REDWOOD TRUST INC
Form DEF 14A
March 28, 2018

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

SCHEDULE 14A
(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant: ý
Filed by a Party other than the Registrant: o
Check the appropriate box:
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ý Definitive Proxy Statement
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o Soliciting Material Pursuant to §240.14a-12
REDWOOD TRUST, INC.
(Name of Registrant as Specified in Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

REDWOOD TRUST, INC.
One Belvedere Place, Suite 300
Mill Valley, California 94941
(415) 389-7373

NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Redwood Trust, Inc.:

You are cordially invited to attend the Annual Meeting of Stockholders of Redwood Trust, Inc., a Maryland corporation, to be held on May 22, 2018 at 10:30 a.m., local time, at the Acqua Hotel, 555 Redwood Highway, Mill Valley, California 94941, for the following purposes:

1. To elect Richard D. Baum, Douglas B. Hansen, Christopher J. Abate, Mariann Byerwalter, Debora D. Horvath, Greg H. Kubicek, Karen R. Pallotta, Jeffrey T. Pero, and Georganne C. Proctor to serve as directors until the Annual Meeting of Stockholders in 2019 and until their successors are duly elected and qualify;
2. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2018;
3. To vote on a non-binding advisory resolution to approve named executive officer compensation;
4. To vote to approve the adoption of our Amended and Restated 2014 Incentive Plan; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

We have elected to use the Internet as our primary means of providing our proxy materials to stockholders. Consequently, stockholders will not receive paper copies of our proxy materials unless they specifically request them. We will send a Notice of Internet Availability of Proxy Materials (the Notice) on or about April 9, 2018 to our stockholders of record as of the close of business on March 26, 2018. We are also providing access to our proxy materials over the Internet beginning on March 27, 2018. Electronic delivery of our proxy materials will reduce printing and mailing costs relating to our Annual Meeting.

The Notice contains instructions for accessing the proxy materials, including the Proxy Statement and our annual report, and provides information on how stockholders may obtain paper copies free of charge. The Notice also provides the date and time of the Annual Meeting; the matters to be acted upon at the Annual Meeting and the Board's recommendation with regard to each matter to be acted upon; and information on how to attend the Annual Meeting and vote online.

Our Board of Directors has fixed the close of business on March 26, 2018 as the record date for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement of the Annual Meeting.

We would like your shares to be represented at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, we respectfully request that you authorize your proxy over the Internet following the voting procedures described in the Notice. In addition, if you have requested or received a paper or email copy of the proxy materials, you can authorize your proxy over the telephone or by signing, dating and returning the proxy card sent to you. We encourage you to authorize your proxy by any of these methods even if you currently plan to attend the Annual Meeting. By doing so, you will ensure that your shares are represented and voted at the Annual Meeting.

By Order of the Board of Directors,

/s/ Andrew P. Stone
Secretary
March 27, 2018

YOUR VOTE IS IMPORTANT.

PLEASE PROMPTLY AUTHORIZE A PROXY TO CAST YOUR VOTES THROUGH THE INTERNET FOLLOWING THE VOTING PROCEDURES DESCRIBED IN THE NOTICE OR, IF YOU HAVE REQUESTED AND RECEIVED PAPER COPIES OF THE PROXY MATERIALS, BY TELEPHONE OR BY SIGNING, DATING AND RETURNING THE PROXY CARD SENT TO YOU.

REDWOOD TRUST, INC.

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REDWOOD TRUST, INC.
One Belvedere Place, Suite 300
Mill Valley, California 94941
(415) 389-7373

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 22, 2018

INTRODUCTION

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of Redwood Trust, Inc., a Maryland corporation (Redwood, the Company, we, or us), for exercise at the Annual Meeting of Stockholders (the Annual Meeting) to be held on Tuesday, May 22, 2018 at 10:30 a.m., local time, at the Acqua Hotel, 555 Redwood Highway, Mill Valley, California 94941, and at any adjournment or postponement thereof.

We have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the Notice) to our stockholders of record, while brokers and other nominees who hold shares on behalf of beneficial owners will be sending their own similar Notice of Internet Availability of Proxy Materials. All stockholders will have the ability to access proxy materials on the website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to request a printed copy by mail or electronically may be found on the Notice and on the website referred to in the Notice, including an option to request paper copies on an ongoing basis. We intend to make this Proxy Statement available on the Internet on or about March 27, 2018 and to mail the Notice to all stockholders entitled to vote at the Annual Meeting on or about April 9, 2018. We intend to mail this Proxy Statement, together with a proxy card, to those stockholders entitled to vote at the Annual Meeting who have properly requested paper copies of such materials on or about April 9, 2018 or within three business days of such request.

The address and telephone number of our principal executive office are as set forth above and our website is www.redwoodtrust.com. Information on our website is not a part of this Proxy Statement.

INFORMATION ABOUT THE ANNUAL MEETING

Who May Attend the Annual Meeting

Only stockholders who own our common stock as of the close of business on March 26, 2018, the record date for the Annual Meeting, will be entitled to attend the Annual Meeting. In the discretion of management, we may permit certain other individuals to attend the Annual Meeting, including members of the media and our employees.

Who May Vote

Each share of our common stock outstanding on the record date for the Annual Meeting entitles the holder thereof to one vote. The record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting is the close of business on March 26, 2018. As of March 26, 2018, there were 75,696,269 shares of common stock issued and outstanding. You can vote in person at the Annual Meeting or by proxy. You may authorize your proxy through the Internet by following the voting procedures described in the Notice or, if you have requested and received paper copies of the proxy materials, by telephone or by signing, dating, and returning the proxy card sent to you. To use a particular voting procedure, follow the instructions on the Notice or the proxy card that you request and receive by mail or email.

If your shares are held in the name of a bank, broker, or other holder of record, you will receive instructions from the holder of record that you must follow in order for your shares to be voted. If your shares are not registered in your own name and you plan to cast your votes in person at the Annual Meeting, you should contact your broker or agent to obtain a broker's proxy card and bring it to the Annual Meeting in order to vote.

Voting by Proxy; Board of Directors' Voting Recommendations

You may authorize your proxy over the Internet or, if you request and receive a proxy card by mail or email, over the phone or by signing, dating and returning the proxy card sent to you. If you vote by proxy, the individuals named on the proxy, or their substitutes, will cast your votes in the manner you indicate. If you date, sign, and return a proxy card without marking your voting instructions, your votes will be cast in accordance with the recommendations of Redwood's Board of Directors, as follows:

- For the election of each of the nine nominees to serve as directors until the Annual Meeting of Stockholders in 2019 and until their successors are duly elected and qualify;
- For the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2018;
- For the approval, of the non-binding advisory resolution approving the compensation of our named executive officers;
- For the approval of the adoption of the Amended and Restated 2014 Incentive Plan; and
- In the discretion of the proxy holder on any other matter that properly comes before the Annual Meeting.

You may revoke or change your proxy at any time before it is exercised by submitting a new proxy through the Internet or by telephone, delivering to us a signed proxy with a date later than your previously delivered proxy, by voting in person at the Annual Meeting, or by sending a written revocation of your proxy addressed to Redwood's Secretary at our principal executive office.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?

Under rules adopted by the Securities and Exchange Commission (SEC), we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending the Notice to our stockholders. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed set of the materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. We encourage stockholders to take advantage of the availability of the proxy materials on the Internet to help reduce printing and mailing costs relating to our Annual Meeting.

Quorum Requirement

The presence, in person or by proxy, of stockholders entitled to cast a majority of all the votes entitled to be cast at the Annual Meeting constitutes a quorum for the transaction of business. Abstentions and broker non-votes are counted as present for purposes of establishing a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner has not received instructions from the beneficial owner and does not have or chooses not to exercise discretionary authority to vote the shares.

Other Matters

Our Board of Directors knows of no other matters that may be presented for stockholder action at the Annual Meeting. If other matters properly come before the Annual Meeting, however, it is intended that the persons named in the proxies will vote on those matters in their discretion.

Information About the Proxy Statement and the Solicitation of Proxies

Your proxy is solicited by our Board of Directors and we will bear the costs of this solicitation. Proxy solicitations will be made by mail, and also may be made by our directors, officers, and employees in person or by telephone, facsimile transmission, e-mail, or other means of communication. Banks, brokerage houses, nominees, and other fiduciaries will be requested to forward the proxy soliciting material to the beneficial owners of shares of our common stock entitled to be voted at the Annual Meeting and to obtain authorization for the execution of proxies on behalf of beneficial owners. We will, upon request, reimburse those parties for their reasonable expenses in forwarding proxy materials to their beneficial owners.

In addition, we have retained MacKenzie Partners, Inc., 105 Madison Avenue, New York, NY, 10016, to aid in the solicitation of proxies by mail, telephone, facsimile, e-mail and personal solicitation and to contact brokerage houses and other nominees, fiduciaries and custodians to request that such entities forward soliciting materials to beneficial owners of our common stock. For these services, we will pay MacKenzie Partners, Inc. a fee not expected to exceed $15,000, plus expenses.

Annual Report

Our 2017 Annual Report, consisting of our Annual Report on Form 10-K for the year ended December 31, 2017, is being made available to stockholders together with this Proxy Statement and contains financial and other information about Redwood, including audited financial statements for our fiscal year ended December 31, 2017. Certain sections of our 2017 Annual Report are incorporated into this Proxy Statement by reference, as described in more detail under "Information Incorporated by Reference" at the end of this Proxy Statement. Our 2017 Annual Report is also available on our website.

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Householding

We have adopted a procedure approved by the SEC called "householding." Under this procedure, stockholders of record who have the same address and last name will receive only one copy of the Notice, unless one or more of these stockholders notifies us that they wish to continue receiving individual copies. This procedure reduces our printing and mailing costs.

Householding will not in any way affect dividend check mailings.

If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of the Notice, or if you hold stock in more than one account, and in either case you wish to receive only a single copy of this document for your household, please contact our transfer agent, Computershare Trust Company, N.A., either in writing at: Computershare Investor Services, 250 Royall Street, Canton, MA 02021; or by telephone at: (888) 472-1955.

If you participate in householding and wish to receive a separate copy of the Notice, or if you do not wish to participate in householding and prefer to receive separate copies of this document in the future, please contact Computershare as indicated above.

Beneficial owners can request information about householding from their banks, brokers, or other holders of record.

CORPORATE GOVERNANCE

Corporate Governance Standards

Our Board of Directors has adopted Corporate Governance Standards (Governance Standards). Our Governance Standards are available on our website as well as in print at the written request of any stockholder addressed to Redwood's Secretary at our principal executive office. The Governance Standards contain general principles regarding the composition and functions of our Board of Directors and its committees.

Process for Nominating Potential Director Candidates

Identifying and Evaluating Nominees for Directors. Our Board of Directors nominates director candidates for election by stockholders at each annual meeting and elects new directors to fill vacancies on our Board of Directors between annual meetings of the stockholders. Our Board of Directors has delegated the selection and initial evaluation of potential director nominees to the Governance and Nominating Committee with input from the Chief Executive Officer and President. The Governance and Nominating Committee makes the final recommendation of candidates to our Board of Directors for nomination. Our Board of Directors, taking into consideration the assessment of the Governance and Nominating Committee, also determines whether a nominee would be an independent director.

Stockholders' Nominees. Our Bylaws permit stockholders to nominate a candidate for election as a director at an annual meeting of the stockholders subject to compliance with certain notice and informational requirements, as more fully described below in this Proxy Statement under "Stockholder Proposals for the 2019 Annual Meeting." A copy of the full text of our Bylaws may be obtained by any stockholder upon written request addressed to Redwood's Secretary at our principal executive office. Among other matters required under our Bylaws, any stockholder nominations should include the nominee's name and qualifications for Board membership and should be addressed to Redwood's Secretary at our principal executive office.

The policy of the Governance and Nominating Committee is to consider properly submitted stockholder nominations for candidates for election to our Board of Directors. The Governance and Nominating Committee evaluates stockholder nominations in connection with its responsibilities set forth in its written charter and applies the qualification and diversity criteria set forth in the Governance Standards.

Director Qualifications. Our Governance Standards contain Board membership criteria that apply to nominees for our Board of Directors. Each member of our Board of Directors must exhibit high standards of integrity, commitment, and independence of thought and judgment, and must be committed to promoting the best interests of Redwood. In addition, each director must devote the time and effort necessary to be a responsible and productive member of our Board of Directors. This includes developing knowledge about Redwood's business operations and doing the work necessary to participate actively and effectively in Board and committee meetings.

Our Governance Standards also contain criteria that are intended to guide our Governance and Nominating Committee's considerations of diversity in identifying nominees for our Board of Directors. In particular, our Governance Standards provide that the members of our Board of Directors should collectively possess a broad range of talent, skill, expertise, and experience useful to effective oversight of our business and affairs and sufficient to provide sound and prudent guidance with respect to our operations and interests. The self-assessments that are conducted each year by our Board of Directors and our Governance and Nominating Committee include an assessment of whether the Board's then current composition represents the broad range of talent, skill, expertise, and experience that is called for by our Governance Standards.

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We believe our directors have a well-rounded variety of diversity, skills, qualifications and experience, and represent an effective mix of deep company knowledge and outside perspectives. Further to our commitment to diversity, four of our directors are women, and in 2017 Redwood was recognized with a "Leading the Way Award" from the 2020 Women on Boards - San Francisco Campaign Committee. Additional information regarding the mix of experience, qualifications, attributes and skills of our directors is included under Item 1 Election of Directors on pages 11-16 of this Proxy Statement.

Director Independence

As required under Section 303A of the New York Stock Exchange (NYSE) Listed Company Manual and our Governance Standards, our Board of Directors has affirmatively determined that none of the following directors has a material relationship (either directly or as a partner, shareholder, or officer of an organization that has a relationship) with us and that each of them qualifies as “independent” under Section 303A: Richard D. Baum, Douglas B. Hansen, Mariann Byerwalter, Debora D. Horvath, Greg H. Kubicek, Karen R. Pallotta, Jeffrey T. Pero, and Georganne C. Proctor. The Board of Directors’ determination was made with respect to Mr. Pero after consideration of the following: Mr. Pero is a retired partner of Latham & Watkins LLP and has been a director of Redwood since November 2009; Latham & Watkins LLP provides legal services to Redwood; and Mr. Pero’s retirement payments from Latham & Watkins LLP are adjusted to exclude any proportionate benefit received from the fees paid by Redwood to Latham & Watkins LLP.

Two members of our Board of Directors, Mr. Abate and Mr. Hughes, do not qualify as “independent” under Section 303A of the NYSE Listed Company Manual or our Governance Standards. Mr. Abate does not qualify as independent because he is Redwood's President. Mr. Hughes does not qualify as independent because he is Redwood’s Chief Executive Officer. On December 4, 2017, Mr. Hughes announced that he is retiring from the position of Chief Executive Officer and from the Board of Directors effective as of May 22, 2018, and will not stand for reelection at the 2018 Annual Meeting of Stockholders.

Board Leadership Structure

At Redwood, there is a separation of the chairman and chief executive officer roles. The Chairman of the Board of Directors presides over meetings of the Board and serves as a liaison between the Board and management of Redwood. In addition, the Chairman provides input regarding Board agendas, materials, and areas of focus, and may represent Redwood to external constituencies such as investors, governmental representatives, and business counterparties. The Chairman is currently Richard D. Baum, who was elected Chairman in September 2012 and who has continuously served as an independent director of Redwood since 2001.

Under Redwood’s Governance Standards, the Board of Directors also has a Vice-Chairman who presides over meetings of the Board in the absence of the Chairman and who also acts as a resource to management by providing strategic counsel and advice. The Vice-Chairman is currently Douglas B. Hansen, who was elected Vice-Chairman in September 2012. Mr. Hansen is currently an independent director, has served as a director of Redwood since 1994, and is a founder of Redwood and served as Redwood’s President from 1994 through his retirement from that position at the end of 2008. In addition, under the Governance Standards, each of the Audit Committee, Compensation Committee, and Governance and Nominating Committee of Redwood’s Board of Directors is comprised solely of independent directors.

The Board believes this leadership structure is appropriate for Redwood, as it provides for the Board to be led by, and its standing committees to be composed of, independent directors. As an independent Chairman of the Board, Mr. Baum brings more than a decade of experience of serving on Redwood’s Board along with the important perspective of an independent director to this leadership position. As an independent Vice-Chairman of the Board, Mr. Hansen also brings significant prior experience as the President of Redwood to bear on his leadership responsibilities.

Executive Sessions

Our Governance Standards require that our non-employee directors (i.e., the eight of our 10 current directors who are not Redwood employees) meet in executive session at each regularly scheduled quarterly meeting of our Board of Directors and at such other times as determined by our Chairman. In addition, if any non-employee director is not also an independent director, then our Governance Standards require that our independent directors meet at least annually in executive session without any such non-independent directors.

Board of Directors' Role in Risk Oversight

The Board of Directors takes a primary role in risk oversight. At its regular meetings it reviews Redwood's business and investment strategies and plans and seeks an understanding of the related risks as well as management's approach to identifying and managing those risks. In carrying out its role in risk oversight, the Board of Directors receives and discusses quarterly reports from the Chief Executive Officer and Audit Committee, which also carries out a risk oversight function delegated by the Board of Directors.

Under its charter, the Audit Committee is specifically charged with (i) inquiring of management and Redwood's independent registered public accounting firm about significant risks or exposures with respect to corporate accounting, reporting practices of Redwood, the quality and integrity of the financial reports and controls of Redwood, regulatory and accounting initiatives, and any off-balance sheet structures and (ii) assessing the steps management has taken to minimize such risks. In addition, the Audit Committee is specifically charged with regularly discussing with management Redwood's policies with respect to risk assessment and risk management, including identification of Redwood's major financial and operational risk exposures and the steps management has taken to monitor or control those exposures. For example, the Audit Committee receives quarterly reports from management regarding various financial risk management topics (such as interest rate risk, liquidity risk, and counterparty risk), and various operational risk management topics (such as cybersecurity, operations and regulatory compliance) and regularly discusses with management Redwood's exposure to, and management of, financial and operational risks.

The Audit Committee carries out this function by, among other things, receiving a quarterly risk management report from Redwood's Chief Executive Officer and other Redwood officers, and a quarterly internal audit report from Redwood's head of internal audit, reviewing these reports, and discussing them by asking questions and providing direction to management. In addition, as noted below under "Audit Committee Matters — Audit Committee Report," the Audit Committee also receives and discusses regular and required communications from Redwood's independent registered public accounting firm regarding, among other things, Redwood's internal controls. In addition to discussion of these reports during Audit Committee meetings, as circumstances merit, the Audit Committee holds separate executive sessions with one or more of the Chief Executive Officer, Redwood's head of internal audit, and representatives of Redwood's independent registered public accounting firm to discuss any matters that the Audit Committee or these persons believe should be discussed in the absence of other members of management.

In addition, when appropriate, the Board of Directors may delegate to the Compensation Committee and Governance and Nominating Committee risk oversight responsibilities with respect to certain matters or request that other committees review certain risk oversight matters. For example, the Compensation Committee has been delegated the responsibility for determining, on an annual basis, whether Redwood's compensation policies and practices are reasonably likely to have a material adverse effect on Redwood. As another example, the Governance and Nominating Committee reports to the Board of Directors the results of its analysis of potential risks related to board leadership and composition, board structure, and executive succession planning.

The Board of Directors believes that this manner of administering the risk oversight function effectively integrates such oversight into the Board of Directors' leadership structure, because the risk oversight function is carried out both at the Board level as well as through delegation to the Audit Committee, which consists solely of independent directors, and when appropriate to the Compensation Committee and Governance and Nominating Committee, which also consist solely of independent directors.

Board of Directors' Self-Evaluation Process

The Board believes it is important to periodically assess its own performance and effectiveness in carrying out its strategic and oversight role with respect to the Company. The Board evaluates its performance through annual self-assessments at the Board and Committee levels, as well as through annual individual director self-assessments that include one-on-one meetings conducted by the Chairman with each of the other directors (or, with respect to the Chairman, the Chair of the Governance and Nominating Committee). These self-assessments include analysis of the effectiveness of the Board, its Committees and its directors, how they are functioning and areas of potential improvement. The results of these performance reviews are also considered by the Governance and Nominating Committee and the Board when considering whether to recommend the re-election of each director nominated for re-election and whether to consider new director candidates.

Communications with the Board of Directors

Stockholders and other interested parties may communicate with our Board of Directors by e-mail addressed to boardofdirectors@redwoodtrust.com. The Chairman has access to this e-mail address and provides access to other directors as appropriate. Communications that are intended specifically for non-employee directors should be addressed to the Chairman.

Director Attendance at Annual Meetings of Stockholders

Pursuant to our Governance Standards, our directors are expected to attend annual meetings of stockholders. All of our directors attended last year's annual meeting of stockholders in person. We currently expect all of our directors to attend this year's Annual Meeting.

Code of Ethics

Our Board of Directors has adopted a Code of Ethics that applies to all of our directors, officers, and employees. Our Code of Ethics is available on our website as well as in print at the written request of any stockholder addressed to Redwood's Secretary at our principal executive office.

We intend to post on our website and disclose in a Current Report on Form 8-K, to the extent required by applicable regulations, any change to the provisions of our Code of Ethics and any waiver of a provision of the Code of Ethics.

STOCK OWNERSHIP REQUIREMENTS

Required Stock Ownership by Directors

Pursuant to our Governance Standards, non-employee directors are required to purchase from their own funds at least $50,000 of our common stock within three years from the date of commencement of their Board membership. Vested deferred stock units (DSUs) acquired by a director under our Executive Deferred Compensation Plan through the voluntary deferral of cash compensation that otherwise would have been paid to that director are counted towards this requirement. Any director whose status has changed from being an employee director to being a non-employee director is not subject to this requirement if that director held at least $50,000 of our common stock at the time of that change in status.

Additionally, non-employee directors are required to own at least $400,000 of our common stock, including vested DSUs acquired through both voluntary and involuntary deferred compensation, within five years from the date of commencement of their Board membership. Beginning in May 2018, this requirement will increase to $425,000 in connection with an increase in the annual cash retainer payable to non-employee directors (described below under the heading "Director Compensation") to ensure that the ownership guidelines remain at five times the annual cash retainer. Stock and DSUs acquired with respect to the $50,000 stock purchase requirement count toward the attainment of this additional stock ownership requirement. Compliance with the ownership requirements is measured on a purchase/acquisition cost basis.

As of the date of this Proxy Statement, all of our non-employee directors were in compliance with these requirements either due to ownership of the requisite number of shares or because the director was within the time period permitted to attain the required level of ownership.

Required Stock Ownership by Executive Officers

The Compensation Committee of our Board of Directors has set the following executive stock ownership requirements with respect to our executive officers:

- Each executive officer is required to own stock with a value at least equal to (i) six times current salary for the Chief Executive Officer, (ii) three times current salary for the President, and (iii) two times current salary for the other executive officers;
- Three years are allowed to initially attain the required level of ownership and three years are allowed to acquire additional incremental shares if promoted to a position with a higher requirement or when a salary increase results in a higher requirement (if not in compliance at the indicated times, then the executive officer is required to retain net after-tax shares delivered as compensation or from the Executive Deferred Compensation Plan until compliance is achieved);
- All shares owned outright are counted, including those held in trust for the executive officer and his or her immediate family, as well as vested DSUs and any other vested shares held pursuant to other employee plans; and
- Compliance with the guidelines is measured on a purchase/acquisition cost basis, and includes deferred stock units acquired through both voluntary and involuntary deferred compensation.

As of the date of this Proxy Statement, all of Redwood's executive officers were in compliance with these requirements. The chart below illustrates the stock ownership level relative to the applicable requirement for each of our executive officers.

Compliance with Executive Stock Ownership Requirements

* Calculated on a purchase/acquisition price cost basis in accordance to Executive Ownership Requirements as of March 1, 2018.

** Mr. Abate and Mr. Cochrane have three years to attain the increased level of ownership required as a result of their most recent promotions to President and Chief Financial Officer, respectively. These new ownership levels need to be attained by July 2019 and September 2020, respectively.

ITEM 1 — ELECTION OF DIRECTORS

In May 2015, Redwood completed transitioning to a declassified Board of Directors pursuant to an amendment to Redwood's charter approved at the 2012 annual meeting of stockholders. As a result, all directors elected at the Annual Meeting will be elected to serve until the next annual meeting of stockholders and until their respective successors are duly elected and qualify.

The nominees for the nine director positions are set forth below. In the event we are advised prior to the Annual Meeting that any nominee will be unable to serve or for good cause will not serve as a director if elected at the Annual Meeting, the proxies will cast votes for any person who shall be nominated by the present Board of Directors to fill such directorship. As of the date of this Proxy Statement, we are not aware of any nominee who is unable or unwilling to serve as a director. The nominees listed below currently are serving as directors of Redwood.

Vote Required

If a quorum is present, the election of each nominee as a director requires a majority of the votes cast with respect to such nominee at the Annual Meeting. For purposes of the election of directors, a majority of the votes cast means that the number of votes cast "for" a nominee for election as a director exceeds the number of votes cast "against" that nominee. Cumulative voting in the election of directors is not permitted. Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the results of the vote in the election of directors. In accordance with Redwood's Bylaws and its Policy Regarding Majority Voting, any incumbent nominee for director must offer to resign from the Board if he or she fails to receive the required number of votes for re-election.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE NOMINEES IDENTIFIED BELOW.

Nominees to Board of Directors

Name	Position with Redwood
Richard D. Baum	Chairman of the Board
Douglas B. Hansen	Vice-Chairman of the Board
Christopher J. Abate	Director and President
Mariann Byerwalter	Director
Debora D. Horvath	Director
Greg H. Kubicek	Director
Karen R. Pallotta	Director
Jeffrey T. Pero	Director
Georganne C. Proctor	Director

Set forth on the following pages is a summary of the experience, qualifications, attributes and skills of each of the nominees for election at the Annual Meeting and current directors of Redwood, as well as certain biographical information regarding each of these individuals.

Summary of Current Directors’ Experience, Qualifications, Attributes and Skills

	Board of Directors									
	Baum	Hansen	Abate	Byerwalter	Horvath	Kubicek	Hughes	Pallotta	Pero	Proctor
Leadership	ü	ü	ü	ü	ü	ü	ü	ü	ü	ü
Real Estate Industry	ü	ü	ü			ü	ü	ü	ü	
Accounting/Finance		ü	ü	ü	ü	ü	ü			ü
Insurance Industry	ü			ü	ü					
Government / Government-Sponsored Entity	ü							ü		
Capital Markets		ü	ü				ü	ü	ü	ü
Corporate / Institutional Governance	ü			ü	ü	ü			ü	
Banking / Investment Management				ü	ü		ü			ü
Technology					ü					

Richard D. Baum, age 71, is Chairman of the Board and has been a director of Redwood since 2001. Mr. Baum is currently the President and Managing Partner of Atwater Retirement Village LLC (a private company). From 2008 to mid-2009, Mr. Baum served as Executive Director of the California Commission for Economic Development. He also served as the Chief Deputy Insurance Commissioner for the State of California from 1991 to 1994 and 2003 to 2007. Mr. Baum served from 1996 to 2003 as the President and CEO of Care West Insurance Company, a worker’s compensation insurance company, and prior to 1991 as Senior Vice President of Amfac, Inc., a diversified operating company engaged in various businesses, including real estate development and property management. Mr. Baum holds a B.A. from Stanford University, an M.A. from the State University of New York, and a J.D. from George Washington University, National Law Center.

The Board of Directors concluded that Mr. Baum should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Leadership attributes and management experience
- Experience as a chief executive officer
- Experience in government service and financial regulation
- Expertise and experience relating to the insurance industry

- Expertise and experience relating to the real estate development industry and property management business
- Expertise and experience relating to institutional governance
- Professional and educational background

Douglas B. Hansen, age 60, is Vice-Chairman of the Board, is a founder of Redwood, and served as Redwood's President from 1994 through 2008. Mr. Hansen retired from his position as President of Redwood at the end of 2008. Mr. Hansen has been a director of Redwood since 1994. Mr. Hansen serves on the Board of Directors of Four Corners Property Trust, Inc., a publicly traded real estate investment trust. Mr. Hansen also serves on the boards of several not-for-profit institutions, including the International Center of Photography and River of Knowledge. Mr. Hansen holds a B.A. in Economics from Harvard College and an M.B.A. from Harvard Business School.

The Board of Directors concluded that Mr. Hansen should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Leadership attributes and management experience, including experience as President of Redwood Trust since its founding in 1994 through 2008
- Skill and experience in investing in real estate-related assets and managing portfolios of such investments
- Skill and experience in managing balance sheet exposures and managing risks
- Skill and experience in executing capital markets transactions
- Experience in finance and accounting matters
- Professional and educational background

Christopher J. Abate, age 38, has served as President since July 2016 and as a director since December 2017. Mr. Abate, who has been employed at Redwood since April 2006, also served as Redwood's Chief Financial Officer from March 2012 to August 2017 and Controller from January 2009 to March 2013. Before joining Redwood, Mr. Abate was employed by PricewaterhouseCoopers LLP as an auditor and consultant. He holds a B.A. in accounting and finance from Western Michigan University, an M.B.A. from the University of California at Berkeley and Columbia University, and is a certified public accountant. As previously announced, Mr. Abate will assume the role of Chief Executive Officer upon Mr. Hughes' retirement from that position on May 22, 2018.

The Board of Directors concluded that Mr. Abate should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Leadership attributes, management experience, and real estate and finance industry experience, including experience as President, Chief Financial Officer, and Controller of Redwood and as Chairman of the Board of the Structured Finance Industry Group
- Skill and experience in managing balance sheet exposures and managing risks
- Skill and experience in executing capital markets transactions
- Finance and accounting expertise and experience
- Professional and educational background

Mariann Byerwalter, age 57, has been a director of Redwood since 1998. Ms. Byerwalter is Chairman of the Board of Directors of SRI International, an independent nonprofit technology research and development organization, and Chairman of JDN Corporate Advisory, LLC, a privately held advisory services firm. Ms. Byerwalter served as interim CEO and President of Stanford Health Care from January 1, 2016 to July 4, 2016. Ms. Byerwalter served as the Chief Financial Officer and Vice President for Business Affairs of Stanford University from 1996 to 2001. She was a partner and co-founder of America First Financial Corporation from 1987 to 1996, and she served as Chief Operating Officer, Chief Financial Officer, and a director of America First Eureka Holdings, a publicly traded institution and the holding company for Eureka Bank, from 1993 to 1996. She also serves on the Board of Directors of Pacific Life Corp., Franklin Resources, Inc., Burlington Capital Corporation, WageWorks, Inc., the Lucile Packard Children's Hospital, and the Stanford Hospital and Clinics Board of Directors (Chair, 2006-2013). In April 2012, she completed her term on the Board of Trustees of Stanford University. Ms. Byerwalter holds a B.A. from Stanford University and an M.B.A. from Harvard Business School.

The Board of Directors concluded that Ms. Byerwalter should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Leadership attributes and management and entrepreneurial experience
- Experience as a chief financial officer
- Expertise and experience in the banking and insurance industries
- Expertise and experience relating to institutional governance
- Professional and educational background

Debora D. Horvath, age 63, has been a director of Redwood since 2016. Ms. Horvath is Principal of Horvath Consulting LLC, which she founded in 2010. From 2008 to 2010, Ms. Horvath served as an Executive Vice President for JP Morgan Chase & Co. Ms. Horvath served as an Executive Vice President and Chief Information Officer for Washington Mutual, Inc. from 2004 to 2008. Ms. Horvath, a 25-year veteran from General Electric Company ("GE"), served 12 years as a Senior Vice President and Chief Information Officer for the GE insurance businesses. Ms. Horvath has been a Director of StanCorp Financial Group, Inc. since 2013. She was a director of the Federal Home Loan Bank of Seattle from 2012 to January 2014. Ms. Horvath holds a B.A. from Baldwin Wallace University.

The Board of Directors concluded that Ms. Horvath should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Leadership attributes and management experience
- Experience as a chief information officer in the banking and insurance industries
- Expertise and experience relating to information technology and technology risk management
- Expertise and experience relating to institutional governance
- Professional and educational background

Greg H. Kubicek, age 61, has been a director of Redwood since 2002. Mr. Kubicek is President of The Holt Group, Inc., a real estate company and associated funds that purchase, develop, own, and manage real estate properties. Mr. Kubicek has also served as Chairman of the Board of Cascade Corporation, an international manufacturing corporation. Mr. Kubicek holds a B.A. in Economics from Harvard College.

The Board of Directors concluded that Mr. Kubicek should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Leadership attributes
- Management and entrepreneurial experience
- Expertise and experience in the real estate development industry
- Experience and expertise in the property management business
- Professional and educational background

Karen R. Pallotta, age 54, has been a director of Redwood since December 2014. Ms. Pallotta is currently the owner of KRP Advisory Services, LLC a consultancy business. Ms. Pallotta was employed at Fannie Mae for more than 20 years until her retirement in 2011. At Fannie Mae she served in various leadership roles, most recently as Executive Vice President of its Single Family Credit Guaranty business, a role she assumed during the height of the financial crisis and subsequent to Fannie Mae's government conservatorship. In that role Ms. Pallotta had direct responsibility for Fannie Mae's single family mortgage business, which comprised more than $2.5 trillion in guaranteed mortgages and mortgage backed securities. Ms. Pallotta holds a B.A. from Pennsylvania State University and an M.B.A. from the University of Maryland.

The Board of Directors concluded that Ms. Pallotta should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Expertise and experience relating to residential mortgage finance and mortgage backed securities
- Skill and experience in executing capital markets transactions
- Management experience and leadership attributes
- Expertise and experience relating to government sponsored entities
- Professional and educational background

Jeffrey T. Pero, age 71, has been a director of Redwood since November 2009. Mr. Pero retired in October 2009, after serving as a partner for more than 23 years, from the international law firm of Latham & Watkins LLP. At Latham & Watkins LLP, Mr. Pero's practice focused on advising clients regarding corporate governance matters, debt and equity financings, mergers and acquisitions, and compliance with U.S. securities laws; Mr. Pero also served in various firm management positions. Mr. Pero served on the Board of Directors of BRE Properties, Inc. from 2009 to 2014. Mr. Pero holds a B.A. from the University of Notre Dame and a J.D. from New York University School of Law.

The Board of Directors concluded that Mr. Pero should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:

- Expertise and experience relating to corporate governance
- Management experience
- Expertise and experience relating to real estate investment trusts
- Expertise and experience in structuring and negotiating debt and equity financings
- Expertise and experience relating to the U.S. securities laws
- Professional and educational background

Georganne C. Proctor, age 61, has been a director of Redwood since March 2006. Ms. Proctor is the former Chief Financial Officer of TIAA-CREF, and served in that position from June 2006 to July 2010. Additionally, Ms. Proctor served jointly as Chief Financial Officer and Executive Vice President for Enterprise Integration at TIAA-CREF from January 2010 to July 2010. From July 2010 to October 2010, she continued to serve as Executive Vice President for Enterprise Integration at TIAA-CREF. From 2003 to 2005, Ms. Proctor was Executive Vice President of Golden West Financial Corporation, a thrift institution. From 1994 to 1997, Ms. Proctor was Vice President of Bechtel Group, a global engineering firm, and also served as its Senior Vice President and Chief Financial Officer from 1997 to 2002 and as a director from 1999 to 2002. From 1991 to 1994, Ms. Proctor served as finance director of certain divisions of The Walt Disney Company, a diversified worldwide entertainment company. Ms. Proctor currently serves on the Board of Directors of Och-Ziff Capital Management Group and Blucora, Inc. Ms. Proctor previously served on the Board of Directors of Kaiser Aluminum Corporation from 2006 to 2009 and SunEdison, Inc. from 2013 to 2017. Ms. Proctor holds a B.S. in Business Management from the University of South Dakota and an M.B.A. from California State University East Bay.

The Board of Directors concluded that Ms. Proctor should be nominated to continue to serve as a director on account of, among other things, the following experience, qualifications, attributes, and skills:
- Management experience
- Experience as a chief financial officer
- Expertise and experience in the banking and investment management industries
- Skill and experience in executing capital markets transactions
- Professional and educational background

Current Director - Retiring May 2018
Marty Hughes, age 60, has served as Chief Executive Officer since May 2010 and as a director since January 2011. Mr. Hughes served as President from January 2009 to January 2012, Co-Chief Operating Officer from November 2007 to May 2010, Chief Financial Officer from 2006 to April 2010, Treasurer from 2006 to 2007, and Vice President from 2005 to 2007. Mr. Hughes has 20 years of senior management experience in the financial services industry. From 2000 to 2004, Mr. Hughes was the President and Chief Financial Officer for Paymap, Inc. In addition, Mr. Hughes served as a Vice President and Chief Financial Officer for Redwood from 1998 to 1999. Mr. Hughes also served as Chief Financial Officer for North American Mortgage Company from 1992 to 1998. Prior to 1992, Mr. Hughes was employed for eight years at an investment banking firm and for four years at Deloitte & Touche. Mr. Hughes has a BS in accounting from Villanova University.

On December 4, 2017, Mr. Hughes announced he is retiring from the position of Chief Executive Officer and from the Board of Directors or Redwood, effective as of May 22, 2018, and will not stand for reelection at the 2018 Annual Meeting of Stockholders. Mr. Hughes' retirement follows more than eight years of service as Chief Executive Officer and as a member of the Board of Directors.

The Board of Directors concluded that Mr. Hughes' service as a director was supported by, among other things, the following experience, qualifications, attributes, and skills:
- Leadership attributes and management experience, including experience as Chief Executive Officer, President, and Chief Financial Officer of Redwood
- Skill and experience in managing balance sheet exposures and managing risks
- Skill and experience in executing capital markets transactions
- Expertise and experience in the mortgage lending and investment banking industries
- Accounting expertise and experience
- Professional and educational background

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

Our Board of Directors currently consists of 10 directors. Our Board of Directors has established three standing committees of the Board: the Audit Committee, the Compensation Committee, and the Governance and Nominating Committee. The membership of each committee and the function of each committee are described below. Each of the committees has adopted a charter and the charters of all committees are available on our website and in print at the written request of any stockholder addressed to Redwood's Secretary at our principal executive office.

Our Board of Directors held a total of six meetings during 2017. The non-employee directors of Redwood met in executive session at all six meetings during 2017. Mr. Baum presided at executive sessions of the independent directors. No director attended fewer than 75% of the meetings of the Board of Directors and the committees on which he or she served and all of our directors attended last year's annual meeting of stockholders in person.

Audit Committee

We have a separately-designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee provides oversight regarding accounting, auditing, risk management, and financial reporting practices of Redwood. The Audit Committee consists solely of non-employee directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE and the rules of the SEC. Our Board of Directors has determined that all members of the Audit Committee are "financially literate" within the meaning of the applicable regulations and standards and has designated Ms. Proctor as an "audit committee financial expert" within the meaning of the applicable regulations and standards. The Audit Committee met four times in 2017 in order to carry out its responsibilities, as discussed below under "Audit Committee Matters — Audit Committee Report."

Compensation Committee

The Compensation Committee reviews and approves Redwood's compensation philosophy, reviews the competitiveness of Redwood's compensation practices, as well as risks that may arise from those practices, determines and approves the annual base salaries and incentive compensation paid to our executive officers, approves the terms and conditions of proposed incentive plans applicable to our executive officers and other employees, approves and oversees the administration of Redwood's employee benefit plans, and reviews and approves hiring and severance arrangements for our executive officers. The Compensation Committee consists solely of non-employee directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE, are "non-employee directors" within the meaning of the rules of the SEC, and are "outside directors" within the meaning of the rules of the Internal Revenue Service (the IRS). The Compensation Committee met seven times in 2017 in order to carry out its responsibilities, as discussed below under "Executive Compensation — Compensation Discussion and Analysis."

Governance and Nominating Committee

The Governance and Nominating Committee reviews and considers corporate governance guidelines and principles, evaluates potential director candidates and recommends qualified candidates to the full Board, reviews the management succession plan and evaluates executives in connection with succession planning, and oversees the evaluation of the Board of Directors. The Governance and Nominating Committee consists solely of non-employee directors, all of whom our Board of Directors has determined are independent within the meaning of the listing standards of the NYSE. The Governance and Nominating Committee met four times in 2017 in order to carry out its responsibilities.

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Committee Members

The current members of each of the three standing committees are listed below, with the Chair appearing first.

Audit	Compensation	Governance and Nominating
Greg H. Kubicek	Georganne C. Proctor	Jeffrey T. Pero
Mariann Byerwalter	Richard D. Baum	Richard D. Baum
Debora D. Horvath	Karen R. Pallotta	Mariann Byerwalter
Karen R. Pallotta	Jeffrey T. Pero	Debora D. Horvath
Georganne C. Proctor		Greg H. Kubicek

DIRECTOR COMPENSATION

Information on our non-employee director cash compensation paid (or to be paid) during the annual periods between May 2016 and May 2018, is set forth in the table below.

	Annual Period Commencing May 1,		
	2016	2017	2018
Annual Retainer *	$75,000	$80,000	$85,000
Committee Meeting Fee (in person attendance)	$2,000	$2,000	$2,000
Committee Meeting Fee (telephonic attendance)	$1,000	$1,000	$1,000

* The Chairs of the Audit Committee, the Compensation Committee, and the Governance and Nominating Committee each receive an additional annual cash retainer of $20,000. For the annual period commencing May 1, 2017, the Chairman of the Board of Directors received an additional annual cash retainer of $50,000. For the annual period commencing May 1, 2018, the amount of the annual cash retainer payable to the Chairman of the Board of the Directors will be increased to $75,000.

Non-employee directors are also reimbursed for reasonable out-of-pocket expenses incurred in attending Board and committee meetings, as well as for their and, in some cases, their guests' attendance at other Redwood-related meetings or events. Non-employee directors may also be reimbursed for out-of-pocket expenses incurred in attending conferences or educational seminars that relate to their Board service.

Non-employee directors are also granted deferred stock units (or comparable equity-based awards) each year at the time of the annual meeting of stockholders. The number of deferred stock units granted is determined by dividing the dollar value of the grant by the closing price of Redwood's common stock on the NYSE on the day of grant (and rounding to the nearest whole share amount). In May 2017, non-employee directors received an annual deferred stock unit award valued at $95,000 and, as discussed below, in May 2018, non-employee directors will receive an annual deferred stock unit award valued at $100,000. Non-employee directors may also be granted equity-based awards upon their initial election to the Board. These initial and annual deferred stock units are fully vested upon grant, and they are generally subject to a mandatory three-year holding period. Dividend equivalent rights on deferred stock units are generally paid in cash to directors on each dividend distribution date. Deferred stock units may be credited under our Executive Deferred Compensation Plan.

As noted above, at the February 2018 meeting of the Board of Directors, the Board approved certain changes jointly recommended by the Compensation Committee and the Governance and Nominating Committee to non-employee director compensation for the May 2018 to May 2019 annual period. In connection with these changes, the Compensation Committee's independent compensation consultant, Frederic W. Cook & Co., Inc. (FW Cook), conducted an independent review of Redwood's non-employee director compensation program at the request of the Compensation Committee. The review conducted by FW Cook included benchmarking against non-employee director compensation at the companies that comprise Redwood's executive compensation benchmarking peer group. The changes for the program commencing in May 2018 are intended to keep Redwood's total average annual compensation for non-employee directors at or near the compensation benchmarking peer group median. Further details regarding the executive compensation benchmarking peer group and benchmarking practices are provided on pages 39 - 41 of this Proxy Statement under the heading "Executive Compensation - Compensation Benchmarking for 2017." The table below illustrates the changes approved. Committee meeting attendance fees and retainers for service as a committee chair remained unchanged from 2017 to 2018. The retainer for service as Chairman of the Board increased to $75,000 commencing in May 2018.

	2018 Fee	% Change from 2017
Annual Cash Retainer	$85,000	6.3 %
Annual Equity Award	$100,000	5.3 %

Each director may elect to defer receipt of cash compensation or dividend equivalent rights through Redwood's Executive Deferred Compensation Plan. Cash balances in the Executive Deferred Compensation Plan are unsecured liabilities of Redwood and are utilized by Redwood as available capital to fund investments and operations. Based on each director's election, deferred compensation can either be deferred into a cash account and earn a rate of return that is equivalent to 120% of the applicable long-term federal rate published by the IRS compounded monthly or be deferred into deferred stock units which will, among other things, entitle them to receive dividend equivalent rights related to those units.

Non-Employee Director Compensation — 2017

The following table provides information on non-employee director compensation for 2017. Director compensation is set by the Board and is subject to change. Directors who are employed by Redwood do not receive any compensation for their Board activities.

Name	Fees Earned or Paid in Cash ($)[1]	Stock Awards ($)[2][3]	All Other Compensation ($)[4]	Total ($)
Richard D. Baum	$146,105	$94,990	—	$241,095
Douglas B. Hansen	$84,105	$94,990	—	$179,095
Mariann Byerwalter	$92,105	$94,990	—	$187,095
Debora D. Horvath	$94,105	$94,990	—	$189,095
Greg H. Kubicek	$114,105	$94,990	—	$209,095
Karen R. Pallotta	$96,105	$94,990	—	$191,095
Jeffrey T. Pero	$116,105	$94,990	—	$211,095
Georganne C. Proctor	$116,105	$94,990	—	$211,095

(1) Fees earned are based on the non-employee director compensation policy in place for 2017: (i) annual cash retainer of $75,000 from January 1, 2017 to April 30, 2017 and $80,000 from May 1, 2017 onwards; (ii) additional annual retainer for the Chairman of the Board of $50,000; (iii) additional annual retainer for Audit Committee Chair, Compensation Committee Chair, and Governance and Nominating Committee Chair of $20,000; (iv) committee

meeting fee (in person attendance) of $2,000 per meeting; and (v) committee meeting fee (telephonic attendance) of $1,000 per meeting.

(2) Stock awards consisted of an annual grant of vested deferred stock units. The value of deferred stock units awarded was determined in accordance with FASB Accounting Standards Codification Topic 718. The value of dividend equivalent rights associated with deferred stock units was taken into account in establishing the value of these deferred stock units and previously granted deferred stock units. Therefore, dividend equivalent rights payments made during 2017 to non-employee directors are not considered compensation or other amounts reported in the table above. Information regarding the assumptions used to value our non-employee directors' deferred stock units is provided in Note 16 to our consolidated financial statements included in our Annual Report on Form 10 K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on February 28, 2018.

(3) As of December 31, 2017, the aggregate number of stock awards outstanding for each non-employee director was as follows: Richard D. Baum had 17,212 vested DSUs; Douglas B. Hansen had 17,212 vested DSUs; Mariann Byerwalter had 17,212 vested DSUs; Debora D. Horvath had 13,088 vested DSUs; Greg H. Kubicek had 140,628 vested DSUs; Karen R. Pallotta had 18,989 vested DSUs; Jeffrey T. Pero had 17,212 vested DSUs; and Georganne C. Proctor had 80,075 vested DSUs.

(4) During 2017 certain non-employee directors brought a guest when traveling to a meeting of Redwood’s Board of Directors, at a cost per guest of less than $2,500 to Redwood, and at an aggregate cost to Redwood in 2017 for all guests of less than $7,500.

The following table provides information on stock unit distributions in common stock to non-employee directors from our Executive Deferred Compensation Plan in 2017. Stock units distributed represent compensation previously awarded in prior years and were reported as director or executive compensation in those prior years.

Name	Stock Units Distributed (#)	Aggregate Value of Stock Units Distributed ($)[1]
Richard D. Baum[2]	4,381	$ 71,805
Douglas B. Hansen[2]	4,381	$ 71,805
Mariann Byerwalter[2]	4,381	$ 71,805
Jeffrey T. Pero[2]	5,428	$ 88,961
Charles J. Toeniskoetter[2] [3]	4,381	$ 71,805

(1) The aggregate value of stock units distributed is calculated by multiplying the number of stock units distributed by the fair market value of Redwood common stock on the date of distribution.

(2) Deferred stock units distributed in 2017 were originally awarded in 2014.

(3) Mr. Toeniskoetter retired from Redwood's Board of Directors effective May 16, 2016.

EXECUTIVE OFFICERS

Executive officers of Redwood as of the date of this Proxy Statement are listed in the table below. For purposes of this Proxy Statement, each of Mr. Hughes, Mr. Abate, Mr. Robinson, Mr. Stone, Mr. Cochrane, and Mr. Kanouse were Named Executive Officers (NEOs) in 2017.

Name	Position with Redwood as of December 31, 2017	Age
Marty Hughes	Chief Executive Officer	60
Christopher J. Abate	President	38
Dashiell I. Robinson	Executive Vice President	38
Andrew P. Stone	Executive Vice President, General Counsel & Secretary	46
Collin L. Cochrane	Chief Financial Officer	41
Garnet W. Kanouse	Managing Director - Head of Residential	45
Shoshone (Bo) Stern	Chief Investment Officer	40

Executive officers of Redwood serve at the discretion of our Board of Directors. Biographical information regarding Mr. Hughes and Mr. Abate are also provided in the preceding pages. Additional information regarding Mr. Robinson, Mr. Stone, Mr. Cochrane, Mr. Kanouse and Mr. Stern is set forth below.

Marty Hughes, age 60, has served as Chief Executive Officer since May 2010 and as a director since January 2011. Mr. Hughes served as President from January 2009 to January 2012, Co-Chief Operating Officer from November 2007 to May 2010, Chief Financial Officer from 2006 to April 2010, Treasurer from 2006 to 2007, and Vice President from 2005 to 2007. Mr. Hughes has 20 years of senior management experience in the financial services industry. From 2000 to 2004, Mr. Hughes was the President and Chief Financial Officer for Paymap, Inc. In addition, Mr. Hughes served as a Vice President and Chief Financial Officer for Redwood from 1998 to 1999. Mr. Hughes also served as Chief Financial Officer for North American Mortgage Company from 1992 to 1998. Prior to 1992, Mr. Hughes was employed for eight years at an investment banking firm and for four years at Deloitte & Touche. Mr. Hughes has a BS in accounting from Villanova University.
- Mr. Hughes announced his retirement from the Chief Executive Officer position on December 4, 2017, effective May 22, 2018.

Christopher J. Abate, age 38, has served as President since July 2016 and as a director since December 2017. Mr. Abate, who has been employed at Redwood since April 2006, also served as Redwood's Chief Financial Officer from March 2012 to August 2017 and Controller from January 2009 to March 2013. Before joining Redwood, Mr. Abate was employed by PricewaterhouseCoopers LLP as an auditor and consultant. He holds a B.A. in accounting and finance from Western Michigan University, an M.B.A. from the University of California at Berkeley and Columbia University, and is a certified public accountant.
- Mr. Abate's promotion to Redwood's Chief Executive Officer was announced on December 4, 2017, effective May 22, 2018.

Dashiell I. Robinson, age 38, serves as Executive Vice President of Redwood. Prior to joining Redwood in September 2017, Mr. Robinson was employed at Wells Fargo Securities from January 2009 to August 2017, most recently serving as the Head of Mortgage Finance within the Asset-Backed Finance Group. In that role, Mr. Robinson led a team of banking professionals responsible for financing and distributing an array of residential mortgage products, and serving a broad suite of the firm's operating and investing clients. Prior to his employment at Wells Fargo, Mr. Robinson was employed within the Structured Credit Products Group at Wachovia Capital Markets from 2001 to 2008, serving in banking, structuring and risk mitigation roles. Mr. Robinson holds a B.A. in English from Georgetown University.

- Mr. Robinson's promotion from Executive Vice President to President was announced on December 4, 2017, effective May 22, 2018.

Andrew P. Stone, age 46, serves as Executive Vice President, General Counsel, and Secretary of Redwood. Mr. Stone has been employed by Redwood as General Counsel since December 2008. Prior to joining Redwood, he served as Deputy General Counsel of Thomas Weisel Partners Group, Inc. from 2006 to 2008 and between 1996 and 2006 practiced corporate and securities law at Sullivan & Cromwell LLP and Brobeck, Phleger & Harrison LLP. Mr. Stone holds a B.A. in mathematics and history from Kenyon College and a J.D. from New York University School of Law.

Collin L. Cochrane, age 41, has served as Chief Financial Officer of Redwood since September 2017. Mr. Cochrane has also served as Redwood's Controller and Managing Director from March 2013 to September 2017. Prior to joining Redwood in 2013, Mr. Cochrane served as Chief Accounting Officer and Controller for iStar Financial Inc., where he was employed from 2001 to March 2013. Prior to joining iStar Financial, Mr. Cochrane was employed as an auditor by Ernst & Young LLP from 1999 to 2001. Mr. Cochrane is a certified public accountant and holds a B.S. in Accounting from the Leventhal School of Accounting at the University of Southern California.

Garnet W. Kanouse, age 45, serves as Managing Director and Head of Residential business at Redwood. He has been with Redwood since 2005 and has held a variety of capital markets, business development and portfolio management roles at the company. Prior to joining Redwood, Mr. Kanouse spent 10 years in Chicago at Bank One and predecessor entities in various fixed income capacities, primarily as a member of the team responsible for a portfolio of mezzanine asset-backed and first-loss residential and commercial mortgage-backed securities. Mr. Kanouse holds a B.S. in Accounting from the University of Colorado and an M.B.A. in Finance from the University of Chicago.

Shoshone A. Stern, "Bo Stern," age 40, serves as Chief Investment Officer of Redwood. Mr. Stern joined Redwood in 2003, and previously served as Redwood’s Treasurer from December 2009 to August 2016, and as Managing Director from December 2007 to December 2009. From February 2003 to December 2007, Mr. Stern served in several other management positions at Redwood. Prior to joining Redwood, Mr. Stern was employed by CIBC Oppenheimer in its investment banking group. Mr. Stern holds a B.S. degree in Business Administration from the University of California, Berkeley and an M.B.A from the University of California, Berkeley and Columbia University; he is also a CFA Charterholder.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information, as of March 1, 2018, on the beneficial ownership of our common stock by our current directors and executive officers, and by all of these directors and executive officers as a group. As indicated in the notes, the table includes common stock equivalents held by these individuals through Redwood-sponsored benefits programs. Except as otherwise indicated and for such power that may be shared with a spouse, each person has sole investment and voting power with respect to the shares shown to be beneficially owned. Beneficial ownership is determined in accordance with the rules of the SEC.

Executive Officers	Number of Shares of Common Stock Beneficially Owned(1)	Percent of Class(2)
Marty Hughes(3)	878,264	1.16%
Christopher J. Abate(4)	106,356	*
Dashiell I. Robinson(5)	61,237	*
Andrew P. Stone(6)	85,704	*
Collin L. Cochrane(7)	42,665	*
Garnet W. Kanouse(8)	75,084	*
Shoshone (Bo) Stern(9)	63,737	*
Non-Employee Directors		
Richard D. Baum(10)	47,393	*
Douglas B. Hansen(11)	350,658	*
Mariann Byerwalter(12)	27,525	*
Debora D. Horvath(13)	13,088	*
Greg H. Kubicek(14)	246,948	*
Karen R. Pallotta(15)	22,016	*
Jeffrey T. Pero(16)	65,957	*
Georganne C. Proctor(17)	89,920	*
All directors and executive officers as a group (15 persons)(18)	2,176,552	2.84%

* Less than 1%.

(1) Represents shares of common stock outstanding and common stock underlying performance stock units and deferred stock units that have vested or will vest within 60 days of March 1, 2018.

(2) Based on 75,696,269 shares of our common stock outstanding as March 1, 2018.

(3) Includes 686,579 shares of common stock, and 191,685 deferred stock units that have vested or will vest within 60 days of March 1, 2018.

(4) Includes 39,156 shares of common stock and 67,200 deferred stock units that have vested or will vest within 60 days of March 1, 2018.

(5) Includes 61,237 deferred stock units that have vested or will vest within 60 days of March 1, 2018.

(6) Includes 48,015 shares of common stock and 37,689 deferred stock units that have vested or will vest within 60 days of March 1, 2018.

(7) Includes 7,397 shares of common stock, and 35,268 deferred stock units that have vested or will vest within 60 days of March 1, 2018.

(8) Includes 15,289 shares of common stock, and 59,795 deferred stock units that have vested or will vest within 60 days of March 1, 2018.
(9) Includes 20,778 shares of common stock, and 42,959 deferred stock units that have vested or will vest within 60 days of March 1, 2018.
(10) Includes 30,181 shares of common stock, and 17,212 deferred stock units.
(11) Includes 333,446 shares of common stock, and 17,212 deferred stock units.
(12) Includes 10,313 shares of common stock, and 17,212 deferred stock units.
(13) Includes 13,088 vested deferred stock units.
(14) Includes 104,408 shares of common stock held in direct ownership, living trusts and through an unaffiliated pension plan, 1,912 shares held of record by Mr. Kubicek's spouse, and 140,628 vested deferred stock units.
(15) Includes 3,027 shares of common stock, and 18,989 vested deferred stock units.
(16) Includes 48,745 shares of common stock and 17,212 vested deferred stock units.
(17) Includes 9,845 shares held in the Proctor Trust and 80,075 vested deferred stock units.
(18) Includes 1,359,091 shares of common stock, and 817,461 vested deferred stock units.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information as of the dates noted below, with respect to shares of our common stock owned by each person or entity known by us to be the beneficial owner of approximately 5% or more of our common stock.

Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percent of Class[(1)]
Capital World Investors[(2)]	8,006,717	10.6 %
Wellington Management Group LLP[(3)]	7,556,680	10.0 %
BlackRock, Inc.[(4)]	6,839,397	9.0 %
The Vanguard Group[(5)]	6,496,031	8.6 %
FMR LLC[(6)]	5,542,952	7.3 %
Weitz Investment Management, Inc.[(7)]	4,519,250	6.0 %

(1) Based on 75,696,269 shares of our common stock outstanding as March 1, 2018.

(2) Address: 333 South Hope Street, Los Angeles, California 90071. The information in the above table and this footnote concerning the shares of common stock beneficially owned by Capital World Investors (Capital World), a division of Capital Research and Management Company (CRMC), is based on the amended Schedule 13G filed by Capital World with the SEC on February 14, 2018, which indicates that Capital World has sole voting and dispositive power with respect to 8,006,717 shares. Capital World is deemed to be the beneficial owner of these securities as a result of CRMC acting as investment advisor to various registered investment companies.

(3) Address: 280 Congress Street, Boston, Massachusetts 02210. The information in the above table and this footnote concerning the shares of common stock beneficially owned by Wellington Management Group LLP (Wellington) is based on the amended Schedule 13G filed by Wellington with the SEC on February 8, 2018, which indicates that Wellington and certain other subsidiary entities make aggregate reports on Schedule 13G and that such entities, in the aggregate, have shared dispositive power with respect to 7,556,680 shares and shared voting power with respect to 4,206,217 shares.

(4) Address: 55 East 52nd Street, New York, New York 10055. The information in the above table and this footnote concerning the shares of common stock beneficially owned by BlackRock, Inc. (BlackRock) is based on the amended Schedule 13G filed by BlackRock with the SEC on February 8, 2018, which indicates that BlackRock and certain other subsidiary entities make aggregate reports on Schedule 13G and that such entities, in the aggregate, have sole dispositive power with respect to 6,839,397 shares and sole voting power with respect to 6,634,461 shares.

(5) Address: 100 Vanguard Boulevard, Malvern, Pennsylvania 19355. The information in the above table and this footnote concerning the shares of common stock beneficially owned by The Vanguard Group (Vanguard) is based on the amended Schedule 13G filed by Vanguard with the SEC on February 12, 2018, which indicates that Vanguard and certain other subsidiary entities make aggregate reports on Schedule 13G and that such entities, in the aggregate, have sole dispositive power with respect to 6,406,670 shares, shared dispositive power with respect to 89,361 shares, sole voting power with respect to 84,325 shares, and shared voting power with respect to 11,336 shares.

(6) Address: 245 Summer Street, Boston, Massachusetts 02210. The information in the above table and this footnote concerning the shares of common stock beneficially owned by FMR LLC (FMR) is based on the amended Schedule 13G filed by FMR with the SEC on February 13, 2018, which indicates that FMR and certain other subsidiary entities make aggregate reports on Schedule 13G and that the such entities, in the aggregate, have sole dispositive power with respect to 5,542,952 shares and sole voting power with respect to 1,293,456 shares

(7) Address: 1125 South 103rd Street, Suite 200, Omaha, Nebraska 68124. The information in the above table and this footnote concerning the shares of common stock beneficially owned by Weitz Investment Management, Inc. (Weitz Inc.) and Wallace R. Weitz (Weitz) is based on the amended Schedule 13G filed by Weitz with the SEC on

January 24, 2018. The aggregate number of shares of common stock reported as beneficially owned by Weitz Inc. includes 4,519,250 shares with respect to which Weitz has shared dispositive power and shared voting power.

EXECUTIVE COMPENSATION

Table of Contents

Compensation Discussion & Analysis - Executive Summary

Introduction

Ø Redwood has a performance-based executive compensation program where pay delivery appropriately adjusts up or down to independently reflect both short- and long-term results

For 2017, executives' above-target annual bonuses were the result of strong annual financial performance, while the realized value from prior years' equity awards reflected longer-term total stockholder return (TSR) results

Compensation paid/granted to Redwood's CEO for 2017 decreased by approximately 36% compared to 2016, as a result of his December 2017 announcement to retire from the CEO position in May 2018

Because of his status as retiring from the CEO position, the Compensation Committee did not grant the CEO a 2017 year-end long-term equity award, as those awards are generally granted to incentivize performance over a multi-year future period

Ø The philosophy and key elements of the program have remained consistent in recent years, based on the:

Annual review by the Compensation Committee of the structure and results of the compensation program, which is conducted in consultation with the Committee's independent compensation consultant

Feedback received as part of ongoing outreach with stockholders, as well as strong overall "Say-on-Pay" support since inception of "Say-on-Pay" voting.

Approximately, 90% average annual stockholder approval over the 2011 (inception) to 2017 period when "Say-on-Pay" voting has been in place for Redwood's stockholders

Consistent outreach to stockholders on executive compensation; in 2017 outreach to approximately 72% of then-outstanding shares of Redwood common stock; and engagement in 2017 by Committee Chair and management with approximately 44% of ownership of Redwood's then-outstanding common stock

- Further discussion of outreach to, and engagement with, stockholders is set forth within CD&A under the heading "Outreach to Stockholders"

Ø Covered in this Executive Summary are the following:

Overview of the executive compensation philosophy and key elements of the compensation program

Review of Redwood's short-term and long-term performance

Illustrations of how the value of annual bonuses and long-term equity awards track Redwood's performance, using the CEO as an example

Further analysis, discussion, and detail regarding Redwood's executive compensation program follows this Executive Summary.

Performance-Based Compensation Philosophy

Ø The performance-based compensation program is administered by an independent Compensation Committee of the Board of Directors (the Board) and is designed to:

Incentivize attainment of both short- and long-term business and stockholder return objectives, including:

Achieving stable and attractive returns on equity (ROEs) that will support the payment of regular and sustainable dividends, as well as increase book value

Meeting annual business, operational, and risk management goals established by the Board

Align the interests of executives with the interests of long-term stockholders in achieving strong stockholder returns

Enable Redwood to hire and retain executives in a competitive marketplace

Market-based compensation benchmarking and analysis are used to evaluate compensation relative to peer companies

Avoid incentivizing inappropriate risk taking

Executive Compensation

What Redwood Does	What Redwood Does Not Do
ü Directly links annual bonus to performance	û No ongoing guaranteed bonus arrangements
ü Generally provides approximately half of compensation to executives in long-term equity-based awards	û No significant amount of fixed compensation - only base salary and standard benefits are fixed on an ongoing basis
ü Imposes three- or four-year vesting/holding periods on annual long-term equity grants	û No “single-trigger” change-in-control payments or benefits
ü Maintains robust stock ownership requirements; for example, a 6x base salary requirement for the CEO	û No excise tax gross-ups for any change-in-control related payments
ü Maintains a bonus and incentive payments “clawback” policy if fraud or misconduct results in a financial restatement	û No margin, pledging, or hedging transactions permitted with respect to Redwood stock

Key Elements of the 2017 Executive Compensation Program

As a general matter, Redwood's executive compensation program includes the following key elements:

Ø Base Salary and Standard Benefits

Base salary and standard benefits together generally represent less than 25% of an executive's target compensation, with the remainder being performance-based and/or equity-based compensation

Ø Annual Bonus

75% earned based on ROE-based performance metric

Performance target must at least represent earnings equal to regular annual dividends set by the Board

As a real estate investment trust (REIT), under the Internal Revenue Code, Redwood is required to distribute as dividends at least 90% of the income earned under its REIT status

No above-target bonus is paid unless earnings exceed regular annual dividends set by the Board

25% earned based on individual contribution to achievement of strategic, business, operational, governance and risk management goals

Ø Long-Term Equity Awards: Performance Stock Units (PSUs)

Non-cash equity-based compensation awarded annually that represents 50% of total annual long-term incentive grant

Vesting is contingent on positive TSR as measured over a three-year performance vesting period

Target-level vesting if TSR is 25% over the three-year vesting period

Maximum-level vesting if TSR equals or exceeds 125% over the three-year vesting period

Forfeited if TSR is flat or negative as measured over the three-year vesting period

Provides ongoing incentive for executives to enhance long-term TSR

Ø Long-Term Equity Awards: Deferred Stock Units (DSUs)

Non-cash equity-based compensation awarded annually, but delivered after the conclusion of a four-year vesting period

Represents 50% of total annual long-term incentive grant

Promotes talent retention and aligns interests of executives and stockholders in enhancing long-term TSR

2017 Elements of Target Annual Compensation - Average of Ongoing Executive Group [1/]

[1] See Endnote #1, at the end of this Executive Summary, for further information regarding this illustration of the elements of target annual compensation.

Ø Performance-Metric Based Compensation

Two key elements of compensation are delivered or vest directly based on financial/performance metrics

- Annual bonuses primarily delivered based on achievement of ROE-based performance target
- Performance stock units (PSUs) vest based on three-year TSR target, and are forfeited if three-year TSR is flat or negative

Ø Equity Value at Risk

Long-term equity awards with three- and four-year vesting/holding periods are a significant element of compensation, where value is at risk and realization of executives' compensation is driven by delivery of stockholder value

Ø Limited Fixed Elements of Compensation

Base salary and standard benefits are generally the only elements of compensation that are fixed on an ongoing basis

Redwood’s Business Model and Internal Management Structure

- Ø Internally-Managed Mortgage REIT. Redwood is an internally-managed REIT focused on credit-sensitive investments in residential mortgage loans and other real estate-related assets (mortgage REIT); Redwood also seeks to earn income through engaging in mortgage banking activities - e.g., the acquisition and sale/securitization of residential mortgage loans
- Ø REIT Dividend Requirement. Under the Internal Revenue Code, REITs are required to distribute as dividends at least 90% of the income earned under their REIT status; and, as a result, are limited in their ability to grow through the reinvestment of retained earnings

Frequently, therefore, the return to stockholders from investing in Redwood will be primarily from dividends paid

- Ø Business Model and Structure Are Important Factors in Compensation Program. The nature of Redwood’s mortgage REIT business model and internal management structure are factors the Compensation Committee has taken into account in structuring Redwood’s executive compensation program and determining the appropriate performance measures and targets used for performance-based compensation

Return-on-equity and other profitability-based measures of performance have been considered highly relevant in determining performance-based annual bonuses because: (i) these measures should correlate with Redwood’s ability to increase earnings and book value and pay an attractive level of annual dividends; (ii) management has “line-of-sight” into how its strategic and operational decisions impact these measures; and (iii) over the long-term, these measures should correlate with attractive total stockholder returns

Redwood’s relatively conservative use of financial leverage to finance its business and investments and manage its liquidity risk is also factored into its approach to setting financial performance targets, as the Committee has sought to incentivize the risk-adjusted returns that result, over time, from this use of indebtedness (leverage) and management of liquidity risk

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Redwood's 2017 Performance

- Strong 2017 Financial Performance
  - 2017 earnings per share of $1.60
    (fully diluted, as reported under GAAP)
  - 2017 ROE of 11.9%
    (based on 2017 GAAP financial results)
  - GAAP book value per share increased by $0.87 per share during 2017, or 5.82%, after paying cumulative dividends of $1.12 per share
- Strong 2017 Risk-Adjusted Returns Relative to Peers[2]
  - The accompanying graph illustrates Redwood's strong 2017 performance relative to other publicly-traded residential mortgage REITs, many of which have business models that employ higher leverage risk than Redwood

[2] See Endnote #2, at the end of this Executive Summary, for a listing of these publicly-traded mortgage REITs.

Redwood's Long-Term Performance

- Solid Long-Term Results
  - Five-year average annual ROE of 10.9%
    (based on annual GAAP financial results)
  - Five-year TSR of 23%
  - Over five-year period, GAAP book value per share increased by $1.88 per share, or 13.4%, after paying cumulative dividends of $5.60 per share
- Long-Term Growth in Book Value Relative to Peers[2/]
  - GAAP book value is a key valuation metric for mortgage REITs

As illustrated by the accompanying graph, Redwood's growth in book value over five years has been strong
¡ relative to other publicly-traded residential mortgage REITs

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2/ See Endnote #2, at the end of this Executive Summary, for a listing of these publicly-traded mortgage REITs.

Short- and Long-Term ROE Performance Relative to Other Publicly-Traded Mortgage REITs

Ø Redwood's one- and five-year ROE performance compares favorably to other publicly-traded mortgage REITs[3/]

Redwood has regularly compared its financial performance to other publicly-traded mortgage REITs because their business models share a common focus on investing in residential mortgages and related assets

An ROE-based performance measure is the primary determinant of annual bonuses at Redwood and, as illustrated in the pay-for-performance graph on the following page, there is a strong correlation between ROE and the CEO's annual bonus

[3/] See Endnote #2, at the end of this Executive Summary, for a listing of these publicly-traded mortgage REITs.

Illustration of How the CEO's Annual Bonus Tracks the Annual ROE Performance Measure

- Bonuses earned under the performance-based annual bonus plan are highly correlated with Redwood's ROE and non-GAAP Adjusted ROE*, with strong 2017 Adjusted ROE resulting in the CEO earning an above-target bonus for 2017

Adjusted ROE. Adjusted ROE is a non-GAAP financial performance measure that reflects GAAP earnings on average equity capital, adjusted to exclude certain unrealized mark-to-market gains and losses from equity. Because Adjusted ROE is a ratio of earnings to equity capital, the adjustment to exclude these unrealized mark-to-market gains and losses is made to enable the calculation of an "apples-to-apples" non-GAAP ratio of earnings to equity capital for purposes of evaluating financial performance

Portion of CEO's Bonus Not Paid in Cash. Because the CEO's 2017 annual bonus was above target, 28% of the CEO's 2017 annual bonus was delivered in the form of deferred stock units (DSUs) in lieu of cash

This approach to the form of payment for an above-target 2017 CEO bonus was pre-determined by the Compensation Committee in early 2017

Payment of the CEO's 2017 annual bonus in this manner invests a greater portion of the CEO's annual bonus in Redwood's future financial performance, which the Committee believes supports alignment with stockholders' interests

CEO's Performance-Based Annual Bonuses vs. ROE Performance Measures

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* Adjusted ROE is an ROE-based, non-GAAP financial metric further described above and on pg. 47 in the discussion that follows this Executive Summary. Redwood's executive compensation program uses Adjusted ROE as the performance measure for annual bonus determinations. Adjusted ROE is reconciled to ROE based on GAAP financial results in Annex A to this Proxy Statement.

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Long-Term Stockholder Return Performance Relative to Other Publicly-Traded Mortgage REITs

Ø Redwood's long-term TSR did not outperform the median of other publicly-traded mortgage REITs[4/]

Long-term equity awards generally comprise approximately 50% of executives' target compensation; with vesting for half of those equity awards contingent on TSR performance over a multi-year period

A significant portion of the equity-based compensation granted to the CEO in 2013 and 2014 has been forfeited (not realized) as a result of Redwood's lagging long-term TSR performance, as illustrated in the graphs below

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[4/] See Endnote #2, at the end of this Executive Summary, for a listing of these publicly-traded mortgage REITs.

Illustration of Value Realization From Long-Term Equity Awards Tracking TSR Performance

Ø Realization of the value of prior years' long-term equity awards (or the partial or total forfeiture of that value) is a key component of Redwood's performance-based compensation program

The overall target value of these awards is only realized when stockholders experience attractive long-term returns during the three- and four-year vesting periods

The graphs below illustrate how the compensation program's use of long-term equity awards addresses long-term TSR performance by reviewing the realized/realizable value of the equity awards granted to the CEO in 2013 and 2014

In particular, the PSUs granted at year-end 2013 and year-end 2014 would have vested at target levels if three-year TSR following each of those grants had equaled 25%

Realized Value of CEO's 2013 Year-End Equity Awards

Realized/Realizable Value of CEO's 2014 Year-End Equity Awards

Endnotes to CD&A Executive Summary

Endnote #1: The pie chart titled “2017 Elements of Target Annual Compensation - Average of Ongoing Executive Group” reflects the average in 2017 of the elements of the ongoing compensation program for Redwood’s six ongoing executive officers (i.e., excludes Redwood’s CEO as a result of his announcement to retire from the CEO position in May 2018). As noted above, because of his status as a retiring CEO, the Compensation Committee did not grant the CEO a 2017 year-end long-term equity award, as those awards are generally granted to incentivize performance over a multi-year future period. Additionally, for 2017, with respect to Redwood’s Executive Vice President, Mr. Robinson, the pie chart excludes the impact of certain compensation amounts paid or granted by Redwood in 2017 that were negotiated to induce him to join Redwood in September 2017 and forgo compensation from his former employer that was not received, or was forfeited, when he accepted employment at Redwood. Also, for 2017, the pie chart excludes a one-time promotion-related equity-based compensation grant made to Redwood's current CFO in 2017.

Endnote #2: Redwood has regularly compared its financial performance to other publicly-traded mortgage REITs because their business models share a common focus on investing in residential mortgages and related assets.

The group of publicly-traded mortgage REITs ("mREIT Peers") used in the performance comparisons in this Executive Summary of CD&A are:

- AG Mortgage Investment Trust Inc. (MITT); AGNC Investment Corp. (AGNC); Annaly Capital Management, Inc. (NLY); Anworth Mortgage Asset Corp. (ANH); Armour Residential REIT, Inc. (ARR); Capstead Mortgage Corp. (CMO); Chimera Investment Corporation (CIM); CYS Investments, Inc. (CYS); Dynex Capital Inc. (DX); Invesco Mortgage Capital Inc. (IVR); MFA Financial, Inc. (MFA); MTGE Investment Corp. (MTGE); New Residential Investment Corp. (NRZ); New York Mortgage Trust Inc. (NYMT); PennyMac Mortgage Investment Trust (PMT); and Two Harbors Investment Corp. (TWO)

A subset of the mREIT peers ("Agency Peers") are publicly-traded mortgage REITs that focus on investing in residential mortgages eligible for purchase by, and mortgage-backed securities issued or guaranteed by, Fannie Mae, Freddie Mac, or other government-sponsored enterprises or Federal agencies. This subset of Agency Peers is comprised of the following:

- AGNC Investment Corp. (AGNC); Annaly Capital Management, Inc. (NLY); Anworth Mortgage Asset Corp. (ANH); MTGE Investment Corp. (MTGE); Capstead Mortgage Corp. (CMO); and Two Harbors Investment Corp. (TWO)

Redwood Trust, Inc. is identified by its ticker symbol (RWT)

End of Executive Summary of Compensation Discussion and Analysis

Compensation Discussion and Analysis (CD&A)

In accordance with SEC regulations, this CD&A is focused on the compensation of Redwood's Named Executive Officers (NEOs) for 2017, although it also provides some general discussion and analysis of aspects of Redwood's compensation programs, plans, and practices that apply to all of Redwood's officers and employees.

Section I - Introduction

- Ø Named Executive Officers
- Ø Compensation Committee
- Ø Redwood's Business Model and Internal Management Structure
- Ø Overall Compensation Philosophy and Objectives
- Ø Outreach to Stockholders; "Say-on-Pay" Support from Stockholders

Named Executive Officers

Under SEC regulations, Redwood had six NEOs and 120 employees as of December 31, 2017.

Named Executive Officers

Martin S. Hughes, Chief Executive Officer
Mr. Hughes announced his retirement from the Chief Executive Officer position on December 4, 2017, effective May 22, 2018.

- Christopher J. Abate, President
Mr. Abate's promotion from President to Chief Executive Officer was announced on December 4, 2017, effective May 22, 2018.

- Dashiell I. Robinson, Executive Vice President
Mr. Robinson was hired by Redwood as Executive Vice President on September 28, 2017.

Mr. Robinson's promotion from Executive Vice President to President was announced on December 4, 2017, effective May 22, 2018.

- Andrew P. Stone, Executive Vice President, General Counsel, and Secretary

- Collin L. Cochrane, Chief Financial Officer
Mr. Cochrane was promoted from Controller to Chief Financial Officer on September 1, 2017.

- Garnet W. Kanouse, Managing Director - Head of Residential

Compensation Committee

The Compensation Committee (the Committee) of Redwood's Board of Directors is committed to providing disclosure within this CD&A that gives insight into the process by which it arrives at determinations relating to executive compensation and the underlying rationale for those determinations. Among other things, this CD&A describes:

- The Committee's process for reviewing and determining the elements of the compensation of the Chief Executive Officer (CEO) and of the other NEOs.
- The rationale for the different elements of the NEOs' compensation and Redwood's compensation philosophy, objectives, and methodology for competitive benchmarking.
- The metrics and goals used for performance-based compensation and factors taken into account in the Committee's determination of whether those measures and goals were satisfied.
- The severance and change of control payments that NEOs may become entitled to under certain circumstances.
- The role of the Committee's independent compensation consultant.

Each year the Committee reviews Redwood's compensation philosophy and its executive compensation plans and programs. After taking into account various factors and analyses, including those described in this CD&A, input from its independent compensation consultant, feedback from stockholders obtained during stockholder outreach efforts, and the outcome of recent stockholder advisory votes on executive compensation (commonly referred to as "Say-on-Pay" votes), the Committee makes compensation determinations it believes are appropriate in light of its executive compensation objectives.

Redwood's Business Model and Internal Management Structure

Redwood is an internally-managed, REIT focused on making credit-sensitive investments in residential mortgage loans and other real estate-related assets, with the goal of delivering a stable and growing stream of attractive earnings and dividends for stockholders. Redwood also seeks to earn income through engaging in residential mortgage banking activities e.g., by generating gains through the acquisition and sale of residential mortgage loans (including through sponsoring securitization transactions).

Redwood was established in 1994 and is structured as a real estate investment trust (REIT) for tax purposes. Under the Internal Revenue Code, REITs are required to distribute as dividends at least 90% of the income earned under their REIT status; as a result, like other REITs, Redwood is limited in its ability to grow through the reinvestment of retained earnings. Frequently, therefore, the return to stockholders from ownership of Redwood's common stock will be primarily from dividends declared by the Board of Directors.

The nature of Redwood's business model and internal management structure are factors the Committee has taken into account in structuring Redwood's executive compensation program and determining the appropriate performance measures and goals used for performance-based compensation. For example:

- Return-on-equity and other profitability-based measures of performance have been considered highly relevant in determining performance-based annual bonuses because: (i) these measures should correlate with Redwood's ability to increase book value and pay an attractive level of annual dividends; (ii) management has "line-of-sight" into how its strategic and operational decisions impact these measures; and (iii) over the long-term, these measures should correlate with attractive total stockholder returns.
- Redwood's relatively conservative use of financial leverage to finance its business and investments and manage its liquidity risk also factor into its approach to setting financial performance targets, as the Committee has sought to incentivize the risk-adjusted returns that result, over time, from this use of indebtedness (leverage) and management of liquidity risk.

Overall Compensation Philosophy and Objectives

Redwood maintains a performance-based compensation philosophy for its executive officers that seeks to provide incentives to achieve both short-term and long-term business and stockholder return objectives, align the interests of executive officers with those of long-term stockholders, and ensure that it can hire and retain talented individuals in a competitive marketplace. The Committee is responsible for evaluating Redwood's executive compensation programs, plans, and practices to ensure that they provide proper incentives and appropriately support Redwood's business model and performance objectives without creating risks that are likely to have a material adverse effect on Redwood.

Redwood's executive compensation objectives are as follows:

- Attract and retain highly qualified and productive executives
- Motivate executives to enhance the overall performance and profitability of Redwood, both on a short-term and a long-term basis, with an emphasis on the long-term
- Foster long-term alignment of the interests of executives and stockholders through ownership of Redwood common stock by executives and by rewarding stockholder value creation
- Ensure that compensation opportunities are competitive
- Avoid incentivizing inappropriate risk taking

During 2017, the Committee, with input and guidance from its independent compensation consultant, Frederic W. Cook & Co., Inc. (FW Cook), engaged in a review of the structure of Redwood’s executive compensation program. This included a review of the elements of executive compensation, the mix of annual and long-term compensation, the compensation benchmarking peer group, the overall competitiveness of target levels of cash and equity-based compensation, and the mechanisms through which Redwood's pay-for-performance philosophy is implemented.

Outreach to Stockholders; “Say-on-Pay” Support from Stockholders

Outreach to stockholders regarding executive compensation during 2017 and over the past several years has provided Redwood with the opportunity to discuss and receive stockholder feedback regarding Redwood’s philosophy and views on executive compensation and specific compensation practices. In particular:

- Committee Chair Active in Outreach Efforts. The Chair of the Committee, together with members of Redwood’s management, has engaged in these stockholder outreach efforts, which have taken the form of telephone conferences with both institutional and individual stockholders, as well as in-person outreach meetings with institutional stockholders
- 2017 Outreach Efforts. In advance of Redwood’s 2017 annual stockholders’ meeting, outreach efforts were made to all of Redwood’s then-top 25 institutional stockholders, as well as several other institutional and individual stockholders, which in the aggregate then-held approximately 72% of then-outstanding shares of Redwood’s common stock

2017 Engagement Response. These outreach efforts resulted in engagement during 2017 with approximately 44% of the ownership of Redwood’s then-outstanding common stock, including direct teleconferences in 2017 between the Chair of the Committee and institutions that then-held approximately 20% of Redwood’s then-outstanding shares of common stock

2017 Feedback From Stockholders. Feedback provided to the Chair of the Committee from engagement in 2017 was generally positive about Redwood’s executive compensation program and the Say-on-Pay vote at the 2017 annual meeting of stockholders. Examples of the input received during stockholder engagement included:

- Stockholder perspectives on financial and performance metrics
- Feedback on the appropriate length of performance measurement periods for long-term incentive awards

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Note: Based on a number of factors and considerations, including shareholder feedback, the use of a performance stock unit structure that included staggered two-year TSR measurement periods over a three-year performance vesting period was discontinued

- Review by stockholders of the policies governing their proxy voting decisions, how those policies apply to voting their shares of Redwood stock, and implications for Redwood's executive compensation program
- Discussion of the philosophy and structure of Redwood’s executive compensation program and how Redwood’s performance in 2017 and prior years was correlated with realized compensation
- Positive feedback that engagement by the Committee Chair and management resulted in a better understanding of the background, analyses, and rationales generally underlying the Committee’s decisions regarding executive compensation

Among the top 25 institutional stockholders that engaged with Redwood (representing 43% of then-outstanding shares of common stock), Redwood understands that all of them cast votes at the 2017 annual meeting in support of “Say-on-Pay”, with the exception of a single institutional shareholder which then-held less than 1.5% of outstanding shares of Redwood stock.

- Consistent Outreach Over Multiple Years. Outreach to stockholders regarding executive compensation has been a consistent practice at Redwood. In addition, to regularly engaging with institutional and individual stockholders following the publication of Redwood’s annual proxy statement, the Chair of the Committee traveled during 2014 and 2015 to meet in person with institutional stockholders who then-held approximately 25% of Redwood’s outstanding common stock. Additional in-person meetings between the Chair of the Committee and institutional stockholders are contemplated in the future

The Committee believes that this ongoing stockholder outreach process results in a more detailed understanding of recent Say-on-Pay voting results and provides a forum for valuable feedback from stockholders regarding their views on executive compensation philosophy and practices.

"Say-on-Pay" Support from Stockholders. “Say-on-Pay” voting results since 2011 and stockholder outreach and feedback were factors considered by the Committee in deciding to maintain during 2017 the basic structure of Redwood’s performance-based compensation program that has consistently been in place over this seven-year period. Last year, 75.8% of stockholder votes cast at the May 2017 Annual Meeting of Stockholders supported the annual non-binding resolution to approve executive compensation. Since the inception of ‘‘Say-on-Pay’’ voting in May 2011, on average, approximately 90% of stockholder votes cast supported the annual non-binding resolution to approve executive compensation each year.

Section II - Executive Compensation in 2017

- Ø Redwood's 2017 and Longer-Term Performance
- Ø Elements of Compensation in 2017
- Ø Process for Compensation Determinations for 2017
- Ø Compensation Benchmarking for 2017
- Ø 2017 Base Salaries
- Ø 2017 Performance-Based Annual Bonus Compensation
- Ø Performance-Based Annual Bonuses Earned for 2017
- Ø 2017 Long-Term Equity-Based Incentive Awards
- Ø Vesting and Mandatory Holding Periods for 2017 Long-Term Equity-Based Incentive Awards

Redwood’s 2017 and Longer-Term Performance

Redwood’s 2017 financial performance was strong, including:

- Earnings per share of $1.60 (fully diluted, as reported under GAAP)
- Payment of $1.12 per share in dividends ($0.28 per share per quarter)
- GAAP book value per share increased 5.82%, or $0.87 per share, after paying cumulative dividends of $1.12 per share.

- Return-on-equity (ROE) of 11.9% (based on 2017 GAAP financial results)

Redwood’s five-year performance was also solid, with strong overall ROE and book value growth, but underperformed other publicly-traded residential mortgage REITs on a five-year total shareholder return (TSR) basis:

- Five-year TSR was 23% (for the five-year period ending 12/31/17)
- Over the 2013 to 2017 period, Redwood's GAAP book value per share increased 13.48%, or $1.88 per share, after paying cumulative dividends of $5.60 per share.
- Average annual ROE over the 2013 to 2017 period was 10.9% (based on annual GAAP financial results)

Graphics illustrating Redwood’s 2017 and five-year performance relative to other publicly-traded REITs with business models that include a focus on investing in residential mortgages and related assets are included within the preceding “Executive Summary of CD&A” beginning on page 33 of this Proxy Statement

Elements of Compensation in 2017

In 2017, cash compensation for Redwood’s NEOs included a base salary and a performance-based annual bonus. Annual bonuses for 2017 were primarily determined based on company financial performance, with individual performance a secondary determinant. For each NEO, a target annual bonus amount was established at the beginning of 2017 (or upon promotion or hire during 2017) that would be earned if Redwood's financial performance met a Committee-established target and the NEO’s individual performance merited target-level payment. In particular, one portion of each NEO’s annual bonus is determined based on company financial performance (referred to in this CD&A as the company performance component of target bonus or company performance bonus), and the other portion of each NEO’s annual bonus is determined based on individual performance (referred to in this CD&A as the individual performance component of target bonus or individual performance bonus). With respect to Mr. Robinson, in connection with his hiring, Redwood contractually agreed to an annual bonus amount and year-end equity award for him for 2017, as well as a hire date cash and equity-based compensation, and a separate relocation allowance. These contractual agreements with Mr. Robinson were negotiated to induce him to join Redwood in September 2017 and forgo compensation from his former employer that was not received, or was forfeited, when he accepted employment at Redwood. No pay-related commitments were made to Mr. Robinson beyond 2017, with the exception of his base salary and target bonus opportunity, which are set forth in his employment agreement.

The Committee generally intends that the base salary and annual bonus target for each NEO be appropriate in comparison to a market-based median benchmark, after taking into account factors such as the NEO's role and responsibilities, competitive factors, and internal equity. In addition, the Committee believes that performance-based bonuses for each NEO should have adequate upside so that total annual compensation actually earned may reach the top-quartile of the market-based benchmark for strong performance.

The market-based benchmarks used by the Committee during 2017 were determined with the assistance of the Committee's independent compensation consultant, FW Cook. The process included reviewing compensation practices of peer companies selected by the Committee (referred to in this CD&A as the compensation benchmarking peer group) as well as other market-based benchmark data provided to FW Cook by McLagan, a third-party firm that is nationally recognized as qualified to provide such data. Further details regarding the compensation benchmarking peer group and benchmarking practices are provided on pages 44 - 45 within this CD&A under the heading "Compensation Benchmarking for 2017."

For 2017, the Committee established the company performance component of the annual bonus for each NEO so that it would not be paid at an above-target level unless Redwood's adjusted return-on-equity (Adjusted ROE) exceeded 9%, which was a level of Adjusted ROE performance above the level needed to support the payment of regular dividends in accordance with the Board of Directors' 2017 annual dividend policy.

Adjusted ROE is a non-GAAP performance measure that is defined and described on pages 46 - 50 within this CD&A under the heading "2017 Performance-Based Annual Bonus Compensation."* It is the Committee's intention that NEOs' company performance bonus will be earned at an appropriate level relative to the target opportunity based on Adjusted ROE performance results for the year.

With respect to long-term equity-based compensation, the Committee generally makes annual awards to NEOs in amounts, and subject to terms and vesting conditions, that provide an incentive to create long-term stockholder value and align the interests of NEOs with the interests of long-term stockholders. These awards are intended to provide performance-based compensation opportunities at levels that will be effective in retaining valued and productive executives. In determining the size of annual long-term equity-based compensation opportunities, the Committee uses the same or similar considerations as are applied when setting salaries and target annual bonus opportunities, with the value actually delivered a result of subsequent performance. For 2017, the value of annual long-term equity-based compensation granted at year-end to NEOs was determined after taking into account the Committee's philosophy that:

- Competitive pressure on NEO compensation levels from higher-paying related market sectors should be addressed with long-term equity-based awards. Annual target cash compensation amounts are generally targeted to be in a median range of the compensation benchmarking peer group, while long-term equity-based awards may be targeted above the median if justified by performance, experience, or the scope of the individual's role.
- The terms and vesting conditions of long-term equity-based awards should result in realized compensation for NEOs that correlates with long-term stockholder value creation (through dividend distributions and share-price growth) over a minimum of three years. The value of long-term equity-based awards should also take into account Redwood's overall performance and each NEO's individual performance.

* Adjusted ROE is a non-GAAP measure calculated and reconciled to ROE determined in accordance with GAAP in Annex A.

With respect to 2017 year-end long-term equity-based awards for Mr. Hughes and Mr. Robinson:

- Mr. Hughes. In December 2017, Mr. Hughes announced that he would retire from the CEO position in May 2018. Because of his status as retiring from the CEO position, the Compensation Committee did not grant Mr. Hughes a 2017 year-end long-term equity award, as those awards are generally granted to incentivize performance over a multi-year future period.
- Mr. Robinson. In connection with his hiring in September 2017, the Committee reviewed the factors noted above and determined, at that time and in connection with inducing him to join Redwood, to contractually agree to the amount of Mr. Robinson's 2017 year-end long-term equity award.

NEOs are provided with other benefits that are also available to all eligible employees of Redwood on a substantially similar basis. These benefits, which are further described below on pages 58 - 59 within this CD&A, include standard health and welfare benefits and the ability to participate in Redwood's tax-qualified 401(k) plan and Employee Stock Purchase Plan. In addition, NEOs may participate in Redwood's Executive Deferred Compensation Plan.

Process for Compensation Determinations for 2017

Each year the Committee makes determinations regarding the compensation of Redwood's NEOs. The process is dynamic and compensation levels are evaluated with the Committee having the authority to re-examine and adjust any aspect of the compensation program or process it may determine to be necessary or appropriate to take into account changing circumstances throughout the year. As in prior years, during 2017 the Committee directly engaged and used the services of a nationally recognized compensation consultant, FW Cook, to assist it in, among other things, determining the elements of compensation and providing benchmarking analyses. FW Cook reports directly to the Committee and acts as the Committee's consultant regarding director and executive officer compensation-related matters. FW Cook is not retained by Redwood or its management in any other capacity and the Committee has the sole authority to establish and terminate the relationship with FW Cook. In addition, the Committee conducted an assessment of the independence of FW Cook and concluded that no conflict of interest currently exists or existed in 2017 that would result in FW Cook not being able to provide advice to the Committee independently from management.

On an annual basis, FW Cook reviews the compensation program for Redwood's executive officers with the Committee and assesses the competitiveness of compensation levels and targets to evaluate whether the program is aligned with Redwood's compensation philosophy and externally competitive. In addition, FW Cook assists the Committee in determining the form and structure of the executive compensation program. FW Cook also provides the Committee with data regarding compensation practices among the compensation benchmarking peer group. FW Cook's analysis covers all elements of direct compensation, including base salary, annual incentives, and long-term incentives. Benefit and perquisite offerings at Redwood are also reviewed, as is total Redwood equity ownership by each NEO (and the value of that equity ownership at different share prices). FW Cook's analysis assists the Committee in understanding the extent to which different elements of each NEO's compensation are above or below benchmark market levels and in understanding the year-to-year changes in awarded, accumulated, and potential NEO compensation. In connection with Mr. Robinson's hiring, the Committee obtained this type of data and analysis from FW Cook to enable it to establish Mr. Robinson's initial compensation terms.

As part of its process for making compensation determinations for NEOs at the end of 2017, the Committee also considered the following:

- Each NEO provided a self-assessment of his individual performance over the year;
- Mr. Hughes and Mr. Abate provided the Committee with their recommendations with respect to the compensation of all of the other NEOs; and
- FW Cook provided directional recommendations regarding the elements of the compensation for each of the CEO and President, and opined on the recommendations developed by the CEO and President for the other NEOs. These

recommendations and opinions were based on peer comparisons, other supplemental benchmarking data, and Redwood's compensation philosophy.

Compensation Benchmarking for 2017

As in prior years, in 2017 the Committee asked FW Cook to conduct a market pay analysis with respect to various compensation matters, including compensation of NEOs. FW Cook’s market pay analysis relied on publicly disclosed executive compensation data from the compensation benchmarking peer group, as well as supplemental data provided to FW Cook by McLagan. The supplemental data was obtained because not all of the compensation benchmarking peer group companies publicly disclose information for officers with responsibilities comparable to Redwood's NEOs. In addition, the supplemental data provided insight into executive compensation practices at competitors that are externally managed and, therefore, do not generally disclose comprehensive compensation data for their named executive officers, as well as private companies and divisions of larger public companies for which individual compensation data are not publicly disclosed. For example, many of the publicly-traded REITs referenced within the preceding "Executive Summary of CD&A" on page 33 of this Proxy Statement to which Redwood compares its performance are externally managed and do not publicly disclose comprehensive executive compensation information.

The supplemental data provided by McLagan was reviewed and analyzed by FW Cook, who advised the Committee that the information could reasonably be relied upon for its intended purpose. McLagan and its affiliates also provide Redwood with compensation-related data and consulting services, including data used for benchmarking compensation for employees below the NEO level, as well as limited insurance brokerage services and advisory services related to Redwood's captive insurance company subsidiary.

The Committee considers the use of a market-based compensation analysis important for validating competitive positioning in attracting and retaining executive talent. Each year, as part of the competitive pay analysis, the Committee, after consultation with FW Cook, designates a compensation benchmarking peer group. The compensation benchmarking peer group is intended to include companies with which Redwood competes, including for business or for executive talent, and is determined using a pre-defined process and objective industry and size criteria, as detailed below.

The Committee recognizes that the compensation benchmarking peer group does not include generally higher-paying externally-managed REITs, mortgage-focused divisions of large publicly-traded financial institutions, private equity firms, and hedge funds with which Redwood competes for executive talent. These organizations are not included because they have different business economics and pay models from Redwood, and because comprehensive compensation data for their executives are generally not publicly available.

The description below details the process and objective criteria used to select the 2017 compensation benchmarking peer group of companies used for compensation benchmarking.

Step 1:	Begin with a broad database consisting of publicly traded, U.S.-based companies that are internally managed (externally-managed companies generally have not disclosed comprehensive compensation data and are therefore excluded)

Step 2: Identify REITs and other companies most similar to Redwood (i.e., direct peers), including:

- Mortgage REITs, which are considered "direct peers" along with real estate development and financial services companies with a focus on mortgage servicing or mortgage-related assets
- Exclude all companies with market capitalization values outside of a 0.25 – 4.0x range compared to Redwood

Step 3: Identify other relevant business and labor-market competitors:

- Financial services companies with both market capitalization value and net income in a 0.5 – 2.0x range compared to Redwood
- Remove bank holding companies and companies in the cash advance/pawn broker businesses, due to fundamental differences in the underlying business model

Step 4: Select 15 to 25 companies for inclusion in the compensation benchmarking peer group:

- Include all companies identified in Step 2
- Include companies identified in Step 3 if they: (1) are included in the prior year’s compensation benchmarking peer group or (2) have been identified as a peer of Redwood’s most-direct peers (e.g., a peer of another mortgage REIT identified in Step 2)
- Add additional companies identified in Step 3 to: (1) ensure that the sample size is sufficient (i.e., 15 to 25 total companies) and (2) position Redwood closer to the median on key size measures, focusing primarily on market capitalization and net income and secondarily on revenue and total assets

2017 Compensation Benchmarking Peer Group. Based on the above-described methodology, the compensation benchmarking peer group of companies designated by the Committee in 2017 for use in the competitive pay analysis prepared by FW Cook consisted of the following 19 companies:

- AllianceBernstein Holding L.P.
- Chimera Investment Corporation
- CYS Investments, Inc.
- Essent Group Ltd.
- Hannon Armstrong Sustainable Infrastructure Capital, Inc.
- Ladder Capital Corp.
- MFA Financial, Inc.
- New York Mortgage Trust, Inc.
- PennyMac Financial Services, Inc.
- Stifel Financial Corp.
- Capstead Mortgage Corporation
- Cohen & Steers, Inc.
- Dynex Capital, Inc.
- Federated Investors, Inc.
- iStar Financial Inc.
- Main Street Capital Corporation
- Nationstar Mortgage Holdings Inc.
- NMI Holdings, Inc.
- RAIT Financial Trust

Changes to Compensation Benchmarking Peer Group. The Committee reviews the compensation benchmarking peer group and the selection process and criteria on an annual basis to confirm that they continue to reflect relevant business and labor market competitors for whom comprehensive data is available. Accordingly, the companies included as peers may change from year to year as a result of updates to the selection process and criteria and changes in the real estate and capital markets. Two companies included in Redwood's 2016 compensation benchmarking peer group were removed for 2017:

- One company (Janus Capital) was acquired.
- Another company (Walter Investment) no longer met the defined size criteria for inclusion.

2017 Base Salaries

Base salary is a traditional element of executive compensation. The Committee establishes base salaries for NEOs after reviewing the market data for similar executives, as well as the experience, skills, and responsibilities of each NEO. Base salaries are reviewed annually, and the Committee may adjust salaries in connection with this review or at other times throughout the year.

The Committee made determinations, after consultation with FW Cook, with respect to 2017 NEO base salaries as follows:

- Mr. Hughes. In December 2016, the Committee determined that the 2017 base salary for Mr. Hughes, Redwood’s CEO, would remain at its year-end 2016 level of $750,000 per annum.
- Mr. Abate. In December 2016, the Committee determined that the 2017 base salary for Mr. Abate, Redwood’s President, would remain at its year end 2016 level of $550,000 per annum.

- Mr. Robinson. In September 2017, Mr. Robinson joined Redwood as Executive Vice President, at a base salary of $500,000 per annum.
  Base salary actually paid to Mr. Robinson during 2017 was $128,846.
- Mr. Stone. In December 2016, the Committee determined that the 2017 base salary for Mr. Stone, Redwood’s General Counsel, would be increased from $375,000 to $400,000 per annum.
- Mr. Cochrane. Effective September 1, 2017, Mr. Cochrane was promoted to Redwood's Chief Financial Officer. Mr. Cochrane's 2017 base salary was increased at that time from $300,000 to $350,000 per annum, to reflect his increased role and responsibilities.
  Base salary actually paid to Mr. Cochrane during 2017 was $314,583.
- Mr. Kanouse. In December 2016, the Committee determined that the 2017 base salary for Mr. Kanouse, Redwood's Managing Director - Head of Residential, would remain at its year-end 2016 level of $400,000 per annum.

2017 Performance-Based Annual Bonus Compensation

Redwood’s annual bonus program is designed to reward NEOs based on Redwood’s financial performance and each NEO’s individual performance. As an example, and as illustrated in the graph below, there has been significant variability in the performance-based annual bonuses paid to Redwood’s CEO over the last five years, reflecting the variations in Redwood’s financial performance over the same period.

CEO’s Performance-Based Annual Bonuses vs. ROE Performance Measures

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* Adjusted ROE is an ROE-based, non-GAAP financial metric further described above and on pg. 47 in the discussion that follows this Executive Summary. Redwood’s executive compensation program uses Adjusted ROE as the performance measure for annual bonus determinations. Adjusted ROE is reconciled to ROE based on GAAP financial results in Annex A to this Proxy Statement.

Components of 2017 Annual Bonuses. In order to align the interests of Redwood’s NEOs with the interests of its stockholders, the Committee determined prior to the end of the first quarter of 2017, after consultation with FW Cook, that 2017 target annual bonuses for NEOs would continue to be weighted as follows:

- 75% on the achievement of a predetermined target level of a company financial performance metric; and
- 25% on the achievement of pre-established individual goals relating to strategic, business, operational, governance and risk management objectives.

This weighting has been used so that most of an NEO's target annual bonus will depend directly on company financial performance, while also providing incentives for achievement of individual strategic, business, operational, governance and risk management goals that the Committee believes are in the interests of Redwood and its stockholders, but in some cases may be difficult to quantitatively link to company financial performance.

Financial Performance Metric for 2017 Annual Bonuses. During the first quarter of 2017, after a review of Redwood's compensation program, and following consultation with FW Cook, the Committee determined to continue to use in 2017 the same financial metric to underlie the company performance bonus that was used in 2016 and prior years. As noted above, the company performance bonus is based on Adjusted ROE. Adjusted ROE is a non-GAAP financial performance measure that reflects GAAP earnings on average equity capital adjusted to exclude certain unrealized mark-to-market gains and losses from equity. Because Adjusted ROE is a ratio of earnings to equity capital, the adjustment to exclude these unrealized mark-to-market gains and losses is made to enable the calculation of an "apples-to-apples" non-GAAP ratio of earnings to equity capital for purposes of evaluating financial performance.

- For example, under GAAP, an unrealized loss recognized in equity capital but not recognized in earnings has the impact, all other factors being equal, of increasing the ratio of earnings to equity capital. Adjusted ROE addresses this by increasing equity capital by the amount of the unrealized loss, allowing for a non-GAAP calculation of a ratio using internally consistent earnings and equity capital amounts.
- Conversely, under GAAP, an unrealized gain recognized in equity capital but not recognized in earnings has the impact, all other factors being equal, of decreasing the ratio of earnings to equity capital. Adjusted ROE addresses this by decreasing equity capital by the amount of the unrealized gain, allowing for a non-GAAP calculation of a ratio using internally consistent earnings and equity capital amounts.

The Committee believes that Adjusted ROE provides an appropriate measure of financial performance for a company like Redwood, whose primary source of earnings is income from investments in residential mortgage loans and other real estate-related assets, as well as from residential mortgage banking activities. It is also a performance metric that, over the long-term, should be correlated with long-term stockholder returns. Adjusted ROE is reconciled to ROE determined in accordance with GAAP for the years 2013 through 2017 in Annex A to this Proxy Statement.

Financial Performance Target for 2017 Annual Bonuses. For 2017, the Committee (in consultation with, and taking into account input from, management, FW Cook, and the Board of Directors) reviewed the process used in determining the company performance component of annual bonuses for executive officers. The Committee decided to continue its practice of using an Adjusted ROE financial performance target determined at the beginning of each year based on a risk-free interest rate plus an incremental premium determined by the Committee to be appropriate (each of which can vary from year to year). This decision continued to be premised, as it was in 2016, in large part on the nature of Redwood's business model, which has had a significant focus on investing in residential mortgage loans and other real-estate related loans and debt instruments. Returns that Redwood can earn on new investments in residential mortgage loans and other real-estate related loans and debt investments are, to a certain extent, correlated with the market-driven interest rates for these and other types of loans and debt instruments (which rates depend on the perceived risk of these investments). These market-driven interest rates are typically analyzed as the risk-free interest rate for investment in U.S. Treasury obligations (or other debt backed by the full faith and credit of the U.S.) with a comparable duration plus an incremental risk premium above the risk-free rate.

The decision to use a target based on a risk-free interest rate plus an incremental premium was also premised on the fact that management believes that investors focused on investing in companies like Redwood also compare return on equity to risk-free rates of return in evaluating Redwood's financial performance and that the Adjusted ROE financial performance target should take into account stockholders' return and dividend yield expectations. As a result, the Committee also reviewed recent and historical dividend yields on Redwood's common stock and determined a range of incremental premiums above the risk-free rate that would be consistent with those yields.

In addition to its review of market returns Redwood could earn on new investments and the level of Adjusted ROE financial performance necessary to meet stockholders' return and dividend yield expectations, the Committee reviewed the level of Adjusted ROE performance necessary to support the payment of regular dividends in accordance with the

Board of Directors' annual dividend policy. As a result of this review, the Committee determined that the Adjusted ROE financial performance target should be above the level commensurate with earnings equal to the Board's annual dividend policy for 2017.

The Committee believes that setting an Adjusted ROE performance target at an appropriate level above the risk-free interest rate (by adding the incremental premium to the risk-free interest rate) establishes an incentive for executives to achieve attractive financial performance for Redwood (and aligns the interests of executives and stockholders in seeking this level of financial performance), without exposing Redwood to inappropriate risk. If risk-free interest rates were to rise significantly in future years, all other factors being equal, the company financial performance target used for determining the company performance component of annual bonuses for executive officers would likely be increased in recognition of the fact that accomplishing the same financial performance in a higher interest rate environment might only require lower risk investments. Conversely, if risk-free interest rates were to decline in future years, all other factors being equal, the company financial performance target used for determining the company performance component of annual bonuses for executive officers would likely be lowered in recognition of the fact that reaching for the same financial performance in a lower interest environment would necessitate taking greater investment or other risks. Overall, the Committee believes that the use of a performance target that varies from year to year provides the ability to adjust compensation incentives in a manner consistent with Redwood's business model and the market environment in which Redwood operates.

Following this process for determining company performance bonuses, and after consultation with FW Cook, the Committee determined that: (i) with respect to the 2017 financial performance target, the risk-free interest rate for this purpose should be 1.45%, which represented the average interest rate during the prior two calendar years on five-year U.S. Treasury obligations (after rounding), with the five-year risk-free interest rate being used because it has generally corresponded to the weighted average duration of investments historically made by Redwood; (ii) with respect to 2017 company performance bonuses for NEOs, target bonus amounts would be earned if Adjusted ROE equaled 9%, which represented a level of financial performance above the level commensurate with earnings equal to the Board of Directors' annual dividend policy for 2017; and (iii) with respect to 2017 company performance bonuses for NEOs, no bonuses would be earned if Adjusted ROE was 5% or less; bonuses below or at the target bonus amounts would be earned if Adjusted ROE was between 5% and 9%; and bonuses in excess of the target bonus amounts would not be earned unless Adjusted ROE was more than 9%.

The use of an initial performance threshold of greater than 5% Adjusted ROE for the payment of any portion of target company performance bonuses represents a determination by the Committee that financial performance below that threshold is not above the risk-free interest rate by a significant enough margin to merit payment of any portion of this component of annual bonuses. The payment of target company performance bonuses or a portion of target company performance bonuses for Adjusted ROE in the range between 5% and 9% reflects the determination by the Committee that financial performance within this range merits payment of below-target or target company performance bonuses as Adjusted ROE increases above the initial performance threshold to 9%.

The Committee also determined that for Adjusted ROE in excess of 9%, subject to the maximum total bonus for each NEO noted below, the company performance bonus would be increased by a pro-rated amount above the target company performance bonus (based on a straight-line, mathematical interpolation) such that the total annual bonus for an NEO would be four times the total target bonus for that NEO when Adjusted ROE is 20%.

Additionally, the Committee determined prior to the end of the first quarter of 2017 that individual performance in 2017 for each NEO would be reviewed in the context of, among other things, the specific pre-determined goals and factors discussed below under "Performance-Based Annual Bonuses Earned for 2017 — Individual Performance Component of 2017 Annual Bonuses." As in past years, during 2017 these individual factors and goals were subject to adjustment when circumstances warranted, at the discretion of the Committee. For 2017, the individual performance component of annual bonuses could be earned up to 200% of the target amount depending on the Committee's assessment of individual performance, subject to adjustment at the discretion of the Committee.

The Committee also established that the maximum annual bonus (i.e., the maximum sum of the two components of the annual bonus) in 2017 would continue to be $5 million for each of Mr. Hughes and Mr. Abate, and $3 million for each of the other NEOs. These maximum amounts were determined after consultation with FW Cook, and were considered appropriate based on each NEO's position, responsibilities, required level of performance to reach the maximum, and competitive considerations.

NEOs' 2017 Target Annual Bonus Amounts. In addition, the Committee made determinations, after consultation with FW Cook, with respect to each NEO's target annual bonus (expressed as a percentage of 2017 base salary) as follows:

- Mr. Hughes and Mr. Stone. In December 2016, the Committee determined that the 2017 target bonus percentages for Mr. Hughes and Mr. Stone would remain the same as they were for 2016, at 175% and 110% of base salary, respectively.
- Mr. Abate. In December 2016, the Committee determined that the 2017 target bonus percentage for Mr. Abate would be increased from 140% for 2016 to 150% for 2017.

The increase for Mr. Abate was made after a review of the market-based benchmarks for his position and consideration of competitive factors and his role, experience, and performance at Redwood.

- Mr. Robinson. As noted above, in connection with his hiring, Redwood contractually agreed to an annual bonus amount for Mr. Robinson for 2017, which was negotiated to induce him to join Redwood in September 2017 and forgo a year-end bonus from his former employer. The contractual agreement with Mr. Robinson does not provide a guarantee of any bonus amount for any subsequent year.

In addition, in connection with his hiring, the Committee determined that the initial target bonus percentage for Mr. Robinson would be established at 140% of his base salary. The target bonus percentage for Mr. Robinson was established after a review of market-based benchmarks for his position and consideration of competitive factors and his experience and role at Redwood.

- Mr. Cochrane. Effective September 1, 2017, Mr. Cochrane was promoted to be Redwood's Chief Financial Officer. Mr. Cochrane's 2017 target bonus percentage was designated by the Committee at 110% of actual base salary paid for full-year 2017 to reflect his increased role and responsibilities.

The target bonus percentage for Mr. Cochrane was established after a review of market-based benchmarks for his position and consideration of competitive factors and his role, experience, and performance at Redwood.

- Mr. Kanouse. Upon Mr. Kanouse's designation as an executive officer in May 2017, the Committee determined that his 2017 target bonus percentage would be 125% of his base salary paid for full-year 2017.

The target bonus percentage for Mr. Kanouse was established after a review of market-based benchmarks for his position and consideration of competitive factors and his role, experience, and performance at Redwood.

The table below sets forth the 2017 target annual bonuses that were established for each NEO.

NEO	2017 Base Salary (per annum)	2017 Target Annual Bonus (as % of Base Salary)	Company Performance Component of 2017 Target Annual Bonus ($)	Individual Performance Component of 2017 Target Annual Bonus ($)	Total 2017 Target Annual Bonus ($)
Mr. Hughes, Chief Executive Officer	$750,000	175 %	$ 984,375	$ 328,125	$1,312,500
Mr. Abate, President	$550,000	150 %	$ 618,750	$ 206,250	$825,000
Mr. Robinson, [(1)] Executive Vice President	$500,000	— %	$ —	$ —	N/A
Mr. Stone, Executive Vice President and General Counsel	$400,000	110 %	$ 330,000	$ 110,000	$440,000
Mr. Cochrane, [(2)] Chief Financial Officer	$314,583	110 %	$ 259,531	$ 86,511	$346,042
Mr. Kanouse, Managing Director - Head of Residential	$400,000	125 %	$ 375,000	$ 125,000	$500,000

(1) As noted above, in connection with his hiring, and to induce him to join Redwood in September 2017 and forgo a year-end bonus from his former employer, Redwood contractually agreed that Mr. Robinson would receive a total 2017 annual bonus of $1 million. The contractual agreement with Mr. Robinson does not provide a guarantee of any bonus amount for any subsequent year. As also noted above, at the same time, the Committee determined that the initial target bonus percentage for Mr. Robinson would be established at 140% of his base salary.

(2) As noted above, Mr. Cochrane was promoted to Chief Financial Officer effective September 1, 2017 and his base salary as of December 31, 2017 was $350,000 per annum. Actual base salary earned by Mr. Cochrane in 2017 was $314,583 and Mr. Cochrane’s total 2017 target annual bonus was determined by multiplying his actual base salary earned in 2017 by the target bonus percentage of 110% established by the Committee in connection with his promotion to Chief Financial Officer.

Form of Payment of 2017 Performance-Based Annual Bonuses. At its meeting in January 2017, the Committee decided, after consultation with FW Cook, to continue an existing practice that results in a portion of annual bonuses not being paid fully in cash in certain above-target performance circumstances. In particular, for 2017:

- With respect to Redwood’s CEO, if the CEO’s annual performance-based bonus for 2017 exceeded target, the excess portion above target would be paid 50% in cash and 50% in the form of vested DSUs with a mandatory three-year holding period.

- With respect to the other NEOs, if the performance-based annual bonuses earned by an NEO for 2017 exceeded two times the 2017 target annual bonus designated for that NEO, the excess portion would be paid 50% in cash and 50% in the form of vested DSUs with a mandatory three-year holding period.

Under this formula, as an NEO’s annual bonus increases above a specified multiple of target, an increasingly smaller percentage of that bonus is paid in cash. Payment of annual bonus amounts in this manner invests a greater portion of the NEOs’ annual bonuses in Redwood's future financial performance, which the Committee believes supports the alignment of executive and stockholder interests.

In 2017, all the NEOs other than Mr. Robinson had a portion of their bonuses paid in DSUs, pursuant to the above-referenced formula. With respect to Mr. Robinson, in accordance with the contractual agreement relating to his

2017 annual bonus, his full 2017 annual bonus was paid in cash.

Performance-Based Annual Bonuses Earned for 2017

Annual performance-based bonuses earned by NEOs for 2017 consisted of both a company performance component and an individual performance component. A further discussion of each of these components is set forth below.

Company Performance Component of 2017 Annual Bonuses. Redwood's Adjusted ROE for 2017 was 11.9%. Accordingly, the company performance component of annual bonuses earned for 2017 was above the target amount, as set forth in the table below.

NEO[1]	Company Performance Component of 2017 Target Annual Bonus ($)	% of Company Performance Component Earned	2017 Company Performance Component of Annual Bonus Earned ($)
Mr. Hughes, Chief Executive Officer	$ 984,375	234%	$ 2,303,481 [2]
Mr. Abate, President	$ 618,750	234%	$ 1,447,903
Mr. Stone, Executive Vice President and General Counsel	$ 330,000	234%	$ 772,215
Mr. Cochrane, Chief Financial Officer	$ 259,531	234%	$ 607,315
Mr. Kanouse, Managing Director - Head of Residential	$ 375,000	234%	$ 877,517

(1) As noted above, in connection with his hiring in September 2017, Redwood contractually agreed that Mr. Robinson would receive a total 2017 annual bonus of $1 million.
(2) As described above, 28% of Mr. Hughes' annual bonus was delivered in the form of deferred stock units in lieu of cash.

Individual Performance Component of 2017 Annual Bonuses. For 2017, the individual performance components of annual bonuses were determined after a review of each NEO's (other than Mr. Robinson's) individual achievements and contributions to the collective achievements of the senior management team. The Committee reviewed the individual performance of each of these NEOs, which included a review of each NEO's self-assessment and the assessment by Mr. Hughes and Mr. Abate of the other NEOs. Among other factors, the Committee considered each NEO's contribution to the achievement of the company-wide goals noted below in assessing each NEO's individual performance for 2017. With respect to each of these goals, the Committee took into account various factors in evaluating the level of attainment of the goal and each NEO's contribution to achieving the goal, including the principal factors described below and the related level of attainment (presented in italics after each listed goal). In considering these goals and factors, the Committee did not assign specific weightings to each factor and goal, but instead considered them together as part of a comprehensive qualitative review.

Goal: Generate a strong contribution margin from the residential mortgage banking segment by: increasing loan acquisition volume (with a focus on the "Choice" expanded-prime loan acquisition program); diversifying whole-loan distribution channels and profitably executing residential mortgage-backed securitization transactions; lowering operating expense margins and increasing efficiencies; and maintaining quality of reputation and brand - the Committee evaluated achievement of this goal in the context of various factors, including that during 2017 Redwood: increased overall jumbo residential mortgage loan acquisitions by 20% relative to 2016 and grew the Choice loan acquisition program to account for almost 30% of loan acquisition volume; successfully executed nine securitization transactions, including two expanded-prime Choice securitization transactions (demonstrating market acceptance of this 2016 initiative); continued to execute whole-loan sales and further developed loan distribution options; and generated an above-target contribution margin from its residential mortgage banking segment.

Goal: Maintain strong performance of Redwood’s investment portfolio by: prudently investing excess capital into new investments while managing financial risks, continuing to optimize Redwood’s investment portfolio by selling lower-yielding investments and redeploying capital into higher-yielding alternatives; and maintaining operating expense discipline - the Committee evaluated achievement of this goal in the context of various factors, including that during 2017 Redwood: successfully deployed $511 million of capital into new investments, including $37 million of debt repurchases and $9 million of share repurchases; sold $281 million of mostly lower yielding securities and the remainder of its conforming mortgage servicing rights portfolio, capturing gains and freeing up capital for redeployment into higher-yielding investments; and continued to make investments in residential mortgage-backed securities (RMBS) and other non-jumbo residential mortgage loan credit risk investments sourced internally, from private sector counterparties, and from government sponsored enterprises (GSEs), including Fannie Mae and Freddie Mac, while maintaining financial risk discipline.

Goal: Continue to improve efficiency of operational functions by managing to corporate operating expense budget based on the anticipated pace of capital deployment and business activity; continue to enhance and institutionalize enterprise-wide risk management controls and reporting, optimizing technology infrastructure and services to increase efficiency, maintain security, and manage risk; and maintain a disciplined and innovative corporate culture among multiple office locations based on effective human resources management and internal talent development - the Committee evaluated achievement of this goal in the context of various factors, including that during 2017 Redwood: effectively managed headcount and expenses and maintained quarterly operating expenses at levels appropriate to the pace and scale of operations; maintained enterprise-wide risk management practices that adjusted and responded to evolving business, operational, and market conditions, including through the alignment of business objectives and incentives and improved integration of the investment portfolio and mortgage banking teams; and ensured maintenance of strong corporate culture across multiple office locations through the use of corporate intranet and information technology resources, employee training, employee surveys, and forums for employee feedback.

Goal: Continue to have a voice in the evolving housing finance system and residential mortgage market; sponsor and participate in innovative structures for transferring and investing in residential mortgage-related credit risk; and maintain Redwood's reputation as an important and reliable counterparty and stakeholder in the mortgage finance markets - the Committee evaluated achievement of this goal in the context of various factors, including that during 2017 Redwood: maintained a strong reputation in the residential mortgage banking business among loan originators, mortgage and securitization investors, GSEs, policymakers, and other market participants; regularly engaged with Federal lawmakers and regulators regarding the residential mortgage finance system; and continued, through its investment and securitization activities, to position itself as a leader in expanding the role of private capital in housing finance.

Based on its review, the Committee determined the individual performance component of annual bonuses for each NEO for 2017, as set forth in the table below. In particular:

- Mr. Hughes. With respect to Mr. Hughes, the Committee’s determination to award 200% of the target amount for this component of his annual bonus was in recognition of, among other things, the strong overall operating performance of Redwood in 2017, the key role he played in successfully interfacing with Federal policymakers and regulators during 2017 regarding matters of importance to Redwood, and his strong contribution to succession planning at Redwood in 2017, a key goal identified for him by the Committee.
- Mr. Kanouse. With respect to Mr. Kanouse, the Committee’s determination to award 150% of the target amount for this component of his annual bonus was in recognition of, among other things, the strong contribution in 2017 to Redwood’s overall operating results from the residential mortgage banking segment of Redwood’s business managed by Mr. Kanouse, the successful growth of Redwood’s “Choice” loan acquisition program during 2017, and the volume of

successful executions of securitization transactions through Redwood’s Sequoia securitization program during 2017.

NEO [1]	Individual Performance Component of 2017 Target Annual Bonus ($)	% of Individual Performance Component Earned	2017 Individual Performance Component of Annual Bonus Earned ($)	
Mr. Hughes, Chief Executive Officer	$ 328,125	200%	$ 656,250	[2]
Mr. Abate, President	$ 206,250	100%	$ 206,250	
Mr. Stone, Executive Vice President and General Counsel	$ 110,000	100%	$ 110,000	
Mr. Cochrane, Chief Financial Officer	$ 86,511	100%	$ 86,511	
Mr. Kanouse, Managing Director - Head of Residential	$ 125,000	150%	$ 187,500	

(1) See prior table, under the heading "Company Performance Component of 2017 Annual Bonuses" for information about Mr. Robinson's total 2017 bonus amount, which is not reflected in this table.
(2) As described above, 28% of Mr. Hughes' annual bonus was delivered in the form of deferred stock units in lieu of cash.

2017 Long-Term Equity-Based Incentive Awards

Equity ownership in Redwood provides an important linkage between the interests of stockholders and executives by rewarding long-term stockholder value creation. To meet this objective, officers, directors, key employees, and other persons expected to contribute to Redwood's management, growth, and profitability are eligible to receive long-term equity-based awards. The Committee oversees the issuance of these awards to NEOs. The Committee, in consultation with FW Cook, determines the types and sizes of awards granted based upon a number of factors, including the NEO’s position, responsibilities, total compensation level, individual and company financial performance, competitive factors, and market-based benchmarks.

The Committee’s normal practice is to make long-term equity-based awards to NEOs at the regularly scheduled (pre-established) fourth quarter meeting of the Committee, which for 2017 occurred on December 13, 2017. On December 13, 2017, the Committee made 2017 year-end long-term equity-based awards to NEOs in two forms: DSUs and PSUs, the key terms of which are summarized below.

- The DSUs granted on December 13, 2017 will vest over four years, with 25% vesting on January 31, 2019, and an additional 6.25% vesting on the last day of each subsequent quarter (beginning with the quarter ending March 31, 2019), with full vesting occurring on December 12, 2021. Shares of Redwood common stock underlying these DSUs will be distributed to the recipients not earlier than December 12, 2021 and not later than December 31, 2021, unless electively deferred under the terms of Redwood’s Executive Deferred Compensation Plan. The number of DSUs granted to each officer was determined as a targeted dollar amount, divided by the closing price of Redwood’s common stock on the grant date.
- The PSUs granted on December 13, 2017 are performance-based equity awards which provide for vesting of 0% to 200% of the target number of PSUs granted, with the target number of PSUs adjusted to reflect the

value of any dividends declared on Redwood common stock during the vesting period (as further described below). Vesting of these PSUs will generally occur at the end of three years (on December 12, 2020) based on a TSR performance during the three-year measurement period and continued employment through December 12, 2020.

The PSUs granted on December 13, 2017 are generally consistent with the terms of the PSUs awarded to NEOs prior to 2016 - i.e., the structure adopted in 2016 for the PSUs, which included four staggered two-year TSR measurement periods over a three-year performance vesting period, was not used again in 2017.

- Performance-based vesting of the 2017 PSUs is based on total stockholder return (TSR) over the three-year performance measurement period, as follows:

3-Year TSR	Percentage of Performance-Vesting*
≤0%	0%
0 – 25.00%	0 – 100%
25 – 125.00%	100 – 200%
≥125%	200%

* If TSR is between 0% and 25%, or 25% and 125%, then between 0% and 100%, or between 100% and 200%, respectively, of the PSUs will vest determined based on a straight-line, mathematical interpolation between the applicable vesting percentages

Under the terms of the PSUs, (i) “three-year cumulative TSR” is defined as the percentage by which the Per Share Price (defined below) as of the end of the three year performance period, which is December 12, 2020, has increased or decreased relative to the $15.95 Per Share Price as of the December 13, 2017 grant date, adjusted to include the impact that would be realized if all cash dividends paid on a share of Redwood common stock during such three-year period were reinvested in Redwood common stock on the applicable dividend payment dates, and (ii) “Per Share Price” is defined as the average of the closing prices of a share of Redwood common stock on the NYSE during the prior 60 consecutive trading days, adjusted to reflect the reinvestment of any cash dividends paid to all or substantially all holders of the outstanding shares of Common Stock during the calculation period. The TSR performance thresholds for determining whether 0%, 100%, or 200% (or another percentage in between those levels) of the underlying shares of Redwood common stock will vest were determined by the Committee based on its belief that a 25% cumulative TSR over three years represents an attractive return for investors, with the minimum and maximum vesting thresholds also reflecting an appropriate level of vesting for the related level of cumulative TSR over the three-year performance period.

Vested shares of Redwood common stock underlying these PSUs will be distributed to the recipients not later than December 31, 2020, unless electively deferred under the terms of Redwood's Executive Deferred Compensation Plan.

Prior to vesting, no dividend equivalent rights are paid in respect of PSUs.

- At the time of vesting, the value of any dividends paid during the vesting period will be reflected in the PSUs by increasing the target number of PSUs granted by an amount corresponding to the incremental number of shares of Redwood common stock that a stockholder would have acquired during the three-year TSR measurement period had all dividends during that period been reinvested in Redwood common stock on the applicable dividend payment dates.
- After the vesting of these PSUs in December 2020 (if any vest) and until the delivery of the underlying shares of Redwood common stock, the underlying vested award shares will have attached dividend equivalent rights, resulting in the payment of dividend equivalents each time Redwood pays a common stock dividend.

The terms of the DSUs and PSUs granted on December 13, 2017 are established under a deferred stock unit award agreement or performance stock unit award agreement, as applicable, and Redwood’s 2014 Incentive Plan. These terms include provisions relating to dividend equivalent rights, forfeiture, retirement, mandatory net settlement for income tax withholding purposes, and change-in-control.

NEOs' 2017 Long-Term Equity Awards. The Committee made determinations, after consultation with FW Cook, with respect to each NEO's 2017 long-term equity-based incentive awards as follows:

- Mr. Hughes. In December 2017, Mr. Hughes announced that he would retire from the CEO position in May 2018. Because of his status as retiring from the CEO position, the Compensation Committee did not grant Mr. Hughes a 2017 year-end long-term equity award, as those awards are generally granted to incentivize performance over a multi-year future period.
- Mr. Abate. In December 2017, the Committee determined that the aggregate grant date fair value of long-term equity-based incentive awards granted to Mr. Abate would be increased from $1.35 million in 2016 to $1.5 million in 2017 - awarded $750,000 in DSUs and $750,000 in PSUs.

The increase for Mr. Abate was made after a review of the market-based benchmarks for his position and consideration of competitive factors and his role, experience, and performance at Redwood.

- Mr. Robinson. As further discussed above, in December 2017, the Committee granted Mr. Robinson long-term equity-based incentive awards, with an aggregate grant date fair value of $1.5 million - awarded $750,000 in DSUs and $750,000 in PSUs.

In September 2017, in connection with his hiring, Mr. Robinson was granted a vested DSU hire date award with a grant date fair value of $1 million that is subject to a mandatory one-year holding period. As described above, this grant was negotiated as part of inducing him to join Redwood in September 2017.

- Mr. Stone. In December 2017, the Committee determined that the aggregate grant date fair value of long-term equity-based incentive awards granted to Mr. Stone would be increased from $800,000 in 2016 to $850,000 in 2017 - awarded $425,000 in DSUs and $425,000 in PSUs.

The increase for Mr. Stone was made after a review of the market-based benchmarks for his position and consideration of competitive factors and his role, experience, and performance at Redwood.

- Mr. Cochrane. In December 2017, the Committee determined that the aggregate grant date fair value of long-term equity-based incentive awards granted to Mr. Cochrane would be $650,000 in 2017 - awarded $325,000 in DSUs and $325,000 in PSUs.

This award for Mr. Cochrane was made after a review of the market-based benchmarks for his position and consideration of competitive factors and his role, experience, and performance at Redwood.

As noted previously, effective September 1, 2017, Mr. Cochrane was promoted to be Redwood's Chief Financial Officer. At that time, Mr. Cochrane was granted a DSU promotion award with a grant date fair value of $199,990, to reflect his increased role and responsibilities.

- Mr. Kanouse. In December 2017, the Committee determined that the aggregate grant date fair value of long-term equity-based incentive awards granted to Mr. Kanouse would be $850,000 - awarded $425,000 in DSUs and $425,000 in PSUs.

This award for Mr. Kanouse was made after a review of the market-based benchmarks for his position and consideration of competitive factors and his role, experience, and performance at Redwood.

The number and grant date fair value of DSUs and PSUs comprising the 2017 year-end long-term equity-based awards granted to each NEO in December 2017 are set forth in the table below:

NEO	Deferred Stock Units (“DSUs”)[1]		Performance Stock Units (“PSUs”)[1]	
	#	Aggregate Grant Date Fair Value	#	Aggregate Grant Date Fair Value
Mr. Abate, President	49,374	$749,991	67,144	$749,998
Mr. Robinson, Executive Vice President [2]	49,374	$749,991	67,144	$749,998
Mr. Stone, Executive Vice President and General Counsel	27,978	$424,986	38,049	$425,007
Mr. Cochrane, Chief Financial Officer [2]	21,395	$324,990	29,096	$325,002
Mr. Kanouse, Managing Director - Head of Residential	27,978	$424,986	38,049	$425,007

(1) Grant date fair value determined at the time the grant was made in accordance with FASB Accounting Standards Codification Topic 718. The value of dividend equivalent rights associated with DSUs and the value of any increase in the target number of PSUs to reflect dividends paid during the performance period were taken into account in establishing the grant date fair value of these DSUs and PSUs under FASB Accounting Standards Codification Topic 718 at the time the awards were granted. Therefore, dividend equivalent right payments and any increase in the target number of PSUs to reflect dividends paid during the performance period are not considered part of the compensation or other amounts reported in the summary table of NEO compensation under “Executive Compensation Tables — Summary Compensation,” or reported below under “Executive Compensation Tables — Grants of Plan-Based Awards.”

(2) As described above, with respect to Mr. Robinson and Mr. Cochrane, in addition to the long-term equity-based awards granted in December 2017 (set forth above), at the time Mr. Robinson was hired as Executive Vice President and the time of Mr. Cochrane's promotion to Chief Financial Officer, the Committee determined, after consultation with FW Cook, to grant DSU awards to Mr. Robinson and Mr. Cochrane, as set forth below. Mr. Robinson's grant was vested, subject to a one-year holding period. Mr. Cochrane's grant was subject to a four-year vesting period.

2017 Hiring/Promotion Awards	DSUs [*]	
	#	Aggregate Grant Date Fair Value
Mr. Robinson, Executive Vice President	61,237	$1,000,000
Mr. Cochrane, Chief Financial Officer	11,954	$199,990

(*) Grant date fair value determined at the time the grant was made in accordance with FASB Accounting Standards Codification Topic 718.

Vesting and Mandatory Holding Periods for 2017 Long-Term Equity-Based Incentive Awards

DSUs Granted in 2017. The DSUs granted to NEOs in December 2017 have the four-year vesting schedule described above on page 53 within this CD&A under the heading "2017 Long-Term Equity-Based Incentive Awards." Notwithstanding this vesting schedule, while continuously employed, the NEOs are subject to a mandatory four-year holding period with respect to these DSU awards, with the result that these DSU awards are not scheduled to be distributed to recipients in shares of Redwood common stock until four years following the respective grant dates (i.e., in 2021). As noted above, the vested DSUs granted to Mr. Robinson upon his hiring as Redwood's Executive Vice President are subject to a mandatory one-year holding period.

PSUs Granted in December 2017. The PSUs granted to NEOs in December 2017 have the three-year vesting schedule described above on pages 53 – 57 within this CD&A under the heading "2017 Long-Term Equity-Based Incentive Awards." For NEOs receiving these awards if any of these PSUs vest, they are not scheduled to be distributed to recipients in shares of Redwood common stock until December 18, 2020.

Section III - Other Compensation, Plans and Benefits

- Ø Deferred Compensation
- Ø Employee Stock Purchase Plan
- Ø 401(k) Plan and Other Matching Contributions
- Ø Other Compensation and Benefits
- Ø Severance and Change of Control Arrangements

Deferred Compensation
Under Redwood's Executive Deferred Compensation Plan, NEOs (and other eligible officers of Redwood) may elect to defer up to 100% of their cash compensation as well as dividend equivalent right payments on DSUs and vested PSUs and under certain circumstances, can also elect to re-defer scheduled distributions of cash or stock from the plan. Additionally, delivery of shares of Redwood common stock underlying DSUs and PSUs granted under Redwood's 2014 Incentive Plan is deferred under the Executive Deferred Compensation Plan. Deferred amounts may be deferred until a date chosen by the participant in the Plan at the time of the initial deferral (subject to certain restrictions) or until retirement, at which time the balance in the participant's account will be delivered in cash or common stock (as applicable), or will be paid out over a period of up to 15 years, depending upon deferral elections.

Cash amounts deferred under the Executive Deferred Compensation Plan are credited with interest at 120% of the long-term applicable federal rate as published by the IRS, which does not constitute above-market interest under IRS regulations. As an example, for December 2017, 120% of the long-term applicable federal rate was 3.12% per annum. Cash balances deferred under the Executive Deferred Compensation Plan remain available to Redwood for general corporate purposes pending the obligation to deliver the deferred amounts on the deferral date. The ability of participants to elect to receive interest on deferred amounts is one incentive to participate in this Plan, thereby making funds available for use to Redwood at a cost that is generally below its normal cost of capital.

Redwood also matches 50% of cash compensation deferred by participants in the Executive Deferred Compensation Plan, provided that total matching payments and contributions made by Redwood to participants in the Executive Deferred Compensation Plan and Redwood's 401(k) plan (discussed below) are limited to 6% of base salary. Participants are fully vested in all prior and all new matching payments after three years of employment. Redwood believes the Executive Deferred Compensation Plan provides a vehicle for executive officers and other participants to plan for retirement and tax planning flexibility.

Employee Stock Purchase Plan

Redwood offers all eligible employees (including NEOs) the opportunity to participate in a tax-qualified Employee Stock Purchase Plan (ESPP). Through payroll deductions, employees can purchase shares of Redwood's common stock at a discount from fair market value on a quarterly basis. The purchase price per share is the lower of (a) 85% of the fair market value per share on the first day of each 12-month offering period (January 1st) or (b) 85% of the fair market value per share on the purchase date (the end of each calendar quarter, March 31st, June 30th, September 30th, and December 31st). An employee is eligible to participate in the ESPP at the beginning of the quarter following 90 consecutive days of employment. Employees are allowed to contribute up to 15% of their cash compensation, subject to a limit of $25,000 per offering period, which is equivalent to a calendar year.

401(k) Plan and Other Matching Contributions
Redwood offers a tax-qualified 401(k) plan to all employees (including NEOs) for retirement savings. Under this plan, employees are allowed to defer and invest up to 100% of their cash earnings, subject to the maximum 401(k) contribution amount (which, in 2017, was $18,000 for those under 50 years of age and $24,000 for those 50 years of age or older). Contributions can be invested in a diversified selection of mutual funds.

In order to encourage participation and to provide a retirement planning benefit to employees, Redwood also provides a matching contribution of 50% of employees' 401(k) plan contributions, provided that matching contributions to the 401(k) plan are limited to the lesser of 4% of an employee's cash compensation or, in 2017, $9,000. Employees are fully vested in all prior and all new matching contributions after three years of employment.

As noted above, total matching payments made to participants in the Executive Deferred Compensation Plan (including deferred compensation matching plus matches in the 401(k) plan) are limited to 6% of base salary.

Other Compensation and Benefits
Redwood currently provides all employees (including NEOs) with certain other health and welfare benefits consisting of: medical, dental, vision, disability, and life insurance, a disability income continuation program (which can supplement disability insurance payments), an employee assistance program (which is a standard package of assistance benefits such as counseling and legal and financial consultation and referral services), a fitness-related activity reimbursement program, and a flexible spending account program. The provision of these types of benefits is important in attracting and retaining employees. These plans are available to all eligible employees on a substantially similar basis. During 2017, Redwood paid approximately two-thirds of all employees' monthly premium for medical and dental coverage, and 100% of all employees' premiums for basic long-term disability and life insurance provided through Redwood plans.

As described above, in connection with hiring Mr. Robinson, Redwood contractually agreed to an annual bonus amount and year-end equity award for him for 2017 (described above), as well as a hire date cash payment of $1 million and a hire date grant of vested DSUs (described above) that are subject to a mandatory one-year holding period. In addition, in connection with his hiring, the contractual agreement provided Mr. Robinson with a separate relocation allowance of $250,000. These contractual agreements with Mr. Robinson were negotiated to induce him to join Redwood in September 2017 and forgo compensation from his former employer that was not received, or was forfeited, when he accepted employment at Redwood. No pay-related commitments were made to Mr. Robinson beyond 2017, with the exception of his base salary and target bonus opportunity, which are set forth in his employment agreement.

Severance and Change of Control Arrangements
Certain of Redwood's NEOs have entered into employment agreements with Redwood, which provide for severance payments and vesting of equity-related awards in the event Redwood terminates the executive's employment without "cause" or the executive terminates his employment for "good reason." These employment agreements also provide for payments and vesting of equity-related awards in the event of the executive's death or disability.

In the event of a "change of control," these agreements provide for vesting of equity-related awards only after a "double trigger" - meaning that no awards would vest unless the executive is terminated without "cause" or terminates his employment with "good reason, following such a "change of control".

In addition, if the surviving or acquiring corporation does not assume outstanding equity-related awards or substitute equivalent awards, then the equity-related awards will vest in full. These agreements were entered into in order to attract and retain these executives in the competitive marketplace for executive talent.

With respect to outstanding PSUs granted in December 2016 and December 2017, in the event of a "change of control," the share price paid in connection with the change of control will be used to calculate total stockholder return when determining the vesting of outstanding PSU awards, and total stockholder return performance goals will be annualized to reflect the number of days completed in the performance-measurement period (from the first day of the period through the closing date of the change of control). For PSUs granted in December 2015, the share price paid in connection with the change of control will be used to calculate total shareholder return, with no adjustment made to reflect the shorter performance period due to the change of control

The various levels of post-termination benefits for each of the NEOs were determined by the Committee to be appropriate based on that executive's duties and responsibilities with Redwood and were the result of arm's-length negotiations with these individuals. The different levels were also determined to be appropriate and reasonable when generally compared to post-termination benefits provided by Redwood's peers to executives with similar titles and similar levels of responsibility. The levels of benefit were also intended to take into account the expected length of time and difficulty the executive may experience in trying to secure new employment. The amount of the severance is balanced against Redwood's need to be responsible to its stockholders and also takes into account the potential impact the severance payments may have on other potential parties to a change in control transaction.

The terms of the executive severance and change of control arrangements that were in place during 2017 are described in more detail below under "Potential Payments upon Termination or Change of Control."

Redwood does not provide for excise tax gross-ups for change-in-control severance payments. Redwood does not have any agreements in place with any executive (or any other employee) that provide for an excise tax gross-up, whether under Section 280G of the Internal Revenue Code of 1986, as amended (the Code) or otherwise. The Committee does not intend to offer excise tax gross-up provisions in any future agreements.

Section IV - Compensation-Related Policies and Tax Considerations

- Ø Mandatory Executive Stock Ownership Requirements
- Ø Prohibition on Use of Margin, Pledging, and Hedging in Respect of Redwood Shares
- Ø Clawback Policy with Respect to Bonus and Incentive Compensation
- Ø Tax Considerations
- Ø Accounting Standards

Mandatory Executive Stock Ownership Requirements

As described on pages 9 – 10 of this Proxy Statement under the heading "Stock Ownership Requirements — Required Stock Ownership by Executive Officers," the Committee maintains mandatory stock ownership requirements with respect to Redwood's executive officers, which the Committee believes foster long-term alignment between executives and stockholders. The Committee conducts a review of the executive stock ownership requirements each year.

Mandatory Executive Stock Ownership Requirements

- The Chief Executive Officer, the President, and the other executive officers are required to own stock with a value at least equal to (i) six times current salary in the case of the Chief Executive Officer, (ii) three times current salary in the case of the President, and (iii) two times current salary in the case of the other executive officers;
- Executive officers are allowed three years to attain the required level of ownership and three years to acquire additional incremental shares if promoted to a position with a higher ownership requirement or when a salary increase results in a higher ownership requirement (if not in compliance at the compliance deadlines, the executive officer is required to retain net after-tax shares delivered as compensation or from the Executive Deferred Compensation Plan until compliance is achieved);
- All shares owned outright are counted, including those held in trust for the executive officer and his or her immediate family, as well as vested DSUs and vested shares held pursuant to other employee plans; and
- For purposes of determining compliance, the purchase or acquisition price is used as the value of shares held.

As of the date of this Proxy Statement, all of Redwood’s executive officers were in compliance with these requirements either due to ownership of the requisite number of shares or because the time period during which the executive officer is permitted to attain the required level of ownership had not expired.

Prohibition on Use of Margin, Pledging, and Hedging in Respect of Redwood Shares

Under Redwood’s Insider Trading Policy, Redwood’s executive officers, employees and directors may not acquire securities issued by Redwood using borrowed funds, may not use margin in respect of the purchase of securities issued by Redwood, may not use margin accounts to hold Redwood securities, may not pledge or otherwise use as collateral securities issued by Redwood, and may not engage in hedging or other transactions with respect to their ownership of securities issued by Redwood (including short sales or transactions in puts, calls, or other derivative securities). The Committee believes these proscribed activities would be inconsistent with the purposes and intent of Redwood's stock ownership requirements.

Clawback Policy with Respect to Bonus and Incentive Compensation

Redwood continues to maintain a “clawback” policy with respect to bonus, equity, and other incentive payments made to any executive officer whose fraud or misconduct resulted in a financial restatement. Pursuant to this policy, in the event of a significant restatement of Redwood’s financial results due to fraud or misconduct, the Board of Directors of Redwood will review all bonus and incentive compensation payments made on the basis of Redwood having met or exceeded specific performance targets during the period affected by the restatement. If any of the payments would have been lower if determined using the restated results, the Board of Directors will, in its discretion and to the extent permitted by law, seek to recoup from the executive officers whose fraud or misconduct materially contributed to the restatement the excess value or benefit of the prior payments made to those executive officers.

Tax Considerations

In general, Section 162(m) places a $1,000,000 annual limit on a publicly-held corporation’s tax deduction for compensation paid to certain executive officers. Prior to the enactment of the TCJA, this limit did not apply to compensation that satisfied the applicable requirements for the "qualified performance-based compensation" exception to the Section 162(m) deductibility limitation. However, under the TCJA, effective for tax years commencing after December 31, 2017, the performance-based compensation exception, and our ability to rely on this exception, were eliminated (other than with respect to certain grandfathered arrangements in effect on November 2, 2017), and the meaning of “covered employee” generally was expanded.

Redwood has elected to be taxed as a REIT under the Code and generally is not subject to federal income taxes, provided it distributes to stockholders at least 90% of taxable income each year. As a result of Redwood’s tax status as a REIT, the loss of a deduction under Section 162(m) of the Code is not expected to significantly affect the amount of federal income tax payable by Redwood.

The Committee considers the anticipated tax treatment to Redwood and to executive officers when reviewing executive compensation levels and Redwood’s compensation programs. The deductibility of some types of compensation payments can depend upon the timing of an executive’s vesting or exercise of previously granted rights or termination of employment. Interpretations of and changes in applicable tax laws and regulations, as well as other factors beyond the Committee’s control, also can affect the deductibility of compensation.

While the tax impact of any compensation arrangement is one factor considered by the Committee, that impact is evaluated in light of the Committee’s overall compensation philosophy and objectives. The Committee will consider the deductibility of executive compensation, while retaining the discretion it deems necessary to compensate officers in a manner commensurate with performance and the competitive environment for executive talent. The Committee may determine to provide significant amounts of compensation to executive officers that are not fully tax deductible to Redwood because, for example, the compensation amounts are consistent with its philosophy and are in Redwood’s best interests, and the lack of full deductibility of the compensation amounts is not significant enough to Redwood (including, among other reasons, as a result of its structure as a REIT) to outweigh the compensation benefits to Redwood.

Accounting Standards

ASC Topic 718 requires Redwood to calculate the grant date “fair value” of stock-based awards using a variety of assumptions. ASC Topic 718 also requires Redwood to recognize an expense for the fair value of equity-based compensation awards. Grants of restricted stock, restricted stock units and performance units under equity incentive award plans will be accounted for under ASC Topic 718. The Compensation Committee regularly considers the accounting implications of significant compensation decisions, especially in connection with decisions that relate to equity incentive award plans and programs. As accounting standards change, the Committee may revise certain programs to align appropriately the accounting expense of equity awards with Redwood's overall executive compensation philosophy and objectives.

Section V - Conclusion

- Ø Certain Compensation Determinations Relating to 2018
- Ø Compensation Committee Report

Certain Compensation Determinations Relating to 2018

In accordance with its normal practice, at its meeting in December 2017, the Committee made certain decisions relating to the NEOs' 2018 base salaries and 2018 targets for performance-based annual bonuses, as further described below. The Committee retains the discretion to make adjustments to these decisions prior to its annual year-end review in December 2018, including in connection with promotions and hiring.

2018 Base Salaries. In accordance with its above-described policy and practice relating to base salaries (see discussion above on page 45 within this CD&A under the heading "2017 Base Salaries"), the Committee reviewed the base salaries of the current executive officers for 2018. Effective as of January 1, 2018, the following NEOs' base salaries were increased from their 2017 year-end level.

	Base Salary 2017	2018
Mr. Abate, President	$550,000	$600,000
Mr. Kanouse, Managing Director - Head of Residential	$400,000	$450,000

2018 Targets for Performance-Based Annual Bonuses. In accordance with its above-described policy and practice relating to target annual bonuses (see discussion above on pages 46 - 49 within this CD&A under the heading "2017 Performance-Based Annual Bonus Compensation"), the Committee established a 2018 target annual bonus for each current executive officer and determined that the 2018 target annual bonuses for current executive officers would continue to be weighted 75% based on company financial performance (as measured by Adjusted ROE) and 25% based on individual performance.

The table below sets forth the 2018 target annual bonuses for each of the current NEOs.

Current NEO	2018 Base Salary	2018 Target Annual Bonus (%)	Change from 2017 Target Annual Bonus Percentage (%)(1)	Company Performance Component of 2018 Target Annual Bonus ($)	Individual Performance Component of 2018 Target Annual Bonus ($)	Total 2018 Target Annual Bonus ($)
Mr. Hughes, Chief Executive Officer (2)	$750,000	175%	—%	$ 984,375	$ 328,125	$1,312,500
Mr. Abate, President	$600,000	175%	17%	$ 787,500	$ 262,500	$1,050,000
Mr. Robinson, Executive Vice President	$500,000	140%	—%	$ 525,000	$ 175,000	$700,000
Mr. Stone,	$400,000	115%	5%	$ 345,000	$ 115,000	$460,000

Executive Vice President and General Counsel						
Mr. Cochrane, Chief Financial Officer	$350,000	110%	—%	$ 288,750	$ 96,250	$385,000
Mr. Kanouse, Managing Director - Head of Residential	$450,000	135%	8%	$ 455,625	$ 151,875	$607,500

(1) Amounts set forth in the table under "Change from 2017 Target Annual Bonus Percentage (%)" reflect the increase, if any, in the 2018 Target Annual Bonus (%) from the 2017 Target Annual Bonus (%) in effect for each NEO at the end of 2017.
(2) As previously disclosed, in connection with his retirement from the CEO position in 2018, Mr. Hughes' 2018 annual bonus will be pro-rated for the period of 2018 during which he serves as CEO.

2018 Maximum Total Annual Bonuses. The Committee also determined that the maximum sum of the two annual bonus components (i.e., the maximum total annual bonus) for 2018 will be $5 million for each of the CEO and President, and $3 million for each of the other current executive officers.

Form of Payment of 2018 Performance-Based Annual Bonuses. For 2018, the Committee determined that if the performance-based annual bonus earned by an executive officer exceeded two times the target annual bonus designated for that executive officer, the excess portion would not be paid fully in cash, but would instead be paid 50% in cash and 50% in the form of vested DSUs with a mandatory three-year holding period.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis and Executive Summary of Compensation Discussion and Analysis included in this Proxy Statement. Based on this review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis and Executive Summary of Compensation Discussion and Analysis be included in this Proxy Statement.

Compensation Committee:
Georganne C. Proctor, Chair
Richard D. Baum
Karen R. Pallotta
Jeffrey T. Pero

Executive Compensation Tables
Summary Compensation

The following table includes information concerning compensation earned by the NEOs for the years ended December 31, 2017, 2016, and 2015, as applicable. Titles shown in the table are those held by the NEOs on December 31, 2017.

Name and Principal Position	Year	Salary	Bonus	Stock Awards [1]	Non-Equity Incentive Plan Compensation[2]	All Other Compensation [3]	Total
Marty Hughes, Chief Executive Officer	2017	$750,000	—	$823,613	$ 2,136,116	$ 45,000	$3,754,729
	2016	$750,000	—	$2,499,999	$ 2,610,477	$ 45,000	$5,905,476
	2015	$750,000	—	$2,249,986	$ 1,303,517	$ 45,000	$4,348,503
Christopher J. Abate, President	2017	$550,000	—	$1,502,057	$ 1,652,076	$ 33,000	$3,737,133
	2016	$512,500	—	$1,649,992	$ 1,528,994	$ 28,500	$3,719,986
	2015	$425,000	—	$1,099,986	$ 546,499	$ 25,500	$2,096,985
Dashiell I. Robinson, Executive Vice President [4]	2017	$128,846	$1,000,000	$2,499,377	$ —	$ 1,255,250	$4,883,473
Andrew P. Stone, Executive Vice President and General Counsel	2017	$400,000	—	$851,093	$ 881,107	$ 24,000	$2,156,200
	2016	$375,000	—	$799,993	$ 820,436	$ 22,500	$2,017,929
	2015	$375,000	—	$699,982	$ 461,239	$ 22,500	$1,558,721
Collin L. Cochrane, Chief Financial Officer [5] [6]	2017	$314,583	—	$1,250,846	$ 692,954	$ 16,500	$2,274,883
Garnet W. Kanouse, Managing Director - Head of Residential [6]	2017	$400,000	—	$1,482,484	$ 1,032,508	$ 23,600	$2,938,592

(1) Represents the grant date fair value of stock units awarded, as determined in accordance with FASB Accounting Standards Codification Topic 718. Information regarding the assumptions used to value our NEOs' stock units is provided in Note 16 to our consolidated financial statements included in our Annual Report on Form 10-K filed February 28, 2018.

For 2017, our NEOs received the following stock unit awards:

- With the exception of Mr. Hughes, all current NEOs received annual grants of deferred stock units and performance stock units on December 13, 2017. These deferred stock units and performance stock units were granted with the grant date fair values of $15.19, and $11.17 per unit, respectively.
- Mr. Cochrane received an additional grant of deferred stock units upon his promotion to Chief Financial Officer in September 2017, with a grant date fair value of $16.73 per unit.
- Mr. Robinson received a hire date grant of deferred stock units when he joined Redwood as Executive Vice President in September 2017, with a grant date fair value of $16.33 per unit.
- Mr. Cochrane and Mr. Kanouse each also received an annual grant of deferred stock units relating to fiscal year 2016, which was awarded the following fiscal year in early 2017, with a grant date fair value of $16.52 per unit.

- With the exception of Mr. Robinson, all NEOs also received a vested deferred stock unit award on March 1, 2018 with a grant date fair value of $14.66 per unit. These deferred stock unit awards represented the payment, in lieu of cash, of a portion of the value of each of their 2017 performance-based bonuses.

For additional details regarding these awards and the vesting of performance stock units, see the “Grants of Plan-Based Awards” table.

(2) These amounts are annual performance-based bonuses paid in cash for each fiscal year indicated with respect to performance during such fiscal year (but paid early in the following fiscal year). See pages 51 - 53 of this Proxy Statement under the heading "Compensation Discussion and Analysis — Performance-Based Annual Bonuses Earned for 2017" for additional details.

(3) Represents matching contributions to our 401(k) Plan and Executive Deferred Compensation Plan. For Mr. Robinson, it also includes certain compensation paid or granted in connection with his hiring in September 2017 as Executive Vice President of Redwood. Please see footnote (4) below for details.

(4) Mr. Robinson was hired by Redwood in September 2017 with an annual base salary of $500,000. The actual base salary paid to Mr. Robinson during 2017 was $128,846. Amounts in the "All Other Compensation" column in respect of Mr. Robinson include a hire date cash payment and a relocation allowance. As described herein, these elements of Mr. Robinson's compensation were negotiated to induce him to join Redwood in September 2017 and forgo compensation from his former employer that was not received, or was forfeited, when he accepted employment at Redwood.

(5) Mr. Cochrane was promoted to Chief Financial Officer in September and his annual base salary was increased to $350,000 at that time. The actual base salary paid to Mr. Cochrane during 2017 was $314,583.

(6) Compensation data for Mr. Cochrane and Mr. Kanouse for 2016 and 2015 is not provided as they were not executive officers during those years.

Grants of Plan-Based Awards

The following table reflects estimated possible payouts to current NEOs in 2017 under Redwood's performance-based bonus compensation plan, as well as actual equity-related grants made in 2017 under Redwood's Incentive Plan. Actual bonus payouts for performance in 2017 are reflected in the "Summary Compensation" table above. As discussed above under "Executive Compensation — Compensation Discussion and Analysis — 2017 Performance-Based Annual Bonus Compensation," 2017 target annual performance-based bonuses were weighted 75% on Adjusted ROE and 25% on achievement of pre-established individual goals. For 2017, annual bonuses were subject to an overall maximum of $5 million for Mr. Hughes and Mr. Abate and $3 million for each of the other NEOs.

Name	Type of Award (1)	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ($)(6)			Estimated Possible Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#) (9)	Grant Date Fair Value of Stock and Option Awards ($) (9)
			Threshold	Target	Maximum	Threshold	Target (7)	Maximum (8)		
Marty Hughes	—	—	—	$1,312,500	$3,156,250	—	—	$1,843,750(8)	—	—
Christopher J. Abate	—	—	—	$825,000	$3,325,000	—	—	$1,675,000(8)	—	—
	DSU (2)	12/13/2017	—	—	—	—	—	—	49,374	$749,991
	PSU (3)	12/13/2017	—	—	—	—	67,144(7)	134,288 (9)	—	$749,998
Dashiell I. Robinson	—	—	—	—	—	—	—	—	—	—
	DSU (4)	9/28/2017	—	—	—	—	—	—	61,237	$1,000,000
	DSU (2)	12/13/2017								