

REDWOOD TRUST INC
Form 424B5
May 26, 2009

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

**Filed Pursuant to Rule 424(b)(5)
Registration Statement No. 333-147604**

**Subject to completion, dated May 26, 2009
Preliminary Prospectus Supplement
(To prospectus dated November 23, 2007)**

13,000,000 shares

Common stock

We are offering 13,000,000 shares of our common stock to be sold in this offering. We will receive all of the net proceeds from the sale of our common stock.

Our common stock is listed on the New York Stock Exchange under the symbol *RWT*. The last reported sale price of our common stock on May 22, 2009 was \$15.90 per share.

We have elected to qualify to be taxed as a real estate investment trust, or REIT, for tax purposes. In order to protect us against the risk of losing our status as a REIT due to concentration of ownership among our stockholders, our charter generally prohibits any single stockholder, or any group of affiliated stockholders, from beneficially owning more than 9.8% of the outstanding shares of any class of our stock, unless our board of directors waives or modifies this ownership limit. In addition, our charter contains various other restrictions on the ownership and transfer of shares of our common stock. See *Restrictions on ownership and transfer and repurchase of shares* beginning on page 17 of the accompanying prospectus.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

We have granted the underwriters an option to purchase up to an additional 1,950,000 shares from us at the public offering price, less underwriting discounts and commissions, to cover overallotments, if any, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be \$ and the total proceeds, before expenses, to us will be \$.

Investing in our common stock involves risk. Before buying any shares, you should read this prospectus supplement, the accompanying prospectus and all information incorporated by reference herein, including the discussion of risks in *Risk factors* beginning on page S-6 of this prospectus supplement and on page 4 of our Annual Report on Form 10-K for the year ended December 31, 2008.

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

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The underwriters are offering the shares of our common stock as set forth under Underwriting . Delivery of the shares of common stock will be made on or about June , 2009.

J.P. Morgan

Keefe, Bruyette & Woods

Fox-Pitt Kelton
Cochran Caronia Waller

Jefferies & Company

May , 2009

JMP Securities

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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 have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

We are not, and the underwriters 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 or on behalf of the underwriters, 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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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. Statements regarding the following subjects, among others, are forward-looking by their nature:

Our statement in Summary Recent Developments on page S-2 that we believe prices for residential subordinate securities are likely to be negatively impacted by the government's loan modification initiatives.

Our statement in Summary Recent Developments on page S-2 that we may participate in a government loan program once additional details on that program have been announced.

Our statement in Summary Recent Developments on page S-2 that we do not expect the first of two new financial statement positions issued by the Financial Accounting Standards Board to have much of an impact on our pricing process or future earnings.

Our statement in Summary Recent Developments on page S-2 that we expect the second of two new financial statement positions issued by the Financial Accounting Standards Board will likely reduce the amount of future impairment charges against earnings.

Our statement in Summary Recent Developments on page S-3 that we entered the second quarter with strong cash flows, increased prepayment activity, firming prices for senior securities and increased trading volume in the market and ample cash to invest.

Our statement in Summary Recent Developments on page S-3 that we expect our GAAP earnings will remain volatile in the near term and that we may recognize additional GAAP impairment losses on securities held.

Our statement in Summary Recent Developments on page S-3 that we currently expect that our taxable income will continue to be pressured by the realization of credit losses in 2009 and that we believe it is highly probable that taxable income for 2009 will be negative.

Our statement in Summary Recent Developments on page S-3 and in Distribution policy on page S-8 regarding our board of director's intention to distribute a regular dividend in 2009 at a rate of \$0.25 per share per quarter.

Our statement in Summary Recent Developments on page S-3 that we have invested in certain residential mortgage-backed securities that we believe have the potential to generate attractive unlevered returns.

Our statement in Summary Recent Developments on page S-3 that we may acquire commercial assets if we believe the investments are adequately protected from loss and have the potential to provide stable, long-term cash flows, at attractive yields.

Our statements in Summary The offering on page S-4 and Use of proceeds on page S-6 regarding our intended use of the proceeds of this offering.

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, 2008 and in our subsequent filings under the Securities Exchange Act of 1934, as amended. We

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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: changes in interest rates; changes in mortgage prepayment rates; the timing of credit losses within our portfolio; our exposure to adjustable-rate and negative amortization mortgage loans; the state of the credit markets and other general economic conditions, particularly as they affect the price of earning assets and the credit status of borrowers, and the success of government actions aimed at stabilizing them; the concentration of the credit risks we are exposed to; the ability of counterparties to satisfy their obligations to us; legislative and regulatory actions affecting the mortgage industry or our business; the availability of high quality assets for purchase at attractive prices; declines in home prices and commercial real estate prices; increases in mortgage payment delinquencies; changes in the level of liquidity in the capital markets which may adversely affect our ability to finance our real estate asset portfolio; changes in liquidity in the market for real estate securities, the re-pricing of credit risk in the capital markets, inaccurate ratings of securities by rating agencies, rating agency downgrades of securities, and increases in the supply of real estate securities available-for-sale, each of which may adversely affect the values of securities we own; the extent of changes in the values of securities we own and the impact of adjustments reflecting those changes on our income statement and balance sheet, including our stockholders' equity; the effect of changes in accounting principles, conventions, and interpretations on our future reported financial results; our ability to maintain the positive stockholders' equity necessary to enable us to pay the dividends required to maintain our status as a REIT for tax purposes; our ability to generate the amount of cash flow we expect from our investment portfolio; changes in our investment, financing, and hedging strategies and the new risks that those changes may expose us to; changes in the competitive landscape within our industry and changes in the competitive landscape that may affect our ability to retain or attract personnel; our failure to manage various operational risks associated with our business; our failure to maintain appropriate internal controls over financial reporting; our failure to properly administer and manage our securitization entities; risks we may be exposed to if we expand our business activities, such as risks relating to significantly increasing our direct holdings of loans; limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940; our ability to successfully deploy the proceeds from this offering and raise additional capital to fund our investing activity; and other factors not presently identified.

Fair values for our securities, loans, and asset-backed securities (ABS) issued are dependent upon a number of market-based assumptions including future interest rates, prepayment rates, discount rates, credit loss rates, and the timing of credit losses. We use these assumptions to generate cash flow estimates and internal values for each individual security and our valuation process relies on our internal values to estimate the fair values of our securities.

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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Summary

The following information about this offering summarizes, and should be read in conjunction with, the information contained in this prospectus supplement and in the accompanying prospectus, and the documents incorporated herein and therein by reference. You should carefully consider the risks identified in the Risk factors section of this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2008, which is incorporated by reference into this prospectus supplement and the accompanying prospectus, before making an investment decision to purchase shares of our common stock. Unless otherwise specified, the information in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option described herein under Underwriting.

Redwood Trust, Inc., together with its subsidiaries, is a financial institution focused on investing in, financing, and managing residential and commercial real estate loans and securities. We seek to invest in 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 net interest income, which consists of the interest income we earn from our investments in loans and securities 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 purchase and derive income from our investments. Our primary real estate-related investments include investments in real estate loans and securities, an investment in a private fund that we sponsor and investments in the securitization entities that we sponsor, Sequoia and Acacia.

Our direct investments in residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and collateralized debt obligations (CDO) are currently financed with equity and long-term debt, although we may use short-term debt financing to acquire securities and loans from time to time. These investments are primarily senior and subordinate mortgage-backed securities backed by high-quality residential and commercial real estate loans. High-quality real estate loans are loans that typically have low loan-to-value ratios, borrowers with strong credit histories, and other indications of quality relative to the range of loans within U.S. real estate markets as a whole. One long-term focus of our operations is to resume investing in subordinate securities (often below investment grade) that have concentrated structural credit risk. More recently, we have been investing in senior securities (often investment-grade), which have the first right to cash flows and are generally last to incur credit losses in a securitization and therefore have less concentrated credit risk than subordinate securities.

Recent Developments. From the middle of 2007 through November 2008, trading activity between willing buyers and sellers of RMBS and CMBS was light, and prices for virtually all mortgage-backed assets declined significantly. This decline was fueled by rapidly deteriorating credit fundamentals and was exacerbated by the extraordinary deleveraging that took place in the financial markets.

Since November 2008, prices for senior RMBS and CMBS have fluctuated, as buyers and sellers sentiment has shifted back and forth from focusing on negative credit fundamentals (causing prices to move lower and trading activity to decline) to focusing on the potential positive technical benefits from government programs (causing prices to move higher and trading activity to increase). In contrast to price movements in senior securities, prices for subordinate residential and commercial securities have only moved lower, as the focus with respect to these securities has

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been solely on the fundamentals. We believe prices for residential subordinate securities are likely to be negatively impacted by the government's loan modification initiatives.

From November 2008 through the end of January 2009, prices for senior mortgage-backed securities increased based on a positive market reaction to the initial high-level outline of government initiatives for legacy assets. By February 2009, in the absence of actionable details on these initiatives and in the face of increasing concern over the financial health of banks, trading activity in mortgage-backed securities fell dramatically, investor focus turned back to the negative credit fundamentals and prices for senior securities dipped below the November lows.

In mid-March, the government announced the outline of its Public-Private Investment Program (PPIP), designed to spur the purchase of up to \$1 trillion of legacy residential assets (loans and securities), and signaled that it would expand the existing \$1 trillion Term Asset-Backed Securities Loan Facility (TALF) to provide financing for the purchase of senior legacy RMBS and CMBS. In response to these announcements, prices for senior residential and commercial securities began to rise. Since March 31, 2009, trading activity has been robust and prices for senior securities have continued to rise, however, it is difficult to anticipate the direction of future price movements since they will be affected by, among other things, the success of PPIP, TALF, and other government programs.

On May 1, 2009, the Board of Governors of the Federal Reserve System (Federal Reserve) explained that, beginning in June 2009, up to \$100 billion of TALF loans will be available to finance purchases of senior CMBS created on or after January 1, 2009. Further, on May 19, 2009, the Federal Reserve provided details as to how TALF will be expanded to cover legacy CMBS, including CMBS created prior to January 1, 2009. To date, neither the government nor the Federal Reserve has announced how TALF will apply to senior RMBS, and the first real estate-related TALF borrowing is yet to be completed.

Based on the details that have thus far been provided, the TALF program appears to offer attractive, non-recourse financing. We may participate in TALF; however, until potential regulatory restrictions and liquidity risks imposed on program participants and additional details on how TALF will be expanded to cover senior RMBS are made available, we will not be able to determine whether or to what extent we will seek to access TALF borrowings as part of our financing strategy.

In addition to the significant government actions taken during the first quarter of 2009, mark-to-market accounting standards will change in the second quarter based upon two new financial statement positions (FSPs) issued by the Financial Accounting Standards Board (FASB) in April 2009. These new FSPs will affect our future GAAP earnings; however, they will not affect our future cash flow, book value, or economic returns. The first FSP clarifies how to measure fair value in an inactive market. We do not expect this first FSP to have much of an impact on our pricing process or future earnings. The second FSP revises previous FASB guidance for measuring new impairments and reduces the recapture of previously taken impairment charges that subsequently proved to be unnecessary. This second FSP will have positive and negative impacts on our future GAAP earnings. On the positive side, the guidance will likely reduce the amount of future impairment charges against earnings. On the negative side, it will limit some of the future recapture of prior impairment charges, which, under existing guidance, would have flowed through our income statement. Instead, previously recorded impairment charges that prove to have been unnecessary will be recorded as a positive equity adjustment. The impact will be reflected in the components of book value, but it will not flow through earnings and will not result in a change in total stockholders' equity. We will adopt this new standard in the second quarter and it is too early to estimate the impact of the standard on our future reported results.

We remain focused on cash flows, capitalizing on investment opportunities, staying abreast of government initiatives and determining if and when to participate in those initiatives. We

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entered the second quarter with strong cash flows from our investment portfolio, increased prepayment activity, firming prices for senior securities, increased trading volume in the market and ample cash to invest.

During the first quarter of 2009, \$20 million of our cash flow was generated by our investments in subordinate residential securities; \$10 million of our cash flow was generated by our investments in senior residential securities; \$18 million of our cash flow was generated by our investments in our Sequoia securitization subsidiaries; \$5 million of our cash flow was generated by our investments in commercial securities; and \$5 million of our cash flow was generated by other investments and asset management fees.

We expect that GAAP earnings will remain volatile in the near term due to mark-to-market (MTM) adjustments. We may recognize additional GAAP impairment losses on residential, commercial, and CDO securities held. Negative MTM balance sheet write-downs that have not yet been realized through our income statement totaled \$75 million at March 31, 2009. Future income statement impairment charges related to these unrealized losses will be ameliorated by the recently announced FSP discussed above and, absent further declines in value, will not affect GAAP book value since these MTM losses were already deducted from equity at March 31, 2009. The fair value accounting principles we follow for the assets and liabilities at Acacia may also contribute to future MTM volatility.

Actual REIT taxable income in 2009 will depend on the timing of credit losses and the level of taxable income generated by our new and existing investments. We currently expect that taxable income will continue to be pressured by the realization of credit losses in 2009, and it is highly probable that taxable income for 2009 will be negative. In November 2008, our board of directors announced its intention to distribute a regular dividend of \$0.25 per share per quarter during 2009 and subsequently our board of directors declared a regular dividend of \$0.25 per share for the first and second quarters of 2009.

From January 1, 2009 through April 30, 2009, we invested \$240 million in RMBS at a weighted average price of 61% of face value and with weighted average credit support of 11 percentage points. The vast majority of these investment acquisitions were in senior residential securities backed by pre-2006 prime or near prime loans that we believe have the potential to generate attractive unlevered returns. When determining acquisition prices that we will pay for investments we make there are a number of factors that we consider on an individual loan basis, including, but not limited to: current and projected values of the homes (which, for most zip code-based geographic areas within the U.S., we currently believe will show further declines); borrowers' credit histories; likelihood of prepayment; size of loans; servicer; and originator.

From May 1, 2009 through May 21, 2009, we have invested an additional \$118 million, also primarily in RMBS. Our available cash balance at May 21, 2009, was \$92 million.

We have not acquired any commercial real estate-related assets since early 2007, but we have been actively monitoring developments and may acquire commercial assets if we believe the investments are adequately protected from loss and have the potential to provide stable, long-term cash flows at attractive yields.

Please see [Forward-looking statements](#) above in this prospectus supplement for important information regarding forward-looking statements.

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The offering

Summary details of the offering of our common stock pursuant to this prospectus supplement are set forth below:

Securities offered

13,000,000 shares of common stock, par value \$0.01 per share

Over-allotment option

We have granted the underwriters an option to purchase up to an additional 1,950,000 shares of common stock within 30 days of the date of this prospectus supplement solely to cover over-allotments, if any.

Common stock to be outstanding after this offering

73,257,361 shares of common stock (75,207,361 shares of common stock if the underwriters exercise their over-allotment option in full), in each case based on 60,257,361 shares of common stock outstanding as of May 22, 2009. Shares of common stock outstanding do not include 637,473 shares of common stock issuable upon exercise of outstanding options and 1,488,401 shares of common stock issuable in respect of vested and unvested deferred stock units, in each case as of May 22, 2009.

Use of proceeds

We estimate that the net proceeds of this offering will be \$ million (or \$ million if the underwriters exercise their over-allotment option in full). We intend to use a significant portion of the net proceeds of this offering to finance the acquisition of real estate-related investments such as non-agency prime and non-prime RMBS, prime and non-prime residential mortgage loans, commercial mortgage loans, CMBS, other ABS, CDOs, derivatives that reference these securities or other similar investments, if and when those investments are available at attractive prices.

We may also use a portion of the net proceeds of this offering to co-invest with third party investors in investment funds which we may sponsor and which may be managed by our wholly-owned subsidiary, Redwood Asset Management, Inc. We expect that one or more of these investment funds will invest in the same types of investments in which we invest.

We may also use the net proceeds of this offering for other investments that are within our areas of expertise, subject to maintaining our qualification as a REIT and our exemption from regulation under the Investment Company Act of 1940, and for other general corporate purposes.

Until appropriate investments or other uses can be identified, we may invest these funds in interest-bearing short-term investments, including Treasury bills, FDIC-insured bank deposits, or other short-term investments, which we expect would provide for a low net return based on current interest rates.

Our distribution policy

As a REIT, we are required to distribute at least 90% of our REIT taxable income as dividends, determined before applying the deduction for dividends paid and by excluding net capital gains. For more information, please see Recent

developments on page S-3, Distribution policy on page S-8 and Material U.S. federal income tax considerations REIT qualification Distribution requirements on page S-14.

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Risk factors

See Risk factors on page S-6 and the risk factors and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should consider carefully before deciding to invest in shares of our common stock.

Ownership and transfer restrictions

To assist us in satisfying the requirements for qualification as a REIT, our charter prohibits any person from acquiring or holding beneficial ownership of shares of our common stock representing in excess of 9.8%, in number of shares or value, of the outstanding shares of common stock, unless our board of directors waives or modifies this ownership limit. We have previously granted limited waivers of this prohibition and, subject to the approval of our board of directors, we may grant additional waivers at any time, including in connection with this offering. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock. See Restrictions on ownership and transfer and repurchase of shares on page 17 of the accompanying prospectus.

NYSE symbol

RWT

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Risk factors

You should carefully consider the risks set forth under the caption "Risk factors" beginning on page 4 of our Annual Report on Form 10-K for the year ended December 31, 2008, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, all of which are incorporated by reference into this prospectus supplement and the accompanying prospectus. The risks and uncertainties described in those risk factors are not the only ones facing us. 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. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us.

Use of proceeds

We estimate that the net proceeds of this offering will be \$ million, or \$ million if the underwriters exercise their over-allotment option in full. We intend to use a significant portion of the net proceeds of this offering to finance the acquisition of real estate-related investments, such as non-agency prime and non-prime RMBS, prime and non-prime residential mortgage loans, commercial mortgage loans, CMBS, other ABS, CDOs, derivatives that reference these securities, or other similar investments, if and when those investments are available at attractive prices.

We may also use a portion of the net proceeds of this offering to co-invest with third party investors in investment funds which we may sponsor and which may be managed by our wholly-owned subsidiary, Redwood Asset Management, Inc. We expect that one or more of these investment funds will invest in the same types of investments in which we invest.

We may also use the net proceeds of this offering for other investments that are within our areas of expertise, subject to maintaining our qualification as a REIT and our exemption from regulation under the Investment Company Act of 1940, and for other general corporate purposes.

Until appropriate investments or other uses can be identified, we may invest these funds in interest-bearing short-term investments, including Treasury bills, FDIC-insured bank deposits, or other short-term investments, which we expect would provide for a low net return based on current interest rates.

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The following table sets forth our cash and cash equivalents and our capitalization as of March 31, 2009 (i) on an actual basis and (ii) on an as adjusted basis to reflect the increase in our authorized shares and the completion of this offering of common stock at an assumed offering price of \$15.90 per share (the last reported sale price of our common stock on May 22, 2009) after deducting the underwriters' discounts and commissions and estimated offering expenses payable by us. This table should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in each of our annual report on Form 10-K for the year ended December 31, 2008 and our quarterly report on Form 10-Q for the period ended March 31, 2009, each of which is incorporated by reference in this prospectus supplement.

	As of March 31, 2009 (Unaudited) (in thousands)	
	Actual	As adjusted ⁽¹⁾
Cash and cash equivalents	\$333,153	\$529,480
Stockholders' equity:		
Common stock, par value \$0.01 per share, 75,000,000 shares authorized, 100,000,000 shares, as adjusted ⁽²⁾ ; 60,228,058 issued and outstanding, actual, 73,257,361 issued and outstanding, as adjusted ⁽³⁾	\$602	\$733
Additional paid-in capital	1,433,685	1,629,881
Accumulated other comprehensive (loss) income	(85,467)	(85,467)
Cumulative earnings (losses)	231,115	231,115
Cumulative distributions to stockholders	(1,073,663)	(1,073,663)
Total stockholders' equity	506,272	702,599
Long-term debt	150,000	150,000
Total long-term debt and stockholders' equity	\$656,272	\$852,599

(1) For purposes of the As adjusted column, our net proceeds from this offering, based on the public offering price of \$15.90 per share and without including the effect of any exercise by the underwriters of their over-allotment option, will be approximately \$196 million after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

(2) On May 19, 2009, the number of authorized shares was increased to 100,000,000.

(3) As adjusted reflects shares outstanding on May 22, 2009 and 13,000,000 shares to be sold in this offering, without including the effect of any exercise by the underwriters of their over-allotment option. Shares issued and outstanding does not include 637,473 shares issuable upon exercise of outstanding options or 1,488,401 shares issuable in respect of vested and unvested deferred stock units.

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Distribution policy

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

If we fail to meet the distribution test as a result of a retroactive adjustment to our REIT taxable income, we may be able to avoid disqualification as a REIT by paying a deficiency dividend within a specified time period and in accordance with other requirements set forth in the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). We would be liable for interest based on the amount of the deficiency dividend. A deficiency dividend is not permitted if the deficiency is due to fraud with intent to evade tax or to a willful failure to file a timely tax return. As of March 31, 2009, we believe we are in compliance with all our dividend distribution requirements.

On November 10, 2008, Redwood announced its intention to pay a 2009 regular dividend at a rate of \$0.25 per share per quarter. Subsequently our board of directors declared a regular dividend of \$0.25 per share for the first and second quarters of 2009.

Employee stock ownership philosophy

We have a performance-based compensation philosophy for our executive officers that focuses executive behavior on the achievement of both near-term and long-term business objectives and strategies and also strives to ensure that we can hire and retain talented individuals in a competitive marketplace. We believe equity ownership in Redwood provides an important link between the interests of stockholders and executives by rewarding the creation of long-term stockholder value. To meet this objective, we make equity awards a key component of executive compensation and of the compensation paid to other officers, directors, key employees, and other persons expected to contribute to the management, growth, and profitability of Redwood.

In connection with our 2008 Annual Meeting of Stockholders, our board of directors unanimously recommended that stockholders approve an amendment to our Incentive Stock Plan (the Plan) to increase the number of shares of common stock authorized for issuance under the Plan by 1,500,000 in order to, among other things, provide us with much needed flexibility in our ability to attract, retain, and motivate directors, officers, and other key employees, agents, and consultants upon whose judgment, dedication, and special effort the successful conduct of our business is largely dependent. We currently estimate that there are a sufficient number of shares authorized for issuance under the Plan to grant anticipated equity awards through the end of 2009 in a manner consistent with our performance-based compensation philosophy, however, this estimate depends on certain factors such as our company performance, the competitive landscape for talent and our stock price at the time grants are awarded. If our estimates are accurate, we would expect to propose an additional increase in the number of shares of our common stock authorized for issuance under the Plan to our board of directors and our stockholders in 2010.

When we propose to our stockholders an increase in the number of shares of common stock authorized for issuance under the Plan, our experience has been that our stockholders understand our philosophy and subsequently approve these increases. However, we recognize that our philosophy, and the resulting levels of equity awards granted, may not always conform to the philosophy that some institutional investors have adopted or that underlies the guidelines

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published by certain proxy voting advisory firms. As a result, when we propose any such increase in the future, we expect to ask our stockholders to take into account the following regarding our Plan:

Alignment of our interests with the interests of our stockholders. We believe equity ownership in Redwood provides an important link between the interests of stockholders and executives, directors, officers and employees by rewarding the creation of long-term stockholder value. We believe that a long-term goal of ownership of approximately 10% of our outstanding shares by executive officers, directors and other officers and employees is consistent with providing incentives to create long-term stockholder value.

Long-term vesting and holding periods. Long-term incentive awards that we grant to executives and other officers and employees generally vest on a pro-rata basis over a four year period, which is a period we believe incentivizes the creation of long-term value. For our more senior officers, the portions of these equity awards that vest during the four year period do not become transferable until the full four year period has elapsed.

Awards are subject to approval by our Compensation Committee. After stockholders approve any increase in the number of shares of common stock authorized for issuance under the Plan, Compensation Committee approval of equity awards is required before grants are made. As a result, there is continuing oversight of management's recommendations for the deployment of increased authorizations approved by stockholders.

Significant component of overall compensation. We deliver a substantial portion of compensation for executives, directors and officers in the form of equity awards, in lieu of cash.

Applies to broad range of officers and employees. We apply our equity-based compensation philosophy throughout our organization to a broad range of officers and employees, not just to executive officers.

Promotes long-term investment in Redwood. Our experience has been that equity awards promote long-term investments in Redwood by executives, directors, officers and employees beyond the required vesting and holding periods.

Enhances officer and employee retention. The four-year vesting period generally associated with long-term incentive awards made to officers and employees not only incentivizes the creation of long-term stockholder value, but also enhances our officer and employee retention efforts, as unvested awards are typically forfeited if an officer or employee leaves the company.

Important alternative to cash compensation. To the extent that shares authorized under our Plan are insufficient and we are not able to utilize equity-based awards as a component of our performance-based compensation philosophy, our need to remain competitive for talent may require that we substitute cash or other forms of compensation for equity-based compensation. If our use of equity-based compensation were to be unduly limited, we believe that we would not only lose the alignment, incentive and retentive effects that equity-based compensation provides, but that one of the integrated aspects of our planning for the creation of long-term stockholder value would be compromised.

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Material U.S. federal income tax considerations

The following is a general summary of the material U.S. federal income tax considerations relevant to our status as a REIT and to your investment in our common stock. This summary updates and supersedes in its entirety the Material U.S. Income Tax Considerations set forth in the accompanying prospectus.

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

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

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

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

Taxation of Redwood Trust

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

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

In connection with this offering, our tax counsel, Chapman and Cutler LLP, has rendered an opinion to the effect that (i) we have been organized and operated in conformity with the requirements for qualification as a REIT under the Code commencing with our taxable year ended December 31, 1994 and continuing through the fiscal quarter ended March 31, 2009 (the date of our most recent interim financial statements and REIT compliance reports) and (ii) our

current and proposed methods of operation in periods subsequent to such date will enable us to continue to qualify as a REIT under the Code. It must be emphasized that the opinion of

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Chapman and Cutler LLP is based on various assumptions relating to our organization and operation, including that all factual representations and statements set forth in documents, records, and instruments provided to them are true and correct, all actions described in this prospectus supplement and the accompanying prospectus are completed in a timely fashion and that we will at all times operate in accordance with the methods of operation described in our organizational documents and this prospectus supplement and accompanying prospectus, and is conditioned upon factual representations and covenants made by our officers, regarding our organization, assets, income, distributions, stock ownership, the present and future conduct of our business operations, the fair market value of our investments and other items regarding our ability to meet the various requirements for qualification as a REIT, and assumes that such representations and covenants are accurate and complete and that we will take no action inconsistent with our qualification as a REIT. While we believe that we are organized and operated so that we qualify as a REIT, given the highly complex nature of the rules governing REITs, the fact that certain aspects of our operations have not been considered by the courts or the Internal Revenue Service (IRS) in connection with determining compliance with the requirements for REIT status, the ongoing importance of factual determinations and the possibility of future changes in our circumstances or applicable law, no assurance can be given by Chapman and Cutler LLP or us that we so qualify for any particular year. Chapman and Cutler LLP will have no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed or of any subsequent change in the applicable law. You should be aware that opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not challenge the conclusions set forth in such opinions.

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

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

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

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

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

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

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

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

REIT qualification

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

Stock ownership tests

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

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generally be disqualified from REIT status, unless, in the case of the five or fewer requirement, a statutory good faith exemption is available.

Asset tests

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

at least 75% of the value of our total assets, as determined in accordance with generally accepted accounting principles, must consist of qualified real estate assets, government securities, cash, and cash items (the 75% Asset Test);

the value of our assets consisting of securities (other than those includible under the 75% Asset Test) must not exceed 25% of the total value of the REIT's assets;

the value of our assets consisting of securities of one or more taxable REIT subsidiaries must not exceed 25% (20% with respect to our taxable years beginning before January 1, 2009) of the value of the REIT's total assets; and

the value of securities held by us, other than securities of a taxable REIT subsidiary or securities taken into account for purposes of the 75% Asset Test, must not exceed (i) 5% of the value of our total assets in the case of securities of any one non-government issuer, and (ii) 10% of the outstanding vote or value of any such issuer's securities.

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

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

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

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instance, increasing our percentage ownership of other qualified assets. In the event these relief provisions were not applicable to a particular set of circumstances involving an asset test failure, we could fail to qualify as a REIT. See [Failure to qualify](#) below.

Gross income tests

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

at least 75% of our gross income, excluding gross income from prohibited transactions, if any, must be derived from certain specified real estate sources, including interest income on mortgages secured by real property or interests therein and gain from the disposition of qualified real estate assets, foreclosure property or qualified temporary investment income (*i.e.*, income derived from new capital within one year of the receipt of such capital) (the 75% Gross Income Test); and

at least 95% of the REIT's gross income for each tax year must be derived from sources of income qualifying for the 75% Gross Income Test, or from dividends, interest, and gains from the sale of stock or other securities not held for sale in the ordinary course of business (the 95% Gross Income Test).

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

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

Distribution requirements

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

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

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

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

Qualified REIT subsidiaries

A qualified REIT subsidiary is any corporation in which a REIT owns 100% of the stock issued by such corporation and for which no election has been made to classify it as a taxable REIT subsidiary. Sequoia Mortgage Funding Corporation, Tanoak Commercial Capital Corporation, and Juniper Trust, Inc. are each wholly-owned subsidiaries treated as qualified REIT subsidiaries. As such, their assets, liabilities, and income are generally treated as assets, liabilities, and income of the REIT for purposes of each of the above REIT qualification tests.

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

Taxable REIT subsidiaries

A taxable REIT subsidiary is any corporation in which a REIT owns stock (directly or indirectly) and for which the REIT and such corporation make a joint election to classify the corporation as a taxable REIT subsidiary. Effective January 1, 2001, RWT Holdings, Inc. (Holdings), and Redwood Trust elected to treat Holdings, Sequoia Residential Funding, and Holdings' other subsidiaries as taxable REIT subsidiaries of Redwood. Since 2001, Redwood Trust has made taxable REIT subsidiary elections together with various other subsidiaries, including but not limited to, Redwood Asset Management, Inc., Juniper Holdings, Inc., Tanoak Asset Management, Inc.,

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Redwood Mortgage Funding, Inc., the Acacia subsidiaries and certain other entities in which it has made minority equity investments. As taxable REIT subsidiaries, these subsidiaries are not subject to the REIT asset, income, and distribution requirements nor are their assets, liabilities, or income treated as assets, liabilities, or income of the REIT for purposes of each of the above REIT qualification tests.

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

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

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

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

In addition, it should be noted that we have treated and intend to continue to treat income inclusions from our CFC and PFIC investments as qualifying income for purposes of the 95% Gross Income Test but not the 75% Gross Income Test. Income inclusions from equity investments in

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

Failure to qualify

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

Tax treatment generally of U.S. persons investing in our common stock

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

A citizen or resident of the United States;

A corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or any political subdivision thereof;

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

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

Unless you are a tax-exempt entity, for any tax year in which we are treated as a REIT for U.S. federal income tax purposes, distributions (including constructive or in-kind distributions) made

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

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

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

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

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

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

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

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

Information reporting and backup withholding with respect to our common stock

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

Tax treatment generally of tax-exempt entities investing in our common stock

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

you do not incur indebtedness to purchase or hold our common stock;
your shares are not otherwise used in an unrelated trade or business; and

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

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

aggregate more than 50% by value of the equity

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interests in such REIT. Assuming compliance with the ownership limit provisions in our charter, it is unlikely that pension plans will accumulate sufficient stock to cause us to be treated as a pension-held REIT.

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

U.S. tax treatment generally of foreign persons investing in our common stock

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

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

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

Certain capital gains distributions by a REIT to a foreign stockholder that are attributable to gain from the sales or exchanges by us of United States real property interests will be treated as if such gain were effectively connected with a U.S. business and will thus be subject to tax at the normal capital gain rates applicable to U.S. stockholders (subject to applicable alternative minimum tax) under the provisions of the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA). Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax in the hands of a foreign corporate stockholder not entitled to a treaty exemption. We are required to withhold 35% of any distribution that could be designated by us as a capital gains dividend. This amount may be credited against the foreign stockholder's FIRPTA tax liability. FIRPTA does not apply, however, to REIT capital gain distributions (so long as they are made with respect to a class of REIT stock that is regularly traded on an established securities market in the United States) to a

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foreign investor that does not own more than 5% of the REIT's stock any time during the one year period ending on the date of such distribution. Such distributions are instead treated by the investor as a regular, rather than capital gain, dividends. It should also be noted that mortgage loans without substantial equity or with shared appreciation features generally would not be classified as United States real property interests.

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

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

State, local, and foreign tax consequences

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

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TABLE OF CONTENTS**Underwriting**

We and the underwriters named below have entered into an underwriting agreement relating to the offer and sale of our common stock. In the underwriting agreement, we have agreed to sell to each underwriter, and each underwriter has agreed to purchase, the number of shares of our common stock set forth opposite its name below:

Name	Number of shares of common stock to be purchased
J.P. Morgan Securities Inc.	
Keefe, Bruyette & Woods, Inc.	
Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC	
Jefferies & Company, Inc.	
JMP Securities LLC	
Total	13,000,000

The obligations of the underwriters under the underwriting agreement, including their agreement to purchase our common stock, are several and not joint. Those obligations are also subject to the satisfaction of certain conditions in the underwriting agreement. The underwriters have agreed to purchase all of the shares of common stock if any are purchased. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

The underwriters have advised us that they propose to offer the common stock to the public at the public offering price that appears on the cover page of this prospectus supplement. The underwriters may offer the common stock to selected dealers at the public offering price minus a selling concession of up to \$ per share of common stock. In addition, the underwriters may allow, and those selected dealers may re-allow, a selling concession of up to \$ per share of common stock to certain other dealers. After the initial public offering, the underwriters may change the public offering price and any other selling terms.

The underwriters have an option to buy up to 1,950,000 additional shares of common stock from us to cover sales of shares by the underwriters which exceed the number of shares specified in the table above. The underwriters have 30 days from the date of this prospectus supplement to exercise this over-allotment option. If any shares are purchased with this over-allotment option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting fee is equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting fee is \$ per share. The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters assuming both no exercise and full exercise of the underwriters option to purchase additional shares.

	Without over-allotment exercise	With full over-allotment exercise
Per share	\$	\$
Total	\$	\$

We estimate that our out-of-pocket expenses for this offering will be approximately \$555,000.

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We have agreed that we will not, without the prior written consent of J.P. Morgan Securities Inc. on behalf of the underwriters for a period of 90 days after the date of this prospectus supplement, (i) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exchangeable or exercisable for any shares of our common stock, or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of our common stock or such other securities, in cash or otherwise, other than

shares of our common stock to be sold pursuant to this prospectus supplement;

shares of our common stock issued pursuant to our Direct Stock Purchase and Dividend Reinvestment Plan; shares of our common stock, options to purchase shares of our common stock or other equity-based awards granted under our existing equity incentive plans, including our Employee Stock Purchase Plan, or any replacement plan under a new registration statement; and

any shares of our common stock issued upon the exercise of options or other awards (including deferred stock units) granted under existing equity incentive plans, including our Employee Stock Purchase Plan.

Our directors and executive officers have entered into lock up agreements with the underwriters prior to the commencement of this offering pursuant to which they, with limited exceptions, for a period of 90 days after the date of this prospectus supplement, may not, without the prior written consent of J.P. Morgan Securities Inc. on behalf of the underwriters, (1) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right, or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock (including without limitation, our common stock which may be deemed to be beneficially owned by the director or executive officer in accordance with the rules and regulations of the Securities and Exchange Commission and securities which may be issued upon exercise of a stock option or warrant) or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of our common stock or such other securities, in cash or otherwise. In addition, our directors and executive officers have agreed that, without the prior written consent of J.P. Morgan Securities Inc. on behalf of the underwriters, he or she will not, during the period ending 90 days after the date of this prospectus supplement, make any demand for or exercise any right with respect to, the registration of any shares of our common stock or any security convertible into or exercisable or exchangeable for our common stock.

With respect to our directors and executive officers, the foregoing restrictions do not apply to transfers of our common stock (subject to specified limitations):

to an immediate family member;

to one or more trusts of which the sole beneficiaries thereof are the directors and executive officers and/or their respective immediate family members;

as a bona fide gift or gifts;

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in a transaction consummated in accordance with a contract, instruction or plan satisfying the requirements of Rule 10b5-1 under the Exchange Act and existing or entered into prior to the date of this prospectus supplement; and to us in satisfaction of any tax withholding obligations pursuant to the terms of any equity compensation plan or arrangement.

Moreover, the foregoing restrictions shall not apply to the exercise of any outstanding options currently held by the director or executive officer with an expiration date on or prior to June 1, 2009, or transfers to us in connection with that exercise.

The 90-day restricted period described above is subject to extension under certain circumstances if: (1) during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

In addition, we have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

In connection with this offering, J.P. Morgan Securities Inc. may engage in over-allotment, stabilizing transactions, syndicate covering transactions, and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934, as amended. Over-allotment involves sales in excess of the offering size, which create a short position for the underwriters. Stabilizing transactions involve bids to purchase our common stock in the open market for the purpose of pegging, fixing, or maintaining the price of the common stock. Syndicate covering transactions involve purchases of our common stock in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the managing underwriter to reclaim a selling concession from a syndicate member when the shares of common stock originally sold by that syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Stabilizing transactions, syndicate covering transactions, and penalty bids may cause the price of our common stock to be higher than it would otherwise be in the absence of those transactions. If J.P. Morgan Securities Inc. engages in stabilizing, syndicate covering transactions, or penalty bids, it may discontinue them at any time.

Certain of the underwriters engage in transactions with and perform services for us and our affiliates in the ordinary course of business.

We will deliver the shares of common stock to the underwriters at the closing of this offering when the underwriters pay us the purchase price for the shares of common stock. The underwriting agreement provides that the closing will occur on June , 2009, which is four business days after the date of this prospectus supplement.

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Legal matters

Certain legal matters in connection with this offering will be passed upon for us by Latham & Watkins LLP, San Francisco, California, and for the underwriters by Clifford Chance US LLP, New York, New York. Certain matters of Maryland law, including the validity of the common stock issued in this offering, will be passed upon for us by Venable LLP, Baltimore, Maryland. Clifford Chance US LLP will rely as to certain matters of Maryland law upon Venable LLP. Certain federal income tax matters will be passed upon for us by Chapman and Cutler LLP, San Francisco, California.

Experts

The consolidated financial statements as of and for the years ended December 31, 2008, 2007, and 2006 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2008 incorporated in this prospectus supplement and the accompanying prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2008 have been so incorporated in reliance on the reports of Grant Thornton LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Incorporation of certain information by reference

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 and the accompanying prospectus by referring you to the documents containing that information. All information incorporated by reference is part of this prospectus supplement and the accompanying prospectus, 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 or the accompanying prospectus. We incorporate by reference the following:

Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (including information specifically incorporated by reference into the Annual Report on Form 10-K from Redwood's definitive proxy statement filed on April 3, 2009);

Quarterly Report on Form 10-Q for the quarter ended March 31, 2009;

Current Reports on Form 8-K filed on January 14, 2009 (but only the Form 8-K with respect to Items 8.01 and 9.01 filed on that date), January 27, 2009 (but only as to Items 1.01, 8.01, and 9.01 thereto (excluding, however, Exhibit 99.1 thereto)), January 30, 2009 (but only the Form 8-K with respect to Item 5.02 filed on that date), and May 21, 2009;

The description of our common stock contained in our Registration Statement on Form 8-A filed with the SEC on January 7, 1998; and

All documents filed by Redwood Trust, Inc. with the SEC pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, 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
Attention: Investor Relations

For additional information on how to obtain any document incorporated by reference, see [Where you can find more information on page 35](#) of the accompanying prospectus.

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PROSPECTUS

**Debt Securities
Common Stock
Preferred Stock
Warrants
Stockholder Rights
Units**

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, and

units consisting of two or more of the foregoing.

We refer to the debt securities, common stock, preferred stock, warrants, rights, 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, 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 November 20, 2007, the last reported sale price of our common stock was \$35.11 per share.

Investing in the securities involves risk. See [Risk factors](#) beginning on page [1](#).

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

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

The date of this prospectus is November 23, 2007

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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 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.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to **we**, **us**, or **our** mean Redwood Trust, Inc. and our consolidated subsidiaries, except where it is made clear that the terms mean Redwood Trust, Inc. only. Our executive offices are located at One Belvedere Place, Suite 300, Mill Valley, California 94941; our telephone number is (415) 389-7373.

Risk factors

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

Cautionary statement

This prospectus and the documents incorporated by reference herein contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events.

Forward-looking statements are not historical in nature and can be identified by words such as **anticipate**, **estimate**, **will**, **should**, **expect**, **believe**, **intend**, **seek**, **plan**, and similar expressions or their negative forms, or by **strategy**, **plans**, or **intentions**. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in this prospectus and the accompanying prospectus supplement under the caption **Risk Factors**. Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected are described from time to time in reports we file with the SEC, including under the heading **Risk Factors** in our most recent annual report on Form 10-K and subsequent quarterly reports on Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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Important factors, among others, that may affect our actual results include: changes in interest rates; changes in prepayment rates; general economic conditions, particularly as they affect the price of earning assets and the credit status of borrowers; the availability of high quality assets for purchase at attractive prices; declines in home prices; increases in mortgage payment delinquencies; changes in the level of liquidity in the capital markets which may adversely affect our ability to finance our real estate asset portfolio; changes in liquidity in the market for real estate securities, the re-pricing of credit risk in the capital markets, rating agency downgrades of securities and increases in the supply of real estate securities available for sale, each of which may adversely affect the values of securities we own; the extent of changes in the values of securities we own and the impact of adjustments reflecting those changes on our income statement and balance sheet, including our stockholders' equity; our ability to maintain the positive stockholders' equity necessary to enable us to pay the dividends required to maintain our status as a real estate investment trust for tax purposes; and other factors not presently identified.

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Redwood Trust, Inc.

Redwood Trust, Inc. is a financial institution focused on investing in, financing, and managing residential and commercial real estate loans and securities. We seek to invest in assets that have the potential to provide high cash flow returns over a long period of time to help support our goal of distributing attractive levels of dividends per share. For tax purposes, we are structured as a real estate investment trust (REIT).

Our primary source of income is 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. We assume a range of risks in our investments and the level of assumed risk dictates the manner in which we finance our purchase of and derive income from these investments.

Our investments in residential, commercial, and collateralized debt obligation, or CDO, credit enhancement securities, or CES, or below investment-grade securities, have concentrated credit risk. We finance the acquisition of most of our first-loss and equivalent CES that are directly exposed to credit losses with capital. We generally finance the acquisition of our second-loss, third-loss, and equivalent securities through our Acacia securitization program. To date, our primary credit enhancement investment focus has been in securities backed by high-quality residential and commercial real estate loans. High-quality real estate loans are loans that typically have low loan-to-value ratios, borrowers with strong credit histories, and other indications of quality relative to the range of loans within U.S. real estate markets as a whole. Our CES investment returns depend on the amount and timing of most of the interest and principal collected on the loans in the pools supporting the securities. In an ideal environment for most of our residential CES, we would experience fast loan prepayments and low credit losses which would, in turn, lead to attractive CES returns. Conversely, the return on most of our residential CES investments would be adversely affected by slow loan prepayments and high credit losses.

Our investments in real estate loans and investment-grade securities, or IGS, have less relative concentrated credit risk. To produce an attractive investment return on these lower credit risk assets, we use leverage (primarily structural leverage through securitization rather than financial leverage through the use of Redwood debt). We earn income based upon the spread between the yield on the acquired asset and the cost of funds we borrowed to acquire the asset. We have obtained most of the financing used to acquire these assets through the issuance of asset-backed securities, or ABS, under our Sequoia and Acacia securitization programs. These financings are not obligations of Redwood.

Redwood Trust, Inc. 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; our telephone number is (415) 389-7373.

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

Ratios of earnings to fixed charges and earnings to fixed charges and preferred stock dividends

Our ratio of earnings to fixed charges and ratio of earnings to fixed charges and preferred stock dividends for the nine months ended September 30, 2007 and each of the previous five years ended December 31 were as follows:

	Nine months ended September 30, 2007	Fiscal year ended December 31,				
		2006	2005	2004	2003	2002
Ratio of earnings to fixed charges	0.95×	1.20×	1.29×	1.56×	1.68×	1.62×
Ratio of earnings to fixed charges and preferred stock dividends	0.95×	1.20×	1.29×	1.56×	1.67×	1.56×

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

Earnings consist of consolidated income before income taxes and fixed charges.

For the nine months ended September 30, 2007, consolidated income before income taxes was insufficient to cover fixed charges by \$24.5 million.

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General description of securities

The following is a brief description of the material terms of our securities that may be offered under this prospectus. This description does not purport to be complete and is subject in all respects to applicable Maryland law and to the provisions of our charter and bylaws, including any amendments or supplements thereto, copies of which are on file with the SEC as described under [Where you can find information](#) and are incorporated by reference herein.

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

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

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

Our charter provides that we have authority to issue up to 50,000,000 shares of stock, par value \$0.01 per share, all of which is currently classified as common stock. Our common stock is listed on the New York Stock Exchange, and we intend to so list any additional shares of our common stock which are issued and sold hereunder. We may elect to list any future class or series of our securities issued hereunder on an exchange, but we are not obligated to do so. Under Maryland law, our stockholders generally are not liable for our debts or obligations.

Description of debt securities

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

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

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

General

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

The prospectus supplement will set forth:

whether the debt securities will be senior or subordinated;
the offering price;
the form and terms of any guarantee of any debt securities;
the title;

any limit on the aggregate principal amount;

the person who shall be entitled to receive interest, if other than the record holder on the record date;
the date the principal will be payable;

the interest rate, if any, the date interest will accrue, the interest payment dates, and the regular record dates;
the place where payments may be made;

any mandatory or optional redemption provisions;

if applicable, the method for determining how the principal, premium, if any, or interest will be calculated by reference to an index or formula;

if other than U.S. currency, the currency or currency units in which principal, premium, if any, or interest will be payable, whether we or the holder may elect payment to be made in a different currency and the manner in which the exchange rate with respect to these payments will be determined;

the denominations in which the debt securities will be issued, if other than denominations of \$1,000 and any integral multiple thereof;