

Redwood Trust

AUDIT COMMITTEE CHARTER

Organization

There shall be a committee of the Board of Directors of Redwood Trust, Inc. (Redwood) to be known as the Audit Committee. The Audit Committee shall be comprised entirely of independent directors. An “independent” director is based on the definitions regulated by law or rule of the Securities and Exchange Commission (SEC) or applicable stock exchange. In addition, for this purpose, an “independent” director shall mean a director who does not take part in the management of Redwood and is free of any relationship that, in the opinion of the Board of Directors, would interfere with his or her exercise of independent judgment as an Audit Committee member.

The membership of the Audit Committee shall consist of no fewer than three independent members of the Board of Directors upon recommendation of the Governance and Nominating Committee. The members shall serve at the pleasure of the Board of Directors and may be removed by the Board of Directors at any time.

All members of the Audit Committee shall have a working familiarity with basic finance and accounting practices, be financially literate, and at least one member of the committee shall have accounting or related financial management expertise.

Statement of Policy

The Audit Committee shall provide assistance to Redwood’s directors and management in fulfilling their responsibility to the shareholders, potential shareholders, and the investment community relating to corporate accounting, reporting practices of Redwood, the quality and integrity of the financial reports and controls of Redwood, the auditors’ qualifications and independence, the performance of the auditors and internal audit function, and the compliance by Redwood with legal and regulatory matters.

Responsibilities

In carrying out its responsibilities, the Audit Committee believes its policies and procedures should remain flexible, in order to best react to changes in conditions, rules, and regulations and to ensure to the directors and shareholders that the corporate accounting, financial reporting, and control practices of Redwood are in accordance in all material respects with all appropriate requirements. The duties and responsibilities of a member of the Audit Committee are in addition to those duties set out for a member of the Board of Directors.

In carrying out its responsibilities, the Audit Committee, to the extent it deems necessary or appropriate, will:

1. Provide an open avenue of communication between the auditors and the Board of Directors.
2. Review and update the Audit Committee's charter at least annually.
3. Report Audit Committee actions to the Board of Directors with recommendations as may be deemed appropriate.
4. Meet as often as it determines, but not less frequently than quarterly. The Audit Committee may ask members of management or others to attend any meeting and provide pertinent information as necessary. Meetings can be in person or by telephone.
5. Meet with the auditors, the internal auditors (or the personnel responsible for such function), and management in separate executive sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately.
6. Conduct an annual self-evaluation of the Audit Committee's performance.
7. Prepare an Audit Committee Report for inclusion in the annual proxy statement that describes the Audit Committee's composition and responsibilities and how they were discharged.
8. Retain the auditors to be engaged (in some cases, subject to shareholder ratification), review their performance and terminate auditors (if deemed necessary and appropriate). The auditors shall report directly to the Audit Committee.
9. Obtain and review annually a formal written statement from the auditors describing (i) the firm's internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues, and (iii) all relationships between Redwood and the auditors. Discuss with the auditors any disclosed relationships or services that may impact the auditors' objectivity and independence.
10. Review and pre-approve the scope, terms, and related fees of all auditing services and permitted non-audit services provided by the auditors, subject to the de minimus exceptions for non-audit services which are approved by the Audit Committee prior to the completion of the audit.
11. Consider, in consultation with the auditors, the audit scope, and the audit plan of the auditors. Review with the auditors the coordination of all audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of all resources.

12. Consider and review with the auditors:
 - a. The adequacy of Redwood's internal controls in providing reasonable assurance regarding the effectiveness and efficiency of operations.
 - b. The reliability of financial reporting and compliance with applicable laws and regulations.
 - c. Any related significant findings, difficulties and recommendations of the auditors related to their findings during the audit together with management's responses thereto including any restrictions on the scope of the auditor's activities or on access to requested information, and any significant disagreements with management.
 - d. The auditors' response to detecting or becoming aware of any information that would indicate an illegal act, including fraud, has or may have occurred.

13. Review with management and auditors at the completion of the annual examination:
 - a. Redwood's annual financial statements and related footnotes.
 - b. The auditors' audit of the financial statements and their report thereon.
 - c. Any significant changes required in the auditors' audit plans.
 - d. Significant findings during the year and management's response thereto.
 - e. The adequacy of the disclosure controls and procedures in all Redwood's filings with the SEC.
 - f. Other matters related to the conduct of the audit which are to be communicated to the Audit Committee under generally accepted auditing standards including Auditing Standards No. 61 relating to the conduct of the audit.

14. Review and discuss reports from the auditors on:
 - a. All critical accounting policies and practices to be used.
 - b. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatments preferred by the auditors.
 - c. Other material written communication between the auditor and management, such as any management letter or schedule of unadjusted differences.

15. Review with management and auditors the annual and interim financial reports before such reports are filed with the SEC or other regulators including Redwood's disclosures under "Management's Discussion and Analysis of Financial Conditions and Results of Operations". Review the earnings release, including any use of "pro forma" or "adjusted" non-GAAP information.

16. Review annually Redwood's internal audit plan. The plan shall include an assessment of the internal audit requirements, given appropriate consideration to the size and complexity of Redwood. The Audit Committee will engage internal auditors and other personnel for specified internal audit functions, as deemed appropriate.

17. Review with management and the auditors and report to the Board of Directors the effectiveness of Redwood's internal controls including discussing any significant deficiencies in the design or operation of internal controls which could adversely affect Redwood's ability to record, process, summarize, and report financial or other data, and identifying any material weaknesses in internal controls along with the steps planned to make necessary improvements. Review disclosures made to the Audit Committee by Redwood's CEO and CFO during their certification process for SEC filings.

18. Discuss with management and the auditors any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding Redwood's financial statements or accounting policies.

19. Inquire of management and the auditors 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 as well as off-balance sheet structures (if any) on Redwood's financial statements, and assess the steps management has taken to minimize such risks to Redwood and steps taken to disclose such information to the public.
20. Review and evaluate the lead partner of the external auditor team. Ensure the rotation of the lead partner as required by law and regulation. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the auditing firm on a regular basis.
21. Pre-approve Redwood's hiring of employees or former employees of the auditors who have previously participated in any capacity in the audit or other services provided to Redwood.
22. Discuss with Redwood's corporate counsel legal matters that may have a material impact on Redwood's financial statements or Redwood's compliance policies.
23. The Audit Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to independently retain counsel, accountants, or others to assist it in the conduct of any investigation or for any other reason deemed necessary and appropriate. Redwood shall provide funding for all services performed by auditors and other advisors at the request of the Audit Committee.
24. Establish procedures for the confidential, anonymous submission by employees to the designee of the Audit Committee concerns regarding questionable accounting or auditing matters that may affect the integrity of Redwood's disclosures, financial reporting, accounting processes, compliance, or any other area. Ensure the confidential and anonymous nature of the communication process to all employees at Redwood. Further establish procedures for the receipt, retention, and treatment of complaints and concerns received regarding accounting, internal controls, auditing, or regulatory matters.
25. Delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, review of interim financial statements and press releases prior to filing, provided that decisions of such subcommittee shall be presented to the full Audit Committee at its next meeting.
26. The Committee will perform such other functions as assigned by law, any applicable exchange rules and regulations, the SEC's or applicable stock exchange's rules and regulations, Redwood's charter or bylaws, or the Board of Directors.

Limitation of Audit Committee's Role

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or establish internal controls or to determine that Redwood's financial statements are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the auditors.