

**Redwood Trust, Inc.**  
**Board of Directors**

**R E D W O O D**  
**T R U S T**

Policy Regarding Majority Voting

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May 17, 2012

In furtherance of the provisions regarding majority election of directors set forth in the Amended and Restated Bylaws (as amended, the “Bylaws”) of Redwood Trust, Inc. (the “Company”), the Board of Directors (the “Board”) of the Company expects each incumbent director who is nominated for re-election to the Board to offer to resign from the Board if he or she fails to receive the required number of votes for re-election in accordance with the Bylaws and the Board or a duly authorized committee of the Board determines to accept such resignation, as described below.

In the event one or more incumbent directors (each, a “Subject Director”) fails to receive the affirmative vote of a majority of the votes cast at an Election Meeting (as defined in the Bylaws) at which there was no Contested Election (as defined in the Bylaws), either (i) the Governance and Nominating Committee of the Board or (ii) if one or more of the members of the Governance and Nominating Committee is a Subject Director or the Board determines that any recommendation to be made with respect to a Subject Director should be made by a committee of the Board other than the Governance and Nominating Committee, a duly-appointed committee of the Board consisting solely of independent directors (as determined in accordance with applicable New York Stock Exchange rules and listing requirements) who are not Subject Directors (the committee described in clause (i) or (ii) of this sentence, the “Committee”), will make a recommendation to the Board as to whether to accept or reject any resignation of a Subject Director or whether other action should be taken (including whether to request that a Subject Director resign from the Board if such Subject Director has not tendered his or her resignation).

The Committee may consider all factors it considers relevant, including (i) the reasons it believes are the reasons a majority of the votes cast at the meeting were voted “against” the Subject Director’s election, (ii) whether the underlying cause or causes of the “against” votes are curable, (iii) the factors, if any, set forth in the Company’s Corporate Governance Standards or other policies that are to be considered by the Governance and Nominating Committee in evaluating potential candidates for the Board as such criteria relate to each Subject Director, (iv) the length of service of each Subject Director, (v) each

Subject Director's contributions to the Company, (vi) whether acceptance of any resignation would lead to a "change of control" of the Company as determined pursuant to any Company financing or other material agreement, and (vii) whether acceptance of any resignation would lead to a default under any material agreement to which the Company or any of its subsidiaries is a party or otherwise bound, or to the Company's failure to comply with any applicable rule or regulation (including New York Stock Exchange listing standards). Subject Directors shall not participate in the deliberations or decisions of the Committee.

The Committee will make its recommendation to the Board with respect to any Subject Directors within sixty (60) days from the date of the certification of the election results of the Election Meeting and shall notify the Board of its recommendation. Notwithstanding the foregoing, the Committee may determine to extend such 60-day period by an additional sixty (60) days if it determines that such an extension is in the best interests of the Company and its stockholders.

The Board of Directors will make its determination with respect to any Subject Directors within sixty (60) days from the date of receiving the Committee's recommendation (and the Board may consider all factors it considers relevant, including those described in clauses (i) through (vii) of the preceding paragraph) and shall notify the Subject Director of its decision; provided that each Subject Director shall recuse himself or herself from any deliberations or determinations of the Board with respect to any Subject Directors.

Notwithstanding the foregoing, the Board of Directors may determine to extend such 60-day period by an additional sixty (60) days if it determines that such an extension is in the best interests of the Company and its stockholders. The Company shall publicly disclose the decision(s) of the Board of Directors by a press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication. As used herein, the term "Independent Director" means a director who complies with the "independent director" requirements under the rules of the New York Stock Exchange, under law or under any rule or regulation of any regulatory body or self-regulatory body. If a Subject Director's tendered resignation is not accepted by the Board or such Subject Director does not otherwise submit his or her resignation to the Board, such director shall continue to serve until his or her successor is duly elected, or his or her earlier resignation or removal. If a Subject Director's resignation is accepted by the Board, or if a nominee for director is not elected and the nominee is not an incumbent director, then the Board, in its sole discretion, may fill any resulting vacancy or decrease the size of the Board pursuant to the provisions of the Bylaws.