REDWOOD TRUST INC
Form DEF 14A
March 21, 2017

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
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Check the appropriate box:
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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 2017 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 18, 2017 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, Mariann Byerwalter, Debora D. Horvath, Marty Hughes, Greg H. Kubicek, Karen R. Pallotta, Jeffrey T. Pero, and Georganne C. Proctor to serve as directors until the Annual Meeting of Stockholders in 2018 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 2017;
3. To vote on a non-binding advisory resolution to approve named executive officer compensation;
4. To vote on a non-binding advisory resolution to approve the frequency of holding an advisory vote on named executive officer compensation; 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 7, 2017 to our stockholders of record as of the close of business on March 24, 2017. We are also providing access to our proxy materials over the Internet beginning on March 21, 2017. 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 24, 2017 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 21, 2017
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 18, 2017

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 Monday, May 18, 2017 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 21, 2017 and to mail the Notice to all stockholders entitled to vote at the Annual Meeting on or about April 7, 2017. 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 7, 2017 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 24, 2017, 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 24, 2017. As of March 16, 2017, there were 77,032,899 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 2018 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 2017;
- For the approval, on an advisory basis, of the resolution approving the compensation of our named executive officers;
- For the approval, on an advisory basis, of an annual advisory vote on named executive officer compensation; 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 2016 Annual Report, consisting of our Annual Report on Form 10-K for the year ended December 31, 2016, 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, 2016. Certain sections of our 2016 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 2016 Annual Report is also available on our website.

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 2018 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.

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.

One member of our Board of Directors, Mr. Hughes, does not qualify as "independent" under Section 303A of the NYSE Listed Company Manual or our Governance Standards. Mr. Hughes does not qualify as independent because he is Redwood's current Chief Executive Officer.

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 nine 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.

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 other standing committees 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 to review, on an annual basis, whether Redwood's compensation policies and practices are reasonably likely to have a material adverse effect on Redwood.

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 other standing committees of the Board of Directors, 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 the 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 $375,000 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 2017, this requirement will increase to $400,000 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

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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 RECOMMENDS THAT STOCKHOLDERS 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
Mariann Byerwalter	Director
Debora D. Horvath	Director
Marty Hughes	Director and Chief Executive Officer
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

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

Richard D. Baum, age 70, 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 59, 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 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

Mariann Byerwalter, age 56, 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 62, 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
- Expertise and experience relating to information technology and technology risk management
- Expertise and experience relating to the insurance industry
- Expertise and experience relating to institutional governance
- Professional and educational background

Marty Hughes, age 59, 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.

The Board of Directors concluded that Mr. Hughes 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 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

Greg H. Kubicek, age 60, 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, including experience as a chief executive officer and as chairman of the board of directors of an NYSE-listed company
- 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 53, 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
- Management experience and leadership attributes
- Expertise and experience relating to government sponsored entities
- Professional and educational background

Jeffrey T. Pero, age 70, 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 in structuring and negotiating debt and equity financings
- Expertise and experience relating to corporate governance
- Management experience

- Expertise and experience relating to real estate investment trusts
- Expertise and experience relating to the U.S. securities laws
- Professional and educational background

Georganne C. Proctor, age 60, 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 as Executive Vice President for Enterprise Integration from January 2010 to July 2010. From July 2010 to October 2010, she served as Enterprise Integration's Executive Vice President. 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 SunEdison, Inc. Ms. Proctor previously served on the Board of Directors of Kaiser Aluminum Corporation from 2006 to 2009. 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
- Professional and educational background

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

Our Board of Directors currently consists of nine 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 eight meetings during 2016. The non-employee directors of Redwood met in executive session at six of the eight meetings during 2016. 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 2016 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 2016 in order to carry out its responsibilities as more fully 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 five times in 2016 in order to carry out its responsibilities.

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 2015 and May 2018, is set forth in the table below.

	Annual Period Commencing May 1,		
	2015	2016	2017
Annual Retainer *	$75,000	$75,000	$80,000
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. The Chairman of the Board of Directors receives an additional annual cash retainer of $50,000.

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 2016, non-employee directors received an annual deferred stock unit award valued at $85,000, and, as discussed below, in May 2017, non-employee directors will receive an annual deferred stock unit award valued at $95,000. 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 2017 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 2017 to May 2018 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 2017 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 2016." The table below illustrates the changes approved. Committee meeting attendance fees and retainers for service as a committee chair or Chairman of the Board remained unchanged from 2016 to 2017.

	2017 Fee	% Change from 2016
Annual Cash Retainer	$80,000	6.7 %
Annual Equity Award	$95,000	11.8 %

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.

The following table provides information on non-employee director compensation for 2016. 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.

Non-Employee Director Compensation — 2016[1]

Name	Fees Earned or Paid in Cash ($)[2]	Stock Awards ($)[3][4]	All Other Compensation ($)[5]	Total ($)
Richard D. Baum	$148,000	$84,996	—	$232,996
Douglas B. Hansen	$82,000	$84,996	—	$166,996
Mariann Byerwalter	$91,000	$84,996	—	$175,996
Debora D. Horvath	$71,898	$97,306	—	$169,204
Greg H. Kubicek	$113,000	$84,996	—	$197,996
Karen R. Pallotta	$97,000	$84,996	—	$181,996
Jeffrey T. Pero	$119,000	$84,996	—	$203,996
Georganne C. Proctor	$117,000	$84,996	—	$201,996
Charles J. Toeniskoetter[6]	$36,226	—	—	$36,226

(1) The table does not include dividend equivalent rights paid on deferred stock units, as the value of the dividend equivalent rights was factored into the grant date fair value of the original deferred stock unit awards in accordance with FASB Accounting Standards Codification Topic 718.

(2) Fees earned are based on the non-employee director compensation policy in place for 2016: (i) annual cash retainer of $75,000; (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.

(3) Stock awards consisted of an annual grant of vested deferred stock units. Value of deferred stock units awarded was determined in accordance with FASB Accounting Standards Codification Topic 718. Information regarding the assumptions used to value our non-employee directors' deferred stock units is provided in Note 17 to our consolidated financial statements included in our Annual Report on Form 10 K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on February 24, 2017.

(4) As of December 31, 2016, the aggregate number of stock awards outstanding for each non-employee director was as follows: Richard D. Baum had 15,815 vested DSUs; Douglas B. Hansen had 15,815 vested DSUs; Mariann Byerwalter had 15,815 vested DSUs; Debora D. Horvath had 7,310 vested DSUs; Greg H. Kubicek had 118,866 vested DSUs; Karen R. Pallotta had 13,211 vested DSUs; Jeffrey T. Pero had 16,772 vested DSUs; Georganne C. Proctor had 70,129 vested DSUs, and Charles J. Toeniskoetter had 9,505 vested DSUs. No director held unvested DSUs.

(5) During 2016 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 $2,000 to Redwood, and at an aggregate cost to Redwood in 2016 for all guests of less than $5,000.

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

The following table provides information on stock unit distributions in common stock to non-employee directors from our Executive Deferred Compensation Plan in 2016. 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]	9,759	$ 127,760
Douglas B. Hansen[2]	9,759	$ 127,760
Mariann Byerwalter[2]	9,759	$ 127,760
Jeffrey T. Pero[2]	11,016	$ 144,047
Charles J. Toeniskoetter[2] [3]	9,759	$ 127,760

(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 2016 were originally awarded in 2012 and 2013.

(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. Stern, and Mr. Stone were Named Executive Officers (NEOs) in 2016.

Name	Position with Redwood as of December 31, 2016	Age
Marty Hughes	Chief Executive Officer	59
Christopher J. Abate	President and Chief Financial Officer	37
Shoshone (Bo) Stern	Chief Investment Officer	39
Andrew P. Stone	Executive Vice President, General Counsel & Secretary	45

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

Christopher J. Abate, age 37, serves as President and Chief Financial Officer of Redwood. Mr. Abate has served as Redwood’s President since July 2016 and as its Chief Financial Officer since March 2012. Mr. Abate also served as Redwood’s Controller from January 2009 to March 2013 and has been employed by Redwood since April 2006. 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.

Shoshone A. Stern, “Bo Stern,” age 39, 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. During 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. in business administration from the University of California at Berkeley and an M.B.A from the University of California at Berkeley and Columbia University; he is also a CFA Charterholder.

Andrew P. Stone, age 45, 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.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information, as of March 16, 2017, 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)	797,503	1.0%
Christopher J. Abate(4)	86,938	*
Shoshone (Bo) Stern(5)	43,524	*
Andrew P. Stone(6)	85,464	*
Non-Employee Directors		
Richard D. Baum(7)	43,367	*
Douglas B. Hansen(8)	344,880	*
Mariann Byerwalter(9)	26,128	*
Debora D. Horvath(10)	7,310	*
Greg H. Kubicek(11)	224,897	*
Karen R. Pallotta(12)	13,211	*
Jeffrey T. Pero(13)	56,952	*
Georganne C. Proctor(14)	79,974	*
All directors and executive officers as a group (12 persons)(15)	1,810,147	2.33%

* Less than 1%.

(1) Represents shares of common stock outstanding and common stock underlying vested performance stock units and deferred stock units that have vested or will vest within 60 days of March 16, 2017.

(2) Based on 77,032,899 shares of our common stock outstanding as March 16, 2017.

(3) Includes 645,013 shares of common stock, and 152,490 deferred stock units that have vested or will vest within 60 days of March 16, 2017.

(4) Includes 19,993 shares of common stock and 66,945 deferred stock units that have vested or will vest within 60 days March 16, 2017.

(5) Includes 16,032 shares of common stock and 27,492 deferred stock units that have vested or will vest within 60 days March 16, 2017.

(6) Includes 45,896 shares of common stock, and 39,568 deferred stock units that have vested or will vest within 60 days of March 16, 2017.

(7) Includes 27,552 shares of common stock and 15,815 vested deferred stock units.

(8) Includes 329,065 shares of common stock and 15,815 vested deferred stock units.

(9) Includes 10,313 shares of common stock and 15,815 vested deferred stock units.
(10) Includes 7,310 vested deferred stock units.
(11) Includes 104,119 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 118,866 vested deferred stock units.
(12) Includes 13,211 vested deferred stock units.
(13) Includes 40,180 shares of common stock and 16,772 vested deferred stock units.
(14) Includes 9,845 shares held in the Proctor Trust and 70,129 vested deferred stock units.
(15) Includes 1,249,920 shares of common stock, and 560,227 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	10.4 %
Wellington Management Group LLP(3)	7,196,825	9.3 %
BlackRock, Inc.(4)	6,360,111	8.3 %
The Vanguard Group(5)	5,941,281	7.7 %
Weitz Investment Management, Inc.(6)	5,406,215	7.0 %
FMR LLC(7)	4,936,088	6.4 %

(1) Based on 77,032,899 shares of our common stock outstanding as March 16, 2017.

(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 13, 2017, 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 9, 2017, 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 7,196,825 shares and shared voting power with respect to 3,806,397 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 January 25, 2017, 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 6,360,111 shares and sole voting power with respect to 6,180,945 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 10, 2017, 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 5,844,461 shares, shared dispositive power with respect to 96,820 shares, sole voting power with respect to 91,520 shares, and shared voting power with respect to 9,400 shares.

(6) 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 23, 2017. The aggregate number of shares of common stock reported as beneficially owned by Weitz Inc. includes 5,406,215 shares with respect to which Weitz has shared dispositive power and shared voting power.

(7) 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 14, 2017, 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 4,936,088 shares and sole voting power with respect to 1,238,154 shares.

EXECUTIVE COMPENSATION

Table of Contents

Executive Summary of Compensation Discussion and Analysis

Introduction

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

For 2016, executives' above-target annual bonuses were the result of very strong financial performance, while the value of prior years' equity awards were realized (or forfeited) based on longer-term total stockholder return (TSR)

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

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

Feedback received as part of an ongoing outreach with stockholders, as well as consistently strong "Say-on-Pay" support (92% average annual stockholder approval over the 2011 - 2016 period)

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 2016 and longer-term performance

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

Further discussion and detail regarding Redwood's executive compensation program and 2016 compensation for all of Redwood's named executive officers follows this Executive Summary

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Performance-Based Compensation Philosophy

Ø The performance-based compensation program is administered by an independent Compensation Committee and is designed to:

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

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 long-term stockholders in achieving strong shareholder 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

What Redwood Does	What Redwood Does Not Do
ü Directly links annual bonuses to performance	û No guaranteed bonus arrangements
ü Delivers more than 50% of CEO's target compensation in long-term equity grants	û No significant amount of fixed compensation - only base salary and standard benefits are fixed
ü Imposes three- or four-year vesting/holding periods on long-term equity grants	û No "single-trigger" change-in-control payments or benefits
ü Maintains robust stock ownership requirements, with a 6x base salary requirement for the CEO	û No excise tax gross-ups for any change-in-control related payments
ü Subjects bonus and incentive payments to "clawback" if fraud or misconduct results in a financial restatement	û No margin, pledging, or hedging transactions permitted in respect of Redwood stock

Key Elements of the 2016 Executive Compensation Program

Ø Base Salary and Standard Benefits

Base salary and other standard benefits together represent only 17% of the CEO's target compensation for 2016

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 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 business, operational, and risk management goals

Ø Performance Stock Units (PSUs)

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

Vesting is contingent on positive TSR as measured over multiple periods within a three-year overall vesting period, with target-level vesting if TSR is 25% overall

Forfeited if TSR is flat or negative as measured over multiple periods within a three-year overall vesting period

Provides ongoing incentive for executives to enhance long-term TSR

Ø Deferred Stock Units (DSUs)

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

Represents 50% of the annual long-term incentive grant

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

Elements of CEO's Target Compensation - 2016

Redwood's 2016 and Long-Term Performance

Ø Very Strong 2016 Financial Performance

- ¡ Earnings per share of $1.54 (fully diluted, as reported under GAAP)
- ¡ ROE of 11.8% (based on 2016 GAAP financial results)
- ¡ Paid $1.12 per share in dividends ($0.28 per share per quarter)
- ¡ One-year TSR of 25%

Ø Superior Five-Year Results

- ¡ Five-year TSR of 111%
  - § Exceeds S&P 500 by 12 percentage points
- ¡ Average annual ROE of 11% (based on annual GAAP financial results)
- ¡ As measured against other publicly-traded residential mortgage REITs, Redwood's five-year performance is among the highest (see graphs on following page)

Strong Short- and Longer-Term Performance Relative to Other Publicly-Traded Mortgage REITs

Ø One-Year and Five-Year TSR and ROE Performance Compares Very Favorably to Other Publicly-Traded Residential Mortgage REITs

An ROE-based performance measure is the primary determinant of annual bonuses, and is generally aligned over the longer-term with TSR performance, which determines value realized from long-term equity grants

Redwood has regularly compared its financial performance to the 16 publicly-traded REITs shown in the charts below because their business models share a common focus on investing in residential mortgages and related assets[(1)(2)]

1-Year TSR (2016) vs.
Selected Publicly-Traded Residential Mortgage REITs

5-Year TSR (2012-2016) vs.
Selected Publicly-Traded Residential Mortgage REITs

2016 ROE vs.
Selected Publicly-Traded Residential Mortgage REITs

5-Year Average ROE (2012-2016) vs.
Selected Publicly-Traded Residential Mortgage REITs

(1) Mortgage REITs identified above, by ticker symbol, are: Redwood Trust, Inc. (RWT); AG Mortgage Investment Trust Inc. (MITT); AGNC Investment Corp. (AGNC); Annaly Capital Management, Inc. (NLY); Anworth Mortgage Asset Corp. (ANH); Apollo Residential Mortgage Inc. (AMTG); Capstead Mortgage Corp. (CMO); CYS Investments, Inc. (CYS); Dynex Capital Inc. (DX); Hatteras Financial Corp. (HTS); Invesco Mortgage Capital Inc. (IVR); MFA Financial, Inc.(MFA); MTGE Investment Corp. (MTGE); New York Mortgage Trust Inc. (NYMT); PennyMac Mortgage Investment Trust (PMT); Two Harbors Investment Corp. (TWO); and Western Asset Mortgage Capital Corp. (WMC).

(2) Apollo Residential Mortgage Inc. (AMTG) was acquired in August 2016 and Hatteras Financial Corp. (HTS) was acquired in July 2016. 2016 ROEs for these two REITs in graphs above are presented on an annualized basis, with negative 2016 ROE presented as no less than negative 1.5%.

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

- Ø Bonuses earned under the performance-based annual bonus plan are highly correlated with Redwood’s ROE and non-GAAP Adjusted ROE, with very strong 2016 Adjusted ROE resulting in the CEO earning an above-target bonus for 2016*

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

* Adjusted ROE is an ROE-based, non-GAAP financial metric further described on pages 42 - 44 in the discussion that follows this Executive Summary. The 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.

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Illustration of How the Value Realized From the CEO’s Long-Term Equity Awards Tracks the TSR Performance Measure

- Long-term equity grants are the largest portion of the CEO’s target compensation, and 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

- Although Redwood’s five-year TSR is very strong (see graphs above), Redwood’s three-year and medium-term TSR are negative, and the graphs below illustrate how the compensation program’s use of long-term equity awards addresses this performance

Realized/Realizable Value of CEO’s 2013 Year-End Equity Awards	Realizable Value of CEO’s 2014 Year-End Equity Awards

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 2016, 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 / Consistent "Say-on-Pay" Support from Stockholders

Named Executive Officers

Under SEC regulations, Redwood had six NEOs for 2016, which are listed below. Two of these NEOs departed from employment with Redwood during 2016. As of December 31, 2016, Redwood's NEOs for 2016 accounted for four of its 125 employees.

Current Executive Officers
- Martin S. Hughes, Chief Executive Officer
- Christopher J. Abate, President and Chief Financial Officer
Mr. Abate was promoted from Chief Financial Officer to President and Chief Financial Officer in July 2016.
- Shoshone (Bo) Stern, Chief Investment Officer
Mr. Stern was promoted from Treasurer to Chief Investment Officer in September 2016.
- Andrew P. Stone, Executive Vice President, General Counsel, and Secretary

Former Executive Officers (included in this CD&A in accordance with SEC regulations)

- Brett D. Nicholas, former President

During 2016, Mr. Nicholas served as President from January 1 through July 1 prior to his departure from Redwood.

- Fred J. Matera, former Executive Vice President - Commercial Investments and Finance

During 2016, Mr. Matera served as Executive Vice President - Commercial Investments and Finance from January 1 through May 1 prior to his departure from Redwood.

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 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 analysis, 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, specialty finance company 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.

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 2016, the Committee, with input and guidance from its independent compensation consultant, Frederic W. Cook & Co., Inc. (FW Cook), engaged in a comprehensive 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 / Consistent “Say-on-Pay” Support from Stockholders

Outreach to stockholders regarding executive compensation during 2016 and over the past several years has provided Redwood with the opportunity to discuss and receive valuable stockholder feedback regarding Redwood’s philosophy and views on executive compensation and particular compensation practices.
“Say-on-Pay” voting results since 2011 and stockholder outreach and feedback were factors considered by the Committee in deciding to maintain during 2016 the basic structure of Redwood’s performance-based compensation program that has consistently been in place over this six-year period. Since the inception of ‘‘Say-on-Pay’’ voting in May 2011, on average, approximately 92% of stockholder votes cast supported the annual non-binding resolution to approve executive compensation each year. Last year, 92.4% of stockholder votes cast at the May 2016 Annual Meeting of Stockholders supported the annual non-binding resolution to approve executive compensation.

Section II - Performance-Based Compensation in 2016

- Ø Redwood's 2016 and Longer-Term Performance
- Ø Elements of Compensation in 2016
- Ø Process for Compensation Determinations for 2016
- Ø Compensation Benchmarking for 2016
- Ø 2016 Base Salaries
- Ø 2016 Performance-Based Annual Bonus Compensation
- Ø 2016 Long-Term Equity-Based Incentive Awards
- Ø Mandatory Holding Periods for 2016 Long-Term Equity-Based Incentive Awards

Redwood's 2016 and Longer-Term Performance

Redwood's 2016 financial performance was very strong. Measurements of this strong performance include:
•2016 earnings per share of $1.54 (fully diluted, as reported under GAAP)
•Return-on-equity (ROE) for 2016 of 11.8% (based on 2016 GAAP financial results)
•Payment of $1.12 per share in dividends in 2016 ($0.28 per share per quarter)
•Total stockholder return (TSR) for 2016 of 25%

Moreover, Redwood's five-year performance was also very strong, and represents superior returns to stockholders compared to relevant benchmarks:
•5-year TSR was 111% (for the five-year period ending 12/31/16)

- Redwood’s 5-year TSR exceeds the 5-year TSR on the S&P 500 by 12 percentage points
- Average annual ROE over the 2012 - 2016 period was 11% (based on annual GAAP financial results)
- Redwood’s 5-year TSR and average 5-year ROE compares very favorably to other publicly-traded mortgage REITs

Graphics illustrating Redwood’s superior 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 27 of this Proxy Statement

Elements of Compensation in 2016

In 2016, cash compensation for Redwood’s NEOs included a base salary and a performance-based annual bonus. Annual bonuses for 2016 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 2016 (or upon promotion during 2016) 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).

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 opportunity 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 2016 were determined with the assistance of the Committee's independent compensation consultant, FW Cook. The process included reviewing compensation practices of certain 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 the data. Further details regarding the compensation benchmarking peer group and benchmarking practices are provided on pages 39 – 41 within this CD&A under the heading "Compensation Benchmarking for 2016."

For 2016, the Committee designed 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 8.75%, which was the level of Adjusted ROE performance necessary to support the payment of regular dividends in accordance with the Board of Directors' 2016 annual dividend policy.

Adjusted ROE is a non-GAAP performance measure that is defined and described on pages 42 – 44 within this CD&A under the heading "2016 Performance-Based Annual Bonus Compensation."[2] 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 considerations as are applied when setting salaries and target annual bonus opportunities. For 2016, the value of annual long-term equity-based compensation granted 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.

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

- The value of long-term equity-based awards should also take into account Redwood’s overall performance and each NEO’s individual performance.

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 55 – 56 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 and certain NEOs are entitled to severance and change in control benefits in the circumstances described below on pages 56 – 57 within this CD&A under the heading “Severance and Change of Control Arrangements.”

Two former executive officers, Mr. Nicholas and Mr. Matera, are required under SEC regulations to be included as NEOs in this CD&A. In connection with their departure from employment with Redwood during 2016, their respective executive employment agreements provided for severance payments, vesting of certain equity-based awards, and the continuation of certain fringe benefits, including medical coverage for the one-year period following the date of departure. Additional information relating to the severance benefits provided to Mr. Nicholas and Mr. Matera is included below on page 57 within this CD&A under the heading “Severance and Change of Control Arrangements,” on pages 77 – 78 of this Proxy Statement under the heading "Potential Payments upon Termination or Change of Control," and on pages 63 – 65 of this Proxy Statement in the Summary Compensation Table.

Process for Compensation Determinations for 2016

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 2016 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 2016 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. 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 addition, FW Cook assists the Committee in determining the form and structure of the executive compensation program.

As part of its process for making compensation determinations for NEOs at the end of 2016, the Committee also considered the following:

- Each NEO provided a self-assessment of his individual performance over the year;
- Mr. Hughes provided the Committee with his recommendation 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 NEOs based on peer comparisons, other supplemental benchmarking data, and Redwood’s compensation philosophy.

Compensation Benchmarking for 2016

As in prior years, in 2016 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 30 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, as well as limited insurance brokerage services and advisory services related to Redwood's captive insurance subsidiary, including data used for benchmarking compensation for employees below the NEO level.

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 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, 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 2016 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 are: (1) included in the prior year’s compensation benchmarking peer group or (2) commonly 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

Based on the above-described methodology, the compensation benchmarking peer group of companies designated by the Committee in 2016 for use in the competitive pay analysis prepared by FW Cook consisted of the following 21 companies: AllianceBernstein Holding L.P., Capstead Mortgage Corporation, Chimera Investment Corporation, Cohen & Steers, Inc., CYS Investments, Inc., Dynex Capital, Inc., Essent Group Ltd., Federated Investors, Inc., Hannon Armstrong Sustainable Infrastructure Capital, Inc., iStar Financial Inc., Janus Capital Group Inc., Ladder Capital Corp, Main Street Capital Corporation, MFA Financial, Inc., Nationstar Mortgage Holdings Inc., New York Mortgage Trust, Inc., NMI Holdings, Inc., PennyMac Financial Services, Inc., RAIT Financial Trust, Stifel Financial Corp., and Walter Investment Management Corp.

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 are 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 2015 compensation benchmarking peer group were removed for 2016. One company no longer met the defined size criteria for inclusion (i.e., MarketAxess Holdings Inc.) and one company was excluded due to the absence of comprehensive disclosure of executive compensation information as a result of having externalized its management (i.e., Northstar Realty Finance Corporation). Two companies not included in Redwood's 2015 compensation benchmarking peer group were added to the 2016 compensation benchmarking peer group. Both were previously identified as potential members of the compensation benchmarking peer group, but were excluded at that time (a) due to the absence of comprehensive disclosure of executive compensation information, as a result of its only recently having become internally-managed (i.e., Chimera Investment Corporation) and (b) because it did not previously satisfy the defined size criteria for inclusion (i.e., Hannon Armstrong Sustainable Infrastructure Capital, Inc.).

2016 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 2016 NEO base salaries as follows:

Current Executive Officers

- Mr. Hughes. In December 2015, the Committee determined that the 2016 base salary for Mr. Hughes, Redwood's CEO, would remain at its year-end 2015 level of $750,000.
- Mr. Abate. In December 2015, the Committee determined that the 2016 base salary for Mr. Abate, Redwood's Chief Financial Officer, would be increased to $475,000 from $425,000.

Effective July 1, 2016, Mr. Abate was promoted to be Redwood's President and Chief Financial Officer. Mr. Abate's 2016 base salary rate was increased at that time from $475,000 to $550,000 per annum, as approved by the Committee, to reflect his increased role and responsibilities.

Consequently, base salary actually paid to Mr. Abate during 2016 was $512,500.

- Mr. Stern. Effective September 1, 2016, Shoshone (Bo) Stern was promoted to be Redwood's Chief Investment Officer. Mr. Stern's 2016 base salary rate was increased at that time from $300,000 to $375,000 per annum, as approved by the Committee, to reflect his increased role and responsibilities.

Consequently, base salary actually paid to Mr. Stern during 2016 was $325,000.

- Mr. Stone. In December 2015, the Committee determined that the 2016 base salary for Mr. Stone, Redwood's General Counsel, would remain at its year-end 2015 level of $375,000.

Former Executive Officers

- Mr. Nicholas. In December 2015, the Committee determined that the 2016 base salary for Mr. Nicholas, Redwood's President, would remain at its year-end 2015 level of $600,000.
- Mr. Matera. In December 2015, the Committee determined that the 2016 base salary for Mr. Matera, Redwood's Chief Investment Officer during 2015, would remain at its year-end 2015 level of $500,000.

2016 Performance-Based Annual Bonus Compensation

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

NEOs' Aggregate Performance-Based Annual Bonuses v. Redwood's ROE and Adjusted ROE*
* Adjusted ROE is reconciled to ROE determined in accordance with GAAP in Annex A to this Proxy Statement.

Components of 2016 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 2016, after consultation with FW Cook, that 2016 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 business, operational, 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 business, operational, 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 2016 Annual Bonuses. During the first quarter of 2016, after a review of Redwood's compensation program, and following consultation with FW Cook, the Committee determined to continue to use in 2016 the same financial metric to underlie the company performance bonus that was used in 2015 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. In contrast, under GAAP, because these unrealized gains and losses impact equity capital, but are not recognized in earnings, they can inappropriately distort this ratio for purposes of making compensation determinations.

- 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, is correlated with long-term stockholder returns. Adjusted ROE is reconciled to ROE determined in accordance with GAAP for the years 2011 through 2016 in Annex A to this Proxy Statement.

Financial Performance Target for 2016 Annual Bonuses. For 2016, 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 2015, 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 not be lower than the level commensurate with earnings equal to the Board's annual dividend policy for 2016.
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 2016 financial performance target, the risk-free interest rate for this purpose should be 1.50%, which represented the average interest rate during the prior two calendar years on five-year U.S. Treasury obligations (after rounding to the nearest 0.25%), 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 2016 company performance bonuses for NEOs, target bonus amounts would be earned if Adjusted ROE equaled 8.75%, which represented a level of financial performance commensurate with earnings equal to the Board of Directors' annual dividend policy for 2016; and (iii) with respect to 2016 company performance bonuses for NEOs, no bonuses would be earned if Adjusted ROE was 4.75% or less; bonuses below or at the target bonus amounts would be earned if Adjusted ROE was between 4.75% and 8.75%; and bonuses in excess of the target bonus amounts would not be earned unless Adjusted ROE was more than 8.75%.

The use of an initial performance threshold of greater than 4.75% 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 4.75% and 8.75% 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 8.75%.

The Committee also determined that for Adjusted ROE in excess of 8.75%, 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 2016 that individual performance in 2016 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 2016 — Individual Performance Component of 2016 Annual Bonuses.” As in past years, during 2016 these individual factors and goals were subject to adjustment when circumstances warranted, at the discretion of the Committee. For 2016, 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 2016 would continue to be $5 million for each of Mr. Hughes, Mr. Abate, and Mr. Nicholas 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' 2016 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 2016 base salary) as follows:

Current Executive Officers

- Mr. Hughes and Mr. Stone. In December 2015, the Committee determined that the 2016 target bonus percentages for Mr. Hughes and Mr. Stone would remain the same as they were for 2015, at 175% and 110% of base salary, respectively.
- Mr. Abate. In December 2015, the Committee determined that the 2016 target bonus percentage for Mr. Abate would be increased from 115% for 2015 to 140% for 2016.

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.

As noted above, effective July 1, 2016, Mr. Abate was promoted to be Redwood's President and Chief Financial Officer. Mr. Abate's 2016 target bonus percentage was increased at that time from 140% to 150% of actual base salary paid for full-year 2016, as approved by the Committee, to reflect his increased role and responsibilities.

- Mr. Stern. As noted above, effective September 1, 2016, Mr. Stern was promoted to be Redwood's Chief Investment Officer. Mr. Stern's 2016 target bonus percentage was designated by the Committee at 125% of actual base salary paid for full-year 2016 to reflect his increased role and responsibilities.

Former Executive Officers

- Mr. Nicholas and Mr. Matera. In December 2015, the Committee determined that the 2016 target bonus percentages for Mr. Nicholas and Mr. Matera would remain the same as they were for 2015.

The table below sets forth the 2016 target annual bonuses that were established for each NEO.

NEO	2016 Base Salary (per annum)	2016 Target Annual Bonus (as % of Base Salary)	Company Performance Component of 2016 Target Annual Bonus ($)	Individual Performance Component of 2016 Target Annual Bonus ($)	Total 2016 Target Annual Bonus ($)
Current Executive Officers					
Mr. Hughes, Chief Executive Officer	$750,000	175 %	$ 984,375	$ 328,125	$1,312,500
Mr. Abate, President and Chief Financial Officer					
January 1 - June 30, 2016	$475,000	150 %	$ 267,188	$ 89,063	$356,250
July 1 - December 31, 2016	$550,000	150 %	$ 309,375	$ 103,125	$412,500
Total - Mr. Abate			$ 576,563	$ 192,188	$