REDWOOD TRUST INC
Form 424B2
January 31, 2019

Filed Pursuant to Rule 424(b)(2)
Registration Statement No. 333-211267

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be registered	Maximum offering price per share(1)	Maximum aggregate offering price	Amount of Registration fee
Common Stock, $0.01 par value per share	11,500,000	$ 16.10	$ 185,150,000	$ 22,440.18

(1)
Estimated in accordance with Rule 457(c) under the Securities Act of 1933, as amended (the “Securities Act”) solely for the purpose of calculating the amount of the registration fee. The maximum offering price per security and the maximum aggregate offering price are based on the average of the $16.15(high) and $16.05(low) sale price of the Redwood Trust, Inc.’s common stock as reported by the New York Stock Exchange on January 28, 2019.

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Prospectus Supplement to Prospectus dated May 10, 2016.
10,000,000 shares

Common Stock

We are offering 10,000,000 shares of our common stock to be sold in this offering. We will receive all of the net proceeds from the sale of our common stock.

Our common stock is listed on The New York Stock Exchange, or NYSE, under the symbol "RWT." On January 28, 2019, the last reported sale price of our common stock on the NYSE was $16.14 per share.

We have elected to be taxed as a REIT for U.S. federal income tax purposes. In order to protect us against the risk of losing our qualification as a REIT due to concentration of ownership of our outstanding stock, our charter generally prohibits any single stockholder, or any group of affiliated stockholders, from beneficially owning more than 9.8% of the outstanding shares of any class of our stock, unless our board of directors waives or modifies this ownership limit. In addition, our charter contains various other restrictions on the ownership and transfer of shares of our common stock. See "Restrictions on Ownership and Transfer and Repurchase of Shares" beginning on page 30 of the accompanying prospectus.

An investment in our common stock involves risk. See "Risk Factors" beginning on page S-12 of this prospectus supplement and on page 3 of our Annual Report on Form 10-K for the year ended December 31, 2017 to read about important factors that you should consider before investing in our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters have agreed to purchase our common stock from us at a price of $15.46 per share, which will result in approximately $154.3 million of net proceeds to us after deducting offering expenses payable by us. The underwriters propose to offer the shares of common stock from time to time for sale in negotiated transactions or otherwise, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices, subject to receipt of acceptance by it and subject to its right to reject any order in whole or in part. See "Underwriting" beginning on page S-21 of this prospectus supplement.

We have granted the underwriters an option to purchase up to an additional 1,500,000 shares from us at the price set forth above, within 30 days of the date of this prospectus supplement.

The shares of common stock sold in this offering will be ready for delivery on or about February 1, 2019.

Joint-Book Running Managers

Wells Fargo Securities   J.P. Morgan   Credit Suisse   Goldman Sachs & Co. LLC

Co-manager

JMP Securities

January 29, 2019.

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About this Prospectus Supplement

You should read this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering when making your investment decision. You should also read and consider the information in the documents we have referred you to in the section of this prospectus supplement entitled “Where You Can Find More Information.” This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 we have filed with the Securities and Exchange Commission, which we refer to as the SEC, under the Securities Act of 1933, as amended. This prospectus supplement and the accompanying prospectus do not contain all of the information in the registration statement. We have omitted certain parts of the registration statement, as permitted by the rules and regulations of the SEC. You may inspect and copy the registration statement, including exhibits, on the SEC’s website at www.sec.gov or at the SEC’s public reference room. See “Where You Can Find More Information” in the accompanying prospectus. In addition, any statement in a filing we make with the SEC that adds to, updates or changes information contained in an earlier filing we made with the SEC shall be deemed to modify and supersede such information in the earlier filing.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to “Redwood,” “we,” “us,” “our” or similar references mean Redwood Trust, Inc. and its subsidiaries.

If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus that we have authorized for use in connection with this offering. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference herein or therein. If anyone provides you with different or inconsistent information, you should not rely on it.

We are not, and the underwriters are not, making an offer to sell the shares of our common stock in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering is accurate only as of the date of those respective documents. Our business, financial condition, results of operations, and prospects may have changed since that date. Neither this prospectus supplement nor the accompanying prospectus constitutes an offer, or an invitation on our behalf or on behalf of the underwriters, to subscribe for and purchase any of the securities, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

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Forward-Looking Statements

This prospectus supplement, the accompanying prospectus, the documents incorporated by reference and any free writing prospectus that we have authorized for use in connection with this offering contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these statements by forward-looking words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “plan,” “could,” “should,” “continue” or the negative of such terms or s words or expressions. These forward-looking statements may also use different phrases.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include, among other things, statements that address our strategy and operating performance and events or developments that we expect or anticipate will occur in the future, including, but not limited to, our statements in “Summary — The Offering” on page S-7 and “Use of Proceeds” on page S-16 regarding our intended use of the proceeds of this offering.

These forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any forward-looking statements. The risks and uncertainties include those described in our Annual Report on Form 10-K for the year ended December 31, 2017 and in our subsequent filings under the Securities Exchange Act of 1934, as amended, as well as those referenced in “Risk Factors” below. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed could also adversely affect us. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Important factors, among others, that may affect our actual results include: the pace at which we redeploy our available capital into new investments and initiatives; our ability to scale our platform and systems, particularly with respect to our new initiatives; interest rate volatility, changes in credit spreads, and changes in liquidity in the market for real estate securities and loans; changes in the demand from investors for residential mortgages and investments, and our ability to distribute residential mortgages through our whole-loan distribution channel; our ability to finance our investments in securities and our acquisition of residential mortgages with short-term debt; changes in the values of assets we own; general economic trends, the performance of the housing, real estate, mortgage, credit, and broader financial markets, and their effects on the prices of earning assets and the credit status of borrowers; federal and state legislative and regulatory developments, and the actions of governmental authorities, including the new U.S. presidential administration, and in particular those affecting the mortgage industry or our business (including, but not limited to, the Federal Housing Finance Agency’s rules relating to FHLB membership requirements and the implications for our captive insurance subsidiary’s membership in the FHLB); strategic business and capital deployment decisions we make; developments related to the fixed income and mortgage finance markets and the Federal Reserve’s statements regarding its future open market activity and monetary policy; our exposure to credit risk and the timing of credit losses within our portfolio; the concentration of the credit risks we are exposed to, including due to the structure of assets we hold and the geographical concentration of real estate underlying assets we own; our exposure to adjustable-rate mortgage loans; the efficacy and expense of our efforts to manage or hedge credit risk, interest rate risk, and other financial and operational risks; changes in credit ratings on assets we own and changes in the rating agencies’ credit rating methodologies; changes in interest rates; changes in mortgage prepayment rates; changes in liquidity in the market for real estate securities and loans; our ability to finance the acquisition of real estate-related assets with short-term debt; the ability of counterparties to satisfy their obligations to us; our involvement in securitization transactions, the profitability of those transactions, and the risks we are exposed to in engaging in securitization transactions; exposure to claims and litigation, including litigation arising from our involvement in securitization transactions; ongoing litigation against

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various trustees of RMBS transactions; whether we have sufficient liquid assets to meet short-term needs; our ability to successfully compete and retain or attract key personnel; our ability to adapt our business model and strategies to changing circumstances; changes in our investment, financing, and hedging strategies and new risks we may be exposed to if we expand our business activities; our exposure to a disruption or breach of the security of our technology infrastructure and systems; exposure to environmental liabilities; our failure to comply with applicable laws and regulations; our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures; the impact on our reputation that could result from our actions or omissions or from those of others; changes in accounting principles and tax rules; our ability to maintain our status as a REIT for tax purposes; limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940; decisions about raising, managing, and distributing capital; our expectations regarding the use of the net proceeds from this offering; and other factors not presently identified.

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Prospectus Supplement Summary

This summary highlights selected information appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus and may not contain all of the information that is important to you. This prospectus supplement and the accompanying prospectus include information about the shares of common stock we are offering as well as information regarding our business and financial data. You should read this prospectus supplement and the accompanying prospectus, including information incorporated by reference, and any free writing prospectus that we have authorized for use in connection with this offering, in their entirety. Investors should carefully consider the information set forth under “Risk Factors” in this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2017, which is incorporated by reference into this prospectus supplement and the accompanying prospectus. Unless otherwise stated, all information contained in this prospectus supplement assumes no exercise of the underwriters’ option to purchase additional shares of common stock in this offering.

About Redwood Trust, Inc.

Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on making credit-sensitive investments in residential mortgages and related assets and engaging in mortgage banking activities. Our goal is to provide attractive returns to stockholders through a stable and growing stream of earnings and dividends, as well as through capital appreciation. We operate our business in two segments: Investment Portfolio and Mortgage Banking. Our primary sources of income are net interest income from our investment portfolio and non-interest income from our mortgage banking activities. Net interest income consists of the interest income we earn on investments less the interest expense we incur on borrowed funds and other liabilities. Income from mortgage banking activities consists of the profit we seek to generate through the acquisition of loans and their subsequent sale or securitization.

Redwood Trust, Inc. has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, beginning with its taxable year ended December 31, 1994. We generally refer, collectively, to Redwood Trust, Inc. and those of its subsidiaries that are not subject to subsidiary-level corporate income tax as “the REIT” or “our REIT.” We generally refer to subsidiaries of Redwood Trust, Inc. that are subject to subsidiary-level corporate income tax as “our operating subsidiaries” or “our taxable REIT subsidiaries” or “TRS.”

Our mortgage banking activities and investments in mortgage servicing rights, or MSRs, are generally carried out through our taxable REIT subsidiaries, while our portfolio of mortgage- and other real estate-related investments is primarily held at our REIT. We generally intend to retain profits generated and taxed at our taxable REIT subsidiaries, and to distribute as dividends at least 90% of the taxable income we generate at our REIT.

Our Investment Portfolio segment primarily includes a portfolio of investments in residential mortgage-backed securities retained from our Sequoia securitizations, residential and multifamily securities issued by third parties and other credit risk-related investments. In addition, this segment includes a subsidiary of Redwood Trust that is a member of the Federal Home Loan Bank of Chicago, or FHLBC, that utilizes attractive long-term financing from the FHLBC to make long-term investments directly in residential mortgage loans. This segment also includes investments in MSRs associated with residential loans we have sold or securitized, as well as MSRs that we have purchased from third parties. The Investment Portfolio segment’s main sources of revenue are interest income from investment portfolio securities and residential loans held-for-investment, as well as MSR income. Additionally, this segment may realize gains and losses upon the sale of securities, which is offset by interest income we pay on our financings and funding expenses, hedging expenses, direct operating expenses, and tax provisions associated with these activities. Beginning in the third quarter of 2018, our Investment Portfolio segment includes fix-and-flip loans held-for-investment as well as multifamily loans held-for-investment at consolidated Freddie Mac securitization entities.

Our Mortgage Banking segment operates a mortgage loan conduit that acquires residential loans from third-party originators for subsequent sale, securitization, or transfer to our Investment Portfolio. We typically acquire prime, jumbo mortgages and the related MSRs on a flow basis from our network of loan sellers and distribute those loans through our Sequoia private-label securitization program or to institutions that acquire pools of whole loans or hold these loans in our Investment Portfolio. We occasionally supplement our flow purchases with bulk loan acquisitions. This segment also includes various derivative financial instruments that we utilize to manage certain risks associated with residential mortgage loans we acquire. Our Mortgage Banking segment's main source of revenue is income from mortgage banking activities, which includes valuation increases (or gains) on the sale or securitization of loans, and from hedges used to manage risks associated with these activities. This segment may generate interest income on loans held pending securitization or sale. Funding expenses, direct operating expenses, and tax expenses associated with these activities are also included in this segment. Additionally, beginning in the third quarter of 2018, our Mortgage Banking segment includes our single-family rental loans held-for-sale.

We sponsor our Sequoia securitization program, which we use for the securitization of residential mortgage loans. We are required under Generally Accepted Accounting Principles in the United States, or GAAP, to consolidate the assets and liabilities of certain Sequoia securitization entities we have sponsored for financial reporting purposes. However, each of these entities is independent of Redwood and of each other, and the assets and liabilities of these entities are not owned by us or legal obligations of ours, respectively, although we are exposed to certain financial risks associated with our role as the sponsor or depositor of these entities and, to the extent we hold securities issued by, or other investments in, these entities, we are exposed to the performance of these entities and the assets they hold. We refer to certain of these securitization entities issued prior to 2012 as "consolidated Legacy Sequoia entities," and the securitization entities formed in connection with the securitization of Redwood Choice expanded-prime loans as the "consolidated Sequoia Choice entities." Where applicable, in analyzing our results of operations, we distinguish results from current operations "at Redwood" and from consolidated Legacy Sequoia or Sequoia Choice entities.

Recent Developments

Preliminary Estimates of Net Income Per Diluted Common Share and Non-GAAP Core Earnings Per Diluted Common Share for the Quarter Ended December 31, 2018 and Book Value Per Common Share at December 31, 2018

Although our financial results for the fourth quarter of 2018 are not yet finalized, on a preliminary basis we estimate the following:

- Net income per diluted common share is estimated to be in the range of $(0.04) to $(0.01) for the quarter ended December 31, 2018

- Non-GAAP core earnings per diluted common share* is estimated to be in the range of $0.37 to $0.40 for the quarter ended December 31, 2018

- Book value per common share** is estimated to be in the range of $15.87 to $15.90 at December 31, 2018

Additionally, we estimate the following with respect to operating results for the quarter and year ended December 31, 2018:

* A reconciliation of estimated net income per diluted common share to estimated non-GAAP core earnings per diluted common share for the quarter ended December 31, 2018, along with an explanation of this non-GAAP financial measure, is provided below under the heading "Non-GAAP Core Earnings per Diluted Common Share".

** Estimated book value per common share at December 31, 2018 is based on 84,884,344 common shares issued and outstanding as of such date. Shares of common stock outstanding do not include approximately 56.5 million shares of common stock (i) issuable in respect of vested and unvested deferred stock units, (ii) issuable in respect of unvested performance stock units (assuming maximum vesting under the performance-based vesting formula), (iii) reserved for issuance under our equity and

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- We deployed $235 million of capital into new investments in the fourth quarter of 2018, bringing year-to-date deployment to $810 million through the end of December 31, 2018.

- We purchased $1.6 billion of residential jumbo loans during the fourth quarter of 2018, bringing year-to-date purchases to $7.1 billion.

- Residential loan distribution activity during the fourth quarter of 2018 totaled $1.3 billion, including $0.8 billion of whole loan sales to third parties and $0.5 billion of loans that were securitized.

- At December 31, 2018, we estimate our capital available for investment was approximately $85 million.

- At December 31, 2018, we estimate that our ratio of recourse debt at Redwood to stockholders' equity is 3.5:1.(1)

Our financial statement closing and review procedures for the quarter ended December 31, 2018 are not yet complete and, as a result, the financial results information set forth above reflects our preliminary estimate with respect to such information, based on information currently available to management, and may vary from our actual financial results as of and for the quarter ended December 31, 2018. Further, these preliminary estimates are not a comprehensive statement or estimate of our financial results or financial condition as of and for the quarter ended December 31, 2018. These preliminary estimates should not be viewed as a substitute for full interim financial statements prepared in accordance with GAAP and they are not necessarily indicative of the results to be achieved in any future period. Accordingly, you should not place undue reliance on these preliminary estimates.

These preliminary estimates, which are the responsibility of our management, were prepared by our management and are based upon a number of assumptions. Additional items that may require adjustments to these preliminary estimates may be identified and could result in material changes to these preliminary estimates. Preliminary estimates of results are inherently uncertain and we undertake no obligation to update this information. See "Forward-Looking Statements" beginning on page S-iv and "Risk Factors" beginning on page S-12 of this prospectus supplement and beginning on page 6 of our Annual Report on Form 10-K for the year ended December 31, 2017, and any other information included or incorporated by reference in this prospectus supplement and the accompanying base prospectus for a discussion of factors that could impact our actual results of operations. Grant Thornton LLP, our independent registered public accounting firm, has not audited, reviewed, compiled or performed any procedures with respect to this preliminary financial information. Accordingly, Grant Thornton LLP does not express an opinion or provide any form of assurance with respect thereto.

Non-GAAP Core Earnings per Diluted Common Share

Above, we present a preliminary estimate of Redwood's non-GAAP core earnings per diluted common share for the quarter ended December 31, 2018. We caution that non-GAAP core earnings per diluted common share should not be utilized in isolation, nor should it be considered as an alternative to net income per diluted common share computed in accordance with GAAP, or other measurements of results of operations computed in accordance with GAAP.

The table below presents a reconciliation between GAAP net income per diluted common share and non-GAAP core earnings per diluted common share for the quarter ended December 31, 2018. Further information about this non-GAAP financial measure, and how management uses it, is set forth below these tables.

incentive compensation plans, (iv) reserved for issuance under our at-the-market offering program, (v) reserved for issuance under our direct stock purchase and dividend reinvestment plans or (vi) issuable upon conversion or exchange of our outstanding convertible or exchangeable notes, in each case as of December 31, 2018.

(1)

Excludes ABS issued at consolidated entities.

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	Three Months Ended 12/31/2018
Estimated GAAP net income per diluted common share	$(0.04) – $(0.01)
Estimated Non-GAAP Core earnings adjustments(1)	
Eliminate mark-to-market changes on long-term investments and associated derivatives(2)	$0.40
Include cumulative gain (loss) on long-term investments sold, net(3)	$0.04
Income tax adjustment associated with core earnings adjustments(4)	$(0.03)
Estimated Non-GAAP core earnings per diluted common share(5)(6)	$0.37 – $0.40

(1)
Adjustments are estimated using approximate per share values in our per share calculations for GAAP EPS and non-GAAP core EPS. Per share amounts for GAAP net income (loss) reflect basic earnings per share without the impact of convertible notes, in accordance with GAAP. For non-GAAP core earnings per share, certain convertible notes were determined to be dilutive in the period presented and were included in the calculations of diluted non-GAAP EPS under the "if-converted" method. Under this method, the periodic interest expense (net of applicable taxes) for dilutive notes is added back to the numerator and the number of shares that the notes are entitled to (if converted, regardless of whether they are in or out of the money) are included in the denominator.

(2)
Adjustments eliminate the mark-to-market changes on the fair value of loans held-for-investment, trading securities, other investments, and associated derivatives that are primarily related to changes in benchmark interest rates and credit spreads.

(3)
Adjustment includes in core earnings per diluted common share the cumulative net gains or losses on long-term investments accounted for as trading securities under GAAP that were sold during the period presented, net of any realized gains or losses from derivatives associated with the investments sold. Cumulative gains and losses are calculated by multiplying the difference between the sales price and original purchase price by the face value of the securities sold.

(4)
We apply estimated effective tax rates to core earnings adjustments occurring within Redwood's taxable REIT subsidiaries to estimate the hypothetical income tax expense or benefit associated with those adjustments.

(5)
Consistent with the calculation of net income per diluted common share for GAAP purposes, non-GAAP core earnings per diluted common share is calculated following the "two-class" method.

(6)
Numbers do not foot due to rounding.

Core earnings per diluted common share is a non-GAAP measure of Redwood's earnings and results of operations. Specifically, management has defined core earnings per diluted common share as: GAAP net income per diluted common share adjusted to (i) eliminate the impact of quarterly mark-to-market changes on the fair value of our long-term investments (and associated derivatives) related to changes in benchmark interest rates and credit spreads, (ii) include the cumulative net gains or losses on long-term investments accounted for as trading securities under GAAP that were sold during the period presented, net of any gains or losses from derivatives associated with the investments sold, and (iii) include the hypothetical income taxes associated with these core earnings adjustments. To calculate core earnings per diluted common share, we follow the same methodology for calculating basic and diluted earnings per common share under GAAP, but adjust GAAP net income by the core earnings adjustments described above prior to applying that methodology.

Management utilizes this non-GAAP core earnings per diluted common share measure internally as one way of analyzing Redwood's performance over multiple periods, as it believes it provides useful comparative results absent the impact of certain quarterly mark-to-market changes on investments held through the end of the period presented and inclusive of all realized gains and losses from securities sales.

Specifically, the quarterly mark-to-market changes in the value of our long-term investments in loans, trading securities, and other investments, as well as the associated derivatives, resulting from changes in benchmark interest rates and credit spreads may not be reflective of the total return management would expect to earn from them over the longer-term.

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Additionally, the adjustment to include cumulative net gains or losses from the sale of trading securities is to ensure that non-GAAP core earnings per diluted common share presents consistently the impact of the sales of investments regardless of whether they are accounted for as (i) trading securities or (ii) available-for-sale securities, in each case under GAAP, as outlined below.

- Under GAAP, available-for-sale securities are reported at their fair value with periodic changes in fair value recognized through the balance sheet in shareholders' equity. When an available-for-sale security is sold, the cumulative gain or loss since purchase is recognized through the income statement, in realized gains, net, in the period the sale occurred. As a result, any such cumulative gains or losses are reflected in core earnings per diluted common share in the period the sale occurred.

- Under GAAP, trading securities are reported at their fair value with periodic changes in fair value recognized through the income statement in Investment fair value changes, net. Certain of these periodic changes in fair value (as described above) are excluded from core earnings per diluted common share. Core earnings per diluted common share includes an adjustment to include the cumulative net gains or losses (from purchase through the sale of the investment) for sold trading securities in the period they are sold. The result is to consistently present within core earnings per diluted common share the cumulative gains or losses from the sale of long-term investments, regardless of how they are accounted for under GAAP.

Non-GAAP core earnings per diluted common share also includes adjustments to show the hypothetical tax provision or benefit that would be associated with the core earnings adjustments. As a REIT, we are subject to income taxes on earnings generated at our taxable REIT subsidiaries (TRS) and generally not subject to income taxes on earnings generated at the REIT (to the extent we distribute our REIT taxable income as dividends). In order to present the hypothetical income taxes associated with core earnings adjustments, estimated effective tax rates are applied to the core earnings adjustments occurring within our TRS.

At-the-Market Offering Program

On November 14, 2018, we entered into a distribution agreement (the "Distribution Agreement") with Wells Fargo Securities, LLC, J.P. Morgan Securities LLC, Credit Suisse Securities (USA) LLC, Goldman Sachs & Co. LLC and JMP Securities LLC, as agents and/or principals (each, individually, an "Agent", and together, the "Agents"), with respect to an at-the-market, or ATM, offering program under which we may offer and sell, from time to time at our sole discretion, shares of our common stock, having an aggregate offering price of up to $150,000,000.

As of December 31, 2018, we had sold 1,550,819 shares of our common stock for net proceeds of approximately $25.2 million pursuant to the ATM offering program.

Exercise of Purchase Option for 5 Arches, LLC

In January 2019, we announced that we exercised our option to acquire the remaining 80% interest in 5 Arches, LLC ("5 Arches"), an originator and asset manager of business-purpose real estate loans. In May 2018, we acquired a 20% minority interest in 5 Arches for $10 million in cash, with a one-year option to purchase all remaining equity in the company. The incremental consideration for the transaction is $40 million, payable in a mix of cash and Redwood stock. A portion of the remaining consideration is contingent upon 5 Arches achieving certain origination volumes over the next two years. The acquisition is expected to close in the first quarter of 2019, subject to customary closing conditions.

Participation in Multifamily Whole Loan Investment Fund

In January 2019, we invested in a limited partnership created to acquire $1 billion of floating rate, light-renovation multifamily loans from Freddie Mac. We committed to fund an aggregate of $78 million to the partnership, and have funded approximately $20 million to date. Freddie Mac is providing a debt facility

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to finance loans purchased by the partnership. After the partnership's acquisitions have reached a specific threshold, the related loans are eligible for inclusion in a Freddie Mac-sponsored securitization. The limited partners may acquire subordinate securities issued in such securitization.

Corporate Information

We were incorporated in the State of Maryland on April 11, 1994, and commenced operations on August 19, 1994. We operate so as to qualify as a REIT for U.S. federal income tax purposes. Our executive offices are located at One Belvedere Place, Suite 300, Mill Valley, California 94941. Our telephone number is (415) 389-7373. Our website is www.redwoodtrust.com. Information contained in or that can be accessed through our website is not part of, and is not incorporated into, this prospectus supplement or the accompanying prospectus.

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The Offering
The following is a brief summary of the terms of this offering and our common stock. This summary is not a complete description of this offering or our common stock. You should read the full text and more specific details contained elsewhere in this prospectus supplement and the accompanying prospectus.

Issuer
Redwood Trust, Inc., a Maryland corporation.

Securities Offered
10,000,000 shares of common stock, par value $0.01 per share

Option to purchase additional shares
We have granted the underwriters an option to purchase up to an additional 1,500,000 shares of common stock within 30 days of the date of this prospectus supplement.

Common stock to be outstanding upon completion of this offering
94,884,344 shares of common stock (96,384,344 shares of common stock if the underwriters exercise their option to purchase additional shares in full), in each case based on 84,884,344 shares of common stock outstanding as of December 31, 2018. Shares of common stock outstanding do not include approximately 56.5 million shares of common stock (i) issuable in respect of vested and unvested deferred stock units, (ii) issuable in respect of unvested performance stock units (assuming maximum vesting under the performance-based vesting formula), (iii) reserved for issuance under our equity and incentive compensation plans, (iv) reserved for issuance under our ATM offering program, (v) reserved for issuance under our direct stock purchase and dividend reinvestment plans or (vi) issuable upon conversion or exchange of our outstanding convertible or exchangeable notes, in each case as of December 31, 2018.

Material U.S. Federal Income Tax Considerations
For certain material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the shares of our common stock, see “Supplemental U.S. Federal Income Tax Considerations” in this prospectus supplement and “Material U.S. Federal Income Tax Considerations” in Exhibit 99.1 to our Current Report on Form 8-K filed with the SEC on January 29, 2019, or the January 2019 Current Report.

Use of Proceeds
We estimate that the net proceeds from this offering will be approximately $154.3 million (or approximately $177.4 million if the underwriters exercise their option to purchase additional shares in full), after deducting estimated offering expenses payable by us.

We intend to use the net proceeds from this offering to fund our business and investment activity, which may include funding recently completed investment transactions (including, for example, funding capital calls on a multifamily whole loan investment fund) and funding the initial cash portion of the purchase price for our pending acquisition of 5 Arches, LLC, each as described above in the Recent Developments section of this prospectus supplement, as well as new investment opportunities in

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bridge loans for single-family and small-balance multifamily properties, mortgage loans for single-family rental properties, residential and multifamily mortgage backed securities, as well as for our mortgage banking business and general corporate purposes.

Pending such uses, we may use all or a portion of the net proceeds from this offering to temporarily reduce borrowings under our short-term residential loan warehouse facilities and our short-term real estate securities repurchase facilities. We may subsequently re-borrow amounts under our short-term residential loan warehouse facilities and our short-term real estate securities repurchase facilities to fund our business and investment activity, as described above. See "Use of Proceeds" on page S-16.

Listing

Our common stock is listed on The New York Stock Exchange under the symbol "RWT."

Risk Factors

See "Risk Factors" on page S-12 and beginning on page 3 of our Annual Report on Form 10-K for the year ended December 31, 2017 and any other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should consider carefully before deciding to invest in shares of our common stock.

Restrictions on Ownership and Transfer of Common Stock

To assist us in satisfying the requirements for qualification as a REIT, our charter prohibits any person from acquiring or holding beneficial ownership of shares of our common stock representing in excess of 9.8%, in number of shares or value, of the outstanding shares of our common stock (the "Charter Limitation"), unless our board of directors waives or modifies this ownership limit. We have previously granted limited waivers of this prohibition and, subject to the approval of our board of directors, we may grant additional waivers at any time. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock. See "Restrictions on Ownership and Transfer and Repurchase of Shares" on page 30 of the accompanying prospectus.

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Summary Consolidated Financial Data

We derived the summary consolidated financial data for the three years ended December 31, 2015, 2016 and 2017, and as of December 31, 2017, from our audited consolidated financial statements. We derived the summary unaudited consolidated financial data for the nine months ended September 30, 2018 and 2017, and as of September 30, 2018, from our unaudited consolidated interim financial statements. The following information should be read in conjunction with our audited and unaudited consolidated financial statements and related notes incorporated by reference in this prospectus supplement and the accompanying prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future, and our interim results are not necessarily indicative of the results for the full year or any future period. For more details on how you can obtain our SEC reports and other information, you should read the section of the accompanying prospectus entitled “Where You Can Find More Information.”

	Nine Months Ended September 30,		Years Ended December 31,		
	2018	2017	2017	2016	2015
	(unaudited)				
	(In thousands, except share data)				
Interest Income					
Residential loans	$ 169,010	$ 109,538	$ 154,362	$ 137,804	$ 114,715
Business purpose loans	1,445	—	—	—	—
Multifamily loans	5,578	—	—	—	—
Commercial loans	—	345	345	30,496	46,933
Real estate securities	79,054	65,068	90,803	76,873	97,448
Other interest income	3,905	1,638	2,547	1,182	336
Total interest income	258,992	176,589	248,057	246,355	259,432
Interest Expense					
Short-term debt	(40,756)	(23,985)	(36,851)	(22,287)	(30,572)
Asset-backed securities issued	(55,171)	(11,191)	(19,108)	(14,735)	(21,469)
Long-term debt	(58,151)	(37,532)	(52,857)	(51,506)	(43,842)
Total interest expense	(154,078)	(72,708)	(108,816)	(88,528)	(95,883)
Net Interest Income	104,914	103,881	139,241	157,827	163,549
Reversal of provision for loan losses	—	—	—	7,102	355
Net Interest Income After Provision	104,914	103,881	139,241	164,929	163,904
Non-interest Income					
Mortgage banking activities, net	48,396	50,850	53,908	38,691	10,972
Mortgage servicing rights income (loss), net(1)	—	—	7,860	14,353	(3,922)
Investment fair value changes, net	12,830	9,990	10,374	(28,574)	(21,357)
Other income(1)	8,893	9,473	4,576	6,338	3,192

Realized gains, net	21,352	8,809	13,355	28,009	36,369
Total non-interest income, net	91,471	79,122	90,073	58,817	25,254
Operating expenses	(63,529)	(56,789)	(77,156)	(88,786)	(97,416)
Net Income before Provision for Income Taxes	132,856	126,214	152,158	134,960	91,742
(Provision for) Benefit from income taxes	(12,343)	(16,741)	(11,752)	(3,708)	10,346
Net Income	$ 120,513	$ 109,473	$ 140,406	$ 131,252	$ 102,088
Basic earnings per common share	$ 1.51	$ 1.39	$ 1.78	$ 1.66	$ 1.20
Diluted earnings per common share	$ 1.30	$ 1.26	$ 1.60	$ 1.54	$ 1.18
Regular dividends declared per common share	$ 0.88	$ 0.84	$ 1.12	$ 1.12	$ 1.12
Basic weighted average shares outstanding	77,211,188	76,803,324	76,792,957	76,747,047	82,945,103
Diluted weighted average shares outstanding	107,792,029	99,397,866	101,975,008	97,909,090	84,518,395

(1)
Mortgage servicing rights income (loss), net is included in Other income on our consolidated statement of income for the nine months ended September 30, 2018 and 2017. For the nine months ended September 30, 2018 and 2017, Mortgage servicing rights income (loss), net was $4,797 and $6,106, respectively.

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	September 30, 2018	December 31, 2017
	(Unaudited)	
	(In thousands, except share data)	
Balance sheet data:		
ASSETS(1)		
Residential loans, held-for-sale, at fair value	$ 866,444	$ 1,427,945
Residential loans, held-for-investment, at fair value	5,055,815	3,687,265
Business purpose loans, at fair value	115,620	—
Multifamily loans, held-for-investment, at fair value	942,165	—
Real estate securities, at fair value	1,470,084	1,476,510
Mortgage servicing rights, at fair value	63,785	63,598
Cash and cash equivalents	173,516	144,663
Restricted cash	27,253	2,144
Accrued interest receivable	35,644	27,013
Derivative assets	87,219	15,718
Other assets	302,090	194,966
Total Assets	$ 9,139,635	$ 7,039,822
LIABILITIES AND EQUITY(1)		
Liabilities		
Short-term debt(2)	$ 1,424,275	$ 1,938,682
Accrued interest payable	31,076	18,435
Derivative liabilities	42,724	63,081
Accrued expenses and other liabilities	102,278	67,729
Asset-backed securities issued, at fair value	3,406,985	1,164,585
Long-term debt, net	2,770,970	2,575,023
Total Liabilities	7,778,308	5,827,535
Equity		
Common stock, par value $0.01 per share, 180,000,000 shares authorized; 82,930,281 and 76,599,972 issued and outstanding	829	766
Additional paid-in capital	1,785,957	1,673,845
Accumulated other comprehensive income	72,327	85,248
Cumulative earnings	1,410,854	1,290,341
Cumulative distributions to stockholders	(1,908,640)	(1,837,913)
Total Equity	1,361,327	1,212,287
Total Liabilities and Equity	$ 9,139,635	$ 7,039,822
Recourse senior debt to equity(3)	3.0x	3.6x
Recourse debt to equity(4)	3.1x	3.7x

(1)

Our consolidated balance sheets include assets of consolidated variable interest entities (“VIEs”) that can only be used to settle obligations of these VIEs and liabilities of consolidated VIEs for which creditors do not have recourse to Redwood Trust, Inc. or its affiliates. At September 30, 2018 and December 31, 2017, assets of consolidated VIEs totaled $3,693,140 and $1,259,774, respectively. At September 30, 2018 and December 31, 2017, liabilities of consolidated VIEs totaled $3,417,835 and $1,167,157, respectively.

(2)
At December 31, 2017, balance includes $250 million of our 4.625% convertible notes due 2018 (the “2018 Notes”), which were reclassified from Long-term debt, net to Short-term debt as the 2018 Notes matured in April 2018. In April 2018, we repaid the 2018 Notes in full.

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(3)
Excludes asset-backed securities issued by securitization entities consolidated for financial reporting purposes of $3.41 billion and $1.16 billion at September 30, 2018 and December 31, 2017, respectively, for which Redwood Trust does not have recourse liability. Excludes an aggregate of $140 million of subordinated debt issued by Redwood Trust at September 30, 2018 and December 31, 2017. At December 31, 2017, also excludes an aggregate of $200 million of convertible senior notes due 2024, which were issued in June 2018.

(4)
Excludes asset-backed securities issued by securitization entities consolidated for financial reporting purposes of $3.4 1 billion and $1.16 billion at September 30, 2018 and December 31, 2017, respectively, for which Redwood Trust does not have recourse liability. At December 31, 2017, also excludes an aggregate of $200 million of convertible senior notes due 2024, which were issued in June 2018.

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Risk Factors

Investing in the shares of common stock being offered by this prospectus supplement and the accompanying prospectus involves a high degree of risk. Before deciding whether to invest in our common stock, you should consider carefully the risk factors described below, the risk factors incorporated herein by reference to our Annual Report on Form 10-K for the year ended December 31, 2017 and the risk factors contained in any free writing prospectus that we have authorized for use in connection with this offering. If any of these risks actually occur, it may materially harm our business, financial condition, operating results or cash flow. As a result, the market price of our common stock could decline, and you could lose part or all of your investment. Additional risks and uncertainties that are not yet identified or that we think are immaterial may also materially harm our business, operating results and financial condition and could result in a complete loss of your investment.

Risks Related to our Common Stock and this Offering

We may invest or spend the proceeds of this offering in ways with which you may not agree and in ways that may not yield a return to our stockholders.

We will retain broad discretion over the use of proceeds from this public offering. Stockholders may not deem such uses desirable, and our use of the proceeds may not yield a significant return or any return at all for our stockholders. We intend to use the net proceeds from this offering to fund our business and investment activity, which may include funding recently completed investment transactions (including, for example, funding capital calls on a multifamily whole loan investment fund) and funding the initial cash portion of the purchase price for our pending acquisition of 5 Arches, LLC, each as described above in the Recent Developments section of this prospectus supplement, as well as new investment opportunities in bridge loans for single-family and small-balance multifamily properties, mortgage loans for single-family rental properties, residential and multifamily mortgage backed securities, as well as for our mortgage banking business and general corporate purposes. Pending such uses, we may use all or a portion of the net proceeds from this offering to temporarily reduce borrowings under our short-term residential loan warehouse facilities and our short-term real estate securities repurchase facilities. We may subsequently re-borrow amounts under our short-term residential loan warehouse facilities and our short-term real estate securities repurchase facilities to fund our business and investment activity, as described above. Because of the number and variability of factors that determine our use of the proceeds from this offering, our actual uses of the proceeds from this offering may vary substantially from our currently planned uses.

The issuance of additional stock will dilute all other stockholdings and could affect the market price of our common stock.

As of December 31, 2018, we had an aggregate of approximately 56.5 million shares of common stock (i) issuable in respect of vested and unvested deferred stock units, (ii) issuable in respect of unvested performance stock units (assuming maximum vesting under the performance-based vesting formula), (iii) reserved for issuance under our equity and incentive compensation plans, (iv) reserved for issuance under our ATM offering program, (v) reserved for issuance under our direct stock purchase and dividend reinvestment plans or (vi) issuable upon conversion or exchange of our outstanding convertible or exchangeable notes. We may issue all of these shares without any action or approval by our stockholders. The issuance of these unreserved shares, as well as any shares of our common stock issued in connection with the exercise of deferred stock units, performance stock units, restricted stock units or convertible or exchangeable notes or derivative instruments, or otherwise, would dilute the percentage ownership held by the investors in our common stock.

Investing in our common stock may involve a high degree of risk. Investors in our common stock may experience losses, volatility and poor liquidity, and we may reduce our dividends in a variety of circumstances.

An investment in our common stock may involve a high degree of risk, particularly when compared to other types of investments. Risks related to the economy, the financial markets, our industry, our investing activity, our other business activities, our financial results, the amount of dividends we distribute, the manner in which we conduct our business and the way we have structured and limited our operations could result in a reduction in, or the elimination of, the value of our common stock. The level of risk associated

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with an investment in our common stock may not be suitable for the risk tolerance of many investors. Investors may experience volatile returns and material losses. In addition, the trading volume of our common stock (i.e., its liquidity) may be insufficient to allow investors to sell their common stock when they want to or at a price they consider reasonable.

Our earnings, cash flows, book value, and dividends can be volatile and difficult to predict. Investors in our common stock should not rely on our estimates, projections or predictions, or on management’s beliefs about future events. In particular, the sustainability of our earnings and our cash flows will depend on numerous factors, including our level of investment activity, our access to debt and equity financing, the returns we earn, the amount and timing of credit losses, payment rates on residential mortgage loans we invest in or that underlie the mortgage-backed securities we invest in, the expense of running our business and other factors, including the risk factors described herein and in our Annual Report on Form 10-K for the year ended December 31, 2017. As a consequence, although we seek to pay a regular common stock dividend rate that is sustainable, we may reduce our regular dividend rate, or stop paying dividends, in the future for a variety of reasons. We may not provide public warnings of dividend reductions prior to their occurrence. Although we have paid special dividends in the past, we have not paid a special dividend since 2007, and we may not do so in the future. Changes to the amount of dividends we distribute may result in a reduction in the value of our common stock.

A limited number of institutional stockholders own a significant percentage of our common stock, which could have adverse consequences to other holders of our common stock.

Based on 2018 filings on Schedule 13G with the SEC, we believe that seven institutional stockholders each beneficially owned 5% or more of our outstanding common stock, and we believe based on data obtained from other public sources that, overall, institutional stockholders beneficially owned, as of September 30, 2018, in the aggregate, approximately 90% of our outstanding common stock. Furthermore, one or more of these investors or other investors could significantly increase their ownership of our common stock. Significant ownership stakes held by these individual institutions or other investors could have adverse consequences for other stockholders because each of these stockholders will have a significant influence over the outcome of matters submitted to a vote of our stockholders, including the election of our directors and transactions involving a change in control. In addition, should any of these significant stockholders determine to liquidate all or a significant portion of their holdings of our common stock, it could have an adverse effect on the market price of our common stock.

Although, under our charter, stockholders are generally precluded from beneficially owning more than 9.8% of our outstanding common stock, our board of directors may amend existing ownership-limitation waivers or grant waivers to other stockholders in the future, in each case in a manner which may allow for increases in the concentration of the ownership of our common stock held by one or more stockholders.

Future sales of our common stock by us or by our directors or officers could adversely affect the market price of our common stock and our ability to raise funds in a new securities offering.

We may issue additional shares of common stock in subsequent public offerings or private placements. In addition, we may issue additional shares of common stock pursuant to our ATM offering program, upon conversion of our convertible debt or upon exchange of our exchangeable debt, to participants in our direct stock purchase and dividend reinvestment plan and to our directors, officers and employees under our employee stock purchase plan and our incentive plan, including upon the exercise of, or in respect of, distributions on equity awards previously granted thereunder. We are not required to offer any such shares to existing stockholders on a preemptive basis. Therefore, it may not be possible for existing stockholders to participate in future share issuances, which may dilute existing stockholders’ interests in us. In addition, if market participants buy shares in issuances by us in the future, it may reduce or eliminate any purchases of our common stock they might otherwise make in the open market, which in turn could have the effect of reducing the volume of shares of our common stock traded in the marketplace, which could reduce the market price and liquidity of our common stock and, in turn, our ability to raise funds in a new securities offering.

As of December 31, 2018, our current directors and executive officers beneficially owned, in the aggregate, approximately 2% of our common stock. Certain sales of shares of our common stock by these individuals are required to be publicly reported and are tracked by many market participants as a factor in

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making their own investment decisions. As a result, future sales by these individuals could negatively affect the market price of our common stock and, in turn, our ability to raise funds in a new securities offering.

We and each of our directors and executive officers have entered into lock up agreements with the underwriters of this offering pursuant to which we and our directors and executive officers, with limited exceptions, for a period of 45 days after the date of this prospectus supplement, may not, without the prior written consent of the representatives of the underwriters, sell or transfer any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock. The representatives of the underwriters may, in their sole discretion, at any time from time to time, waive in writing the terms and conditions of these lock up agreements.

Holders of our common stock may not receive dividend distributions, or dividend distributions may decrease over time. Changes in the amount of dividend distributions we pay or in the tax characterization of dividend distributions we pay may adversely affect the market price of our common stock and our ability to raise funds in new securities offerings.

Our dividend distributions are driven by a variety of factors, including our minimum dividend distribution requirements under the REIT tax laws and our REIT taxable income as calculated pursuant to the Internal Revenue Code. We generally intend to distribute to our stockholders at least 90% of our REIT taxable income, although our reported financial results for GAAP purposes may differ materially from our REIT taxable income.

For 2017 and the first quarter of 2018, we paid our dividends at a rate of $0.28 per share per quarter, and, for the second, third and fourth quarters of 2018, we paid our dividend at a rate of $0.30 per share. Our ability to continue to pay a dividend of $0.30 per share per quarter in the future may be adversely affected by a number of factors, including the risk factors described herein and in our Annual Report on Form 10-K for the year ended December 31, 2017. These same factors may affect our ability to pay other future dividends. In addition, to the extent we determine that future dividends would represent a return of capital to investors, rather than the distribution of income, we may determine to discontinue dividend payments until such time that dividends would again represent a distribution of income. Any reduction or elimination of our payment of dividend distributions would not only reduce the amount of dividends you would receive as a holder of our common stock, but could also have the effect of reducing the market price of our common stock and our ability to raise funds in new securities offerings.

In addition, the rate at which holders of our common stock are taxed on dividends we pay and the characterization of our dividend — be it ordinary income, capital gains, or a return of capital — could have an impact on the market price of ou common stock and, in turn, our ability to raise funds in new stock offerings. After we announce the expected characterization of dividend distributions we have paid, the actual characterization (and, therefore, the rate at which holders of our common stock are taxed on the dividend distributions they have received) could vary from our expectation, including due to errors, changes made in the course of preparing our corporate tax returns, or changes made in response to an IRS audit), with the result that holders of our common stock could incur greater income tax liabilities than expected.

Provisions of Maryland law, our charter and bylaws may impede or discourage a takeover, which could cause the market price of our common stock to decline.

Provisions of our charter and bylaws, as well as provisions of the Maryland General Corporation Law, or the MGCL, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. In order to maintain our qualifications as a REIT, not more than 50% in value of our outstanding capital stock may be owned, actually or constructively, by five or fewer individuals (defined in the Internal Revenue Code to include certain entities). In order to protect us against the risk of losing our qualification as a REIT due to concentration of ownership of our outstanding stock, our charter generally prohibits any single stockholder, or any group of affiliated stockholders, from beneficially owning more than 9.8% of the outstanding shares of any class of our stock, unless our board of directors waives or modifies this ownership limit. This limitation may preclude an acquisition of control of us by a third party without the consent of our board of directors. Our board of directors has granted a limited number of such waivers to institutional investors to own shares in excess of this 9.8% limit, which waivers are subject to certain terms and conditions. Our board of directors may amend these existing waivers to permit additional share ownership or may grant waivers to additional stockholders at any time.

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Certain other provisions contained in our charter and bylaws and in the MGCL may discourage a third-party from making an acquisition proposal for us and may therefore inhibit a change in control. Our charter includes provisions granting our board of directors the authority to cause us to issue preferred stock from time to time and to establish the terms, preferences and rights of the preferred stock without the approval of our stockholders. In addition, provisions in our charter and bylaws and the MGCL restrict our stockholders' ability to remove directors and fill vacancies on our board of directors and restrict the voting rights of shares of our common stock acquired in excess of certain ownership thresholds. These provisions and others may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Certain of our outstanding securities rank, and we may in the future offer debt or equity securities that may rank, senior to our common stock, which may adversely affect the market price of our common stock.

We have issued and outstanding 5.625% convertible senior notes due 2024, 4.75% convertible senior notes due 2023 and 5.625% exchangeable senior notes due 2019, which have rights, preferences and privileges more favorable than those of our common stock. If we decide to issue additional debt or preferred equity securities in the future, which would rank senior to our common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any equity securities or convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

Your investment has various U.S. federal income tax risks.

Although the provisions of the Internal Revenue Code generally relevant to an investment in shares of our common stock are described under "Supplemental U.S. Federal Income Tax Considerations" in this prospectus supplement and "Material U.S. Federal Income Tax Considerations" in Exhibit 99.1 to the January 2019 Current Report, we urge you to consult your tax advisor concerning the effects of U.S. federal, state, local and foreign tax laws to you with regard to an investment in shares of our common stock.

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Use of Proceeds

We estimate that the net proceeds we will receive from this offering will be approximately $154.3 million ($177.4 million if the underwriters' option to purchase additional shares is exercised in full), after deducting estimated offering expenses payable by us.

We intend to use the net proceeds from this offering to fund our business and investment activity, which may include funding recently completed investment transactions (including, for example, funding capital calls on a multifamily whole loan investment fund) and funding the initial cash portion of the purchase price for our pending acquisition of 5 Arches, LLC, each as described above in the Recent Developments section of this prospectus supplement, as well as new investment opportunities in bridge loans for single-family and small-balance multifamily properties, mortgage loans for single-family rental properties, residential and multifamily mortgage backed securities, as well as for our mortgage banking business and general corporate purposes.

Pending such uses, we may use all or a portion of the net proceeds from this offering to temporarily reduce borrowings under our short-term residential loan warehouse facilities and our short-term real estate securities repurchase facilities. At September 30, 2018, we had four residential loan warehouse facilities with an aggregate outstanding balance of approximately $578 million, a weighted average interest rate of 3.83%, and maturities from December 2018 through August 2019, with weighted average days until maturity of 177. At September 30, 2018, we had eight real estate securities repurchase facilities with an aggregate outstanding balance of approximately $781 million, a weighted average interest rate of 3.29%, and maturities from October 2018 through December 2018 with weighted average days until maturity of 27. We may subsequently re-borrow amounts under our short-term residential loan warehouse facilities and our short-term real estate securities repurchase facilities to fund our business and investment activity, as described above.

Affiliates of Wells Fargo Securities, LLC, J.P. Morgan Securities LLC, Credit Suisse Securities (USA) LLC and Goldman Sachs & Co. LLC are lenders under our short-term residential loan warehouse facilities and/or our short-term real estate securities repurchase facilities and may receive a portion of the proceeds from this offering from any amounts repaid under such facilities. See "Underwriting."

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Capitalization

The following table sets forth our cash and cash equivalents and our capitalization as of September 30, 2018:

- on an actual basis; and

- on a pro forma basis to give effect to the sale of the shares of common stock in this offering, assuming the underwriters do not exercise their option to purchase additional shares of our common stock and after deducting estimated offering expenses payable by us.

The following information should be read in conjunction with our unaudited consolidated financial statements and related notes incorporated by reference in this prospectus supplement and the accompanying prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q for the nine-month period ended September 30, 2018. For more details on how you can obtain our SEC reports and other information, you should read the section of the accompanying prospectus entitled "Where You Can Find More Information."

	As of September 30, 2018	
	Actual	Pro Forma(2)
	(In thousands, except share and per share data)	
Cash and cash equivalents	$ 173,516	$ 327,766
Short-term debt:		
Total short-term debt facilities	1,424,275	1,424,275
Long-term debt:		
5.625% exchangeable senior notes due 2019(1)	200,765	200,765
Trust preferred securities and subordinated notes(1)	139,500	139,500
FHLBC borrowings	1,999,999	1,999,999
Principal amount of 4.75% convertible senior notes due 2023(1)	245,000	245,000
Principal amount of 5.625% convertible senior notes due 2024(1)	200,000	200,000
Total debt	4,209,539	4,209,539
Equity:		
Common stock, $0.01 par value per share; 180,000,000 shares authorized and 82,930,281 issued and outstanding, actual and issued and 92,930,281 outstanding, pro forma	829	929
Additional paid-in capital	1,785,957	1,940,107
Accumulated other comprehensive income	72,327	72,327
Cumulative earnings	1,410,854	1,410,854
Cumulative distributions to stockholders	(1,908,640)	(1,908,640)
Total equity	1,361,327	1,515,577
Total capitalization	$ 5,570,866	$ 5,725,116

(1)
Amounts shown for 2019 Notes, 2023 Notes, 2024 Notes and trust preferred securities and subordinated notes do not reflect, in the aggregate, $24.2 million in accrued interest, unamortized convertible debt discount and unamortized

deferred issuance costs.

(2)
Does not give effect to $25.2 million in net proceeds received in the fourth quarter of 2018 from sales of 1,550,819 shares of common stock pursuant to our ATM offering program.

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The number of shares of common stock, actual and pro forma, shown in the table above excludes the following as of September 30, 2018:

- 10,952,900 shares of common stock reserved for issuance upon conversion of the 5.625% convertible senior notes due 2024;
- 22,489,739 shares of common stock reserved for issuance upon conversion of the 4.75% convertible senior notes due 2023 and upon the exchange of the 5.625% exchangeable senior notes due 2019;
- 2,241,887 shares of common stock issuable in respect of vested and unvested deferred stock units;
- 1,687,000 shares of common stock issuable in respect of unvested performance stock units (assuming maximum vesting under the performance-based vesting formula); and
- 1,550,819 shares of common stock issued pursuant to our ATM offering program in the fourth quarter of 2018.

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Distribution Policy

We generally are required to distribute to our stockholders an amount equal to at least 90% of our REIT taxable income determined before applying the deduction for dividends paid and by excluding net capital gains. Such distributions must be made in the tax year to which they relate or, if declared before the timely filing of our tax return for such year and paid not later than the first regular dividend payment after such declaration, in the following tax year.

If we fail to meet the distribution test as a result of a retroactive adjustment to our REIT taxable income, we may be able to avoid disqualification as a REIT by paying a “deficiency” dividend within a specified time period and in accordance with other requirements set forth in the Internal Revenue Code. We would be liable for interest based on the amount of the deficiency dividend. A deficiency dividend is not permitted if the deficiency is due to fraud with intent to evade tax or to a willful failure to file a timely tax return. We believe we are in compliance with all our dividend distribution requirements.

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Supplemental U.S. Federal Income Tax Considerations

The discussion appearing under the heading “Material U.S. Federal Income Tax Considerations” in the accompanying prospectus has been entirely replaced and superseded by the discussion appearing in Exhibit 99.1 to the January 2019 Current Report with respect to certain material U.S. federal income tax considerations. The January 2019 Current Report is incorporated by reference in this prospectus supplement and the accompanying prospectus and may be obtained as described under “Where You Can Find More Information” in this prospectus supplement. See “Incorporation of Certain Information by Reference.” Prospective investors should carefully review the discussion appearing in Exhibit 99.1 to the January 2019 Current Report, as well as the other information included and incorporated by reference in this prospectus supplement and the accompanying prospectus, before acquiring any shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

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Underwriting

Subject to the terms and conditions in the underwriting agreement between us and Wells Fargo Securities, LLC, J.P. Morgan Securities LLC, Credit Suisse Securities (USA) LLC and Goldman Sachs & Co. LLC, as the representatives of the underwriters, we have agreed to sell to the underwriters, and each of the underwriters have agreed, severally and not jointly, to purchase from us, the respective number of shares of our common stock set forth opposite its name in the table below.

Underwriter	Number of shares of common stock to be purchased
Wells Fargo Securities, LLC	3,500,000
J.P. Morgan Securities LLC	3,500,000
Credit Suisse Securities (USA) LLC	2,000,000
Goldman Sachs & Co. LLC	500,000
JMP Securities LLC	500,000
Total	10,000,000

The underwriters are offering the shares of common stock subject to acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions precedent such as the receipt by the underwriters of officers' certificates and legal opinions and approval of certain legal matters by their counsel. The underwriters have agreed to purchase all of the shares of common stock being offered by us subject to the terms and conditions set forth in the underwriting agreement. However, the underwriters are not required to purchase any or all of the shares of common stock covered by the option to purchase additional shares of common stock described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

The underwriters are purchasing the common shares from us at a price of $15.46 per share. The underwriters propose to offer the shares of common stock from time to time for sale in one or more transactions on the NYSE, in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt of acceptance by it and subject to its right to withdraw, cancel or modify offers to the public and to reject any order in whole or in part. The underwriters may effect such transactions by selling shares of common stock to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or purchasers of shares of common stock for whom they may act as agent or to whom they may sell as principal. The difference between the price at which the underwriters purchase the shares and the price at which the underwriters resell such shares may be deemed underwriting compensation. Sales of shares made outside of the United States may be made by affiliates of the underwriters.

We have granted the underwriters a 30-day option to purchase up to an additional 1,500,000 shares of common stock from us. If any shares are purchased with this option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

We estimate that the expenses of this offering payable by us will be approximately $350,000. We have also agreed to reimburse the underwriters for certain of their expenses in an amount up to $10,000.

We have agreed that we will indemnify the underwriters and certain of their affiliates and controlling persons against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or contribute to payments that the underwriters and certain of their affiliates and controlling persons may be required to make in respect of those liabilities.

We have agreed that we will not, without the prior written consent of the representatives on behalf of the underwriters for a period of 45 days after the date of this prospectus supplement, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any

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option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exchangeable or exercisable for any shares of our common stock or publicly announce the intention to do any of the foregoing, or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of our common stock or such other securities, in cash or otherwise, other than:

•

shares of common stock to be sold pursuant to this prospectus supplement;

•

shares of our common stock issued pursuant to our Direct Stock Purchase and Dividend Reinvestment Plan;

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shares of our common stock, options to purchase shares of our common stock or other equity-based awards granted under our existing equity incentive plans or any replacement plan under a new registration statement;
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