

## 2004 DIVIDEND TAXABILITY

The dividends paid by Redwood Trust, Inc. that are taxable to shareholders for the 2004 tax year total \$8.68 per share for shareholders that held stock for the year. Each individual dividend payment is reportable 72.92% as ordinary taxable income and 27.08 % as long-term capital gains income. Capital gains income may be taxed at a lower rate.

Four regular common stock dividends and two special common stock dividends are reportable and taxable for shareholders for the 2004 tax year. The following table gives details for the common stock dividends that are taxable for 2004.

### Common Stock (CUSIPs 758075 40 2)

Dividend Type	Declaration Dates	Record Dates	Payable Dates	Total Distrib Per Share	Ordinary Income	Return of Capital	Long Term Capital Gains	#Of Shares	Total \$ Paid
Regular	3/5/2004	3/31/2004	4/21/2004	\$0.67	\$0.488555	\$0.000000	\$0.181445	19,796,237	\$ 13,263,479
Special	3/5/2004	3/31/2004	4/21/2004	\$0.50	\$0.364593	\$0.000000	\$0.135407	19,796,237	\$ 9,898,119
Regular	5/7/2004	6/30/2004	7/21/2004	\$0.67	\$0.488555	\$0.000000	\$0.181445	21,510,801	\$ 14,412,237
Regular	8/20/2004	9/30/2004	10/21/2004	\$0.67	\$0.488555	\$0.000000	\$0.181445	23,345,696	\$ 15,641,616
Special	11/15/2004	11/30/2004	12/10/2004	\$5.50	\$4.010523	\$0.000000	\$1.489477	23,731,717	\$130,524,444
Regular	11/15/2004	12/31/2004	1/21/2005	\$0.67	\$0.488555	\$0.000000	\$0.181445	24,153,576	\$ 16,182,896
Total				\$8.68	\$6.329336	\$0.000000	\$2.350664		\$199,922,791

Please take special note of the following two dividends:

1. The \$0.65 per share dividend that was paid in January 2004 had a record date of December 31, 2003, and thus should have been included as income on shareholders' 2003 tax returns.
2. The \$0.67 per share dividend that was paid in January 2005 had a record date of December 31, 2004, and thus should be included as income on shareholders' 2004 tax returns.

Because Redwood Trust is structured for tax purposes as a Real Estate Investment Trust (REIT), dividends declared in the last month of a calendar year that have a record date in that calendar year but are paid in January of the following year are considered paid for tax reporting purposes (Form 1099) on the record date, not on the payable date. (This is true to the extent that the REIT has remaining undistributed taxable income on the record date, which Redwood Trust did for the both the year-end 2003 and year-end 2004 dividends.)