by us. Cash dividends on our common stock are generally paid on a quarterly basis. Subject to the availability of shares of common stock registered for issuance under the Plan, there is generally no limitation on the amount of dividends you may reinvest under the dividend reinvestment feature of the Plan.

Benefits and Disadvantages

3. What are the benefits and disadvantages of the Plan?

Benefits

- (a) Whether you are an eligible stockholder or a new investor, the Plan provides you with the opportunity to make monthly investments of Optional Cash Payments, subject to minimum and maximum amounts, for the purchase of additional shares of common stock. Shares purchased under the Optional Cash Payment program in an amount in any month of \$10,000 or less, will be purchased either in the open market or directly from us. Shares purchased under the Optional Cash Payment program in a pre-approved amount in any month in excess of \$10,000 will be purchased directly from us. The purchase price paid for shares with Optional Cash Payments of \$10,000 or less will reflect a discount ranging from 0% to 3% from the Market Price. The purchase price paid for shares with pre-approved Optional Cash Payments in excess of \$10,000 will reflect a discount ranging from 0% to 5% of Market Price. You will not pay any brokerage commissions or service fees incurred in connection with the open market purchases to the extent they, together with any discount from Market Price applicable to the purchase, do not exceed 5% of the fair market value of the shares on the Investment Date.
- (b) The Plan provides you with the opportunity to reinvest automatically cash dividends paid on all or a portion of your common stock in additional shares of common stock. Shares purchased with dividend reinvestments will be purchased either in the open market or directly from us. The purchase price paid for those shares will reflect a discount ranging from 0% to 3% of the Market Price. You will not pay any brokerage commissions or service charges in connection with any purchase made on the open market to the extent the combined brokerage commission and service charges, plus any discount from Market Price applicable to the purchase, do not exceed 5% of the fair market value of the shares on the date of purchase.
- (c) All cash dividends paid on Participants' Plan shares enrolled in the Dividend Reinvestment Program can be fully invested in additional shares of common stock because the Plan permits fractional shares to be credited to Plan accounts. Dividends on the fractional shares, as well as on whole shares, will also be reinvested in additional shares which will be credited to Plan accounts.
- (d) The Plan Administrator, at no charge to you and at your election, either sends certificates to you for optional full shares purchased or provides for the safekeeping of stock certificates for shares credited to each Plan account. Participants in the Plan who purchase shares through pre-approved Optional Cash Payments in excess of \$10,000 may request that shares purchased be delivered through an alternative means of settlement, such as in book-entry form through the facilities of The Depository Trust Company, which request may be granted upon consent of the Plan Administrator in their sole discretion.

(e) As a Participant in the Plan, you may also elect to deposit with the Plan Administrator certificates for other common stock registered in your name for safekeeping without charge. Because you bear the risk of loss in sending certificates to the Plan Administrator, certificates should be sent by registered mail, return receipt requested, and properly insured to the address specified in Question 4 below. If certificates are later issued either upon your request or upon termination of your participation, new, differently numbered certificates will be issued.

(f) Periodic statements reflecting all current activity, including purchases, sales and latest balances, will simplify your record keeping.

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Disadvantages

- (a) Neither we nor the Plan Administrator will pay interest on dividends or Optional Cash Payments held pending reinvestment or investment. In addition, Optional Cash Payments of less than \$100 made by existing stockholders or less than \$500 made by new investors, and that portion of any Optional Cash Payment which exceeds the maximum monthly purchase limit of \$10,000 (unless the upper limit has been waived by us) may be subject to return to you without interest. In addition, for pre-approved Optional Cash Payments in excess of \$10,000 used to purchase common stock directly from us, if the Threshold Price, if any, is not met or the Maximum Price you specified is exceeded, a portion or all of your Optional Cash Payments in excess of \$10,000 will be subject to return to you without interest.
- (b) With respect to pre-approved Optional Cash Payments in excess of \$10,000, the actual number of shares to be issued to your Plan account will not be determined until after the end of the relevant Investment Period. Therefore, during the Investment Period you will not know the actual number of shares, if any, you have purchased.
- (c) With respect to shares acquired from us, the Market Price may exceed the price at which shares of our common stock are trading on the Investment Date when the shares are issued. The fair market value on the Investment Date generally governs the amount of taxable income to stockholders and may affect the price at which your shares are purchased.
- (d) Because Optional Cash Payments must be received by the Plan Administrator by the Optional Cash Payment Due Date, those payments may be exposed to changes in market conditions for a longer period of time than in the case of typical secondary market transactions. In addition, Optional Cash Payments once received by the Plan Administrator will not be returned to you unless you send a written request to the Plan Administrator at least five business days before the relevant Investment Date (or in the case of pre-approved Optional Cash Payments in excess of \$10,000, at least five business days before commencement of the relevant Investment Period).
- (e) There is a nominal fee per transaction, a brokerage commission, and applicable share transfer taxes on resales that you may be required to pay to the Plan Administrator if you request that the Plan Administrator sell some or all of the shares of common stock credited to your Plan account.
- (f) If you chose to reinvest cash dividends, you will be treated for federal income tax purposes as having received a distribution in cash on the distribution payment date. You may have to use other funds (or sell a portion of the common stock received) to fund the resulting tax liability.

Prospective investors should carefully consider the matters described in the Risk Factors section of this prospectus supplement before making an investment in our common stock.

Administration

4. Who Administers the Plan?

We have retained Computershare Trust Company, N.A. as Plan Administrator to administer the Plan, keep records, send statements of account activity, and perform other duties relating to the Plan. The mailing address, telephone number, website, and email addresses of the Plan Administrator are:

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
Telephone (888) 472-1955

<http://www.computershare.com>
web.queries@computershare.com

Certificates for Plan Shares purchased pursuant to the Stock Purchase Program will not be issued but will be held by the Plan Administrator free of charge. Plan Shares will be held by the Plan Administrator and registered in the Participant's name. The Plan Administrator will receive dividends on all Plan Shares held on the dividend Record Date, will credit those dividends to Participants' accounts on the basis of whole or fractional Plan Shares held in those accounts, and will automatically reinvest the dividends in additional

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shares of common stock according to the portion of the Participants' shares of stock designated to participate in the Dividend Reinvestment Program. Any remaining portion of cash dividends not designated for reinvestment will be sent to you. If the Plan Administrator resigns or otherwise ceases to act as plan administrator, we will appoint a new plan administrator to administer the Plan, and advise you of the change.

The Plan Administrator also acts as dividend disbursing agent, transfer agent, and registrar for our common stock.

Participation

For purposes of this section, responses are generally directed (a) to existing stockholders, according to the method by which their shares are held, or (b) to investors who are not currently stockholders but would like to make an initial purchase of common stock to become a Participant.

5. Who is eligible to participate?

A Record Owner (which means a stockholder who owns shares of our stock in his or her own name) or a Beneficial Owner (which means a stockholder who beneficially owns shares of our stock that are registered in a name other than his or her own name, for example, in the name of a broker, bank, or other nominee) may participate in the Plan. A

Record Owner may participate directly in the Plan. A Beneficial Owner must either become a Record Owner by having shares transferred into his or her own name or coordinating with his or her broker, bank, or other nominee to participate in the Plan on his or her behalf. A broker, bank, or other nominee acting on behalf of a Beneficial Owner must have a separate account for each Beneficial Owner who is a Participant in the Plan and for whom it acts as the broker, bank, or other nominee. In addition, interested investors who are not stockholders may participate in the Plan through the Optional Cash Payment feature.

We may terminate, by written notice, at any time, any Participant's participation in the Plan if that participation would or could be in violation of the restrictions on ownership and transfer of our stock contained in our charter. Those restrictions prohibit any person or group of persons from acquiring or holding, directly or indirectly, ownership of shares of our capital stock in excess of 9.8% (by number or value) of the outstanding shares. The meanings given to the terms group and beneficial ownership may cause a person who individually owns less than 9.8% of the shares outstanding to be deemed to be holding shares in excess of the foregoing limitation. Our charter provides that in the event a person acquires shares of capital stock in excess of the foregoing limitation, the excess shares will be transferred to a trustee for the benefit of a beneficiary whose ownership of the shares would not violate the restrictions on ownership and transfer of our stock. Under our charter, certain transfers or attempted transfers that would jeopardize our qualification as a real estate investment trust for tax purposes may be void to the fullest extent permitted by law. In addition, we reserve the right to modify, suspend, or terminate participation in the Plan by otherwise eligible holders of shares or new investors to eliminate practices which are, in our sole discretion, not consistent with the purposes or operation of the Plan, including investment limits per account, or which adversely affect the price of the shares of common stock or which could adversely affect our status as a REIT for tax purposes.

6. How does an eligible stockholder or interested new investor participate?

Record Owners may join the Plan by completing and signing an enrollment form and returning it to the Plan Administrator. Enrollment forms may be obtained at any time from the Plan Administrator.

Beneficial Owners who wish to participate in the Dividend Reinvestment Program must instruct their bank, broker, or other nominee to arrange participation in the Plan on the Beneficial Owner's behalf. The bank, broker, or other

nominee should then make arrangements with its securities depository and the securities depository will provide the Plan Administrator with the information necessary to allow the Beneficial Owner to participate in the Plan. Alternatively, a Beneficial Owner may simply request that the number of shares the Beneficial Owner wishes to be enrolled in the Plan be reclassified or reregistered by the bank, broker, or other nominee in the Beneficial Owner's own name as Record Owner to participate directly in the Plan.

New investors may join the Plan and become Record Owners by making an initial investment in an amount of at least \$500 and up to a maximum amount of \$10,000 unless the maximum limit is specifically waived by us. The new investor may designate all, a portion, or none of the shares to be purchased to be enrolled in the Dividend Reinvestment Program. The enrollment form should be returned to the Plan Administrator, with payment, on or before the applicable dates discussed below.

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Any Participant who returns a properly executed enrollment form to the Plan Administrator without specifying the number of shares to be included in the Dividend Reinvestment Program will be enrolled as having selected the Full Dividend Reinvestment Option described below.

If an enrollment form requesting reinvestment of dividends is received by the Plan Administrator before the Record Date established for a particular dividend, reinvestment will commence with that dividend. If an enrollment form is received on or after the Record Date established for a particular dividend, the reinvestment of dividends will begin on the dividend payment date following the next Record Date if the stockholder or the participating bank, broker, or other nominee is still a holder of record. Additionally, for Participants wishing to make Optional Cash Payments to purchase shares under the Stock Purchase Program, full payment must be received by the Plan Administrator by the Optional Cash Payment Due Date. In the case of a new investor making an initial investment to become a Participant, both the enrollment form and full payment of the designated initial investment must be received by the Optional Cash Payment Due Date.

7. What does the enrollment form provide?

The enrollment form appoints the Plan Administrator as your agent and directs us to pay to the Plan Administrator your cash dividends on all or a specified number of shares of common stock that you own on the applicable Record Date, as well as on all whole and fractional shares of common stock credited to your Plan account. The enrollment form directs the Plan Administrator to purchase for your account on the Investment Date additional shares of common stock with those dividends and Optional Cash Payments, if any, made by you. The enrollment form also directs the Plan Administrator to reinvest automatically all, a portion, or none of the subsequent dividends with respect to shares of common stock credited to your Plan account. Dividends will continue to be reinvested on the number of shares of common stock that you own on the applicable Record Date and on all shares of common stock credited to your Plan account until you withdraw from the Plan, or we suspend or terminate the Plan.

The enrollment form provides for the purchase of initial or additional shares of common stock through the following investment options:

- (1) If you elect Full Dividend Reinvestment, the Plan Administrator will apply all cash dividends on all shares of common stock then or subsequently registered in your name, and all cash dividends on all shares of common stock credited to your Plan account, together with any Optional Cash Payments, toward the purchase of additional shares of common stock.
- (2) If you elect Partial Dividend Reinvestment, the Plan Administrator will apply all cash dividends on a specified number of shares of common stock that you own on the applicable Record Date registered in your name and held in your Plan account as specified on the enrollment form toward the purchase of additional shares of common stock. The Plan Administrator will pay cash dividends on the remaining shares of common stock directly to you.
- (3) If you elect All Dividends Paid in Cash, you will continue to receive cash dividends on shares of common stock registered in your name and held in your Plan account in the usual manner.

You may select any one of these three options. In each case, the Plan Administrator will reinvest dividends on all shares that you designate, if any, until you withdraw from the Plan altogether, or until we suspend or terminate the Plan.

You may change your investment options at any time by contacting the Plan Administrator as indicated in Question 4

or requesting a new enrollment form and returning it to the Plan Administrator at the address set forth in Question 4.

Any Participant who returns a properly executed enrollment form to the Plan Administrator without electing an investment option will be enrolled as having selected the Full Dividend Reinvestment Option.

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8. How does an eligible stockholder or interested investor obtain an enrollment form?

You may obtain an enrollment form from the Plan Administrator or you may enroll online at www.computershare.com.

The mailing address, telephone number, website and email addresses of the Plan Administrator are:

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
Telephone: (888) 472-1955

<http://www.computershare.com>
web.queries@computershare.com

Our mailing address, telephone number, and website are:

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

www.redwoodtrust.com

Information contained on our website is not and should not be deemed a part of this prospectus supplement or any other report or filing filed with the SEC.

9. Is partial participation possible under the Plan?

Yes. New investors, Record Owners, or the bank, broker, or other nominee for Beneficial Owners may designate any desired number of their shares for which dividends are to be reinvested. Dividends will thereafter be reinvested only on the number of shares specified, and the Record Owner or Beneficial Owner, as the case may be, will continue to receive cash dividends on the remainder of the shares.

10. When may an eligible stockholder or interested new investor join the Plan?

A Record Owner or a Beneficial Owner may join the Plan at any time. A new investor may join the Plan by making an initial investment of at least \$500 and up to \$10,000 (or more with our permission) when returning the enrollment form. Once in the Plan, you remain in the Plan until you withdraw, we or the Plan Administrator terminate your participation or we terminate the Plan.

11. When will dividends and Optional Cash Payments be invested?

When shares are purchased from us, the Plan Administrator will make those purchases on the Investment Date in each

month. The Investment Date will generally be the dividend payment date for dividends and, generally, the 21st day of a month for Optional Cash Payments of \$10,000 or less, unless that date is not a business day, in which case it will be the first business day immediately thereafter, or, in the case of open market purchases, typically on the 21st day of the month, as market conditions permit. For pre-approved Optional Cash Payments in excess of \$10,000, the Investment

Date will be one or more days during a period of from one to twelve days we may designate during which our common stock is traded on the NYSE or other securities exchange. In addition, for Optional Cash Payments, we may designate other Investment Dates for any month, at our sole discretion.

When the Plan Administrator makes open market purchases, those purchases may be made on any securities exchange where the shares are traded, in the over-the-counter market, or in negotiated transactions, and may be subject to such terms with respect to price, delivery, and other matters as may be agreed to by the Plan Administrator. Neither we nor you will have any authorization or power to direct the time or price at which the Plan Administrator purchases shares or the selection of the broker or dealer through or from whom the Plan Administrator makes purchases.

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If the Plan Administrator receives the enrollment form before the Record Date for a dividend payment, the election to reinvest dividends will begin with that dividend payment. If the Plan Administrator receives the enrollment form on or after the Record Date, reinvestment of dividends will begin on the dividend payment date following the next Record Date if you are still a stockholder of record.

The Plan Administrator will allocate shares and credit shares, computed to six decimal places, to your account as follows: (1) shares purchased from us will be allocated and credited as of the appropriate Investment Date or later settlement date, if applicable; and (2) shares purchased in open market transactions will be allocated and credited as of the date on which the Plan Administrator completes the purchases of the aggregate number of shares to be purchased on behalf of all Participants with dividends to be reinvested or Optional Cash Payments, as the case may be, during the month.

No interest will be paid on cash dividends or other cash held in the Plan pending investment or reinvestment under the terms of the Plan. Since no interest is paid on cash held by the Plan Administrator, it normally will be in your best interest to defer Optional Cash Payments until shortly before the Optional Cash Payments are due.

Purchases and Prices of Shares

12. What will be the price to Participants of shares purchased under the Plan?

Shares acquired with reinvested dividends will be acquired directly from us or on the open market, in our discretion. Shares will be purchased for the Plan at a discount of between 0% and 3% from the Market Price, as defined below. The discount may vary from time to time, but once the discount is established with respect to a particular dividend payment, it will apply uniformly to all purchases made with dividend reinvestments in respect of that dividend payment. We will pay any brokerage commissions and service charges incurred in connection with those purchases so long as they, together with any discount from Market Price applicable to the purchase, do not exceed, in the aggregate, 5% of the fair market value of the shares on the Investment Date.

Shares acquired with Optional Cash Payments of \$10,000 or less will be acquired directly from us or on the open market, in our discretion. Shares acquired with pre-approved Optional Cash Payments in excess of \$10,000 will be acquired directly from us. We may establish a discount of between 0% and 3% from the Market Price applicable to Optional Cash Payments of \$10,000 or less, or between 0% and 5% of the Market Price applicable to pre-approved Optional Cash Payments in excess of \$10,000. The amount of the discount, if any, applicable to open market purchases may differ from the discount, if any, applicable to purchases made directly from us. The discount may vary from time to time but once established, it will apply uniformly to all purchases made using those respective Optional Cash Payments for purchases made on the open market or directly from us, as the case may be, on any given Investment Date or during any given Investment Period. We will pay any brokerage commissions and service charges incurred in connection with those purchases so long as they, together with any discount from Market Price applicable to the purchase, do not exceed, in the aggregate, 5% of the fair market value of the shares on the Investment Date.

In no event, however, will the price paid, less brokerage commissions and service fees, if any, paid by us, be less than the Minimum Price, which is 95% of the fair market value of our common stock on the Investment Date.

The Market Price, in the case of shares purchased directly from us, will be the volume-weighted average stock price on the date of purchase, computed to four decimal places, of our common stock on the NYSE or other applicable securities exchange for trading hours between 9:30 a.m. and 4:00 p.m., Eastern Time, up to and including the last

trade as reported by the NYSE or other applicable stock exchange; provided that, with respect to pre-approved Optional Cash Payments in excess of \$10,000, we may establish as a condition to any such pre-approval an alternative means of determining the Market Price for all purchases made in respect of pre-approved Optional Cash Payments in excess of \$10,000 for an Investment Period, such as utilizing the NYSE last trade price on the Investment Date, computed to six decimal places, of our common stock on the NYSE, as reported by the NYSE.

In the case of shares purchased directly from us with pre-approved Optional Cash Payments in excess of \$10,000, we will establish an Investment Period generally consisting of from one to twelve days (or any other

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number of days otherwise designated by us in our sole discretion from time to time and disclosed in any waiver we may grant) on which our common stock is expected to trade on the NYSE or other applicable securities exchange.

Each of the days in the Investment Period will be a separate Investment Date and an equal proportion of your pre-approved Optional Cash Payment will be invested on each of those days. If no trading occurs in our common stock on one or more of those Investment Dates, or if the Market Price on one or more of those Investment Dates does not equal or exceed any Threshold Price we may have established, or if the Market Price on one or more of those Investment Dates exceeds any Maximum Price that you may have established, no purchases of common stock will be made with your pre-approved Optional Cash Payment on that date and the proportional amount of your pre-approved Optional Cash Payment that would otherwise have been invested on that date will be returned to you.

In the case of shares purchased on the open market, the Market Price will be the weighted average of the actual prices paid, computed to six decimal places, for all of the common stock purchased by the Plan Administrator on the open market with all Participants' reinvested dividends and Optional Cash Payments for the related investment. Neither we nor you will have any authorization or power to direct the time or price at which the Plan Administrator purchases shares or the selection of the broker or dealer through or from whom the Plan Administrator makes the purchases.

13. What are the Record Dates and Investment Dates for Dividend Reinvestment?

For the reinvestment of dividends, the Record Date is the date set by our Board of Directors for determination of the ownership of the common stock entitled to payment of a dividend on the dividend payment date. Likewise, the dividend payment date authorized by our Board of Directors constitutes the Investment Date applicable to the reinvestment of that dividend with respect to shares of common stock acquired directly from us. The Investment Date with respect to shares of common stock that the Plan Administrator purchases in open market transactions will typically be one or more days during the ten business day period beginning on the dividend payment date, as market conditions permit. Dividends will be reinvested on the Investment Date using the applicable Market Price.

14. How will the number of shares purchased for you be determined?

Your Plan account will be credited with the number of shares, including fractions computed to six decimal places, equal to the total amount to be invested on your behalf divided by the purchase price per share. The total amount to be invested will depend on the amount of any dividends paid on the number of shares of common stock that you own and shares of common stock credited to your Plan account on the applicable Record Date, or the amount of any Optional Cash Payments made by you and available for investment on the related Investment Date, and any withholding taxes you may be subject to. Subject to the availability of shares of common stock registered for issuance under the Plan, there is no limit to the number of shares available for issuance pursuant to the reinvestment of dividends or with Optional Cash Payments.

15. What is the source of shares of common stock purchased under the Plan?

Shares of common stock credited to your Plan account will be purchased either directly from us, in which event the shares will be authorized but unissued shares, or on the open market or in privately negotiated transactions, or by a combination of the foregoing, at our option, after a review of current market conditions and our current and projected capital needs. We will determine the source of the shares of common stock to be purchased under the Plan at least one business day before the relevant Investment Date, and will notify the Plan Administrator of the same. Neither we nor the Plan Administrator will be required to provide any written notice to you as to the source of the shares of common stock to be purchased under the Plan, but information regarding the source of the shares of common stock may be

obtained by contacting our investor relations department at (415) 389-7373.

16. How is the discount rate determined?

We may, at our discretion, offer discounts from Market Prices that could range from 0 - 3% (in the case of dividend reinvestments and Optional Cash Payments of \$10,000 or less) and 0 - 5% (in the case of Optional Cash Payments in excess of \$10,000). We reserve the right to periodically change or discontinue a discount rate or to offer different discount rates for different types of investments under the Plan. We generally

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determine the rate of discount to be offered based on a review of market conditions, the level of participation in the Plan, our current and projected capital needs and the alternative sources of capital available to us. We will determine the discount, if any, being offered at least one business day prior to an Investment Date or commencement of an Investment Period and you may call our automated information line at (415) 380-2304 for information regarding the discount rates being offered with respect to a particular Investment Date or Investment Period.

17. How does the Optional Cash Payment feature of the Plan work?

All Record Owners and interested new investors who have enrolled in the Plan are eligible to make Optional Cash Payments during any month, whether or not a dividend is declared. The Plan Administrator will apply any Optional Cash Payment received from you no later than the Optional Cash Payment Due Date (subject to the minimum and maximum investment limitations specified in the response to Question 18 below) to the purchase of additional shares of common stock for your account on the following Investment Date (or in the case of pre-approved Optional Cash Payments in excess of \$10,000, the following Investment Dates).

The Optional Cash Discount will be established each month by us and will range from 0% to 3% of the Market Price for purchases made with Optional Cash Payments of \$10,000 or less, and from 0% to 5% of the Market Price for purchases made with pre-approved Optional Cash Payments of more than \$10,000. You are not obligated to participate in the Optional Cash Payment feature of the Plan. Optional Cash Payments need not be in the same amount each month.

18. What limitations apply to Optional Cash Payments?

Each Optional Cash Payment is subject to a minimum per month purchase of \$100 for existing stockholders and \$500 for new investors and a maximum per month purchase of \$10,000. For purposes of these limitations, all Plan accounts under your common control or management (which will be determined in our sole discretion) will be aggregated. Generally, Optional Cash Payments of less than \$100 for existing stockholders or \$500 for new investors, and that portion of any Optional Cash Payment which exceeds the monthly purchase limit of \$10,000, unless that limit has been waived by us, will be returned to you without interest following the relevant Investment Date.

You may make Optional Cash Payments of up to \$10,000 each month without our prior approval, subject to our right to modify, suspend, or terminate participation in the Plan by otherwise eligible holders of shares of common stock or interested new investors to eliminate practices which are, in our sole discretion, not consistent with the purposes or operation of the Plan or which adversely affect the price of the shares of common stock or our status as a REIT for tax purposes.

You may make Optional Cash Payments in excess of \$10,000 only upon our acceptance of a completed Request for Waiver form from you and the Plan Administrator's receipt of that form. There is no pre-established maximum limit applicable to Optional Cash Payments that may be made pursuant to accepted Requests for Waiver. A Request for Waiver form must be received by us no later than one business day prior to the first Investment Date and accepted by us and notice of our acceptance must have been received by the Plan Administrator no later than 4:30 p.m. (Eastern time) on the applicable Investment Date. Request for Waiver forms will be furnished at any time upon request to us at the address or telephone number specified in the response to Question 4. If you are interested in obtaining further information about a Request for Waiver, you should contact our investor relations department at (415) 389-7373.

In no event will an Optional Cash Payment purchase be made at a price that, when reduced by the amount of the related brokerage commissions and service fees, if any, paid by us, is below the Minimum Price.

Your written Request for Waiver must include the proposed investment amount(s), Investment Period(s), and Maximum Price, if any, prior to the commencement of the requested Investment Period(s). If Requests for Waiver are submitted for any period for an aggregate amount in excess of the amount we are willing to accept, we may honor the requests in order of receipt, pro rata, or by any other method which we determine to be appropriate.

Waivers will be considered on the basis of a variety of factors, which may include our current and projected capital needs, the alternatives available to us to meet those needs, prevailing market prices for shares

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of common stock and our other securities, general economic and market conditions, expected aberrations in the price or trading volume of the shares of common stock, the potential disruption of the price of the shares of common stock by a financial intermediary, the number of shares of common stock that you hold, your past actions under the Plan, the aggregate amount of Optional Cash Payments for which waivers have been submitted, and the administrative constraints associated with granting the waivers. Grants of waivers will be made in our absolute discretion.

Unless we waive our right to do so, we may establish for any Investment Period a minimum Threshold Price applicable only to the investment of Optional Cash Payments that exceed \$10,000 and that are made pursuant to Requests for Waiver, to provide us with the ability to set a minimum price at which shares of common stock will be sold under the Plan each month pursuant to the Requests. The determination of whether to establish a Threshold Price and, if a Threshold Price is established, its amount, will be made by us in our sole discretion after consideration of current market conditions, the level of participation in the Plan, our current and projected capital needs and other factors we deem to be relevant. Neither we nor the Plan Administrator will be required to provide any written notice to you as to whether a Threshold Price has been established for any Investment Period, but information regarding the Threshold Price may be obtained by contacting our investor relations department at (415) 389-7373.

The Threshold Price, if any, for Optional Cash Payments made through Requests for Waivers, if established for an Investment Period, will be a stated dollar amount that the Market Price must equal or exceed. In the event that the Threshold Price is not satisfied for a trading day during the Investment Period, then that day will not be an Investment Date and the proportional amount of your Optional Cash Payment that would otherwise have been invested on that date will not be invested and will be returned to you, without interest, as soon as practicable after the applicable Investment Date. For example, for a ten-day Investment Period, for each trading day on which the Threshold Price is not satisfied, 1/10 of each Optional Cash Payment made by you pursuant to a Request for Waiver will be returned to you, without interest, as soon as practicable after the applicable Investment Date. Thus, for example, if the Threshold Price is not satisfied for three of the ten trading days in an Investment Period, 3/10 of your Optional Cash Payment made pursuant to a Request for Waiver will be returned to you by check, without interest, as soon as practicable after the Investment Period. The Plan Administrator expects to mail such checks as soon as practicable after the applicable Investment Period. This return procedure will only apply when we have set a Threshold Price with respect to the relevant Investment Period.

Setting a Threshold Price for an Investment Period will not affect the setting of a Threshold Price for any subsequent Investment Period. The Threshold Price concept and return procedure discussed above apply only to Optional Cash Payments made through Requests for Waiver.

For any Investment Period, we may waive our right to set a Threshold Price for Optional Cash Payments made through Requests for Waiver. You may ascertain whether the Threshold Price applicable to a given Investment Period has been set or waived, as applicable, by calling our automated information line at (415) 380-2304.

Your Optional Cash Payments made pursuant to a Request for Waiver may specify a Maximum Price per share that you are willing to pay and if the Market Price less the applicable discount on a trading day during an Investment Period exceeds the specified Maximum Price, then that day will not be an Investment Date and the proportional amount of your Optional Cash Payment that would otherwise have been invested on that date will not be invested and will instead be returned to you without interest as soon as practicable after the applicable Investment Date.

At least one business day before the relevant Investment Date (or commencement of the relevant Investment Period, in the case of pre-approved Optional Cash Payments in excess of \$10,000), we will establish the discount from the Market Price applicable to Optional Cash Payments with respect to the corresponding Investment Date or Investment Period, as the case may be, and will notify the Plan Administrator of the same. The discount may be from 0% to 3% of

the Market Price for purchases made with Optional Cash Payments of \$10,000 or less, and from 0% to 5% of the Market Price for purchases made with pre-approved Optional Cash Payments of more than \$10,000. The amount of the discount, if any, applicable to open market purchases may differ from the discount, if any, applicable to purchases made directly from us.

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The discount may vary from time to time, but once established will apply uniformly to all Optional Cash Payments of \$10,000 or less, or more than \$10,000, as the case may be, used to purchase shares on the open market or directly from us, as the case may be, on any given Investment Date or for any given Investment Period. The discount will be established in our sole discretion after a review of current market conditions, the level of participation in the Plan, our current and projected capital needs, and the alternative sources of capital available to us. Neither we nor the Plan Administrator will be required to provide any written notice to you as to the discount, but information regarding the discount applicable to the next Investment Date or Investment Period, as the case may be, may be obtained by calling our automated information line at (415) 380-2304. Setting a discount for an Investment Period will not affect the setting of a discount for any subsequent Investment Period.

19. What are the Due Dates and Investment Dates for Optional Cash Payments?

Optional Cash Payments will be invested on the related Investment Date or Investment Dates, as applicable. The Optional Cash Payment Due Date is one business day before (i) the relevant Investment Date, in the case of Optional Cash Payments of \$10,000 or less, and (ii) except as provided below, the commencement of the relevant Investment Period, in the case of pre-approved Optional Cash Payments in excess \$10,000. The Investment Date for Optional Cash Payments of \$10,000 or less is generally on or about the 21st day of each month. The Investment Date for pre-approved Optional Cash Payments in excess of \$10,000 will be each trading day in the Investment Period established by us, which may range from one to twelve days on which our shares of common stock trade on the New York Stock Exchange, typically beginning on the 21st day of the month. We may provide for more than one Investment Date per month, at our sole discretion.

Optional Cash Payments that the Plan Administrator timely receives will be applied to the purchase of shares of common stock on the applicable Investment Dates. No interest will be paid by us or the Plan Administrator on Optional Cash Payments held pending investment.

With respect to pre-approved Optional Cash Payments in excess of \$10,000, you may request that settlement of purchases of common stock be made on an alternative settlement cycle, such as settlement on a T+3 basis following an Investment Date, which request may be granted upon consent of both the Company and the Plan Administrator in their sole discretion. In the event that an alternative settlement cycle is consented to, the Optional Cash Payment Due Date will generally be the first or second business day after the Investment Date, as specified when any such consent is granted.

20. How are Optional Cash Payments Made?

Each month the Plan Administrator will apply any Optional Cash Payment for which good funds are timely received to the purchase of shares of common stock for your account at the next Investment Date (or during the next Investment Period, in the case of pre-approved Optional Cash Payments in excess of \$10,000). For funds to be invested at the next Investment Date or during the next Investment Period, as the case may be, the Plan Administrator must receive a check by the Optional Cash Payment Due Date. In the case of pre-approved Optional Cash Payments in excess of \$10,000 wire transfers may be used. Checks should be made payable to Computershare Redwood Trust, Inc. DSPP and submitted together with, initially, the enrollment form or, subsequently, the form for additional investments attached to your statements. The Plan Administrator will not accept cash, traveler's checks, money orders, or third party checks. Checks returned for any reason will not be resubmitted for collection.

You can automatically invest a specified monthly amount (not less than \$100, or \$500 for the first investment by a new investor, and not more than \$10,000 per month) deducted directly from your U.S. bank account by completing a direct debit authorization form and returning it to the Plan Administrator or by enrolling in automatic debits online at *www.computershare.com*. Funds will be debited from your account on the third (3rd) day of each month, or the next business day if the 3rd is not a business day, prior to the Optional Cash Payment Due Date each month. You can change or stop automatic monthly investments by completing and returning a new direct debit authorization form or by contacting the Plan Administrator as indicated in Question 4. The Plan Administrator must receive your instructions and authorization ten business days prior to the monthly Optional Cash Payment Due Date.

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No interest will be paid by us or the Plan Administrator on Optional Cash Payments held pending investment. Since no interest is paid on cash held by the Plan Administrator, it normally will be in your best interests to defer an Optional Cash Payment until shortly before the Optional Cash Payment is due.

If any Participant's check for an Optional Cash Payment is returned unpaid for any reason, or an authorized funds transfer is rejected, the Plan Administrator will not consider the request for investment of such funds.

21. May Optional Cash Payments be returned?

Yes. Upon written request to the Plan Administrator received at least five business days before the Investment Date (or in the case of pre-approved Optional Cash Payments in excess of \$10,000, at least five business days before commencement of the Investment Period) with respect to which Optional Cash Payments have been delivered to the Plan Administrator, such Optional Cash Payments will be returned to you as soon as practicable. Requests received less than five business days before such date will not be returned but instead will be invested on the next related Investment Date.

22. Will you incur any expenses in connection with your participation under the Plan?

You will incur no brokerage commissions or service charges in connection with the reinvestment of dividends or in connection with any purchases made pursuant to Optional Cash Payments under the Plan except in connection with purchases made on the open market (as opposed to purchases made directly from us) to the extent the brokerage commissions and service charges, together with any discount from the Market Price, in the aggregate, exceed 5% of the fair market value of the common stock on the Investment Date. We will pay all other costs of administration of the Plan. Additionally, you may elect to send the certificates for your other shares of common stock to the Plan Administrator for safekeeping, and there is no fee for this service. Should you request that the Plan Administrator sell all or any portion of your shares, however, you may pay a nominal fee per transaction to the Plan Administrator, any related brokerage commissions, and applicable stock transfer taxes.

Account Statements

23. What kind of reports will be sent to you?

You will receive a statement of your account following each purchase or sale transaction and following any withdrawal of shares. These statements are your continuing record of the cost of your purchases and should be retained for income tax purposes. In addition, you will receive copies of other communications sent to holders of the shares of common stock, including our annual report to stockholders, the notice of annual meeting and proxy statement in connection with our annual meeting of stockholders, and Internal Revenue Service information for reporting dividends paid.

Dividends on Fractions

24. Will you be credited with dividends on fractions of shares?

Yes, fractional shares are computed to six decimal places and dividends are rounded to the nearest penny.

Certificates for Common Shares

25. Will certificates be issued for shares purchased?

No. Shares of common stock purchased for you will be held by the Plan Administrator in book-entry form. No certificates will be issued to you for shares in the Plan unless you submit a written, telephonic or Internet request to the Plan Administrator or until participation in the Plan is terminated. At any time, you may request that the Plan

Administrator send you a certificate (or, subject to the approval of the Plan Administrator, deliver shares electronically in book-entry form) for some or all of the whole shares credited to your account by contacting the Plan Administrator as indicated in Question 4. You should mail this request to the Plan Administrator at the address set forth in the answer to Question 4. Any remaining whole shares and any fractions of shares will remain credited to your Plan account. Certificates for fractional shares will not be issued under any circumstances.

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26. In whose name will certificates be registered when issued?

Your Plan account is maintained in the name registered at the time of your enrollment in the Plan. Share certificates for whole shares purchased under the Plan will be similarly registered when issued upon your request. If you are a Beneficial Owner, you should place the request through your banker, broker, or other nominee. If you wish to pledge shares credited to your Plan account, you must first withdraw those shares from the Plan account. If you wish to withdraw your shares and have any or all of the full shares held in your Plan account issued and delivered to you in physical form, you may do so by contacting the Plan Administrator as indicated in Question 4. Registration of withdrawn shares in a name other than yours will require the Medallion Signature Guarantee of your signature.

Withdrawals and Termination

27. When may Participants withdraw from the Plan?

You may withdraw from the Plan with respect to all or a portion of the shares held in your Plan account at any time.

If the Plan Administrator receives your request to withdraw near a dividend Record Date set by our Board of Directors for determining stockholders of record entitled to receive a dividend, the Plan Administrator, in its sole discretion, may either pay the dividend in cash or reinvest it in shares for your account. The request for withdrawal will then be processed as promptly as possible following the dividend payment date. All dividends subsequent to the dividend payment date or Investment Date will be paid in cash unless you re-enroll in the Plan, which may be done at any time.

Any Optional Cash Payments which have been sent to the Plan Administrator before a request for withdrawal will also be invested on the next Investment Date unless you expressly request return of that payment in the request for withdrawal, and the Plan Administrator receives the request for withdrawal at least five business days before the Investment Date (or in the case of pre-approved Optional Cash Payments in excess of \$10,000, at least five business days before commencement of the Investment Period) with respect to which Optional Cash Payments have been delivered to the Plan Administrator.

28. How do you sell shares or withdraw from the Plan?

If you wish to withdraw from the Plan with respect to all or a portion of the shares held in your Plan account, you must notify the Plan Administrator as indicated in Question 4. Upon your withdrawal from the Plan or termination of the Plan by us, whole shares credited to your account under the Plan will be maintained in book-entry form through the direct registration system (DRS), unless a certificate is requested. Registration of withdrawn shares in a name other than yours will require the guaranty of your signature. Cash will be paid in lieu of any fraction of a share, based on the prevailing market price as determined in the Plan Administrator's sole discretion.

You can sell any number of shares held in your Plan account by notifying the Plan Administrator. You have the following two choices when making a sale, depending on how you submit your sale request:

Market Order: A market order is a request to sell shares promptly at the current market price. Market order sales are available only if you submit your sale request online through the Plan Administrator's website at www.computershare.com/investor or by telephoning the Plan Administrator. Market order sale requests received online or by telephone will be placed promptly upon receipt during NYSE trading hours (normally 9:30 a.m. to 4:00 p.m. Eastern Time). Any orders received after 4:00 p.m. Eastern Time will be placed promptly on the next day on

which the NYSE is open. The price will be the market price of the sale obtained by the Plan Administrator's broker, less a service fee of \$25 and a processing fee of \$0.12 per share sold.

Batch Order: A batch order is an accumulation of sales requests made by Plan participants that are submitted together by the Plan Administrator for execution as an aggregated request. All sale requests received in writing will be processed as batch order sales. Sale instructions for batch orders received by the Plan Administrator will be processed no later than five business days after the date on which the order is received assuming sufficient market liquidity exists. In every case of a batch order sale, sales proceeds will equal the weighted average sale price obtained by the

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Administrator's broker for all shares sold in such batch on the applicable trade date or dates, net of taxes and a service fee of \$15 and a processing fee of \$0.12 per share sold. Once received by the Plan Administrator, batch order sale instructions are final and cannot be stopped or canceled.

Proceeds of sale are normally paid by check and normally will be distributed within one business day after your sale transaction has settled.

The Plan Administrator reserves the right to decline to process a sale of shares if it determines, in its sole discretion, that supporting legal documentation is required and has not been provided to it.

29. Are there any automatic termination provisions?

Yes. Participation in the Plan will be terminated if the Plan Administrator receives written notice of the death or adjudicated incompetence of a Participant, together with satisfactory supporting documentation of the appointment of a legal representative, at least five business days before (i) the next Record Date for purchases made through the reinvestment of dividends, or (ii) the Investment Date for Optional Cash Payments of \$10,000 or less, or (iii) the commencement of the Investment Period in the case of pre-approved Optional Cash Payments in excess of \$10,000, as applicable. In the event written notice of death or adjudicated incompetence and such supporting documentation is received by the Plan Administrator less than five business days before the next Record Date, Investment Date, or Investment Period, as applicable, shares will be purchased for the Participant with the related cash dividend or Optional Cash Payment and participation in the Plan will not terminate until after such dividend or payment has been invested. Thereafter, no additional purchase of shares will be made for the Participant's account and the Participant's shares and any cash dividends paid on those shares will be forwarded to the Participant's legal representative.

Further, participation in the Plan may be terminated if all whole shares have been disbursed from your stockholder account and your Plan account, leaving only a fraction of a share.

Lastly, participation in the Plan may be terminated if we have reason to believe that your continued participation may cause your share ownership to violate our 9.8% charter limit on share ownership or you do not respond to our effort to determine compliance with share ownership limitation requirements.

We reserve the right to monitor activity in all Plan accounts, and to modify, suspend, or terminate participation in the Plan by otherwise eligible holders of shares of common stock or interested new investors to eliminate practices which are, in our sole discretion, not consistent with the purposes or operation of the Plan, including investment limits per account, or which adversely affect the price of the shares of common stock or our status as a REIT for tax purposes.

Other Information

30. What happens if you sell or transfer all of the shares registered in your name?

If you dispose of all shares registered in your name and all shares held in your Plan account, and are not shown as a Record Owner on a dividend Record Date, you may be terminated from the Plan as of that date and the termination treated as though a withdrawal notice had been received before the Record Date.

31. What happens if we declare a stock dividend or a stock split?

Any dividend payable in shares and any additional shares distributed by us in connection with a share split in respect of shares credited to your Plan account will be added to that account. Share dividends or split shares which are attributable to shares registered in your own name and not in your Plan account will be mailed directly to you as in the case of stockholders not participating in the Plan.

32. How will shares held by the Plan Administrator be voted at meetings of stockholders?

If you are a Record Owner, you will receive a proxy card covering both directly held shares and shares held in the Plan. If you are a Beneficial Owner, you will receive a proxy covering shares held in the Plan through your broker, bank, or other nominee. If a proxy is returned properly signed (or returned electronically) and marked for voting, all the shares covered by the proxy will be voted as marked. If a proxy is returned properly signed (or returned electronically) but no voting instructions are given, all of your shares will be voted in accordance with recommendations of our Board of Directors, unless applicable laws require

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otherwise. If the proxy is not returned, or if it is returned unexecuted or improperly executed or improperly completed, shares registered in your name may be voted only by you in person, or, if you are a Beneficial Owner, by your broker, bank or other nominee, if permitted by applicable laws and the rules of the NYSE; neither we nor the Plan Administrator will vote those shares.

33. What are our responsibilities and the Plan Administrator's responsibilities under the Plan?

We and the Plan Administrator will not be liable in administering the Plan for any act done in good faith or required by applicable law or for any good faith omission to act, including, without limitation, any claim of liability arising out of failure to terminate a Participant's account upon his or her death, with respect to the prices at which shares are purchased and/or the times when purchases are made or with respect to any fluctuation in the market value before or after purchase or sale of shares. Nothing contained in the Plan limits our liability with respect to violations of federal securities laws.

We and the Plan Administrator will be entitled to rely on completed forms and the proof of due authority to participate in the Plan, without further responsibility of investigation or inquiry.

34. May the Plan be changed or discontinued?

Yes. We may suspend, terminate, or amend the Plan at any time and for any reason. Notice will be sent to all current Plan Participants of any suspension or termination, or of any amendment that alters the Plan terms and conditions, as soon as practicable after such action by us.

We may appoint a successor administrator or agent in place of the Plan Administrator at any time. You will be promptly informed of any such appointment.

Any questions of interpretation arising under the Plan will be determined by us, in our sole discretion, and our determination will be final.

35. What provisions are made for non-U.S. residents?

Optional Cash Payments made by foreign (non-U.S.) investors must be made in United States currency and drawn on a U.S. bank and will be invested in the same manner as Optional Cash Payments made by U.S. investors. Each investor is responsible for reviewing and is urged to review the applicable laws of his or her country of residence prior to investing in our common stock.

36. What about Taxes?

You should review the discussion on tax consequences of participating in the Plan that appears later in this prospectus supplement under the heading *Material U.S. Federal Income Tax Considerations*. In addition, you should note the following:

Information Reporting for Dividend Payments

You are responsible for any taxes that may be payable on dividends whether they are reinvested under the Plan or paid

in cash. Additionally, your pro-rata portion of any brokerage commissions and service fees paid by us to purchase your shares on the open market and any purchase discounts received by you will be treated as taxable income to you.

The Plan Administrator will send a Form 1099-DIV to you and the Internal Revenue Service after each year end, reporting all dividend income that you received during the year on your common stock, including any dividends reinvested, purchase discounts and your pro-rata portion of any brokerage commissions and service fees paid by us in connection with the acquisition of your shares on the open market.

If you sell shares of our common stock through the Plan, the Plan Administrator will send you and the Internal Revenue Service following the end of each year in which a sale occurs, a Form 1099-B indicating the total proceeds that you received from the sale transaction. U.S. Treasury regulations are subject to change and therefore you are urged to consult your tax advisor regarding the tax treatment of dividends reinvested under the Plan.

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Withholding

If you fail to provide certain federal income tax certifications in the manner required by law, distributions on shares of common stock, proceeds from the sale of fractional shares and proceeds from the sale of shares of common stock held for your account will be subject to federal income tax backup withholding imposed at the fourth lowest tax rate applicable to unmarried individuals, or such other rate as is then in effect. If withholding is required for any reason, the appropriate amount of tax will be withheld before investment or payment. Certain stockholders (including most corporations) are, however, exempt from the above withholding requirements.

If you are a foreign investor you need to provide the required federal income certifications to establish your status as a foreign person so that the foregoing backup withholding does not apply to you. You also need to provide the required certifications if you wish to claim the benefit of exemptions from federal income tax withholding or reduced withholding rates under a treaty or convention entered into between the United States and your country of residence.

Generally, distributions to a foreign stockholder are subject to federal income tax withholding at 30% (or a lower treaty rate if applicable), but may be as much as 35% for certain types of income. Certain distributions or portion of a distribution to a foreign stockholder may still be subject to federal income tax withholding even when the distribution or that portion of the distribution is not treated as dividend under federal income tax laws. If you are a foreign stockholder whose distributions are subject to federal income tax withholding, the appropriate amount will be withheld and the remaining balance will be credited to your account to purchase shares of common stock.

We recommend that you retain your transaction statements for record keeping and tax reporting purposes. IRS rules are subject to change and you should consult with your tax advisor with respect to the tax treatment of dividends reinvested under the Plan. See the discussion below under the heading **Material U.S. Federal Income Tax Considerations** for more information regarding taxes.

37. Who bears the risk of market fluctuations in our shares of common stock?

Your investment in shares held in the Plan account is no different from your investment in directly held shares. You bear the risk of any loss and enjoy the benefits of any gain from market price changes with respect to those shares.

38. Who should be contacted with questions about the Plan?

All correspondence regarding the Plan should be directed to the Plan Administrator at the address set forth in the answer to Question 4. Please mention Redwood Trust, Inc. and this Plan in all correspondence.

39. How is the Plan interpreted?

Any question of interpretation arising under the Plan will be determined by us and our determination will be final. We may adopt additional terms and conditions of the Plan and its operation will be governed by the laws of the State of California.

40. What are some of the Participants responsibilities under the Plan?

Shares of common stock credited to your Plan account are subject to escheat to the state in which you reside in the event the shares are deemed, under that state's laws, to have been abandoned by you. You, therefore, should notify the Plan Administrator promptly in writing of any change of address. Account statements and other communications to you will be addressed to you at the last address of record that you provide to the Plan Administrator.

You will have no right to draw checks or drafts against your Plan account or to instruct the Plan Administrator with respect to any shares of common stock or cash held by the Plan Administrator except as expressly provided in the Plan.

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Material U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that apply to a Participant in the Plan. No assurance can be given that the conclusions set out below would be sustained by a court if challenged by the Internal Revenue Service, or IRS.

All prospective investors should also review the discussion under Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

The discussion that follows is based upon current available law, including the Code and U.S. Treasury regulations promulgated thereunder, IRS rulings and determinations, case law and other applicable authorities, all of which are subject to change both prospectively or retroactively. Moreover, relevant laws, other legal authorities and interpretations thereof may change in a manner that could adversely affect the tax treatment of us or our stockholders.

This summary does not address all aspects of U.S. federal income taxation that may be relevant to you in light of your personal investment circumstances or if you are an investor that is subject to certain special rules under federal income tax law (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 tax law. This discussion assumes that stockholders will hold their common stock as a capital asset (generally, property held for investment) under the Code. Investors are urged to consult their tax advisors as to the specific tax consequences to them of purchasing, holding, and disposing of the common stock, including the application and effect of federal, state, local, and foreign income and other tax laws.

Tax Consequences of Dividend Reinvestment

A Participant whose dividend distributions are reinvested in our common stock will be treated for federal income tax purposes as having received a distribution notwithstanding that the distribution is used to purchase additional shares of common stock. The amount of the dividend deemed received is not entirely clear. Based on several private letter rulings issued by the IRS concerning dividend reinvestment plans that are similar to ours, we believe that the amount of the dividend will likely equal the fair market value, as of the Investment Date, of the shares of our common stock purchased with reinvested dividend proceeds. Recently, however, the IRS issued a private letter ruling concluding that the amount of the dividend equals only the amount of the cash distribution that, but for the reinvestment election made by the shareholder, would have been distributed on the dividend payment date. With respect to our common stock purchased by the Plan Administrator in open market transactions, the IRS has indicated in private letter rulings that the amount of dividend received by a Participant would include a pro rata share of any brokerage commissions or other related charges paid by us in connection with the Plan Administrator's purchase of our common stock on behalf of the Participant, but that our payment of the dividend reinvestment plan's administrative expenses does not constitute a distribution to stockholders. Absent further guidance from the IRS, we intend to take the position that (i) the amount of your dividend is the fair market value of the stock you receive on reinvestments plus commissions and service charges and (ii) administrative expenses of the Plan paid by us do not constitute constructive distributions; however, because private letter rulings are not considered precedent for all taxpayers, no assurance can be given that the IRS will agree with our position. The constructive distributions described above otherwise will be treated in the same manner as non-reinvested cash distributions.

A Participant's tax basis in each share of our common stock acquired by reinvestment of dividends under the Plan will generally equal the amount of the distribution deemed received (as described above). A Participant's holding period in

such common stock generally begins on the day following the date on which the shares of our common stock are credited to the Participant's Plan account.

Tax Consequences of Optional Cash Payments

The IRS has issued private letter rulings with respect to plans similar to this Plan that a Participant who both makes an optional cash purchase of common stock and reinvests all or a part of his dividends under a dividend reinvestment plan will be treated as having received a dividend distribution equal to the excess (if any) of the fair market value on the Investment Date of our common stock purchased in an optional cash purchase over the amount of the Optional Cash Payment made by the Participant. Recently, however, the IRS

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issued a private letter ruling concluding that no dividend distribution will be deemed to result from such an optional cash purchase. Also, if the shares of common stock are acquired by the Plan Administrator in an open market transaction, the IRS may assert that a Participant will be treated as receiving a dividend distribution equal to a pro rata share of any brokerage commission or other related charges paid by us on behalf of the Participant. As with constructive dividend distributions under the dividend reinvestment aspect of the Plan, such deemed dividend distributions would be included in income in the same manner as reinvested cash distributions.

The IRS has held in a private letter ruling that a Participant who only makes optional cash purchases of common stock in a dividend reinvestment plan (and does not participate in the dividend reinvestment aspect of the Plan) will not be treated as having received a dividend distribution reflecting either the excess (if any) of the fair market value on the Investment Date of our common stock over the amount of the Optional Cash Payment made by the Participant or a pro rata share of any brokerage commission or other related charges paid by us on behalf of the Participant. However, the IRS did not explain in the private letter ruling its rationale for making such a distinction, and it is unclear whether this theory would be applied to other taxpayers, particularly if the Participant is already a stockholder. Furthermore, because private letter rulings are not considered by the IRS to be precedent that can be relied upon by all taxpayers, no assurance can be given that the IRS would take this position with respect to transactions under the Plan.

A Participant's tax basis in each share of our common stock acquired through an optional cash purchase under the Plan will generally equal the amount of distributions a Participant is treated as receiving with respect to such share (as described above), plus the amount of the Optional Cash Payment. A Participant's holding period for common stock purchased under the Plan generally will begin on the day following the date on which the shares of our common stock are credited to the Participant's Plan account.

Tax Consequences to Redwood Trust of the Plan

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, such reinvested distributions are not preferential and continue to qualify for a dividends-paid deduction that counts towards the REIT's annual distribution requirement (see *Taxation of Redwood Trust REIT Qualification Distribution Requirements* in the accompanying prospectus). The dividends-paid deduction is generally not available for the payment of preferential dividends. The IRS has also held (i) in a published ruling that constructive dividends arising from a discount under a dividend reinvestment plan, and (ii) in private letter rulings that constructive dividends arising from a discount under an optional purchase plan, are not preferential and therefore will qualify for a dividends-paid deduction as long as the discount does not exceed 5% of the fair market value of the shares acquired under such plan. The IRS has indicated in private letter rulings that the amount of brokerage fees and other related charges paid by a company as part of such a plan are included in calculating the discount for the purposes of applying this 5% limit. As a result, we should be able to deduct constructive distributions, if any, resulting from discounts given under the Plan with respect to shares that have been purchased directly from us because the discount on such shares will not exceed 5% and no brokerage fees will be incurred. With respect to shares purchased on the open market, however, the discount, brokerage fees and other service charges allocated to such shares could exceed the 5% limit. In such event, we could lose the ability to deduct all or a portion of the distributions (actual and deemed), unless we impose the minimum price provision set forth in the Plan.

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. You

should consult your tax advisor regarding the effect of state, local and/or foreign tax laws on our tax treatment as a REIT and your investment in Redwood Trust.

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Supplemental Disclosure Relating to Recent and Pending Tax Law Changes

Medicare Tax on Investment Income. For taxable years beginning after December 31, 2012, new tax legislation will impose a Medicare-related surtax of 3.8% on net investment income of certain individuals, estates or trusts. Net investment income may include all or a portion of your dividends on our stock and net gains from taxable dispositions of our stock. You should consult your tax advisors regarding the applicability of this Medicare-related tax to your investments.

Foreign Financial Accounts. Other recently enacted legislation generally imposes a withholding tax of 30% on dividends and on gross proceeds from sales and other dispositions of stock paid to foreign financial institutions or certain non-financial foreign entities unless (i) in the case of a foreign financial institution, such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to U.S. tax authorities substantial information regarding U.S. account holders of such institution and to withhold on certain payments to such person and (ii) in the case of a covered non-financial foreign entity, such entity provides the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity. This regime is referred to as the Foreign Account Tax Compliance Act (FATCA) and generally was scheduled to become effective beginning in 2013. However, the IRS has implemented a phased-in effectiveness for these provisions such that withholding on dividends is generally set to begin after December 31, 2013 and on gross proceeds after December 31, 2014. Under certain circumstances, foreign persons might be eligible to obtain refunds or credits of any amounts withheld under FATCA. You should consult your tax advisors regarding the applicability of FATCA to your investments.

Expiration of Reduced Tax Rates. The current maximum federal income tax rates of 35% on ordinary income and 15% on qualified dividend income and long term capital gains are scheduled to expire on December 31, 2012. Without further congressional action, the maximum rate on ordinary income, including dividends, will revert to 39.6% in 2013. Although such reduced maximum rates were originally scheduled to expire on December 31, 2010 (and were only extended shortly before such date), it is very uncertain at this time whether such reduced maximum rates will again be extended or allowed to expire as scheduled.

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ERISA Investors

Because our common stock will qualify as a publicly offered security, employee benefit plans and individual retirement accounts may purchase shares of common stock and treat such shares, and not the underlying assets, as plan assets. Fiduciaries of ERISA plans should consider (i) whether an investment in our common stock satisfies ERISA diversification requirements, (ii) whether the investment is in accordance with the ERISA plans' governing instruments and (iii) whether the investment is prudent.

Use of Proceeds

We do not know either the number of shares of common stock that ultimately will be sold pursuant to the Plan or the prices at which the shares will be sold. We will receive proceeds from the purchase of shares of common stock through the Plan only to the extent that the purchases are made directly from us and not from open market purchases by the Plan Administrator. We intend to use the net proceeds from our sale of shares of our common stock pursuant to the Plan to invest in additional real estate loans and securities and for general corporate purposes.

Plan of Distribution

Except to the extent the Plan Administrator purchases common stock in open market transactions for sale pursuant to the Plan, the common stock sold under the Plan will be sold directly by us. We may sell common stock to owners of shares (including brokers or dealers) who, in connection with any resales of those shares, may be deemed to be underwriters. The shares, including shares acquired pursuant to waivers granted with respect to the Stock Purchase Program of the Plan, may be resold in market transactions (including coverage of short positions) on any national security exchange on which shares of common stock trade or in privately negotiated transactions. Our common stock is currently listed on the NYSE.

Under certain circumstances, it is expected that a portion of the shares of common stock sold under the Plan will be sold pursuant to waivers of the investment limit applicable to Optional Cash Payments we may grant from time to time. The difference between the price such owners pay to us for shares of common stock acquired under the Plan, after deduction of the applicable discount from the Market Price, and the price at which those shares are resold, may be deemed to constitute underwriting commissions received by the owners in connection with the transactions.

Subject to the availability of shares of common stock registered for issuance under the Plan, there is no total maximum number of shares that can be issued pursuant to the reinvestment of dividends. From time to time, financial intermediaries may engage in positioning transactions to benefit from the discount from the Market Price of common stock acquired through the reinvestment of dividends under the Plan.

We will pay any and all brokerage commissions and related expenses incurred in connection with purchases of common stock under the Plan except to the extent the brokerage commissions and service charges, together with any discount from the Market Price, relating to the purchase exceed 5% of the fair market value of the common stock on the date of purchase. Upon withdrawal by a Participant from the Plan by the sale of common stock held under the Plan, the Participant will receive the proceeds of the sale less a nominal fee per transaction paid to the Plan Administrator (if the resale is made by the Plan Administrator at the request of the Participant), any related brokerage commissions and any applicable transfer taxes.

Common stock may not be available under the Plan in all jurisdictions. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to buy, any common stock or other securities in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission or the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C., 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

This prospectus supplement is part of a registration statement on Form S-3 we have filed with the SEC under the Securities Act. This prospectus supplement 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 supplement or any other report or filing filed with the SEC. Our statements in this prospectus supplement 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.

You may request a free copy of any of such filings by writing or calling:

Redwood Trust, Inc.
One Belvedere Place, Suite 300
Mill Valley, California 94941
(415) 389-7373

Incorporation of Certain Information by Reference

We incorporate by reference our documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, until this offering is completed. This means that we can disclose important business, financial and other information in this prospectus supplement by referring you to the documents containing that information. All information incorporated by reference is part of this prospectus supplement, unless and until that information is updated and superseded by information filed with the SEC and incorporated later. Any information that we subsequently file with the SEC that is incorporated by reference will automatically update and supersede any previous information that is part of this prospectus supplement. We incorporate by reference the following:

Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which was filed with the SEC on February 27, 2012;

Quarterly Reports on Form 10-Q for the quarter ended March 31, 2012, which was filed with the SEC on May 8, 2012, and for the quarter ended June 30, 2012, which was filed with the SEC on August 7, 2012;

Current Reports on Form 8-K filed with the SEC on January 13, 2012, January 30, 2012, February 27, 2012 (solely with respect to Item 5.02 thereof), March 9, 2012, and May 21, 2012;

Proxy Statement with respect to the 2012 Annual Meeting of Stockholders, which was filed with the SEC on April 3, 2012;

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

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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 supplement and prior to the termination of the offering (but excluding any documents or portions of documents which are deemed furnished and not filed with the SEC).

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We will provide without charge to you, upon written or oral request, a copy of any document incorporated by reference (other than exhibits to those documents unless the exhibits are specifically incorporated herein by reference into the documents that this prospectus supplement incorporates). Requests should be directed to:

Redwood Trust, Inc.
One Belvedere Place, Suite 300
Mill Valley, California 94941
(415) 389-7373

Legal Opinions

The validity of the common stock offered and certain legal matters have been passed upon by Venable LLP, Baltimore, Maryland. Certain tax matters have been passed on by Chapman and Cutler LLP, San Francisco, California.

Experts

The consolidated financial statements as of and for the years ended December 31, 2011, 2010 and 2009 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2011 incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K for the year ended December 31, 2011 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.

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Glossary

Beneficial Owners are stockholders who beneficially own shares of our stock that are registered in a name other than their own (for example, in the name of a bank, broker, or other nominee).

Business day means any day other than Saturday, Sunday, or legal holiday on which the New York Stock Exchange or another applicable securities exchange is closed or a day on which Redwood Trust, Inc. or the Plan Administrator is authorized or obligated by law to close.

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

Commission means the Securities and Exchange Commission.

Company means Redwood Trust, Inc., a Maryland corporation.

Company Stock or *Company's Stock* means Redwood Trust, Inc.'s common stock and any other classes of equity securities outstanding from time to time, collectively.

common stock means Redwood Trust, Inc.'s common stock, \$0.01 par value per share.

Dividend Reinvestment Program refers to the provisions of the Plan pursuant to which a Participant in the Plan may elect to have all or a portion of the cash dividends paid on the Participant's shares of our stock automatically reinvested in shares of our common stock.

Investment Date means (i) with respect to common stock acquired pursuant to a dividend reinvestment, in the case of shares acquired directly from us, the dividend payment date authorized by our Board of Directors or, in the case of open market purchases, the 21st day of the month, as market conditions permit, (ii) with respect to common stock acquired pursuant to an Optional Cash Payment of \$10,000 or less, in the case of shares acquired directly from us, on or about the 21st day of each month or, in the case of open market purchases, on the 21st day of the month, as market conditions permit, (iii) for pre-approved Optional Cash Payments in excess of \$10,000, one or more days during the Investment Period, or (iv) such other date or dates as we may establish in our sole discretion.

Investment Period is the period we will establish from time to time, which will generally consist of from one to 12 days, during which our common stock is traded on the NYSE or other securities exchange and during which purchases of our shares of common stock will be made with pre-approved Optional Cash Payments in excess of \$10,000.

Market Price means, with respect to shares purchased directly from us, the volume-weighted average stock price, computed to four decimal places, of our common stock on the NYSE or other applicable securities exchange on the date of purchase for trading hours between 9:30 a.m. and 4:00 p.m., Eastern Time, up to and including the last trade, as reported by the NYSE or other applicable securities exchange; provided that, with respect to pre-approved Optional Cash Payments in excess of \$10,000, we may establish as a condition to any such pre-approval an alternative means of determining the Market Price for an Investment Period, such as the NYSE last trade price on the date of purchase, computed to six decimal places, of our common stock, as reported by the NYSE. *Market Price* means, with respect to shares purchased on the open market, the weighted average of the actual prices paid, computed to six decimal places, for all of the common stock purchased by the Plan Administrator on the open market with all Participants' reinvested dividends and Optional Cash Payments for the related month.

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Maximum Price means, with respect to Requests for Waiver, the amount established by you above which you will not purchase our common stock at the Investment Date. That is, should the Market Price, less applicable discount, exceed the Maximum Price you established, no purchases will be made.

Minimum Price means 95% of the fair market value of our common stock on the date of purchase.

NYSE means the New York Stock Exchange.

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Optional Cash Discount means the discount from the Market Price applicable to dividend reinvestments and Optional Cash Payments used to purchase shares. The discount will vary from 0% to 3% of the Market Price for dividend reinvestments and Optional Cash Payments of \$10,000 or less, and from 0% to 5% of the Market Price for pre-approved Optional Cash Payments in excess of \$10,000 (based, in each case, on a variety of potential considerations). The amount of the Optional Cash Discount may vary from month to month.

Optional Cash Payment means a payment, other than a dividend reinvestment, made in accordance with the Plan by a Participant in the Plan to be applied to a purchase of shares of our common stock under the Plan.

Optional Cash Payment Due Date means one business day before (i) the relevant Investment Date, in the case of Optional Cash Payments of \$10,000 or less, and (ii) the commencement of the relevant Investment Period, in the case of pre-approved Optional Cash Payments in excess of \$10,000; provided that, with respect to Optional Cash Payments in excess of \$10,000, if an alternative settlement cycle is consented to, the Optional Cash Payment Due Date will generally be the first or second business day after the Investment Date, as specified when any such consent is granted.

Participant means a record owner of our common stock, the beneficial owner of our common stock whose bank, broker or other nominee participates on the beneficial owner's behalf, or a new investor who wishes to participate in the Plan upon making an initial investment in our common stock.

Plan means the Redwood Trust, Inc. Direct Stock Purchase and Dividend Reinvestment Plan.

Plan Administrator means a plan administrator that administers the Plan, keeps records, sends statements of account to each Participant, and performs other duties related to the Plan. Computershare Trust Company, N.A. currently serves as plan administrator of the Plan.

Plan Shares are all shares of common stock held in a Participant's account under the Plan, including shares purchased through the Stock Purchase Program and all whole and fractional shares credited to a Participant's Plan account as the result of reinvestment of dividends on shares of our common stock enrolled in the Dividend Reinvestment Program.

Record Date means, with respect to reinvestments of dividends, the date set by our Board of Directors for determination of the ownership of the common stock entitled to payment of such dividends.

Record Owner refers to shareholders who own shares of our common stock in their own names.

Request for Waiver means a written request from a Participant, that we waive the \$10,000 Optional Cash Payment limitation and allow the Participant to make Optional Cash Payments in excess of \$10,000.

SEC means the Securities and Exchange Commission.

Securities Act means the Securities Act of 1933, as amended.

Stock Purchase Program refers to the provisions of the Plan pursuant to which a Participant in the Plan may elect to invest Option Cash Payments in shares of our common stock.

Threshold Price means the minimum price, if any, established by us that the Market Price must equal or exceed on a trading day during the Investment Period for Optional Cash Payments made pursuant to Requests for Waiver to be used to purchase shares of our common stock on that trading day.

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PROSPECTUS

**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.

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 3.

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.

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: