

## 2005 DIVIDEND TAXABILITY

The dividends paid by Redwood Trust, Inc. that are taxable to shareholders for the 2005 tax year total \$5.80 per share for shareholders that held stock for the year. Each individual dividend payment is reportable 76.709% as ordinary taxable income and 23.291 % as long-term capital gains income. Capital gains income may be taxed at a lower rate.

Four regular common stock dividends and one special common stock dividend are reportable and taxable for shareholders for the 2005 tax year. The following table gives details for the common stock dividends that are taxable for 2005.

### 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	3/18/2005	3/31/2005	4/21/2005	\$0.70	\$0.536963	\$0.000000	\$0.163037	24,514,222	\$ 17,159,955
Regular	5/6/2005	6/30/2005	7/21/2005	\$0.70	\$0.536963	\$0.000000	\$0.163037	24,646,963	\$ 17,252,874
Regular	8/26/2005	9/30/2005	10/21/2005	\$0.70	\$0.536963	\$0.000000	\$0.163037	24,764,404	\$ 17,335,083
Special	11/14/2005	11/25/2005	12/9/2005	\$3.00	\$2.301271	\$0.000000	\$0.698729	24,852,485	\$74,557,455
Regular	11/14/2005	12/30/2005	1/23/2006	\$0.70	\$0.536963	\$0.000000	\$0.163037	25,132,625	\$ 17,592,838
Total				\$5.80	\$4.449123	\$0.000000	\$1.350877		\$143,898,205

Please take special note of the following two dividends:

1. The \$0.70 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.
2. The \$0.70 per share dividend that is payable in January 2006 has a record date of December 30, 2005, and thus should be included as income on shareholders' 2005 tax returns.