

REDWOOD TRUST INC
Form 424B2
June 03, 2016

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Registration Statement No. 333-211267

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered ⁽¹⁾	Proposed Maximum Offering Price Per Unit ⁽²⁾	Proposed Maximum Aggregate Offering Price ⁽²⁾	Amount of Registration Fee Previously Paid ⁽²⁾
Common Stock, par value \$0.01 per share	6,790,813	\$ 24.71	\$ 167,800,989.23	\$ 6,594.58

This prospectus supplement relates to 6,790,813 unsold shares of common stock of Redwood Trust, Inc. issuable under the Redwood Trust, Inc. Direct Stock Purchase and Dividend Reinvestment Plan and any additional shares of common stock of Redwood Trust, Inc. which become issuable with respect thereto by reason of any stock dividend, stock split, recapitalization or other similar transaction, that were previously covered by registration statement no. 333-147604 initially filed on November 23, 2007, pursuant to a prospectus supplement thereunder filed on July 2, 2008, and subsequently by registration statement no. 333-168617 initially filed on August 6, 2010 and registration no. 333-188420 initially filed on May 8, 2013 (collectively, the "Prior Registration Statements"), pursuant to prospectus supplements thereunder filed on November 4, 2010, September 5, 2012 and May 17, 2013 (collectively, the "Prior Prospectus Supplements"). The prospectus supplement filed hereby supersedes and replaces the Prior Prospectus Supplements with respect to the registration of the unsold shares of common stock issuable under the Direct Stock Purchase and Dividend Reinvestment Plan.

Information provided represents the proposed maximum offering price per unit, the proposed maximum aggregate offering price, and the amount of registration fee previously paid at the time of the filing pursuant to Rule 424(b) on July 2, 2008 of a prospectus supplement and accompanying prospectus that formed a part of registration statement no. 333-147604 with respect to 6,790,813 previously unsold shares of common stock of Redwood Trust, Inc. issuable under the Redwood Trust, Inc. Direct Stock Purchase and Dividend Reinvestment Plan. Pursuant to Rule 415(a)(6) under the Securities Act, the remaining portion of the filing fee previously paid in connection with the unsold securities under registration statement no. 333-147604 was carried forward to the Prior Registration Statements and will continue to be applied to such unsold securities offered pursuant to this prospectus supplement and no additional filing fee in respect of such unsold shares is due hereunder. The Prior Registration Statements terminated prior to the filing of the registration statement of which the accompanying prospectus is a part.

PROSPECTUS SUPPLEMENT

(To Prospectus dated May 10, 2016)

Direct Stock Purchase and Dividend Reinvestment Plan

6,790,813 Shares

Redwood Trust, Inc.

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

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

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

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

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

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

This prospectus supplement supersedes and replaces our previous prospectus supplement with respect to the Plan, which previous prospectus supplement was dated May 17, 2013.

The date of this prospectus supplement is June 3, 2016

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About This Prospectus Supplement

You should read both this prospectus supplement and the accompanying prospectus, together with additional information described under the heading “Incorporation of certain information by reference” in this prospectus supplement and in the accompanying prospectus. This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 we have filed with the Securities and Exchange Commission, which we refer to as the SEC, under the Securities Act of 1933, as amended. This prospectus supplement and the accompanying prospectus do not contain all of the information in the registration statement. We have omitted certain parts of the registration statement, as permitted by the rules and regulations of the SEC. You may inspect and copy the registration statement, including exhibits, on the SEC’s website at www.sec.gov or at the SEC’s public reference room. See “Where you can find more information” in the accompanying prospectus.

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

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

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

We are not making an offer to sell our common stock in any jurisdiction where the offer or sale is not permitted. You should not assume that the information appearing in this prospectus supplement, the accompanying prospectus or any document incorporated by reference herein or therein is accurate as of any date other than the date of the applicable document. Our business, financial condition, results of operations, and prospects may have changed since that date. Neither this prospectus supplement nor the accompanying prospectus constitutes an offer, or an invitation on our behalf, to subscribe for and purchase any of the securities, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

Summary

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

Our Company Redwood Trust, Inc., together with its subsidiaries, focuses on investing in mortgage- and other real estate-related assets and engaging in mortgage banking activities. We seek to invest in real estate-related assets that have the potential to generate attractive cash flow returns over time and to generate income through our mortgage banking activities. Redwood Trust, Inc. has elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended, or the Code.

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

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

Investment Options You may choose from the following options:

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

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

All Dividends Paid in Cash: You will continue to receive cash dividends paid on shares of common stock registered in your name and all shares held for you under the Plan in the usual manner. You may make Optional Cash Payments to invest in additional shares of our common stock, subject to monthly minimums and maximums.

You may change your investment options at any time by contacting the Plan Administrator as indicated in Question 4 on page S-10 or by requesting a new enrollment form from the Plan Administrator, completing it, and returning it to the Plan Administrator.

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

Plan Administrator in writing as indicated in Question 4 on page S-10 and following the procedures described in Question 28 on page S-20.

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

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

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

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

Investment Date With respect to dividend reinvestment:

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

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

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

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

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

range from one to twelve days on which our shares of common stock trade on the New York Stock Exchange.

The Company may establish other Investment Dates, however, as provided in the Plan.

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

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

In the case of shares purchased on the open market, the Market Price will be the weighted average of the actual prices paid, computed to six decimal places, for all of the common stock purchased by the Plan Administrator with all Participants' reinvested dividends and Optional Cash Payments for the related investment.

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

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

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

Forward-Looking Statements

This prospectus supplement and the accompanying prospectus, including information incorporated into them by reference, contain forward-looking statements within the meaning of the safe harbor provisions of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as “anticipate,” “estimate,” “will,” “should,” “expect,” “believe,” “intend,” “seek,” “plan,” and similar expressions or their forms, or by references to strategy, plans, or intentions.

These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in our Annual Report on Form 10-K for the year ended December 31, 2015 and in our subsequent filings under the Securities Exchange Act of 1934, as amended. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Important factors, among others, that may affect our actual results include: interest rate volatility, changes in credit spreads, and changes in liquidity in the market for real estate securities and loans; changes in the demand from investors for residential mortgages and investments, and our ability to distribute an increased volume of residential mortgages through our whole-loan distribution channel; our ability to finance our investments in securities and our acquisition of residential mortgages with short-term debt; the availability of assets for purchase at attractive risk-adjusted returns and our ability to reinvest cash and the proceeds from the potential sale of securities and investments we hold; changes in the values of assets we own; higher than expected operating expenses due to delays or decreases in the realization of expected operating expense reductions related to the repositioning of our conforming mortgage banking activities and commercial loan origination activities, and other unforeseen expenses; general economic trends, the performance of the housing, commercial real estate, mortgage, credit, and broader financial markets, and their effects on the prices of earning assets and the credit status of borrowers; federal and state legislative and regulatory developments, and the actions of governmental authorities, including those affecting the mortgage industry or our business (including, but not limited to, the Federal Housing Finance Agency’s rules relating to FHLB membership requirements and the implications for our captive insurance subsidiary’s membership in the FHLB); developments related to the fixed income and mortgage finance markets and the Federal Reserve’s statements regarding its future open market activity and monetary policy; our exposure to credit risk and the timing of credit losses within our portfolio; the concentration of the credit risks we are exposed to, including due to the structure of assets we hold and the geographical concentration of real estate underlying assets we own; our exposure to adjustable-rate mortgage loans; the efficacy and expense of our efforts to manage or hedge credit risk, interest rate risk, and other financial and operational risks; changes in credit ratings on assets we own and changes in the rating agencies’ credit rating methodologies; changes in interest rates; changes in mortgage prepayment rates; the ability of counterparties to satisfy their obligations to us; our involvement in securitization transactions, the profitability of those transactions, and the risks we are exposed to in engaging in securitization transactions; exposure to claims and litigation, including litigation arising from our involvement in securitization transactions; whether we have sufficient liquid assets to meet short-term needs; our ability to successfully compete and retain or attract key personnel; our

ability to adapt our business model and strategies to changing circumstances; changes in our investment, financing, and hedging strategies and new risks we may be exposed to if we expand our business activities; our exposure to a disruption or breach of the security of our technology infrastructure and systems; exposure to environmental liabilities; our failure to comply with applicable laws and regulations; our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures; the impact on our reputation that could result from our actions or omissions or from those of others; changes in accounting principles and tax rules; our ability to maintain our status as a REIT for tax purposes; limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940; decisions about raising, managing, and distributing capital; and other factors not presently identified.

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

Risk Factors

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

Risks Related to This Offering

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

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

Our earnings, cash flows, book value, and dividends can be volatile and difficult to predict. Investors in our common stock should not rely on our estimates, projections, or predictions, or on management’s beliefs about future events. In particular, the sustainability of our earnings and our cash flows will depend on numerous factors, including our level of investment activity, the returns we earn, the amount and timing of credit losses, prepayments, the expense of running our business, and other factors, including risk factors described herein and in documents incorporated by reference herein. As a consequence, although we seek to pay a regular common stock dividend rate that is sustainable, we may reduce our regular dividend rate, or stop paying dividends, in the future for a variety of reasons. We may not provide public warnings of dividend reductions prior to their occurrence. Although we have paid special dividends in the past, we have not paid a special dividend since 2007 and we may not do so in the future. Changes to the amount of dividends we distribute may result in a reduction in the value of our common stock.

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

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

In addition, our Plan includes a requirement that all investments (including any brokerage commissions and service fees) be made at a price that is at least equal to 95% of the fair market value of our stock on the date of purchase. If the fair market value of our stock on the Investment Date significantly exceeds the value of our stock determined using the Market Price formula set forth in the Plan, the price paid under the Plan will be increased to ensure compliance with this requirement.

Redwood Trust, Inc.

Redwood Trust, Inc., together with its subsidiaries, focuses on investing in mortgage- and other real estate-related assets and engaging in mortgage banking activities. We seek to invest in real estate-related assets that have the potential to generate attractive cash flow returns over time and to generate income through our mortgage banking activities. During 2015, we operated our business in three segments: residential mortgage banking, residential investments, and commercial mortgage banking and investments. Redwood Trust, Inc. has elected to be taxed as a REIT, beginning with its taxable year ended December 31, 1994. We generally refer, collectively, to Redwood Trust, Inc. and those of its subsidiaries that are not subject to subsidiary-level corporate income tax as “the REIT” or “our REIT.” We generally refer to subsidiaries of Redwood Trust, Inc. that are subject to subsidiary-level corporate income tax as “our operating subsidiaries” or “our taxable REIT subsidiaries” or “TRS.” Our mortgage banking activities and investments in mortgage servicing rights (“MSRs”) are generally carried out through our taxable REIT subsidiaries, while our portfolio of mortgage- and other real estate-related investments is primarily held at our REIT. We generally intend to retain profits generated and taxed at our taxable REIT subsidiaries, and to distribute as dividends at least 90% of the taxable income we generate at our REIT.

Our residential mortgage banking segment primarily consists of operating a mortgage loan conduit that acquires mortgage loans from third-party originators for subsequent sale, securitization, or transfer to our investment portfolio. We typically acquire prime, jumbo mortgages and the related mortgage servicing rights on a flow basis from our network of loan sellers and distribute those loans through our Sequoia private-label securitization program or to institutions that acquire pools of whole loans. We occasionally supplement our flow purchases with bulk loan acquisitions. This segment also includes various derivative financial instruments and interest only securities retained from our Sequoia securitizations that we utilize to manage certain risks associated with residential loans we acquire. During 2015, we also acquired conforming loans (defined as loans eligible for sale to Fannie Mae and Freddie Mac (the “Agencies”)) and the related servicing rights on a flow basis from our seller network. Conforming loans we acquired were generally sold to the Agencies. During the first quarter of 2016, as part of our ongoing evaluation of the efficiency and profitability of our businesses, we announced plans to restructure our conforming loan operations by discontinuing the acquisition and aggregation of conforming loans for resale to the Agencies, and instead focus on direct conforming-related investments in mortgage servicing rights and risk-sharing transactions. Our residential mortgage banking segment’s main source of revenue is income from mortgage banking activities, which includes valuation increases (or gains) on the sale or securitization of loans, and from hedges used to manage risks associated with these activities. Additionally, this segment may generate interest income on loans held pending securitization or sale. Funding expenses, direct operating expenses, and tax expenses associated with these activities are also included in this segment.

Our residential investments segment includes a portfolio of investments in residential mortgage-backed securities retained from our Sequoia securitizations, as well as residential mortgage-backed securities issued by third parties. In addition, this segment includes a subsidiary of Redwood Trust that is a member of the Federal Home Loan Bank of Chicago (“FHLBC”) and that utilizes attractive long-term financing from the FHLBC to make long-term investments directly in residential mortgage loans. Finally, this segment invests in MSR’s associated with residential loans we have sold or securitized, as well as MSR’s that we purchased from third parties. The residential investments segment’s main sources of revenue are interest income from investment portfolio securities and residential loans held-for-investment, as well as MSR income. Additionally, this segment may realize gains upon the sale of securities. Funding expenses, hedging expenses, direct operating expenses, and tax provisions associated with these activities are also included in this segment.

During 2015, our commercial mortgage banking and investments segment consisted primarily of a mortgage loan conduit that originated senior commercial loans for subsequent sale to third-party CMBS sponsors or other investors. In addition to senior loans, during 2015 we offered complementary forms of commercial real estate financing directly to borrowers that included mezzanine loans, subordinate mortgage loans, and other financing solutions. We typically have held the mezzanine and other subordinate loans we originated in our commercial investment portfolio. During the first quarter of 2016, as part of our ongoing evaluation of the efficiency and profitability of our businesses, we announced plans to reposition our commercial business to focus solely on investing activities and discontinue commercial loan originations. During 2015, this segment’s main sources of revenue were mortgage banking income, which included valuation increases (or gains) on the sale of senior commercial loans and associated hedges, and net interest income from mezzanine or subordinate loans held in our investment portfolio. Funding expenses, direct operating expenses, and tax expenses associated with these activities are also included in this segment.

Throughout our history we have sponsored or managed other investment entities, including a private limited partnership fund that we managed, the Redwood Opportunity Fund, LP (the “Fund”), as well as Acacia securitization entities, certain of which we continue to manage. The Fund was primarily invested in residential securities and the Acacia entities are primarily invested in a variety of real estate-related assets. During the third quarter of 2011, we engaged in a transaction in which we resecuritized a pool of senior residential securities (the “Residential Resecuritization”) primarily for the purpose of obtaining permanent non-recourse financing on a portion of the residential securities we held in our investment portfolio at the REIT. Similarly, during the fourth quarter of 2012, we engaged in a transaction in which we securitized a pool of commercial loans (the “Commercial Securitization”) primarily for the purpose of obtaining permanent non-recourse financing on a portion of the commercial loans we hold.

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Our primary sources of income are net interest income from our investment portfolios and non-interest income from our mortgage banking activities. Net interest income consists of the interest income we earn on investments less the interest expense we incur on borrowed funds and other liabilities. Income from mortgage banking activities consists of the profit we seek to generate through the acquisition of loans and their subsequent sale or securitization.

Redwood was incorporated in the State of Maryland on April 11, 1994, and commenced operations on August 19, 1994. Our executive offices are located at One Belvedere Place, Suite 300, Mill Valley, California 94941. Our website is www.redwoodtrust.com. Information contained in or that can be accessed through our website is not part of, and is not incorporated into, this prospectus supplement.

The Plan

The original Dividend Reinvestment Plan was adopted by our Board of Directors on September 15, 1995 and became effective on October 9, 1995. The Plan was amended by our Board of Directors as of December 13, 1996 to include the Stock Purchase Program and further amended as of September 30, 2002, January 6, 2005, November 23, 2007, July 2, 2008 and September 5, 2012.

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

Purpose

1. What is the purpose of the Plan?

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

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

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

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

Available Options

2. What options are available under the Plan?

Stock Purchase Program. Each month, you may elect to invest Optional Cash Payments in shares of common stock, subject to a minimum per month purchase of \$100 if you are an existing stockholder at the time of election, or \$500 if you are not a stockholder at the time of election, and a maximum per month purchase of \$10,000. We may, in our sole discretion, waive the \$10,000 limit and permit purchases to be made in excess of that limit. You may make Optional Cash Payments each month even if you do not reinvest dividends. Optional Cash Payments may only be made in a month when we have determined to permit Optional Cash Payments under the Plan for that month. You may contact our investor relations department at (866) 269-4976 to ask whether we have determined to permit Optional Cash Payments for any particular month.

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

Benefits and Disadvantages

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

Benefits

(a) Whether you are an eligible stockholder or a new investor, the Plan provides you with the opportunity to make monthly investments of Optional Cash Payments, subject to minimum and maximum amounts, for the purchase of additional shares of common stock. Shares purchased under the Optional Cash Payment program in an amount in any month of \$10,000 or less, will be purchased either in the open market or directly from us. Shares purchased under the Optional Cash Payment program in a pre-approved amount in any month in excess of \$10,000 will be purchased directly from us. The purchase price paid for shares with Optional Cash Payments of \$10,000 or less will reflect a discount ranging from 0% to 3% from the Market Price. The purchase price paid for shares with pre-approved Optional Cash Payments in excess of \$10,000 will reflect a discount ranging from 0% to 5% of Market Price. You will not pay any brokerage commissions or service fees incurred in connection with the open market purchases to the extent they, together with any discount from Market Price applicable to the purchase, do not exceed 5% of the fair market value of the shares on the Investment Date.

(b) The Plan provides you with the opportunity to automatically reinvest cash dividends paid on all or a portion of your common stock in additional shares of common stock. Shares purchased with dividend reinvestments will be purchased either in the open market or directly from us. The purchase price paid for those shares will reflect a discount ranging from 0% to 3% of the Market Price. You will not pay any brokerage commissions or service charges in connection with any purchase made on the open market to the extent the combined brokerage commission and service charges, plus any discount from Market Price applicable to the purchase, do not exceed 5% of the fair market value of the shares on the date of purchase.

(c) All cash dividends paid on Participants' Plan shares enrolled in the Dividend Reinvestment Program can be fully invested in additional shares of common stock because the Plan permits fractional shares to be credited to Plan accounts. Dividends on the fractional shares, as well as on whole shares, will also be reinvested in additional shares

which will be credited to Plan accounts.

(d) The Plan Administrator, at no charge to you and at your election, either sends certificates to you for optional full shares purchased or provides for the safekeeping of stock certificates for shares credited to each Plan account. Participants in the Plan who purchase shares through pre-approved Optional Cash Payments in excess of \$10,000 may request that shares purchased be delivered through an alternative means of settlement, such as in book-entry form through the facilities of The Depository Trust Company, which request may be granted upon consent of the Plan Administrator in their sole discretion.

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

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

Disadvantages

(a) Neither we nor the Plan Administrator will pay interest on dividends or Optional Cash Payments held pending reinvestment or investment. In addition, Optional Cash Payments of less than \$100 made by existing stockholders or less than \$500 made by new investors, and that portion of any Optional Cash Payment which exceeds the maximum monthly purchase limit of \$10,000 (unless the upper limit has been waived by us) may be subject to return to you without interest. In addition, for pre-approved Optional Cash Payments in excess of \$10,000 used to purchase common stock directly from us, if the Threshold Price, if any, is not met or the Maximum Price you specified is exceeded, a portion or all of your Optional Cash Payments in excess of \$10,000 will be subject to return to you without interest.

(b) With respect to pre-approved Optional Cash Payments in excess of \$10,000, the actual number of shares to be issued to your Plan account will not be determined until after the end of the relevant Investment Period. Therefore, during the Investment Period you will not know the actual number of shares, if any, you have purchased.

(c) With respect to shares acquired from us, the Market Price may exceed the price at which shares of our common stock are trading on the Investment Date when the shares are issued. The fair market value on the Investment Date generally governs the amount of taxable income to stockholders and may affect the price at which your shares are purchased.

(d) Because Optional Cash Payments must be received by the Plan Administrator by the Optional Cash Payment Due Date, those payments may be exposed to changes in market conditions for a longer period of time than in the case of typical secondary market transactions. In addition, Optional Cash Payments once received by the Plan Administrator will not be returned to you unless you send a written request to the Plan Administrator at least five business days before the relevant Investment Date (or in the case of pre-approved Optional Cash Payments in excess of \$10,000, at least five business days before commencement of the relevant Investment Period).

(e) There is a nominal fee per transaction, a brokerage commission, and applicable share transfer taxes on resales that you may be required to pay to the Plan Administrator if you request that the Plan Administrator sell some or all of the shares of common stock credited to your Plan account.

(f) If you chose to reinvest cash dividends, you will be treated for federal income tax purposes as having received a distribution in cash on the distribution payment date. You may have to use other funds (or sell a portion of the common stock received) to fund the resulting tax liability.

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

Administration

4. Who Administers the Plan?

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

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

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

Certificates for Plan Shares purchased pursuant to the Stock Purchase Program will not be issued but will be held by the Plan Administrator free of charge. Plan Shares will be held by the Plan Administrator and registered in the Participant's name. The Plan Administrator will receive dividends on all Plan Shares held on the dividend Record Date, will credit those dividends to Participants' accounts on the basis of whole or fractional Plan Shares held in those accounts, and will automatically reinvest the dividends in additional shares of common stock according to the portion of the Participants' shares of stock designated to participate in the Dividend Reinvestment Program. Any remaining portion of cash dividends not designated for reinvestment will be sent to you. If the Plan Administrator resigns or otherwise ceases to act as plan administrator, we will appoint a new plan administrator to administer the Plan, and advise you of the change.

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

Participation

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

5. Who is eligible to participate?

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

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

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

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

Beneficial Owners who wish to participate in the Dividend Reinvestment Program must instruct their bank, broker, or other nominee to arrange participation in the Plan on the Beneficial Owner's behalf. The bank, broker, or other nominee should then make arrangements with its securities depository and the securities depository will provide the Plan Administrator with the information necessary to allow the Beneficial Owner to participate in the Plan. Alternatively, a Beneficial Owner may simply request that the number of shares the Beneficial Owner wishes to be enrolled in the Plan be reclassified or reregistered by the bank, broker, or other nominee in the Beneficial Owner's own name as Record Owner to participate directly in the Plan.

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

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

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

7. What does the enrollment form provide?

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

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

(1) If you elect “Full Dividend Reinvestment,” the Plan Administrator will apply all cash dividends on all shares of common stock then or subsequently registered in your name, and all cash dividends on all shares of common stock credited to your Plan account, together with any Optional Cash Payments, toward the purchase of additional shares of common stock.

(2) If you elect “Partial Dividend Reinvestment,” the Plan Administrator will apply all cash dividends on a specified number of shares of common stock that you own on the applicable Record Date registered in your name and held in your Plan account as specified on the enrollment form toward the purchase of additional shares of common stock. The Plan Administrator will pay cash dividends on the remaining shares of common stock directly to you.

(3) If you elect “All Dividends Paid in Cash,” you will continue to receive cash dividends on shares of common stock registered in your name and held in your Plan account in the usual manner.

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

You may change your investment options at any time by contacting the Plan Administrator