UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission File Number: 1-12378

NVR, Inc.

(Exact name of registrant as specified in its charter)

Virginia	**54-1394360**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11700 Plaza America Drive, Suite 500
Reston, Virginia 20190
(703) 956-4000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Not Applicable
(Former name, former address, and former fiscal year if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	**NVR**	**New York Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 26, 2019 there were 3,655,268 total shares of common stock outstanding.

NVR, Inc.
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

NVR, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

(unaudited)

	June 30, 2019	December 31, 2018
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 860,956	$ 688,783
Restricted cash	20,403	16,982
Receivables	28,943	18,641
Inventory:		
Lots and housing units, covered under sales agreements with customers	1,199,015	1,076,904
Unsold lots and housing units	132,667	115,631
Land under development	46,725	38,857
Building materials and other	19,321	21,718
	1,397,728	1,253,110
Contract land deposits, net	409,754	396,177
Property, plant and equipment, net	48,279	42,234
Operating lease right-of-use assets	65,027	—
Reorganization value in excess of amounts allocable to identifiable assets, net	41,580	41,580
Other assets	185,727	184,004
	3,058,397	2,641,511
Mortgage Banking:		
Cash and cash equivalents	21,363	23,092
Restricted cash	3,393	3,071
Mortgage loans held for sale, net	462,693	458,324
Property and equipment, net	6,240	6,510
Operating lease right-of-use assets	14,078	—
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	29,729	26,078
	544,843	524,422
Total assets	$ 3,603,240	$ 3,165,933

See notes to condensed consolidated financial statements.

NVR, Inc.

Condensed Consolidated Balance Sheets (Continued)

(in thousands, except share and per share data)

(unaudited)

	June 30, 2019	December 31, 2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
Homebuilding:		
Accounts payable	$ 309,419	$ 244,496
Accrued expenses and other liabilities	299,466	332,871
Customer deposits	146,207	138,246
Operating lease liabilities	72,360	—
Senior notes	597,991	597,681
	1,425,443	1,313,294
Mortgage Banking:		
Accounts payable and other liabilities	43,387	44,077
Operating lease liabilities	14,971	—
	58,358	44,077
Total liabilities	1,483,801	1,357,371
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.01 par value; 60,000,000 shares authorized; 20,555,330 shares issued as of both June 30, 2019 and December 31, 2018	206	206
Additional paid-in capital	1,962,156	1,820,223
Deferred compensation trust – 107,295 and 107,340 shares of NVR, Inc. common stock as of June 30, 2019 and December 31, 2018, respectively	(16,912)	(16,937)
Deferred compensation liability	16,912	16,937
Retained earnings	7,429,948	7,031,333
Less treasury stock at cost – 16,911,734 and 16,977,499 shares as of June 30, 2019 and December 31, 2018, respectively	(7,272,871)	(7,043,200)
Total shareholders' equity	2,119,439	1,808,562
Total liabilities and shareholders' equity	$ 3,603,240	$ 3,165,933

See notes to condensed consolidated financial statements.

NVR, Inc.
Condensed Consolidated Statements of Income
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Homebuilding:				
Revenues	$ 1,757,448	$ 1,750,463	$ 3,400,654	$ 3,240,556
Other income	5,833	2,164	11,570	4,141
Cost of sales	(1,425,388)	(1,416,797)	(2,764,194)	(2,628,743)
Selling, general and administrative	(112,210)	(106,517)	(227,944)	(212,064)
Operating income	225,683	229,313	420,086	403,890
Interest expense	(6,033)	(6,047)	(12,026)	(12,054)
Homebuilding income	219,650	223,266	408,060	391,836
Mortgage Banking:				
Mortgage banking fees	42,746	36,842	86,551	76,163
Interest income	2,737	2,915	5,570	5,008
Other income	681	641	1,220	1,165
General and administrative	(20,834)	(21,796)	(37,592)	(41,031)
Interest expense	(268)	(282)	(490)	(557)
Mortgage banking income	25,062	18,320	55,259	40,748
Income before taxes	244,712	241,586	463,319	432,584
Income tax expense	(34,503)	(38,412)	(64,704)	(63,361)
Net income	$ 210,209	$ 203,174	$ 398,615	$ 369,223
Basic earnings per share	$ 58.20	$ 55.90	$ 110.43	$ 101.03
Diluted earnings per share	$ 53.09	$ 49.05	$ 100.61	$ 88.31
Basic weighted average shares outstanding	3,612	3,635	3,610	3,655
Diluted weighted average shares outstanding	3,959	4,142	3,962	4,181

See notes to condensed consolidated financial statements.

NVR, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities:		
Net income	$ 398,615	$ 369,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,146	10,024
Equity-based compensation expense	37,910	28,104
Contract land deposit and other (recoveries) impairments, net	(23)	44
Gain on sale of loans, net	(67,919)	(58,891)
Mortgage loans closed	(2,373,748)	(2,223,302)
Mortgage loans sold and principal payments on mortgage loans held for sale	2,428,410	2,229,894
Distribution of earnings from unconsolidated joint ventures	2,156	2,849
Net change in assets and liabilities:		
Increase in inventory	(144,618)	(187,416)
(Increase) decrease in contract land deposits	(13,554)	9,333
Increase in receivables	(9,597)	(10,417)
Increase (decrease) in accounts payable and accrued expenses	32,771	(11,332)
Increase in customer deposits	7,961	22,000
Other, net	(5,891)	(10,663)
Net cash provided by operating activities	302,619	169,450
Cash flows from investing activities:		
Investments in and advances to unconsolidated joint ventures	(335)	(284)
Distribution of capital from unconsolidated joint ventures	7,167	6,027
Purchase of property, plant and equipment	(10,699)	(9,251)
Proceeds from the sale of property, plant and equipment	1,069	425
Net cash used in investing activities	(2,798)	(3,083)
Cash flows from financing activities:		
Purchase of treasury stock	(304,479)	(483,538)
Principal payments on finance lease liabilities	(12)	—
Proceeds from the exercise of stock options	178,831	86,094
Net cash used in financing activities	(125,660)	(397,444)
Net increase (decrease) in cash, restricted cash, and cash equivalents	174,161	(231,077)
Cash, restricted cash, and cash equivalents, beginning of the period	732,248	689,557
Cash, restricted cash, and cash equivalents, end of the period	$ 906,409	$ 458,480
Supplemental disclosures of cash flow information:		
Interest paid during the period, net of interest capitalized	$ 12,052	$ 12,151
Income taxes paid during the period, net of refunds	$ 71,486	$ 86,269

See notes to condensed consolidated financial statements.

NVR, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars and shares in thousands, except per share data)
(unaudited)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements include the accounts of NVR, Inc. ("NVR", the "Company", "we", "us" or "our") and its subsidiaries and certain other entities in which the Company is deemed to be the primary beneficiary (see Notes 2 and 3 to the accompanying condensed consolidated financial statements). Intercompany accounts and transactions have been eliminated in consolidation. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018. In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

For the three and six months ended June 30, 2019 and 2018, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying condensed consolidated financial statements.

Cash and Cash Equivalents

The beginning-of-period and end-of-period cash, restricted cash, and cash equivalent balances presented on the accompanying condensed consolidated statements of cash flows includes cash related to a consolidated joint venture which is included in homebuilding "Other assets" on the accompanying condensed consolidated balance sheets. The cash related to this consolidated joint venture as of June 30, 2019 and December 31, 2018 was $294 and $320, respectively, and as of June 30, 2018 and December 31, 2017 was $1,128 and $1,069, respectively.

Revenue Recognition

Homebuilding revenue is recognized on the settlement date at the contract sales price, when control is transferred to our customers. Our contract liabilities, which consist of deposits received from customers ("Handmoney") on homes not settled, were $146,207 and $138,246 as of June 30, 2019 and December 31, 2018, respectively. We expect that substantially all of the December 31, 2018 Handmoney balance will be recognized in revenue in 2019. Our prepaid sales compensation totaled approximately $18,100 and $17,000, as of June 30, 2019 and December 31, 2018, respectively. These amounts are included in homebuilding "Other assets" on the accompanying condensed consolidated balance sheets.

Recently Adopted Accounting Pronouncements

On January 1, 2019, we adopted ASU 2016-02, *Leases (Topic 842)*, which requires the recognition of our leases on the balance sheet as right-of-use ("ROU") assets and lease liabilities. We elected to adopt Topic 842 using the effective date transition method, which permits us to apply the new standard prospectively and present comparative years under legacy GAAP.

In adoption of the standard, we also elected the following:

- to apply the package of practical expedients during transition, under which we were not required to reassess as of the date of adoption (i) whether any of our contracts are or contain leases, (ii) the classifications of our leases, and (iii) any initial direct costs related to those leases.
- to exclude leases with an initial lease term of 12 months or less from the recognition requirements under Topic 842.
- to utilize the portfolio approach for certain office equipment leases, grouping leases by asset type which have similar lease terms and payment schedules.

Upon adoption, on January 1, 2019 we recorded a lease liability of $85,516 and a ROU asset of $79,345, which was recorded net of previously recognized straight-line operating lease adjustments on existing leases. The adoption of Topic 842 did not have an impact on our recognition of lease expense. See additional lease disclosures in Note 13.

2. Variable Interest Entities ("VIEs")

Fixed Price Finished Lot Purchase Agreements ("Lot Purchase Agreements")

We generally do not engage in the land development business. Instead, we typically acquire finished building lots at market prices from various development entities under Lot Purchase Agreements. The Lot Purchase Agreements require deposits that may be forfeited if we fail to perform under the Lot Purchase Agreements. The deposits required under the Lot Purchase Agreements are in the form of cash or letters of credit in varying amounts, and typically range up to 10% of the aggregate purchase price of the finished lots.

We believe this lot acquisition strategy reduces the financial requirements and risks associated with direct land ownership and land development. We may, at our option, choose for any reason and at any time not to perform under these Lot Purchase Agreements by delivering notice of our intent not to acquire the finished lots under contract. Our sole legal obligation and economic loss for failure to perform under these Lot Purchase Agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained within the Lot Purchase Agreements. None of the creditors of any of the development entities with which we enter Lot Purchase Agreements have recourse to our general credit. We generally do not have any specific performance obligations to purchase a certain number or any of the lots, nor do we guarantee completion of the development by the developer or guarantee any of the developers' financial or other liabilities.

We are not involved in the design or creation of the development entities from which we purchase lots under Lot Purchase Agreements. The developer's equity holders have the power to direct 100% of the operating activities of the development entity. We have no voting rights in any of the development entities. The sole purpose of the development entity's activities is to generate positive cash flow returns for the equity holders. Further, we do not share in any of the profit or loss generated by the project's development. The profits and losses are passed directly to the developer's equity holders.

The deposit placed by us pursuant to the Lot Purchase Agreement is deemed to be a variable interest in the respective development entities. Those development entities are deemed to be VIEs. Therefore, the development entities with which we enter into Lot Purchase Agreements, including the joint venture limited liability corporations discussed below, are evaluated for possible consolidation by us. An enterprise must consolidate a VIE when that enterprise has a controlling financial interest in the VIE. An enterprise is deemed to have a controlling financial interest if it has (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (ii) the obligation to absorb losses of the VIE that could be significant to the VIE or the rights to receive benefits from the VIE that could be significant to the VIE.

We believe the activities that most significantly impact a development entity's economic performance are the operating activities of the entity. The development entity's equity investors bear the full risk during the development process. Unless and until a development entity completes finished building lots through the development process, the entity does not earn any revenues. The operating development activities are managed solely by the development entity's equity investors.

(dollars and shares in thousands, except per share data)

The development entities with which we contract to buy finished lots typically select the respective projects, obtain the necessary zoning approvals, obtain the financing required with no support or guarantees from us, select who will purchase the finished lots and at what price, and manage the completion of the infrastructure improvements, all for the purpose of generating a cash flow return to the development entity's equity holders and all independent of us. We possess no more than limited protective legal rights through the Lot Purchase Agreement in the specific finished lots that we are purchasing, and we possess no participative rights in the development entities. Accordingly, we do not have the power to direct the activities of a developer that most significantly impact the developer's economic performance. For this reason, we have concluded that we are not the primary beneficiary of the development entities with which we enter into Lot Purchase Agreements, and therefore, we do not consolidate any of these VIEs.

As of June 30, 2019, we controlled approximately 97,650 lots under Lot Purchase Agreements with third parties through deposits in cash and letters of credit totaling approximately $435,900 and $3,900, respectively. As noted above, our sole legal obligation and economic loss for failure to perform under these Lot Purchase Agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained in the Lot Purchase Agreements.

In addition, we have certain properties under contract with land owners that are expected to yield approximately 7,400 lots, which are not included in the number of total lots controlled. Some of these properties may require rezoning or other approvals to achieve the expected yield. These properties are controlled with deposits in cash and letters of credit totaling approximately $1,700 and $100, respectively, as of June 30, 2019, of which approximately $1,400 is refundable if certain contractual conditions are not met. We generally expect to assign the raw land contracts to a land developer and simultaneously enter into a Lot Purchase Agreement with the assignee if the project is determined to be feasible.

Our total risk of loss related to contract land deposits as of June 30, 2019 and December 31, 2018 was as follows:

	June 30, 2019	December 31, 2018
Contract land deposits	$ 437,646	$ 425,393
Loss reserve on contract land deposits	(27,892)	(29,216)
Contract land deposits, net	409,754	396,177
Contingent obligations in the form of letters of credit	4,044	3,923
Specific performance obligations (1)	1,505	1,505
Total risk of loss	$ 415,303	$ 401,605

(1) As of both June 30, 2019 and December 31, 2018, we were committed to purchase 10 finished lots under specific performance obligations.

3. Joint Ventures

On a limited basis, we obtain finished lots using joint venture limited liability corporations ("JVs"). The JVs are typically structured such that we are a non-controlling member and are at risk only for the amount we have invested, or have committed to invest, in addition to any deposits placed under Lot Purchase Agreements with the joint venture. We are not a borrower, guarantor or obligor on any debt of the JVs, as applicable. We enter into Lot Purchase Agreements to purchase lots from these JVs, and as a result have a variable interest in these JVs.

At June 30, 2019, we had an aggregate investment totaling approximately $25,000 in six JVs that are expected to produce approximately 6,600 finished lots, of which approximately 3,200 lots were controlled by us and the remaining approximately 3,400 lots were either under contract with unrelated parties or not currently under contract. In addition, we had additional funding commitments totaling approximately $4,700 in the aggregate to three of the JVs at June 30, 2019. We have determined that we are not the primary beneficiary of five of the JVs because we either share power with the other JV partner or the other JV partner has the controlling financial interest. The aggregate investment in unconsolidated JVs was approximately $25,000 and $29,400 at June 30, 2019 and December 31, 2018, respectively, and is reported in the “Other assets” line item on the accompanying condensed consolidated balance sheets. For the remaining JV, we have concluded that we are the primary beneficiary because we have the controlling financial interest in the JV. As of December 31, 2018, all activities under the consolidated JV had been completed. As of June 30, 2019, we had no investment remaining in the JV and the JV had remaining balances of $294 in cash and $264 in accrued expenses, which are included in homebuilding "Other assets" and "Accrued expenses and other liabilities," respectively, in the accompanying condensed consolidated balance sheets.

We recognize income from the JVs as a reduction to the lot cost of the lots purchased from the respective JVs when the homes are settled, based on the expected total profitability and the total number of lots expected to be produced by the respective JVs.

We classify distributions received from unconsolidated JVs using the cumulative earnings approach. As a result, distributions received up to the amount of cumulative earnings recognized by us are reported as distributions of earnings and those in excess of that amount are reported as a distribution of capital. These distributions are classified within the accompanying condensed consolidated statements of cash flows as cash flows from operating activities and investing activities, respectively.

4. Land Under Development

On a limited basis, we directly acquire raw land parcels already zoned for its intended use to develop into finished lots. Land under development includes the land acquisition costs, direct improvement costs, capitalized interest where applicable, and real estate taxes.

As of June 30, 2019, we directly owned a total of four separate raw land parcels with a carrying value of $46,725 that are expected to produce approximately 550 finished lots. We also have additional funding commitments of approximately $6,000 under a joint development agreement related to one parcel, a portion of which we expect will be offset by development credits of approximately $3,300.

None of the raw parcels had any indicators of impairment as of June 30, 2019.

5. Capitalized Interest

We capitalize interest costs to land under development during the active development of finished lots. In addition, we capitalize interest costs on our JV investments while the investments are considered qualified assets pursuant to ASC Topic 835-20 - *Interest*. Capitalized interest is transferred to sold or unsold inventory as the development of finished lots is completed, then charged to cost of sales upon our settlement of homes and the respective lots. Interest incurred in excess of the interest capitalizable based on the level of qualified assets is expensed in the period incurred.

(dollars and shares in thousands, except per share data)

The following table reflects the changes in our capitalized interest during the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest capitalized, beginning of period	$ 4,140	$ 5,545	$ 4,154	$ 5,583
Interest incurred	6,607	6,624	13,106	13,220
Interest charged to interest expense	(6,301)	(6,329)	(12,516)	(12,611)
Interest charged to cost of sales	(592)	(452)	(890)	(804)
Interest capitalized, end of period	$ 3,854	$ 5,388	$ 3,854	$ 5,388

6. Earnings per Share

The following weighted average shares and share equivalents were used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Weighted average number of shares outstanding used to calculate basic EPS	3,612	3,635	3,610	3,655
Dilutive securities:				
Stock options and restricted share units	347	507	352	526
Weighted average number of shares and share equivalents outstanding used to calculate diluted EPS	3,959	4,142	3,962	4,181

The following non-qualified stock options ("Options") issued under equity incentive plans were outstanding during the three and six months ended June 30, 2019 and 2018, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Anti-dilutive securities	318	349	345	349

NVR, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars and shares in thousands, except per share data)
(unaudited)

7. Shareholders' Equity

A summary of changes in shareholders' equity for the three months ended June 30, 2019 is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Compensation Trust	Deferred Compensation Liability	Total
Balance, March 31, 2019	$ 206	$ 1,899,100	$ 7,219,739	$ (7,220,269)	$ (16,912)	$ 16,912	$ 1,898,776
Net income	—	—	210,209	—	—	—	210,209
Deferred compensation activity, net	—	—	—	—	—	—	—
Purchase of common stock for treasury	—	—	—	(87,980)	—	—	(87,980)
Equity-based compensation	—	18,577	—	—	—	—	18,577
Proceeds from Options exercised	—	79,857	—	—	—	—	79,857
Treasury stock issued upon option exercise and restricted share vesting	—	(35,378)	—	35,378	—	—	—
Balance, June 30, 2019	$ 206	$ 1,962,156	$ 7,429,948	$ (7,272,871)	$ (16,912)	$ 16,912	$ 2,119,439

A summary of changes in shareholders' equity for the six months ended June 30, 2019 is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Compensation Trust	Deferred Compensation Liability	Total
Balance, December 31, 2018	$ 206	$ 1,820,223	$ 7,031,333	$ (7,043,200)	$ (16,937)	$ 16,937	$ 1,808,562
Net income	—	—	398,615	—	—	—	398,615
Deferred compensation activity, net	—	—	—	—	25	(25)	—
Purchase of common stock for treasury	—	—	—	(304,479)	—	—	(304,479)
Equity-based compensation	—	37,910	—	—	—	—	37,910
Proceeds from Options exercised	—	178,831	—	—	—	—	178,831
Treasury stock issued upon option exercise and restricted share vesting	—	(74,808)	—	74,808	—	—	—
Balance, June 30, 2019	$ 206	$ 1,962,156	$ 7,429,948	$ (7,272,871)	$ (16,912)	$ 16,912	$ 2,119,439

We repurchased approximately 30 and 112 shares of our common stock during the three and six months ended June 30, 2019, respectively. We settle Option exercises and vesting of RSUs by issuing shares of treasury stock. Approximately 82 and 177 shares were issued from the treasury account during the three and six months ended June 30, 2019, respectively, in settlement of Option exercises and vesting of RSUs. Shares are relieved from the treasury account based on the weighted average cost basis of treasury shares acquired.

NVR, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars and shares in thousands, except per share data)
(unaudited)

A summary of changes in shareholders’ equity for the three months ended June 30, 2018 is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Compensation Trust	Deferred Compensation Liability	Total
Balance, March 31, 2018	$ 206	$ 1,678,100	$ 6,400,185	$ (6,611,683)	$ (17,389)	$ 17,389	$ 1,466,808
Net income	—	—	203,174	—	—	—	203,174
Deferred compensation activity, net	—	—	—	—	241	(241)	—
Purchase of common stock for treasury	—	—	—	(126,296)	—	—	(126,296)
Equity-based compensation	—	18,595	—	—	—	—	18,595
Proceeds from Options exercised	—	45,290	—	—	—	—	45,290
Treasury stock issued upon option exercise and restricted share vesting	—	(20,289)	—	20,289	—	—	—
Balance, June 30, 2018	$ 206	$ 1,721,696	$ 6,603,359	$ (6,717,690)	$ (17,148)	$ 17,148	$ 1,607,571

A summary of changes in shareholders’ equity for the six months ended June 30, 2018 is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Compensation Trust	Deferred Compensation Liability	Total
Balance, December 31, 2017	$ 206	$ 1,644,197	$ 6,231,940	$ (6,270,851)	$ (17,383)	$ 17,383	$ 1,605,492
Cumulative-effect adjustment from adoption of ASU 2014-09, net of tax	—	—	2,196	—	—	—	2,196
Net income	—	—	369,223	—	—	—	369,223
Deferred compensation activity, net	—	—	—	—	235	(235)	—
Purchase of common stock for treasury	—	—	—	(483,538)	—	—	(483,538)
Equity-based compensation	—	28,104	—	—	—	—	28,104
Proceeds from Options exercised	—	86,094	—	—	—	—	86,094
Treasury stock issued upon option exercise and restricted share vesting	—	(36,699)	—	36,699	—	—	—
Balance, June 30, 2018	$ 206	$ 1,721,696	$ 6,603,359	$ (6,717,690)	$ (17,148)	$ 17,148	$ 1,607,571

We repurchased approximately 42 and 158 shares of our common stock during the three and six months ended June 30, 2018, respectively. Approximately 52 and 96 shares were issued from the treasury account during the three and six months ended June 30, 2018, respectively, in settlement of Option exercises and vesting of RSUs.

8. Product Warranties

We establish warranty and product liability reserves (“Warranty Reserve”) to provide for estimated future expenses as a result of construction and product defects, product recalls and litigation incidental to our homebuilding business. Liability estimates are determined based on management’s judgment, considering such factors as historical experience, the estimated current cost of corrective action, manufacturers’ and subcontractors’ participation in sharing the cost of corrective action, consultations with third party experts such as engineers, and discussions with our general counsel and outside counsel retained to handle specific product liability cases.

(dollars and shares in thousands, except per share data)

The following table reflects the changes in our Warranty Reserve during the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Warranty reserve, beginning of period	$ 102,852	$ 95,606	$ 103,700	$ 94,513
Provision	16,446	16,217	28,269	27,744
Payments	(18,639)	(12,121)	(31,310)	(22,555)
Warranty reserve, end of period	$ 100,659	$ 99,702	$ 100,659	$ 99,702

9. Segment Disclosures

We disclose four homebuilding reportable segments that aggregate geographically our homebuilding operating segments, and our mortgage banking operations presented as one reportable segment. The homebuilding reportable segments are comprised of operating divisions in the following geographic areas:

Mid Atlantic:	Maryland, Virginia, West Virginia, Delaware and Washington, D.C.
North East:	New Jersey and Eastern Pennsylvania
Mid East:	New York, Ohio, Western Pennsylvania, Indiana and Illinois
South East:	North Carolina, South Carolina, Florida and Tennessee

Homebuilding profit before tax includes all revenues and income generated from the sale of homes, less the cost of homes sold, selling, general and administrative expenses and a corporate capital allocation charge. The corporate capital allocation charge is eliminated in consolidation and is based on the segment’s average net assets employed. The corporate capital allocation charged to the operating segment allows the Chief Operating Decision Maker (“CODM”) to determine whether the operating segment’s results are providing the desired rate of return after covering our cost of capital.

Assets not allocated to the operating segments are not included in either the operating segment’s corporate capital allocation charge or the CODM’s evaluation of the operating segment’s performance. We record charges on contract land deposits when it is determined that it is probable that recovery of the deposit is impaired. For segment reporting purposes, impairments on contract land deposits are generally charged to the operating segment upon the termination of a Lot Purchase Agreement with the developer, or the restructuring of a Lot Purchase Agreement resulting in the forfeiture of the deposit. Mortgage banking profit before tax consists of revenues generated from mortgage financing, title insurance and closing services, less the costs of such services and general and administrative costs. Mortgage banking operations are not charged a corporate capital allocation charge.

In addition to the corporate capital allocation and contract land deposit impairments discussed above, the other reconciling items between segment profit and consolidated profit before tax include unallocated corporate overhead (including all management incentive compensation), equity-based compensation expense, consolidation adjustments and external corporate interest expense. Overhead functions such as accounting, treasury and human resources are centrally performed and these costs are not allocated to our operating segments. Consolidation adjustments consist of such items necessary to convert the reportable segments’ results, which are predominantly maintained on a cash basis, to a full accrual basis for external financial statement presentation purposes, and are not allocated to our operating segments. External corporate interest expense primarily consists of interest charges on our 3.95% Senior Notes due 2022 (the “Senior Notes”) and is not charged to the operating segments because the charges are included in the corporate capital allocation discussed above.

NVR, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars and shares in thousands, except per share data)
(unaudited)

The following tables present segment revenues, profit and assets with reconciliations to the amounts reported for the consolidated enterprise, where applicable:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues:				
Homebuilding Mid Atlantic	$ 982,032	$ 973,677	$ 1,863,356	$ 1,816,173
Homebuilding North East	121,804	147,618	244,431	270,332
Homebuilding Mid East	359,908	363,288	698,457	653,525
Homebuilding South East	293,704	265,880	594,410	500,526
Mortgage Banking	42,746	36,842	86,551	76,163
Total consolidated revenues	$ 1,800,194	$ 1,787,305	$ 3,487,205	$ 3,316,719

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Income before taxes:				
Homebuilding Mid Atlantic	$ 123,802	$ 112,221	$ 223,166	$ 203,268
Homebuilding North East	11,563	16,777	23,023	32,481
Homebuilding Mid East	40,291	42,174	75,766	69,385
Homebuilding South East	30,825	29,203	65,861	52,440
Mortgage Banking	26,173	19,685	55,731	42,235
Total segment profit before taxes	232,654	220,060	443,547	399,809
Reconciling items:				
Equity-based compensation expense (1)	(18,577)	(18,595)	(37,910)	(28,104)
Corporate capital allocation (2)	56,177	53,954	110,735	104,653
Unallocated corporate overhead	(29,354)	(22,503)	(61,089)	(53,787)
Consolidation adjustments and other	9,836	14,701	20,034	22,031
Corporate interest expense	(6,024)	(6,031)	(11,998)	(12,018)
Reconciling items sub-total	12,058	21,526	19,772	32,775
Consolidated income before taxes	$ 244,712	$ 241,586	$ 463,319	$ 432,584

(1) The increase in equity-based compensation expense for the six-month period ended June 30, 2019 was primarily attributable to the equity grant in the second quarter of 2018.

(2) This item represents the elimination of the corporate capital allocation charge included in the respective homebuilding reportable segments. The corporate capital allocation charge is based on the segment's monthly average asset balance, and was as follows for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Corporate capital allocation charge:				
Homebuilding Mid Atlantic	$ 31,378	$ 31,501	$ 61,794	$ 61,949
Homebuilding North East	4,626	4,580	9,353	8,760
Homebuilding Mid East	9,497	9,057	18,512	17,030
Homebuilding South East	10,676	8,816	21,076	16,914
Total	$ 56,177	$ 53,954	$ 110,735	$ 104,653

NVR, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars and shares in thousands, except per share data)
(unaudited)

	June 30, 2019	December 31, 2018
Assets:		
Homebuilding Mid Atlantic	$ 1,082,646	$ 1,018,953
Homebuilding North East	154,143	144,412
Homebuilding Mid East	330,446	290,815
Homebuilding South East	380,499	332,468
Mortgage Banking	537,496	517,075
Total segment assets	2,485,230	2,303,723
Reconciling items:		
Cash and cash equivalents	860,956	688,783
Deferred taxes	115,432	112,333
Intangible assets and goodwill	49,911	49,989
Operating lease right-of-use assets	65,027	—
Contract land deposit reserve	(27,892)	(29,216)
Consolidation adjustments and other	54,576	40,321
Reconciling items sub-total	1,118,010	862,210
Consolidated assets	$ 3,603,240	$ 3,165,933

10. Fair Value

GAAP assigns a fair value hierarchy to the inputs used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

Financial Instruments

The estimated fair values of our Senior Notes as of June 30, 2019 and December 31, 2018 were $619,500 and $594,000, respectively. The estimated fair value is based on recent market prices of similar transactions, which is classified as Level 2 within the fair value hierarchy. The carrying values at June 30, 2019 and December 31, 2018 were $597,991 and $597,681, respectively. Except as otherwise noted below, we believe that insignificant differences exist between the carrying value and the fair value of our financial instruments, which consist primarily of cash equivalents, due to their short term nature.

Derivative Instruments and Mortgage Loans Held for Sale

In the normal course of business, our wholly-owned mortgage subsidiary, NVR Mortgage Finance, Inc. (“NVRM”), enters into contractual commitments to extend credit to our homebuyers with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within time frames established by NVRM. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date of the loan to a broker/dealer. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, NVRM enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sales contracts lock in an interest rate and price for the sale of loans similar to the specific rate lock commitments. NVRM does not engage in speculative or trading derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers are undesignated derivatives and, accordingly, are marked to fair value through earnings. At June 30, 2019, there were contractual commitments to extend credit to borrowers aggregating $878,701 and open forward delivery contracts aggregating $1,169,844, which hedge both the rate lock loan commitments and closed loans held for sale.

(dollars and shares in thousands, except per share data)

The fair value of NVRM’s rate lock commitments to borrowers and the related input levels include, as applicable:

i) the assumed gain/loss of the expected resultant loan sale (Level 2);

ii) the effects of interest rate movements between the date of the rate lock and the balance sheet date (Level 2); and

iii) the value of the servicing rights associated with the loan (Level 2).

The assumed gain/loss considers the excess servicing to be received or buydown fees to be paid upon securitization of the loan. The excess servicing and buydown fees are calculated pursuant to contractual terms with investors. To calculate the effects of interest rate movements, NVRM utilizes applicable published mortgage-backed security prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount. NVRM sells all of its loans on a servicing released basis, and receives a servicing released premium upon sale. Thus, the value of the servicing rights is included in the fair value measurement and is based upon contractual terms with investors and varies depending on the loan type. NVRM assumes a fallout rate when measuring the fair value of rate lock commitments. Fallout is defined as locked loan commitments for which NVRM does not close a mortgage loan and is based on historical experience.

The fair value of NVRM’s forward sales contracts to broker/dealers solely considers the market price movement of the same type of security between the trade date and the balance sheet date (Level 2). The market price changes are multiplied by the notional amount of the forward sales contracts to measure the fair value.

Mortgage loans held for sale are recorded at fair value when closed, and thereafter are carried at the lower of cost or fair value, net of deferred origination costs, until sold. Fair value is measured using Level 2 inputs. The fair value of loans held for sale of $462,693 included on the accompanying condensed consolidated balance sheet has been increased by $13,545 from the aggregate principal balance of $449,148. As of December 31, 2018, the fair value of loans held for sale of $458,324 were increased by $10,880 from the aggregate principal balance of $447,444.

The fair value measurement of NVRM's undesignated derivative instruments was as follows:

	June 30, 2019	December 31, 2018
Rate lock commitments:		
Gross assets	$ 19,151	$ 13,831
Gross liabilities	199	345
Net rate lock commitments	$ 18,952	$ 13,486
Forward sales contracts:		
Gross assets	$ 215	$ 64
Gross liabilities	6,850	10,121
Net forward sales contracts	$ (6,635)	$ (10,057)

As of both June 30, 2019 and December 31, 2018, the net rate lock commitments are reported in mortgage banking "Other assets" and the net forward sales contracts are reported in mortgage banking "Accrued expenses and other liabilities" on the accompanying condensed consolidated balance sheets.

(dollars and shares in thousands, except per share data)

The fair value measurement adjustment as of June 30, 2019 was as follows:

	Notional or Principal Amount	Assumed Gain/(Loss) From Loan Sale	Interest Rate Movement Effect	Servicing Rights Value	Security Price Change	Total Fair Value Measurement Gain/(Loss)
Rate lock commitments	$ 878,701	$ 4,796	$ 5,231	$ 8,925	$ —	$ 18,952
Forward sales contracts	$ 1,169,844	—	—	—	(6,635)	(6,635)
Mortgages held for sale	$ 449,148	3,080	5,231	5,234	—	13,545
Total fair value measurement		$ 7,876	$ 10,462	$ 14,159	$ (6,635)	$ 25,862

The total fair value measurement adjustment as of December 31, 2018 was $14,309. For the three and six months ended June 30, 2019, NVRM recorded a fair value adjustment to income of $2,644 and $11,553, respectively. For the three and six months ended June 30, 2018, NVRM recorded a fair value adjustment to income of $5,585 and $9,599, respectively. Unrealized gains/losses from the change in the fair value measurements are included in earnings as a component of mortgage banking fees in the accompanying condensed consolidated statements of income. The fair value measurement will be impacted in the future by the change in the value of the servicing rights, interest rate movements, security price fluctuations, and the volume and product mix of NVRM's closed loans and locked loan commitments.

11. Debt

Senior Notes

As of June 30, 2019, we had Senior Notes outstanding with a principal balance of $600,000. The Senior Notes mature on September 15, 2022 and bear interest at 3.95%, payable semi-annually in arrears on March 15 and September 15. The Senior Notes were issued at a discount to yield 3.97% and have been reflected net of the unamortized discount and unamortized debt issuance costs in the accompanying condensed consolidated balance sheet.

Credit Agreement

We have an unsecured Credit Agreement (the "Credit Agreement"), which provides for aggregate revolving loan commitments of $200,000 (the "Facility"). Under the Credit Agreement, we may request increases of up to $300,000 to the Facility in the form of revolving loan commitments or term loans to the extent that new or existing lenders agree to provide additional revolving loan or term loan commitments. The Credit Agreement provides for a $100,000 sublimit for the issuance of letters of credit, of which approximately $9,000 was outstanding at June 30, 2019, and a $25,000 sublimit for a swing line commitment. The Credit Agreement termination date is July 15, 2021. There was no debt outstanding under the Facility at June 30, 2019.

Repurchase Agreement

NVRM provides for its mortgage origination and other operating activities using cash generated from its operations, borrowings from its parent company, NVR, as well as a revolving mortgage repurchase agreement (the "Repurchase Agreement"), which is non-recourse to NVR. The Repurchase Agreement provides for loan purchases up to $150,000, subject to certain sub-limits. Amounts outstanding under the Repurchase Agreement are collateralized by the Company's mortgage loans held for sale.

In July 2019, NVRM entered into the Eleventh Amendment (the "Amendment") to the Repurchase Agreement, which extended the term of the Repurchase Agreement through July 22, 2020. The Amendment is filed herewith as Exhibit 10.1. All other terms and conditions under the amended Repurchase Agreement remained materially consistent. At June 30, 2019, there were no borrowing base limitations reducing the amount available under the Repurchase Agreement. There was no debt outstanding under the Repurchase Agreement at June 30, 2019.

(dollars and shares in thousands, except per share data)

12. Commitments and Contingencies

We are involved in various litigation arising in the ordinary course of business. In the opinion of management, and based on advice of legal counsel, this litigation is not expected to have a material adverse effect on our financial position, results of operations or cash flows. Legal costs incurred in connection with outstanding litigation are expensed as incurred.

13. Leases

We have operating leases for our corporate and division offices, production facilities, model homes, and certain office and production equipment. Additionally, we have finance leases for production equipment which are recorded in homebuilding "Property, plant and equipment, net" and "Accrued expenses and other liabilities" on the accompanying condensed consolidated balance sheets. Our leases have remaining lease terms of up to 10 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the lease.

On January 1, 2019, we adopted ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize most leases on the balance sheet as ROU assets with corresponding lease liabilities. See Note 1 for additional discussion regarding the adoption of Topic 842. The ROU assets and lease liabilities are recognized based on the present value of lease payments over the lease term, discounted using our incremental borrowing rate at the commencement date of the lease. We recognize operating lease expense on a straight-line basis over the lease term.

We have elected to use the portfolio approach for certain equipment leases which have similar lease terms and payment schedules. Additionally, for certain equipment we account for the lease and non-lease components as a single lease component. Our sublease income is de minimis.

We have certain leases, primarily the leases of model homes, which have initial lease terms of twelve months or less ("Short-term leases"). We elected to exclude these leases from the recognition requirements under Topic 842, and these leases have not been included in our recognized ROU assets and lease liabilities.

The components of lease expense were as follows:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Lease expense		
Operating lease expense	$ 8,387	$ 15,947
Finance lease expense:		
Amortization of ROU assets	21	21
Interest on lease liabilities	5	5
Short-term lease expense	5,640	11,245
Total lease expense	$ 14,053	$ 27,218

(dollars and shares in thousands, except per share data)

Other information related to leases was as follows:

		Six Months Ended June 30, 2019
Supplemental Cash Flows Information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	12,877
Operating cash flows from finance leases		5
Financing cash flows from finance leases		12
ROU assets obtained in exchange for lease obligations:		
Operating leases	$	9,551
Finance leases	$	5,227
Weighted-average remaining lease term (in years):		
Operating leases		4.7
Finance leases		7.0
Weighted-average discount rate:		
Operating leases		3.7%
Finance leases		3.0%

We are committed under multiple non-cancelable operating and finance leases involving office space, production facilities, model homes, office and production equipment, and automobiles. Future minimum lease payments under these leases as of June 30, 2019 were as follows:

Years Ending December 31,		Operating Leases		Finance Leases
2019	$	17,125	$	358
2020		24,719		716
2021		18,844		716
2022		14,777		716
2023		11,149		716
Thereafter		15,207		2,612
Total minimum lease payments		101,821		5,834
Less:				
Imputed interest		(8,591)		(618)
Short-term lease payments		(5,899)		—
Total lease liability	$	87,331	$	5,216

14. Income Taxes

Our effective tax rate for the three and six months ended June 30, 2019 was 14.1% and 14.0%, respectively, compared to 15.9% and 14.6% for the three and six months ended June 30, 2018, respectively. In both periods, our effective tax rate was favorably impacted by the recognition of income tax benefits related to excess tax benefits from stock option exercises. Excess tax benefits were $30,727 and $59,205 for the three and six months ended June 30, 2019, respectively and $26,456 and $46,022 for the three and six months ended June 30, 2018, respectively.

15. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326),* which significantly changes the way impairment of financial assets is recognized. The standard will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which will generally result in earlier recognition of allowances for credit losses on loans and other financial instruments. The standard's provisions will be applied as a cumulative-effect adjustment to beginning retained earnings as of the effective date. The standard is effective for us as of January 1, 2020. We do not believe that the adoption of this standard will have a material effect on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment*. The standard's objective is to simplify the subsequent measurement of goodwill by eliminating the second step from the goodwill impairment test. Under the amendments in the standard, an entity would perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment charge would then be recognized, not to exceed the amount of goodwill allocated to that reporting unit. The standard is effective for us on January 1, 2020, and early adoption is permitted. We do not believe that the adoption of this standard will have a material effect on our consolidated financial statements and related disclosures.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands, except per share data)

Forward-Looking Statements

Some of the statements in this Quarterly Report on Form 10-Q, as well as statements made by us in periodic press releases or other public communications, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology, such as “believes,” “expects,” “may,” “will,” “should,” or “anticipates” or the negative thereof or other comparable terminology. All statements other than of historical facts are forward-looking statements. Forward-looking statements contained in this document may include those regarding market trends, NVR’s financial position, business strategy, the outcome of pending litigation, investigations or similar contingencies, projected plans and objectives of management for future operations. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of NVR to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Such risk factors include, but are not limited to the following: general economic and business conditions (on both a national and regional level); interest rate changes; access to suitable financing by NVR and NVR’s customers; increased regulation in the mortgage banking industry; the ability of our mortgage banking subsidiary to sell loans it originates into the secondary market; competition; the availability and cost of land and other raw materials used by NVR in its homebuilding operations; shortages of labor; weather related slow-downs; building moratoriums; governmental regulation; fluctuation and volatility of stock and other financial markets; mortgage financing availability; and other factors over which NVR has little or no control. NVR undertakes no obligation to update such forward-looking statements except as required by law. For additional information regarding risk factors, see Part II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A of NVR’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Unless the context otherwise requires, references to “NVR,” “we,” “us,” or “our” include NVR and its consolidated subsidiaries.

Results of Operations for the Three and Six Months Ended June 30, 2019 and 2018

Overview

Business

Our primary business is the construction and sale of single-family detached homes, townhomes and condominiums, all of which are primarily constructed on a pre-sold basis. To fully serve customers of our homebuilding operations, we also operate a mortgage banking and title services business. We primarily conduct our operations in mature markets. Additionally, we generally grow our business through market share gains in our existing markets and by expanding into markets contiguous to our current active markets. Our four homebuilding reportable segments consist of the following regions:

Mid Atlantic:	Maryland, Virginia, West Virginia, Delaware and Washington, D.C.
North East:	New Jersey and Eastern Pennsylvania
Mid East:	New York, Ohio, Western Pennsylvania, Indiana and Illinois
South East:	North Carolina, South Carolina, Florida and Tennessee

Our lot acquisition strategy is predicated upon avoiding the financial requirements and risks associated with direct land ownership and development. We generally do not engage in land development (see discussion below of our land development activities). Instead, we typically acquire finished lots at market prices from various third party land developers pursuant to fixed price finished lot purchase agreements (“Lot Purchase Agreements”). These Lot Purchase Agreements require deposits, typically ranging up to 10% of the aggregate purchase price of the finished lots, in the form of cash or letters of credit that may be forfeited if we fail to perform under the Lot Purchase Agreement. This strategy has allowed us to maximize inventory turnover, which we believe enables us to minimize market risk and to operate with less capital, thereby enhancing rates of return on equity and total capital.

In addition to constructing homes primarily on a pre-sold basis and utilizing what we believe is a conservative lot acquisition strategy, we focus on obtaining and maintaining a leading market position in each market we serve. This strategy allows us to gain valuable efficiencies and competitive advantages in our markets, which we believe contributes to minimizing the adverse effects of regional economic cycles and provides growth opportunities within these markets. Our continued success is contingent upon our ability to control an adequate supply of finished lots on which to build.

In certain specific strategic circumstances, we deviate from our historical lot acquisition strategy and engage in joint venture arrangements with land developers or directly acquire raw ground already zoned for its intended use for development. Once we acquire control of raw ground, we determine whether to sell the raw parcel to a developer and enter into a Lot Purchase Agreement with the developer to purchase the finished lots or to hire a developer to develop the land on our behalf. While joint venture arrangements and direct land development activity are not our preferred method of acquiring finished building lots, we may enter into additional transactions in the future on a limited basis where there exists a compelling strategic or prudent financial reason to do so. We expect, however, to continue to acquire substantially all our finished lot inventory using Lot Purchase Agreements with forfeitable deposits.

As of June 30, 2019, we controlled approximately 101,400 lots as described below.

Lot Purchase Agreements

We controlled approximately 97,650 lots under Lot Purchase Agreements with third parties through deposits in cash and letters of credit totaling approximately $435,900 and $3,900, respectively. Included in the number of controlled lots are approximately 4,700 lots for which we have recorded a contract land deposit impairment reserve of approximately $27,900 as of June 30, 2019.

Joint Venture Limited Liability Corporations ("JVs")

We had an aggregate investment totaling approximately $25,000 in six JVs, expected to produce approximately 6,600 lots. Of the lots to be produced by the JVs, approximately 3,200 lots were controlled by us and approximately 3,400 were either under contract with unrelated parties or currently not under contract. We had additional funding commitments totaling approximately $4,700 in the aggregate to three of the JVs at June 30, 2019.

Land Under Development

We directly owned four separate raw land parcels, zoned for their intended use, with a cost basis, including development costs, of approximately $46,700 that we intend to develop into approximately 550 finished lots. We had additional funding commitments of approximately $6,000 under a joint development agreement related to one parcel, a portion of which we expect will be offset by development credits of approximately $3,300.

See Notes 2, 3 and 4 to the condensed consolidated financial statements included herein for additional information regarding Lot Purchase Agreements, JVs and land under development, respectively.

Raw Land Purchase Agreements

In addition, we have certain properties under contract with land owners that are expected to yield approximately 7,400 lots, which are not included in the number of total lots controlled. Some of these properties may require rezoning or other approvals to achieve the expected yield. These properties are controlled with deposits in cash and letters of credit totaling approximately $1,700 and $100, respectively, as of June 30, 2019, of which approximately $1,400 is refundable if certain contractual conditions are not met. We generally expect to assign the raw land contracts to a land developer and simultaneously enter into a Lot Purchase Agreement with the assignee if the project is determined to be feasible.

Current Business Environment and Key Financial Results

During the second quarter of 2019, general market conditions continued to be favorably impacted by low unemployment and strong consumer confidence. Additionally, affordability issues, which had slowed demand for new homes during the second half of 2018, continued to be favorably impacted by a slight pull back in interest rates during the first half of 2019, which contributed to improved demand.

Our consolidated revenues for the second quarter of 2019 totaled $1,800,194, a 1% increase from the second quarter of 2018. Net income for the second quarter ended June 30, 2019 was $210,209, or $53.09 per diluted share, increases of 3% and 8% when compared to net income and diluted earnings per share in the second quarter of 2018, respectively. Our homebuilding gross profit margin percentage decreased to 18.9% in the second quarter of 2019 from 19.1% in the second quarter of 2018. New orders, net of cancellations ("New Orders") increased 6% in the second quarter of 2019 compared to the second quarter of 2018. The average sales price for New Orders in the second quarter of 2019 decreased 5% to $358.6 compared to the second quarter of 2018.

We believe that the strength in demand for new homes is dependent upon sustained economic growth, driven by favorable unemployment levels and continued improvements in wage growth and household formation. Demand is also impacted by homebuyer affordability concerns, which are driven by both home prices and interest rate movements. We expect to continue to face gross margin pressure, impacted by modest pricing power and our ability to manage land and construction costs. We also expect to face pressure on mortgage banking profit due to the competitive pricing pressures in the mortgage market. We believe that we are well positioned to take advantage of opportunities that may arise from future economic and homebuilding market volatility due to the strength of our balance sheet.

Homebuilding Operations

The following table summarizes the results of operations and other data for the consolidated homebuilding operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Financial Data:				
Revenues	$ 1,757,448	$ 1,750,463	$ 3,400,654	$ 3,240,556
Cost of sales	$ 1,425,388	$ 1,416,797	$ 2,764,194	$ 2,628,743
Gross profit margin percentage	18.9%	19.1%	18.7%	18.9%
Selling, general and administrative expenses	$ 112,210	$ 106,517	$ 227,944	$ 212,064
Operating Data:				
New orders (units)	5,239	4,964	10,378	10,138
Average new order price	$ 358.6	$ 376.3	$ 362.7	$ 377.3
Settlements (units)	4,720	4,611	9,213	8,507
Average settlement price	$ 372.3	$ 379.6	$ 369.1	$ 380.9
Backlog (units)			9,530	10,162
Average backlog price			$ 369.0	$ 380.0
New order cancellation rate	13.1%	13.0%	13.6%	13.3%

Consolidated Homebuilding - Three Months Ended June 30, 2019 and 2018

Homebuilding revenues were essentially flat in the second quarter of 2019 compared to the same period in 2018, as a result of a 2% increase in the number of units settled, offset by a 2% decrease in the average settlement price. The increase in the number of units settled was primarily attributable to a higher backlog turnover rate quarter over quarter. The decrease in the average settlement price was attributable to a 1% lower average price of units in backlog entering the second quarter of 2019 compared to the same period in 2018, driven by a shift to smaller, lower priced products and to lower priced markets.

Gross profit margin percentage in the second quarter of 2019 decreased to 18.9%, from 19.1% in the second quarter of 2018. Gross profit margin was negatively impacted by increases in certain construction costs, offset partially by lower lumber costs quarter over quarter.

The number of New Orders increased 6% while the average sales price of New Orders decreased 5% in the second quarter of 2019 compared to the second quarter of 2018. The increase in New Orders was attributable primarily to an increase in New Orders in our Mideast and Southeast market segments, partially driven by an increase in the average number of active communities in each of these segments. Additionally, more favorable market conditions in the second quarter of 2019 led to higher community absorption rates in each of our market segments quarter over quarter. The decrease in the average sales price of New Orders was attributable to a continued shift in New Orders to smaller, lower price products, as well as a shift to markets with lower average sales prices.

Selling, general and administrative ("SG&A") expenses in the second quarter of 2019 increased by 5% when compared to the same period in 2018, and as a percentage of revenue increased to 6.4% in the second quarter of 2019 from 6.1% in the second quarter of 2018. The increase in SG&A expense is primarily due to an approximate $3,700 increase in personnel costs in the second quarter of 2019 compared to the same period in 2018.

Consolidated Homebuilding - Six Months Ended June 30, 2019 and 2018

Homebuilding revenues increased 5% for the six months ended June 30, 2019 from the same period in 2018, due to an 8% increase in the number of units settled, offset partially by a 3% decrease in the average settlement price year over year. The increase in the number of units settled was primarily attributable to a higher backlog turnover rate year over year. The decrease in the average settlement price was attributable to a 2% lower average price of units in backlog entering 2019 compared to the same period in 2018 and a relative shift in settlements to smaller, lower priced products and to lower priced markets.

Gross profit margin percentage in the first six months of 2019 decreased to 18.7% from 18.9% in the same period of 2018, due to increases in certain construction costs, offset partially by lower lumber costs year over year.

The number of New Orders increased 2% while the average sales price of New Orders decreased by 4% in the first six months of 2019 when compared to the first six months of 2018. New Orders increased primarily due to an increase in New Orders in our Southeast market segment, driven in part by an increase in the average number of active communities in the segment. Additionally, favorable market conditions in 2019 led to a higher community absorption rate year over year. The decrease in the average sales price of New Orders is attributable to a shift to smaller, lower priced products, as well as a shift to markets with lower average sales prices.

SG&A expenses in the first six months of 2019 increased by 7% when compared to the first six months of 2018, and as a percentage of revenue increased to 6.7% in 2019 from 6.5% in 2018. SG&A expenses increased primarily due to an approximate $10,400 increase in equity-based compensation expense attributable to the grant of non-qualified stock options ("Options") and restricted share units (RSUs") in the second quarter of 2018, and an approximate $3,200 increase in personnel costs.

Backlog units and dollars were 9,530 units and $3,516,505, respectively, as of June 30, 2019 compared to 10,162 units and $3,861,853, respectively, as of June 30, 2018. The 6% decrease in backlog units was primarily attributable to the aforementioned 8% increase in units settled year over year. Backlog dollars were 9% lower year over year due primarily to the lower backlog unit balance, coupled with the 4% decrease in the average sales price of New Orders for the first six months of 2019 compared to the same period in 2018.

Backlog, which represents homes sold but not yet settled with the customer, may be impacted by customer cancellations for various reasons that are beyond our control, such as failure to obtain mortgage financing, inability to sell an existing home, job loss, or a variety of other reasons. In any period, a portion of the cancellations that we experience are related to new sales that occurred during the same period, and a portion are related to sales that occurred in prior periods and therefore appeared in the opening backlog for the current period. Expressed as the total of all cancellations during the period as a percentage of gross sales during the period, our cancellation rate was 13.6% and 13.3% in the first six months of 2019 and 2018, respectively. During the most recent four quarters, approximately 5% of a reporting quarter's opening backlog cancelled during the fiscal quarter. We can provide no assurance that our historical cancellation rates are indicative of the actual cancellation rate that may occur during the remainder of 2019 or future years. Other than those units that are cancelled, we expect to settle substantially all of our June 30, 2019 backlog within the next twelve months.

The backlog turnover rate is impacted by various factors, including, but not limited to, changes in New Order activity, internal production capacity, external subcontractor capacity and other external factors over which we do not exercise control.

Reportable Segments

Homebuilding segment profit includes all revenues and income generated from the sale of homes, less the cost of homes sold, SG&A expenses, and a corporate capital allocation charge determined by corporate management. The corporate capital allocation charge eliminates in consolidation and is based on the segment's average net assets employed. The corporate capital allocation charged to the operating segment allows the Chief Operating Decision Maker to determine whether the operating segment's results are providing the desired rate of return after covering our cost of capital.

We record charges on contract land deposits when we determine that it is probable that recovery of the deposit is impaired. For segment reporting purposes, impairments on contract land deposits are generally charged to the operating segment upon the termination of a Lot Purchase Agreement with the developer or the restructuring of a Lot Purchase Agreement resulting in the forfeiture of the deposit. We evaluate our entire net contract land deposit portfolio for impairment each quarter. For presentation purposes below, the contract land deposit reserve at June 30, 2019 and December 31, 2018 has been allocated to the respective year's reportable segments to show contract land deposits on a net basis. The net contract land deposit balances below also include approximately $4,000 and $3,900 at June 30, 2019 and December 31, 2018, respectively, of letters of credit issued as deposits in lieu of cash.

The following tables summarize certain homebuilding operating activity by reportable segment for the three and six months ended June 30, 2019 and 2018.

Selected Segment Financial Data:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues:				
Mid Atlantic	$ 982,032	$ 973,677	$ 1,863,356	$ 1,816,173
North East	121,804	147,618	244,431	270,332
Mid East	359,908	363,288	698,457	653,525
South East	293,704	265,880	594,410	500,526

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Gross profit margin:				
Mid Atlantic	$ 187,793	$ 178,415	$ 350,525	$ 335,440
North East	23,248	28,338	46,087	54,517
Mid East	68,294	68,118	129,643	119,129
South East	56,526	52,421	116,104	96,639

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Gross profit margin percentage:				
Mid Atlantic	19.1%	18.3%	18.8%	18.5%
North East	19.1%	19.2%	18.9%	20.2%
Mid East	19.0%	18.8%	18.6%	18.2%
South East	19.2%	19.7%	19.5%	19.3%

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Segment profit:				
Mid Atlantic	$ 123,802	$ 112,221	$ 223,166	$ 203,268
North East	11,563	16,777	23,023	32,481
Mid East	40,291	42,174	75,766	69,385
South East	30,825	29,203	65,861	52,440

Operating Activity:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019		2018		2019		2018	
	Units	Average Price	Units	Average Price	Units	Average Price	Units	Average Price
New orders, net of cancellations:								
Mid Atlantic	2,322	$ 411.3	2,414	$ 427.0	4,766	$ 415.3	4,917	$ 430.4
North East	364	$ 376.5	365	$ 406.0	677	$ 378.8	736	$ 407.9
Mid East	1,276	$ 317.9	1,142	$ 328.0	2,490	$ 319.0	2,438	$ 327.2
South East	1,277	$ 298.4	1,043	$ 301.5	2,445	$ 300.3	2,047	$ 298.4
Total	5,239	$ 358.6	4,964	$ 376.3	10,378	$ 362.7	10,138	$ 377.3

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019		2018		2019		2018	
	Units	Average Price	Units	Average Price	Units	Average Price	Units	Average Price
Settlements:								
Mid Atlantic	2,326	$ 422.2	2,239	$ 434.8	4,469	$ 416.9	4,165	$ 436.0
North East	314	$ 387.7	354	$ 417.0	617	$ 396.1	655	$ 412.7
Mid East	1,097	$ 328.0	1,092	$ 332.6	2,127	$ 328.3	1,971	$ 331.5
South East	983	$ 298.8	926	$ 287.1	2,000	$ 297.2	1,716	$ 291.7
Total	4,720	$ 372.3	4,611	$ 379.6	9,213	$ 369.1	8,507	$ 380.9

	As of June 30,			
	2019		2018	
	Units	Average Price	Units	Average Price
Backlog:				
Mid Atlantic	4,445	$ 421.2	4,976	$ 427.1
North East	623	$ 384.4	763	$ 418.3
Mid East	2,169	$ 324.2	2,365	$ 334.7
South East	2,293	$ 306.0	2,058	$ 304.0
Total	9,530	$ 369.0	10,162	$ 380.0

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
New order cancellation rate:				
Mid Atlantic	13.2%	13.6%	14.0%	14.0%
North East	11.0%	9.7%	11.5%	10.6%
Mid East	13.2%	12.6%	13.0%	12.4%
South East	13.5%	13.1%	13.8%	13.6%

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Average active communities:				
Mid Atlantic	211	238	211	239
North East	34	37	32	37
Mid East	131	117	128	121
South East	94	88	89	86
Total	470	480	460	483

Homebuilding Inventory:

	June 30, 2019	December 31, 2018
Sold inventory:		
Mid Atlantic	$ 677,808	$ 622,997
North East	83,689	79,530
Mid East	221,768	195,149
South East	211,859	182,458
Total (1)	$ 1,195,124	$ 1,080,134

	June 30, 2019	December 31, 2018
Unsold lots and housing units inventory:		
Mid Atlantic	$ 80,723	$ 74,689
North East	12,548	11,088
Mid East	14,271	9,045
South East	24,744	20,611
Total (1)	$ 132,286	$ 115,433

(1) The reconciling items between segment inventory and consolidated inventory include certain consolidation adjustments necessary to convert the reportable segments' results, which are predominantly maintained on a cash basis, to a full accrual basis for external financial statement presentation purposes. These consolidation adjustments are not allocated to our operating segments.

Lots Controlled and Land Deposits:

	June 30, 2019	December 31, 2018
Total lots controlled:		
Mid Atlantic	41,150	40,350
North East	9,250	8,950
Mid East	23,750	24,350
South East	27,250	26,050
Total	101,400	99,700

	June 30, 2019	December 31, 2018
Contract land deposits, net:		
Mid Atlantic	$ 207,029	$ 199,917
North East	47,338	42,591
Mid East	54,151	52,899
South East	105,280	104,693
Total	$ 413,798	$ 400,100

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Contract land deposit impairments (recoveries), net:				
Mid Atlantic	$ —	$ 184	$ 289	$ 182
North East	(200)	641	1,050	641
Mid East	9	21	9	26
South East	—	5	—	1,915
Total	$ (191)	$ 851	$ 1,348	$ 2,764

Mid Atlantic

Three Months Ended June 30, 2019 and 2018

The Mid Atlantic segment had an approximate $11,600, or 10%, increase in segment profit in the second quarter of 2019 compared to the second quarter of 2018. The increase in segment profit was driven by improved gross profit margins, and by an increase of approximately $8,400, or 1%, in segment revenues quarter over quarter. Segment revenues increased due to a 4% increase in the number of units settled, offset partially by a 3% decrease in the average settlement price quarter over quarter. The increase in the number of units settled was favorably impacted by a higher backlog turnover rate quarter over quarter. The decrease in the average settlement price was primarily attributable to a relative shift in settlements to lower priced products in the second quarter of 2019 compared to the same period in 2018. The Mid Atlantic segment's gross profit margin percentage increased to 19.1% in the second quarter of 2019 from 18.3% in the second quarter of 2018, primarily due to lower lumber costs and lower lot costs as a percentage of revenue.

Segment New Orders and the average sales price of New Orders each decreased 4% in the second quarter of 2019 compared to the second quarter of 2018. New Orders decreased primarily due to a 12% decrease in the average number of active communities quarter over quarter, offset partially by higher community absorption rates quarter over quarter. The decrease in the average sales price of New Orders is attributable to a shift to lower priced products and lower priced markets within the segment.

Six Months Ended June 30, 2019 and 2018

The Mid Atlantic segment had an approximate $19,900, or 10%, increase in segment profit in the first six months of 2019 compared to the first six months of 2018. The increase in segment profit was driven by an increase of approximately $47,200, or 3%, in segment revenues, and by improved gross profit margins year over year. Segment revenues increased due to a 7% increase in the number of units settled, offset partially by a 4% decrease in the average settlement price year over year. The increase in units settled is attributable primarily to a higher backlog turnover rate year over year. The average settlement price in the current year was negatively impacted by a relative shift in settlements to lower priced products and lower priced markets within the segment. The Mid Atlantic segment's gross profit margin percentage increased to 18.8% for the first six months of 2019 from 18.5% in the first six months of 2018, primarily due to lower lumber costs, offset partially by increases in certain construction costs.

Segment New Orders and the average sales price of New Orders decreased 3% and 4%, respectively in the first six months of 2019 compared to the same period in 2018. New Orders decreased primarily due to a 12% decrease in the average number of active communities year over year, offset partially by higher community absorption rates year over year. The decrease in the average sales price of New Orders is attributable to a relative shift to lower priced products and a shift to markets with lower average sales prices within the segment.

North East

Three Months Ended June 30, 2019 and 2018

The North East segment had an approximate $5,200, or 31%, decrease in segment profit in the second quarter of 2019 compared to the second quarter of 2018 due primarily to a decrease in segment revenues of approximately $25,800, or 18%, quarter over quarter. The decrease in segment revenues was attributable to decreases in the number of units settled and the average settlement price of 11% and 7%, respectively, due primarily to a 24% lower backlog unit balance and an 8% lower average sales price of units in backlog entering the second quarter of 2019 compared to the backlog entering the second quarter of 2018. The North East segment’s gross profit margin percentage decreased to 19.1% in the second quarter of 2019 from 19.2% in the second quarter of 2018.

Segment New Orders were flat quarter over quarter, while the average sales price of New Orders decreased 7%, in the second quarter of 2019 compared to the second quarter of 2018. The average sales price of New Orders was negatively impacted primarily by a relative shift in New Orders to markets within the segment with lower average sales prices and a shift to lower priced products.

Six Months Ended June 30, 2019 and 2018

The North East segment had an approximate $9,500, or 29%, decrease in segment profit in the first six months of 2019 compared to the first six months of 2018 due to a decrease in segment revenues of approximately $25,900, or 10%. The decrease in segment revenues was attributable to decreases in the number of units settled and the average settlement price of 6% and 4%, respectively, due primarily to a 17% lower backlog unit balance and a 5% lower average sales price of units in backlog entering 2019 compared to the backlog entering 2018. The North East segment’s gross profit margin percentage decreased to 18.9% in the first six months of 2019 from 20.2% in the first six months of 2018, primarily due to higher construction costs.

Segment New Orders and the average sales price of New Orders decreased 8% and 7%, respectively, in the first six months of 2019 compared to the same period in 2018. New Orders were negatively impacted by a 15% decrease in the average number of active communities year over year. The average sales price of New Orders was negatively impacted primarily by a relative shift in New Orders to markets within the segment with lower average sales prices and a shift to lower priced products.

Mid East

Three Months Ended June 30, 2019 and 2018

The Mid East segment had an approximate $1,900, or 4%, decrease in segment profit in the second quarter of 2019 compared to the second quarter of 2018. The decrease in segment profit was driven by a decrease in segment revenues of approximately $3,400, or 1%, quarter over quarter. Segment revenues decreased primarily due to a 1% decrease in the average settlement price of units settled quarter over quarter. The segment’s gross profit margin percentage increased to 19.0% in the second quarter of 2019 from 18.8% in the second quarter of 2018, primarily due to lower lumber costs, offset partially by increases in certain construction costs.

Segment New Orders increased 12%, while the average sales price of New Orders decreased 3% in the second quarter of 2019 compared to the second quarter of 2018. New Orders increased due primarily to an 11% increase in the average number of active communities quarter over quarter. The average sales price of New Orders was negatively impacted by a relative shift to lower priced products and to markets within the segment with lower average sales prices.

Six Months Ended June 30, 2019 and 2018

The Mid East segment had an approximate $6,400, or 9%, increase in segment profit in the first six months of 2019 compared to the first six months of 2018. The increase in segment profit was driven by an increase of approximately $44,900, or 7%, in revenues year over year. Segment revenues increased primarily due to an 8% increase in the number of units settled year over year, due primarily to a higher backlog turnover rate year over year. The segment's gross profit margin percentage increased to 18.6% in the first six months of 2019 from 18.2% in first six months of 2018, primarily due to lower lumber costs, offset partially by increases in certain construction costs.

Segment New Orders increased 2%, while the average sales price of New Orders decreased 3% in the first six months of 2019 compared to the same period in 2018. New Orders increased primarily due to a 6% increase in the average number of active communities in 2019 compared to the same period in 2018. The average sales price of New Orders was negatively impacted by a relative shift to lower priced products and to markets within the segment with lower average sales prices.

South East

Three Months Ended June 30, 2019 and 2018

The South East segment had an approximate $1,600, or 6%, increase in segment profit in the second quarter of 2019 compared to the second quarter of 2018. The increase in segment profit was primarily driven by an increase of approximately $27,800, or 10%, in revenues quarter over quarter. The increase in revenues was due to a 6% increase in the number of units settled and a 4% increase in the average settlement price quarter over quarter. The number of units settled was favorably impacted by a 3% higher backlog unit balance entering the second quarter of 2019 compared to the same period in 2018, coupled with a higher backlog turnover rate quarter over quarter. The average settlement price in the second quarter of 2019 was favorably impacted by a 3% higher average sales price of units in backlog entering the second quarter of 2019 compared to the same period 2018. The South East segment's gross profit margin percentage decreased to 19.2% in the second quarter of 2019 from 19.7% in the second quarter of 2018, primarily due to increased lot costs and certain construction costs, offset partially by lower lumber costs.

Segment New Orders increased 22%, while the average sales price on New Orders decreased 1%, in the second quarter of 2019 compared to the second quarter of 2018. New Orders were favorably impacted by an increase in the average number of active communities in certain of our stronger markets within the segment and by a higher segment absorption rate in the second quarter of 2019 compared to the second quarter of 2018.

Six Months Ended June 30, 2019 and 2018

The South East segment had an approximate $13,400, or 26%, increase in segment profit in the first six months of 2019 compared to the first six months of 2018. The increase in segment profit was primarily driven by an increase of approximately $93,900, or 19%, in revenues year over year, due primarily to a 17% increase in the number of units settled year over year. The increase in units settled was attributable to a 7% higher backlog unit balance entering 2019 compared to the backlog unit balance entering 2018, coupled with a higher backlog turnover rate year over year. The South East segment's gross profit margin percentage increased to 19.5% in the first six months of 2019 from 19.3% in the first six months of 2018 primarily due to lower lumber costs, offset partially by increases in certain construction costs year over year.

Segment New Orders and the average sales price of New Orders increased 19% and 1%, respectively, in the first six months of 2019 compared to the first six months of 2018. New Orders were favorably impacted by an increase in the average number of active communities in certain of our stronger markets withn the segment, and by a higher segment absorption rate year over year.

Homebuilding Segment Reconciliations to Consolidated Homebuilding Operations

In addition to the corporate capital allocation and contract land deposit impairments discussed above, the other reconciling items between homebuilding segment profit and homebuilding consolidated income before tax include unallocated corporate overhead (which includes all management incentive compensation), equity-based compensation expense, consolidation adjustments and external corporate interest expense. Our overhead functions, such as accounting, treasury and human resources, are centrally performed and the costs are not allocated to our operating segments. Consolidation adjustments consist of such items to convert the reportable segments' results, which are predominantly maintained on a cash basis, to a full accrual basis for external financial statement presentation purposes, and are not allocated to our operating segments. External corporate interest expense primarily consists of interest charges on our 3.95% Senior Notes due 2022, and is not charged to the operating segments because the charges are included in the corporate capital allocation discussed above.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Homebuilding consolidated gross profit:				
Mid Atlantic	$ 187,793	$ 178,415	$ 350,525	$ 335,440
North East	23,248	28,338	46,087	54,517
Mid East	68,294	68,118	129,643	119,129
South East	56,526	52,421	116,104	96,639
Consolidation adjustments and other	(3,801)	6,374	(5,899)	6,088
Homebuilding consolidated gross profit	$ 332,060	$ 333,666	$ 636,460	$ 611,813

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Homebuilding consolidated income before taxes:				
Mid Atlantic	$ 123,802	$ 112,221	$ 223,166	$ 203,268
North East	11,563	16,777	23,023	32,481
Mid East	40,291	42,174	75,766	69,385
South East	30,825	29,203	65,861	52,440
Reconciling items:				
Equity-based compensation expense (1)	(17,466)	(17,230)	(37,438)	(26,617)
Corporate capital allocation (2)	56,177	53,954	110,735	104,653
Unallocated corporate overhead	(29,354)	(22,503)	(61,089)	(53,787)
Consolidation adjustments and other	9,836	14,701	20,034	22,031
Corporate interest expense	(6,024)	(6,031)	(11,998)	(12,018)
Reconciling items sub-total	13,169	22,891	20,244	34,262
Homebuilding consolidated income before taxes	$ 219,650	$ 223,266	$ 408,060	$ 391,836

(1) The increase in equity-based compensation expense for the six-month period ended June 30, 2019 was primarily attributable to the equity grant in the second quarter of 2018.

(2) This item represents the elimination of the corporate capital allocation charge included in the respective homebuilding reportable segments. The corporate capital allocation charge is based on the segment’s monthly average asset balance, and is as follows for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Corporate capital allocation charge:				
Mid Atlantic	$ 31,378	$ 31,501	$ 61,794	$ 61,949
North East	4,626	4,580	9,353	8,760
Mid East	9,497	9,057	18,512	17,030
South East	10,676	8,816	21,076	16,914
Total	$ 56,177	$ 53,954	$ 110,735	$ 104,653

Mortgage Banking Segment

Three and Six Months Ended June 30, 2019 and 2018

We conduct our mortgage banking activity through NVR Mortgage Finance, Inc. ("NVRM"), a wholly owned subsidiary. NVRM focuses exclusively on serving the homebuilding segment customer base. NVRM sells all of the mortgage loans it closes to investors in the secondary markets on a servicing-released basis, typically within 30 days from the loan closing. The following table summarizes the results of our mortgage banking operations and certain statistical data for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Loan closing volume:				
Total principal	$ 1,231,039	$ 1,214,101	$ 2,372,037	$ 2,223,774
Loan volume mix:				
Adjustable rate mortgages	11%	10%	11%	9%
Fixed-rate mortgages	89%	90%	89%	91%
Operating profit:				
Segment profit	$ 26,173	$ 19,685	$ 55,731	$ 42,235
Equity-based compensation expense	(1,111)	(1,365)	(472)	(1,487)
Mortgage banking income before tax	$ 25,062	$ 18,320	$ 55,259	$ 40,748
Capture rate:	89%	87%	89%	87%
Mortgage banking fees:				
Net gain on sale of loans	$ 32,962	$ 27,571	$ 67,919	$ 58,891
Title services	9,592	9,077	18,292	16,926
Servicing fees	192	194	340	346
	$ 42,746	$ 36,842	$ 86,551	$ 76,163

Loan closing volume for the three and six months ended June 30, 2019 increased by approximately $16,900, or 1%, and $148,300 or 7%, respectively, from the same periods in 2018. The increase in loan closing volume during the three and six months ended June 30, 2019, respectively, was primarily attributable to the 2% and 8% increases in the homebuilding segment's number of units settled during the three and six months ended June 30, 2019, respectively, when compared to the same periods in 2018.

Segment profit for the three and six months ended June 30, 2019 increased by approximately $6,500, or 33%, and $13,500, or 32%, respectively, from the same periods in 2018. The increases were primarily attributable to an increase in mortgage banking fees and a decrease in general and administrative expenses. Mortgage banking fees increased by approximately $5,900 and $10,400 during the three and six months ended June 30, 2019, respectively, resulting from the aforementioned increase in loan closing volume and an increase in secondary marketing gains and the timing of loan sales. General and administrative expenses decreased approximately $700 and $2,400 during the three and six months ended June 30, 2019, respectively, primarily due to a decrease in personnel costs. Mortgage banking income before tax in the first six months of 2019 was favorably impacted by a reversal of approximately $2,200 of equity-based compensation expense related to options forfeited during the first quarter.

Effective Tax Rate

Our effective tax rate during the three and six months ended June 30, 2019 was 14.1% and 14.0%, respectively, compared to 15.9% and 14.6% for the three and six months ended June 30, 2018, respectively. Our effective tax rate was favorably impacted by the recognition of income tax benefits related to excess tax benefits from stock option exercises, which totaled $30,727 and $59,205, for the three and six months ended June 30, 2019, respectively, and $26,456 and $46,022, for the three and six months ended June 30, 2018, respectively.

We expect to experience volatility in our effective tax rate in future quarters as the amount of the excess tax benefit from equity-based awards is dependent on our stock price when awards are exercised as well as on the timing of exercises, which historically has varied from quarter to quarter.

Liquidity and Capital Resources

Lines of Credit and Notes Payable

Our homebuilding business segment funds its operations from cash flows provided by operating activities, a short-term unsecured working capital revolving credit facility and capital raised in the public debt and equity markets. Our unsecured Credit Agreement (the “Credit Agreement”) provides for aggregate revolving loan commitments of $200,000. Under the Credit Agreement, we may request increases of up to $300,000 to the facility in the form of revolving loan commitments or term loans to the extent that new or existing lenders agree to provide additional revolving loan or term loan commitments. The Credit Agreement provides for a $100,000 sublimit for the issuance of letters of credit of which there was approximately $9,000 outstanding at June 30, 2019, and a $25,000 sublimit for a swing line commitment. The Credit Agreement termination date is July 15, 2021. There was no debt outstanding under the Credit Agreement at June 30, 2019.

Our mortgage banking subsidiary, NVRM, provides for its mortgage origination and other operating activities using cash generated from its operations, borrowings from its parent company, NVR, as well as a $150,000 revolving mortgage repurchase facility (the “Repurchase Agreement”), which is non-recourse to NVR. In July 2019, NVRM entered into the Eleventh Amendment to the Repurchase Agreement, which extended the term of the Repurchase Agreement through July 22, 2020. All other terms and conditions under the amended Repurchase Agreement remained materially consistent. At June 30, 2019, there were no borrowing base limitations reducing the amount available under the Repurchase Agreement. There was no debt outstanding under the Repurchase Agreement at June 30, 2019.

There have been no material changes in our lines of credit and notes payable during the six months ended June 30, 2019. For additional information regarding lines of credit and notes payable, see Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018.

Cash Flows

For the six months ended June 30, 2019, cash, restricted cash, and cash equivalents increased by $174,161. Cash provided by operating activities was $302,619. Cash was provided by earnings for the six months ended June 30, 2019 and net proceeds of $54,662 from mortgage loan activity. Cash was primarily used to fund the increase in homebuilding inventory of $144,618, due to an increase in the number of units under construction at June 30, 2019 compared to December 31, 2018.

Net cash used in investing activities for the six months ended June 30, 2019 of $2,798 included cash used for purchases of property, plant and equipment of $10,699, partially offset by the receipt of capital distributions from our unconsolidated JVs totaling $7,167.

Net cash used in financing activities was $125,660 for the six months ended June 30, 2019. Cash was used to repurchase 111,655 shares of our common stock at an aggregate purchase price of $304,479 under our ongoing common stock repurchase program, discussed below. Cash was provided from stock option exercise proceeds totaling $178,831.

Equity Repurchases

In addition to funding growth in our homebuilding and mortgage banking operations, we historically have used a substantial portion of our excess liquidity to repurchase outstanding shares of our common stock in open market and privately negotiated transactions. This ongoing repurchase activity is conducted pursuant to publicly announced Board authorizations, and is typically executed in accordance with the safe-harbor provisions of Rule 10b-18 promulgated under the Exchange Act. In addition, the Board resolutions authorizing us to repurchase shares of our common stock specifically prohibit us from purchasing shares from our officers, directors, Profit Sharing/401(k) Plan Trust or Employee Stock Ownership Plan Trust. The repurchase program assists us in accomplishing our primary objective of creating increases in shareholder value. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, of this Quarterly Report on Form 10-Q for further discussion of repurchase activity during the second quarter of 2019.

Recent Accounting Pronouncements

See Note 15 to the accompanying condensed consolidated financial statements for discussion of recently issued accounting pronouncements applicable to us.

Critical Accounting Policies

There have been no material changes to our critical accounting policies as previously disclosed in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no material changes in our market risks during the six months ended June 30, 2019. For additional information regarding our market risks, see Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. There have been no changes in our internal control over financial reporting in the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various litigation arising in the ordinary course of business. In the opinion of management, and based on advice of legal counsel, this litigation is not expected to have a material adverse effect on our financial position, results of operations or cash flows. Legal costs incurred in connection with outstanding litigation are expensed as incurred.

Item 1A. Risk Factors

There have been no material changes to the risk factors as previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(dollars in thousands, except per share data)

We had two share repurchase authorizations outstanding during the quarter ended June 30, 2019. On December 12, 2018 and May 2, 2019, we publicly announced that our Board of Directors authorized the repurchase of our outstanding common stock in one or more open market and/or privately negotiated transactions, up to an aggregate of $300,000 per authorization. The repurchase authorizations do not have expiration dates. We repurchased the following shares of our common stock during the second quarter of 2019:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 - 30, 2019	21,567	$ 2,848.98	21,567	$ 137,615
May 1 - 31, 2019	4,428	$ 3,173.01	4,428	$ 423,565
June 1 - 30, 2019	3,831	$ 3,259.03	3,831	$ 411,080
Total	29,826	$ 2,949.75	29,826	

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File Number	Exhibit Number	Filing Date
10.1	Eleventh Amendment to Amended and Restated Master Repurchase Agreement Dated July 24, 2019 between NVR Mortgage Finance, Inc. and U.S. Bank National Association. Filed herewith.				
31.1	Certification of NVR's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.				
31.2	Certification of NVR's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.				
32	Certification of NVR's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.				
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NVR, Inc.

Date: July 31, 2019	By:	/s/ Daniel D. Malzahn
		Daniel D. Malzahn
		Senior Vice President, Chief Financial Officer and Treasurer

Exhibit 10.1

ELEVENTH AMENDMENT TO AMENDED AND RESTATED

MASTER REPURCHASE AGREEMENT

THIS ELEVENTH AMENDMENT TO AMENDED AND RESTATED MASTER REPURCHASE AGREEMENT (this "Amendment"), dated as of July 24, 2019 (the "Effective Date"), is made and entered into among NVR MORTGAGE FINANCE, INC., a Virginia corporation (the "Seller"), U.S. BANK NATIONAL ASSOCIATION, as agent (in such capacity, the "Agent") and a Buyer, and the other Buyers (the "Buyers").

RECITALS

A. The Seller and the Buyers are parties to an Amended and Restated Master Repurchase Agreement dated as of August 2, 2011 as amended by a First Amendment to Amended and Restated Master Repurchase Agreement dated as of August 1, 2012, a Second Amendment to Amended and Restated Master Repurchase Agreement dated as of November 13, 2012, a Third Amendment to Amended and Restated Master Repurchase Agreement dated as of November 29, 2012, a Fourth Amendment to Amended and Restated Master Repurchase Agreement dated as of July 31, 2013, a Fifth Amendment to Amended and Restated Master Repurchase Agreement dated as of July 30, 2014, a Sixth Amendment to Amended and Restated Master Repurchase Agreement dated as of July 29, 2015, a Seventh Amendment to Amended and Restated Master Purchase Agreement dated as of January 18, 2016, an Eighth Amendment to Amended and Restated Master Purchase Agreement dated as of July 27, 2016, a Ninth Amendment to Amended and Restated Master Purchase Agreement dated as of July 26, 2017, and a Tenth Amendment to Amended and Restated Master Repurchase Agreement dated July 25, 2018 (as further amended, restated or otherwise modified from time to time, the "Repurchase Agreement"); and

B. The Seller and the Buyers now desire to amend certain provisions of the Repurchase Agreement as set forth herein.

AGREEMENT

In consideration of the premises herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, all parties hereto agree as follows:

Section 1. Definitions. Capitalized terms used and not otherwise defined in this Amendment have the meanings specified in the Repurchase Agreement.

Section 2. Amendments. The Repurchase Agreement is hereby amended as follows:

2.1 Definitions. Section 1.2 of the Repurchase Agreement is hereby amended by adding or amending and restating, as applicable, the following defined terms to read in their entireties as follows:

“*Beneficial Ownership Certification*” means a certification regarding beneficial ownership as required by the Beneficial Ownership Regulation.

“*Beneficial Ownership Regulation*” means 31 C.F.R. § 1010.230.

“*LIBOR Margin*” means 1.85%.

“*Termination Date*” means the earlier of (i) July 22, 2020, and (ii) the date when the Buyers’ Commitments are terminated pursuant to this Agreement, by order of any Governmental Authority or by operation of law.

2.2 Full Disclosure. Section 15.2(s) of the Repurchase Agreement is amended and restated in its entirety as follows:

(s) *Full Disclosure*. Each material fact or condition relating to the Repurchase Documents and the Central Elements has been disclosed in writing to the Agent. All information previously furnished by the Seller and its Subsidiaries to the Agent in connection with the Repurchase Documents was and all information furnished in the future by the Seller and its Subsidiaries to the Agent or Buyers will be true and accurate in all material respects or based on reasonable estimates on the date the information is stated or certified. To the best knowledge of the Seller, neither the financial statements referred to in Section 15.2(f) , nor any Request/Confirmation, market analysis report, officer’s certificate or any other report or statement delivered by the Seller and its Subsidiaries to the Agent in connection with this Agreement, contains any untrue statement of material fact. The information included in the most recently delivered Beneficial Ownership Certification is true and correct in all respects.

2.3 Beneficial Ownership Reporting. Section 16.5 of the Repurchase Agreement is amended by adding a new clause (i) thereto, to read as follows:

(i) (i) Upon request of the Administrative Agent, a Beneficial Ownership Certification, and (ii) any change in the information provided in the Beneficial Ownership Certification that would result in a change to the list of beneficial owners identified in parts (c) or (d) of such certification.

2.4 Tangible Net Worth Ratio. Section 17.13 of the Repurchase Agreement is hereby amended and restated to read in its entirety as follows:

17.13. *Tangible Net Worth Ratio*. At all times, the ratio of (i) Total Liabilities to (ii) Adjusted Tangible Net Worth shall not be more than 14.0 to 1.0

2.5 Certain ERISA Matters. Section 22 of the Repurchase Agreement is amended by adding a new Section 22.20 thereto, to read as follows:

22.20 Certain ERISA Matters.

(a) Each Buyer (x) represents and warrants, as of the date such Person became a Buyer party hereto, to, and (y) covenants, from the date such Person became a Buyer party hereto to the date such Person ceases being a Buyer party hereto, for the benefit of, the Administrative Agent and not, for the avoidance of doubt, to or for the benefit of the Seller or any Subsidiary, that at least one of the following is and will be true:

(i) such Buyer is not using "plan assets" (within the meaning of Section 3(42) of ERISA or otherwise) of one or more Benefit Plans with respect to such Buyer's entrance into, participation in, administration of and performance of the Transactions, the Commitments or this Agreement,

(ii) the transaction exemption set forth in one or more PTEs, such as PTE 84-14 (a class exemption for certain transactions determined by independent qualified professional asset managers), PTE 95-60 (a class exemption for certain transactions involving insurance company general accounts), PTE 90-1 (a class exemption for certain transactions involving insurance company pooled separate accounts), PTE 91-38 (a class exemption for certain transactions involving bank collective investment funds) or PTE 96-23 (a class exemption for certain transactions determined by in-house asset managers), is applicable with respect to such Buyer's entrance into, participation in, administration of and performance of the Transactions, the Commitments and this Agreement,

(iii) (A) such Buyer is an investment fund managed by a "Qualified Professional Asset Manager" (within the meaning of Part VI of PTE 84-14), (B) such Qualified Professional Asset Manager made the investment decision on behalf of such Buyer to enter into, participate in, administer and perform the Transactions, the Commitments and this Agreement, (C) the entrance into, participation in, administration of and performance of the Transactions, the Commitments and this Agreement satisfies the requirements of sub-sections (b) through (g) of Part I of PTE 84-14 and (D) to the best knowledge of such Buyer, the requirements of subsection (a) of Part I of PTE 84-14 are satisfied with respect to such Buyer's entrance into, participation in, administration of and performance of the Transactions, the Commitments and this Agreement, or

(iv) such other representation, warranty and covenant as may be agreed in writing between the Administrative Agent, in its sole discretion, and such Buyer.

(b) In addition, unless either (1) sub-clause (i) in the immediately preceding clause (a) is true with respect to a Buyer or (2) a Buyer has provided another representation, warranty and covenant in accordance with sub-clause (iv) in the immediately preceding clause (a), such Buyer further (x) represents and warrants, as of the date such Person became a Buyer party hereto, to, and (y) covenants, from the date such Person became a Buyer party hereto to the date such Person ceases being a Buyer party hereto, for the benefit of, the Administrative Agent and not, for the avoidance of doubt, to or for the benefit of the Seller or any Subsidiary, that the Administrative Agent is not a fiduciary with respect to the assets of such Buyer involved in such Buyer's entrance into, participation in, administration of and performance of the Transactions, the Commitments and this Agreement (including in connection with the reservation or exercise of any rights by the Administrative Agent under this Agreement, any Repurchase Document or any documents related hereto or thereto).

2.6 Exhibits and Schedules. Exhibit C and Schedule AI to the Repurchase Agreement is amended and restated in its entirety to read as set forth on Exhibit C and Schedule AI, respectively, to this Amendment.

Section 3. Representations, Warranties, Authority, No Adverse Claim.

3.1 Reassertion of Representations and Warranties, No Default. The Seller hereby represents and warrants that on and as of the date hereof and after giving effect to this Amendment (a) all of the representations and warranties in the Repurchase Agreement are true, correct, and complete in all respects as of the date hereof as though made on and as of such date, except for changes permitted by the terms of the Repurchase Agreement, and (b) there will exist no Default or Event of Default under the Repurchase Agreement, as amended by this Amendment, on such date that the Buyers have not waived.

3.2 Authority, No Conflict, No Consent Required. The Seller represents and warrants that it has the power, legal right, and authority to enter into this Amendment and has duly authorized by proper corporate action the execution and delivery of this Amendment and none of the agreements herein contravenes or constitutes a default under any agreement, instrument, or indenture to which the Seller is a party or a signatory, any provision of the Seller's articles of incorporation or bylaws, or any other agreement or requirement of law or results in the imposition of any Lien on any of its property under any agreement binding on or applicable to the Seller or any of its property except, if any, in favor of the Buyers. The Seller represents and warrants that no consent, approval, or authorization of or registration or declaration with any Person, including but not limited to any governmental authority, is required in connection with the execution and delivery by the Seller of this Amendment or the performance of obligations of the Seller herein described, except for those that the Seller has obtained or provided and as to which the Seller has delivered certified copies of documents evidencing each such action to the Buyers.

3.3 No Adverse Claim. The Seller hereby warrants, acknowledges, and agrees that no events have taken place and no circumstances exist at the date hereof that would give the Seller a basis to assert a defense, offset, or counterclaim to any claim of the Agent or the Buyers with respect to the Seller's obligations under the Repurchase Agreement as amended by this Amendment.

Section 4. Conditions Precedent. The effectiveness of the amendments hereunder shall be subject to satisfaction of the following conditions precedent:

4.1 The Agent shall have received the following documents in a quantity sufficient that the Seller and each Buyer may each have a fully executed original of each such document:

(a) this Amendment duly executed by the Seller, the Agent, and the Buyers;

(b) a certificate of the Secretary or an Assistant Secretary of the Seller certifying (i) that there has been no change to Seller's articles of incorporation or bylaws since copies of the same were delivered to the Agent on August 5, 2008; (ii) as to a copy attached thereto of resolutions authorizing the execution, delivery, and performance of this Amendment, and the other documents and agreements executed and delivered in connection herewith; and (iii) as to the names, incumbency, and specimen signatures of the persons authorized to execute this Amendment on behalf of the Seller; and

(c) such other documents as the Agent reasonably requests.

4.2 The Seller shall have paid any outstanding Agent's Fees and any other fees then due under Article 9 of the Repurchase Agreement.

Section 5. Miscellaneous.

5.1 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Repurchase Agreement and the other Repurchase Documents. Except as expressly modified and superseded by this Amendment, the terms and provisions of the Repurchase Agreement and each other Repurchase Document are ratified and confirmed and shall continue in full force and effect.

5.2 Survival. The representations and warranties made by the Seller in this Amendment shall survive the execution and delivery of this Amendment.

5.3 Reference to Repurchase Agreement. Each of the Repurchase Documents, including the Repurchase Agreement and any and all other agreements, documents, or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Repurchase Agreement as amended hereby, is hereby amended so that any reference in such Repurchase Document to the Repurchase Agreement shall refer to the Repurchase Agreement as amended and modified hereby.

5.4 Applicable Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York as applicable to the Repurchase Agreement.

5.5 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of the Agent, the Buyers, the Seller, and their respective successors and assigns, except that the Seller may not assign or transfer any of its rights or obligations hereunder without the prior written consent of each of the Buyers.

5.6 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

5.7 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

5.8 ENTIRE AGREEMENT. THIS AMENDMENT AND THE OTHER REPURCHASE DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES HERETO AND THERETO, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

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IN WITNESS WHEREOF, the parties have caused this Amendment to be executed as of the date first written above.

NVR MORTGAGE FINANCE, INC., as Seller

By:	/s/ Eugene J. Bredow
Name:	Eugene J. Bredow
Title:	President

[Signature Page to Eleventh Amendment to
Amended and Restated Master Repurchase Agreement]

U.S. BANK NATIONAL ASSOCIATION, as Agent and as a Buyer

By:	/s/ Edwin D. Jenkins
Name:	Edwin D. Jenkins
Title:	Senior Vice President

**SCHEDULE AI to
ELEVENTH Amendment to
Amended and Restated
Master Repurchase Agreement**

SCHEDULE AI
TO MASTER REPURCHASE AGREEMENT

Approved Investors List				
Investor	S&P CP Rating	Moody's CP Rating	Related Parent Company	Product Approval
Bayview Acquisitions, LLC	N/A	N/A		Conforming
Caliber Funding	N/A	N/A		Conforming
Dollar Bank	N/A	N/A		Non-Conforming/ Conforming
Federal Home Loan Mortgage Corp	N/A	N/A		Conforming
Federal National Mortgage Assoc.	N/A	N/A		Conforming
First National Bank of Pennsylvania	N/A	P-2	FNB Corporation	Non-Conforming/ Conforming
Ginnie Mae Securities	A-1	N/A		Conforming
Huntington National Bank of Columbus OH	N/A	N/A	Huntington National Bancshares, Inc.	Non-Conforming/ Conforming
Lakeview Loan Servicing				Non-Conforming/ Conforming
Merchants Mortgage			Merchants Bank of Indiana	Non-Conforming/ Conforming
NASA Federal Credit Union				Non-Conforming/ Conforming
Northpoint				Non-Conforming/ Conforming
PennyMac Corporation	N/A	N/A	PennyMac Mortgage Inv Trust	Non-Conforming/ Conforming
Pentagon Federal Credit Union, Alexandria VA	N/A	N/A		Non-Conforming/ Conforming
Roundpoint Mortgage Servicing Corp	N/A	N/A		Conforming
Sandy Spring Bank of Olney MD	N/A	N/A		Non-Conforming/ Conforming
U.S. Bank Home Mortgage	A-1	P-1		Non-Conforming/ Conforming
U.S. Department of Agriculture				Conforming
Wells Fargo Bank, N.A.	A-1	P-1		Non-Conforming/ Conforming

Approved Investors List				
Housing Agencies				
Delaware State Housing Agency	N/A	N/A		Conforming
District of Columbia Housing Finance Agency	N/A	N/A		Conforming
Florida State Housing	N/A	N/A		Conforming
HFA of Hillsborough County	N/A	N/A		Conforming
Housing Opportunities Commission	N/A	N/A		Conforming
Illinois Housing Development Authority	N/A	N/A		Conforming
Indiana Housing & Community Development Authority	N/A	N/A		Conforming
Maryland Community Development	N/A	N/A		Conforming

National Homebuyers Fund	N/A	N/A	Master Servicer - USBHM	Conforming
New Jersey Housing & Mortgage Finance	N/A	N/A		Conforming
North Carolina Housing Finance	N/A	N/A		Conforming
Ohio Housing Finance Agency	N/A	N/A		Conforming
Pennsylvania Housing Finance Agency	N/A	N/A		Conforming
Port of Cincinnati Greater Development Authority	N/A	N/A	Master Servicer - USBHM	Conforming
South Carolina State Housing Finance	N/A	N/A		Conforming
State of New York Mortgage Agency	N/A	N/A		Conforming
Tennessee Housing Development Agency	N/A	N/A		Conforming
Virginia Housing Development Authority	N/A	N/A		Conforming
West Virginia Housing Finance	N/A	N/A		Conforming

EXHIBIT C TO
ELEVENTH AMENDMENT TO
AMENDED AND RESTATED
MASTER REPURCHASE AGREEMENT

EXHIBIT C
TO AMENDED AND RESTATED MASTER REPURCHASE AGREEMENT

FORM OF OFFICER'S CERTIFICATE WITH COMPUTATIONS TO SHOW COMPLIANCE OR NON-COMPLIANCE WITH CERTAIN FINANCIAL COVENANTS

OFFICER'S CERTIFICATE

AGENT: U.S. Bank National Association
SELLER: NVR MORTGAGE FINANCE, INC.
SUBJECT PERIOD: ended , 20___
DATE: , 20___

This certificate is delivered to the Agent and the Buyers under the Amended and Restated Master Repurchase Agreement dated as of August 2, 2011 (as supplemented, amended or restated from time to time, the "*Current Repurchase Agreement*"), among the Seller, the Agent, and the Buyers from time to time party thereto. Unless they are otherwise defined in this request, terms defined in the Current Repurchase Agreement have the same meanings here as there.

The undersigned certifies to the Agent that on the date of this certificate that:

1. The undersigned is an incumbent officer of the Seller, holding the title stated below the undersigned's signature below.

2. The Seller's Financial Statements that are attached to this certificate were prepared in accordance with GAAP (except that interim Financial Statements exclude notes to Financial Statements and statements of changes to stockholders' equity and are subject to year-end adjustments) and (subject to the aforesaid proviso as to interim Financial Statements) present fairly the Seller's financial condition and results of operations as of _________________ for that month (the "*Subject Period*") and for the year to that date.

3. The undersigned supervised a review of the Seller's activities during the Subject Period in respect of the following matters and has determined the following:

(a) except to the extent that a representation or warranty speaks to a specific date, the representations and warranties of the Seller in the Current Repurchase Agreement and the other Repurchase Documents are true and correct in all material respects, other than the changes, if any, described on the attached *Annex A*;

(b) no event has occurred that could reasonably be expected to have a materially adverse effect on any of the Central Elements of the Seller;

(c) the Seller has complied with all of its obligations under the Repurchase Documents, *other than* the deviations, if any, described on the attached *Annex A*;

(d) no Event of Default has occurred that has not been declared by the Agent in writing to have been cured or waived, and no Default has occurred that has not been cured before becoming an Event of Default, *other than* those Events of Default and/or Defaults, if any, described on the attached *Annex A*; and

(e) compliance by the Seller with the financial covenants in Sections 17.12, 17.13, 17.14, and 17.15 of the Current Repurchase Agreement and the HUD Compare Ratio are accurately calculated on the attached *Annex A*.

NVR MORTGAGE FINANCE, INC., as Seller

By: ____________________________

Name: ____________________________

Title: ____________________________

ANNEX A TO OFFICER'S CERTIFICATE

1. Describe changes to representations and warranties, if any - *clause 3(a)* of attached Officer's Certificate; if none, so state:

2. Describe deviations from compliance with obligations, if any - *clause 3(c)* of attached Officer's Certificate; if none, so state:

3. Describe Defaults or Events of Default, if any - *clause 3(d)* of attached Officer's Certificate; if none, so state:

4. Calculate compliance with covenants in ***Sections 17.12***, ***17.13***, ***17.14***, and ***17.15*** of the Current Repurchase Agreement and the HUD Compare Ratio - *clause 3(e)* of attached Officer's Certificate:

(a) ***Section 17.12***. The Seller's Adjusted Tangible Net Worth as of __________ is $____________________ (the minimum under ***Section 17.12*** is $14,000,000).

<u>Adjusted Tangible Net Worth</u>

Consolidated Assets:	$ ________________
<u>Minus</u> Debt (excluding Qualified Subordinated Debt):	$ ________________
<u>Minus</u> Contingent Indebtedness:	$ ________________
<u>Minus</u> Intangible Assets:	$ ________________
<u>Minus</u> Affiliate Receivables:	$ ________________
ADJUSTED TANGIBLE NET WORTH:	$ ________________

(b) ***Section 17.13***. The ratio of Seller's Total Liabilities to Adjusted Tangible Net Worth on a consolidated basis with its Subsidiaries, measured monthly, is ___ to 1.0 (the maximum ratio under ***Section 17.13*** is 14.0:1.0).

Leverage Ratio

Total Liabilities (excluding Qualified Subordinated Debt):	$ ____________
Adjusted Tangible Net Worth:	$ ____________
LEVERAGE RATIO:	_____ To 1.0

(c) ***Section 17.14***. The Seller's Pre-FAS 133 Net Income measured at the end of __________ for the twelve consecutive months then ended is $______(the minimum under ***Section 17.14*** is $2,000,000).

Pre-FAS 133 Net Income

Consolidated Net Income (in accordance with GAAP):	$ _______________
Plus/Minus FAS-133 Adjustment (calculated as of the end of the most recent fiscal quarter)	$ _______________
Plus/Minus Tax Adjustment	$ _______________
PRE-FAS 133 NET INCOME:	$ _______________

(d) ***Section 17.15***. The Seller's liquidity (unrestricted cash, Cash Equivalents and unused portion of the Maximum Aggregate Commitment), for the month ended ___________________, 20__, was $______________ (the minimum under ***Section 17.15*** is $10,000,000).

Liquidity

Unencumbered cash and cash equivalents:	$ _______________
Plus Unused availability (lesser of (i) aggregate Purchase Value - aggregate Purchase Price, or (ii) Maximum Aggregate Commitment - aggregate Purchase Price):	$ _______________
LIQUIDITY:	$ _______________

(e) ***HUD Compare Ratio***. The Seller's HUD Compare Ratio, as of the last Business Day of the period covered by this certificate, was _____ to 1.00.

Ratio (expressed as a percentage of):	
percentage of Seller’s Mortgage Loan originations under the FHA single family mortgage insurance program that were seriously delinquent or were claim terminated in the first two years after origination	_______%
to	
percentage of all Mortgage Loan originations under the FHA single family mortgage insurance program that were seriously delinquent or were claim terminated in the first two years after origination	_______%
Ratio (two year):	________

5. Describe and give details regarding (i) notices received by Seller requesting or demanding that Seller repurchase (or pay indemnity or other compensation in respect of) Mortgage Loans previously sold or otherwise disposed of by the Seller to any Investor or other Person pursuant to any express or implied repurchase or indemnity obligation as per Section 16.5, and (ii) actual repurchase and indemnity payments made by Seller to any Person. (attach schedule or explanation).

6. Provide the information specified below concerning other repurchase, reverse repurchase and asset warehousing facilities:

		Facility #1	Facility #2	Facility #3
LENDER / PROVIDER				
COLLATERAL AGENT				
COMMITTED AMOUNT				
UNCOMMITTED AMOUNT				
AMOUNT OUTSTANDING				
MATURITY DATE				
	Pricing			
	Libor Floor			
	Collateral Fees			
	Facility Fee			
	Non-Use Fee			
ELIGIBLE COLLATERAL				
	Eligible Collateral #1: Agency/conforming (incl. 40-year loans)			
	Eligible Collateral #2: Jumbo			
	Eligible Collateral #3:			
	Eligible Collateral #4:			
	Eligible Collateral #5:			
	Eligible Collateral #6:			
COVENANTS				
	Covenant #1 Net Worth			
	Covenant #2 Leverage			
	Covenant #3 Liquidity			
	Covenant #4 Net income			
MARK-TO-MARKET PROVISION				
ADDITIONAL INDEBTEDNESS ALLOWED				
ADDITIONAL LIENS ALLOWED				
DIVIDENDS / DISTRIBUTIONS ALLOWED				
CROSS-DEFAULTED				
PERSONAL GUARANTY (Y/N?)				
E and O Coverage Amount				
Fidelity Bond Coverage				

Attachment to Exhibit C

Purchased Loans Curtailment Report

(List Purchased Loans on which unscheduled principal payment, prepayment or reduction of more than one regularly scheduled principal and interest installment payment was received since last monthly report and resulting new Principal Balance.)

Exhibit 31.1

SARBANES-OXLEY ACT SECTION 302 CERTIFICATIONS

I, Paul C. Saville, certify that:

1. I have reviewed this report on Form 10-Q of NVR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2019

By: /s/ Paul C. Saville

Paul C. Saville

President and Chief Executive Officer

Exhibit 31.2

SARBANES-OXLEY ACT SECTION 302 CERTIFICATIONS

I, Daniel D. Malzahn, certify that:

1. I have reviewed this report on Form 10-Q of NVR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 31, 2019

By: /s/ Daniel D. Malzahn

Daniel D. Malzahn
Senior Vice President, Chief Financial Officer and Treasurer

Exhibit 32

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of NVR, Inc. for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of NVR, Inc., hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of NVR, Inc.

Date: July 31, 2019

By: /s/ Paul C. Saville
Paul C. Saville
President and Chief Executive Officer

By: /s/ Daniel D. Malzahn
Daniel D. Malzahn
Senior Vice President, Chief Financial Officer and Treasurer