

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

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)

(IRS employer
identification number)

7601 Lewinsville Road, Suite 300
McLean, Virginia 22102
(703) 761-2000

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

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

Title of each class -----	Name of each exchange on ----- which registered -----
Common stock, par value \$0.01 per share	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of February 24 1998 the aggregate market value of the voting stock held by non-affiliates of NVR, Inc. based on the closing price reported on the American Stock Exchange was approximately \$323 million. As of February 24, 1998 there were 11,515,562 total shares of common stock outstanding.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF THE PROXY STATEMENT OF NVR, INC. TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO REGULATION 14A OF THE SECURITIES EXCHANGE ACT OF 1934 ON OR PRIOR TO APRIL 30, 1998 ARE INCORPORATED BY REFERENCE INTO PART III OF THIS REPORT.

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PART I

ITEM 1. BUSINESS

GENERAL

NVR, Inc. ("NVR" or the "Company"), formed in 1980 as NVHomes, Inc. ("NVH"), is a holding company that currently operates, through its subsidiaries, in two business segments: 1) the construction and marketing of homes and 2) mortgage banking. Unless the context otherwise requires, references to "NVR" or the "Company" include its subsidiaries.

NVR is one of the largest homebuilders in the United States and in the Washington, D.C. and Baltimore, Maryland metropolitan areas, where NVR derived an aggregate of approximately 66% and 72% of its 1997 and 1996 homebuilding revenues, respectively. NVR's homebuilding operations construct and sell single-family detached homes, townhomes and condominium buildings in three distinct product lines, through two divisions and one wholly owned subsidiary: Ryan Homes, NVHomes and Fox Ridge Homes, Inc. ("Fox Ridge"). Ryan Homes builds moderately priced homes in sixteen metropolitan areas located in Maryland, Virginia, Pennsylvania, New York, North Carolina, South Carolina, Ohio, New Jersey, Delaware and Tennessee, and markets its homes primarily to first-time buyers. NVHomes builds homes largely in the Washington, D.C. metropolitan area, and markets its homes primarily to move-up buyers. Fox Ridge, acquired by NVR on October 31, 1997, builds moderately priced homes in Nashville, Tennessee and markets its homes primarily to first-time buyers (see Item 7, Management's Discussion and Analysis, and Note 2 to the consolidated financial statements for further information related to the acquisition of Fox Ridge). In 1997, the average price of a unit settled by NVR was approximately \$187,700.

NVR obtains land for homebuilding by acquiring control over finished building lots through option contracts with land developers that require forfeitable deposits, thereby reducing the financial requirements and risks associated with direct land ownership. NVR generally seeks to maintain control over an inventory of lots sufficient to provide for the next 18 to 24 months of projected home sales, based upon projected sales volumes in the various communities in which it operates.

In addition to building and selling homes, NVR provides a number of mortgage-related services through its national mortgage banking operations, which operate in 15 states. Although NVR's mortgage banking operations provide financing to a substantial portion of NVR's homebuilding customers, NVR's homebuilding customers accounted for only 43% of the aggregate dollar amount of loans closed in 1997. In 1997, NVR's mortgage banking business closed approximately 12,300 loans with an aggregate principal amount of approximately \$1.49 billion. NVR's mortgage banking business sells all of the mortgage loans it closes into the secondary markets. During 1997, NVR sold the remaining portion of its core mortgage servicing portfolio, and intends to sell future originated mortgage servicing rights on a flow basis in order to concentrate its mortgage banking operations on the primary business of providing mortgage financing to NVR and other homebuyers. The total servicing portfolio balance at December 31, 1997 has been reduced to approximately \$224 million. NVR's mortgage banking business generates revenues primarily from origination fees, gains on marketing of loans, title fees, and sales of servicing rights.

Segment information for NVR's homebuilding and mortgage banking businesses is included in note 3 to NVR's consolidated financial statements.

HOMEBUILDING

PRODUCTS

NVR offers single-family detached homes, townhomes, and condominium buildings with many different basic home designs which have a variety of elevations and numerous other options. Homes built by NVR combine traditional or colonial exterior designs with contemporary interior designs and amenities. NVR's homes range from 985 to 5,410 square feet, with two to five bedrooms, and are priced from approximately \$70,000 to \$640,000.

MARKETS

The following table summarizes settlements and contracts for sales of homes for each of the last three years by region:

REGION	SETTLEMENTS YEAR ENDED DECEMBER 31,			CONTRACTS FOR SALE (NET OF CANCELLATIONS) YEAR ENDED DECEMBER 31,		
	1997	1996	1995	1997	1996	1995
Washington/Baltimore	3,774	3,834	3,375	4,084	3,751	3,842
Other (1)	2,333	1,861	1,482	2,602	1,939	1,764
Total	<u>6,107</u>	<u>5,695</u>	<u>4,857</u>	<u>6,686</u>	<u>5,690</u>	<u>5,606</u>

(1) Includes Pennsylvania, New York, North Carolina, South Carolina, Ohio, New Jersey, Tennessee and Delaware.

CONSTRUCTION

Construction work on NVR's homes is performed by independent subcontractors under fixed-price contracts. The work of subcontractors is performed under the supervision of NVR employees who monitor quality control. NVR uses many independent subcontractors representing the building trades in its various markets and is dependent neither on any single subcontractor nor on a small number of subcontractors.

SALES AND MARKETING

NVR's preferred marketing method is for customers to visit a furnished model home featuring many built-in options and a landscaped lot. The garages of these homes are usually converted into temporary sales centers where alternative facades and floor plans are displayed and designs for other models are available for review. Sales representatives are compensated largely on a commission basis.

REGULATION

NVR and its subcontractors must comply with various federal, state and local zoning, building, pollution, environmental, advertising and consumer credit statutes, rules and regulations, as well as other regulations and requirements in connection with its construction and sales activities. All of these regulations have increased the cost required to market NVR's products. Counties and cities in which NVR builds homes have at times declared moratoriums on the issuance of building permits and imposed other restrictions in the areas in which sewage treatment facilities and other public facilities do not reach minimum standards. To date, restrictive zoning laws and imposition of moratoriums have not had a material adverse effect on NVR's construction activities. However, there is no assurance that such restrictions will not adversely affect NVR in the future.

COMPETITION AND MARKET FACTORS

The housing industry is highly competitive. NVR competes with numerous homebuilders of varying size, ranging from local to national in scope, some of whom have greater financial resources than NVR. The Company also faces competition from the home resale market. NVR's homebuilding operations compete primarily on the basis of price, location, design, quality, service and reputation. NVR's homebuilding operations historically have been one of the market leaders in each of the markets where NVR operates.

The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. In addition, a variety of other factors affect the housing industry and the demand for new homes, including the availability and increases in the cost of land, labor and materials, changes in consumer preferences, demographic trends and the availability of mortgage finance programs.

NVR is dependent upon building material suppliers for a continuous flow of raw materials. Whenever possible, NVR utilizes standard products available from multiple sources. Such raw materials have been generally available in adequate supply.

MORTGAGE BANKING

NVR provides a number of mortgage related services to its homebuilding customers and to other customers through its mortgage banking operations. The mortgage banking operations of NVR also include separate companies which broker title insurance and perform title searches in connection with mortgage loan closings for which they receive commissions and fees.

NVR's mortgage banking business sells all of the mortgage loans it closes to investors in the secondary markets, rather than holding them for investment. NVR's wholly-owned subsidiary, NVR Mortgage Finance, Inc. ("NVR Finance") is an approved seller/servicer for FNMA, GNMA, FHLMC, VA and FHA mortgage loans. The size of its servicing portfolio has decreased to approximately \$224 million in principal amount of loans being serviced at the end of 1997, from \$579 million at the end of 1996, due to the sale of its core mortgage servicing portfolio during 1997. NVR's mortgage banking operations intend to sell future originated mortgage servicing rights on a flow basis in order to concentrate its mortgage banking operations on the primary business of providing mortgage financing to NVR and other homebuyers.

MORTGAGE-BACKED SECURITIES

NVR's limited purpose subsidiary ("Limited-Purpose Financing Subsidiary") was organized to facilitate the financing of long-term mortgage loans through the sale of bonds collateralized by mortgage-backed securities, including certificates guaranteed as to the full and timely payment of principal and interest by FNMA, and certificates guaranteed as to payment of principal and interest by GNMA and FHLMC. The issuance of mortgage-collateralized bonds has in the past facilitated NVR's ability, through its mortgage-banking subsidiaries, to provide home mortgage financing to its customers. There have been no bonds issued since 1988.

COMPETITION AND MARKET FACTORS

NVR's mortgage banking operations operate in 15 states and have 23 offices. Their main competition comes from national, regional, and local mortgage bankers, thrifts and banks in each of these markets. NVR's mortgage banking operations compete primarily on the basis of customer service, variety

of products offered, interest rates offered, prices of ancillary services and relative financing availability and costs.

REGULATION

NVR Finance, as an approved seller/servicer of FNMA, GNMA, FHLMC, FHA and VA, is subject to the rules, regulations and guidelines of, and examinations by, those agencies, which restrict certain activities of NVR Finance. NVR Finance is currently eligible and expects to remain eligible to participate in such programs; however, any significant impairment of its eligibility could have a material adverse impact on its operations. In addition, NVR Finance is subject to regulation at the state and federal level with respect to specific origination, selling and servicing practices.

EMPLOYEES

At December 31, 1997, NVR employed 2,013 full-time persons, of whom 630 were officers and management personnel, 145 were technical and construction personnel, 363 were sales personnel, 383 were administrative personnel and 492 were engaged in various other service and labor activities. None of the Company's employees are subject to a collective bargaining agreement and the Company has never experienced a work stoppage. Management believes that its employee relations are good.

ITEM 2. PROPERTIES

NVR's executive offices are located in McLean, Virginia, where NVR currently leases office space for a nine and one-half year term expiring in March 2005.

NVR leases two buildings in Robinson Township, a suburb of Pittsburgh, Pennsylvania. The buildings are leased for a term of twenty-five years expiring in 2014 and NVR has options to purchase the buildings at various times throughout the lease term. NVR is obligated to offer to purchase the office buildings upon termination of the lease at a price equal to the greater of the fair market value of the buildings on the relevant date under the lease or \$11.7 million, the original acquisition cost of the premises, plus certain additional amounts.

NVR's manufacturing facilities are located in Thurmont, Maryland; Farmington, New York; Clover, South Carolina and Darlington, Pennsylvania. NVR has leased the Thurmont and Farmington manufacturing facilities for a term expiring in 2014 with various options for extension of the leases and for the purchase of the facilities. The Clover and Darlington leases expire in 2002 and 2005, respectively, and also contain various options for extensions of the leases and for the purchase of the facilities.

NVR also leases office space in 66 locations in 16 states for field offices, mortgage banking and title services branches and certain model homes under leases expiring at various times through 2007. NVR anticipates that, upon expiration of existing leases, it will be able to renew them or obtain comparable facilities on acceptable terms.

ITEM 3. LEGAL PROCEEDINGS

NVR and its subsidiaries are involved in litigation arising from the normal course of business. In the opinion of management, this litigation will not have any material adverse effect on the financial position or results of operations of NVR.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

NONE

EXECUTIVE OFFICERS OF THE REGISTRANT

The table below sets forth pertinent information with respect to the executive officers of NVR.

NAME	AGE	POSITIONS
Dwight C. Schar	56	Chairman of the Board, President and Chief Executive Officer of NVR
William J. Inman	50	President of NVR Financial Services, Inc.
James M. Sack	47	Vice President, Secretary and General Counsel of NVR
Paul C. Saville	42	Senior Vice President Finance and Chief Financial Officer
Dennis M. Seremet	42	Vice President and Controller of NVR

Dwight C. Schar has been chairman of the board, president and chief executive officer of NVR since September 30, 1993.

William J. Inman has been president of NVR Financial Services, Inc. ("NVRFS") since September 30, 1993 and NVR Mortgage Finance, Inc. since January 1992.

James M. Sack has been vice president, secretary and general counsel of NVR since September 30, 1993. Mr. Sack is currently principal of the law firm Sack & Associates, P.C. in McLean, Virginia.

Paul C. Saville has been senior vice president finance, chief financial officer and treasurer of NVR since September 30, 1993.

Dennis M. Seremet has been vice president and controller of NVR since April 1, 1995. Mr. Seremet also currently serves as vice president finance of NVR Homes, Inc., to which he was appointed on September 30, 1993.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

NVR's shares of common stock are listed and principally traded on the American Stock Exchange ("AMEX"). The following table sets forth for the periods indicated the high and low closing sales prices per share for the years 1997 and 1996 as reported by the AMEX.

	HIGH ----	LOW ----
PRICES PER SHARE:		
1996:		
First Quarter.....	11	9-1/8
Second Quarter.....	11-1/8	9-1/2
Third Quarter.....	11	9-3/16
Fourth Quarter.....	13	8-7/8
1997:		
First Quarter.....	15-5/8	12-1/4
Second Quarter.....	16	12-1/4
Third Quarter.....	27-3/4	15
Fourth Quarter.....	25-7/16	20-3/4

As of the close of business on February 24, 1998, there were 1,128 shareholders of record.

NVR has not paid any cash dividends on its shares of common stock during the years 1997 or 1996. NVR's bank indebtedness and the indenture governing NVR's 11% Senior Notes due 2003 contain restrictions on the ability of NVR to pay dividends on its common stock.

ITEM 6. SELECTED FINANCIAL DATA (dollars in thousands, except per Share/Unit amounts)

The following tables set forth selected consolidated financial information for NVR. The selected statement of operations and balance sheet data have been extracted from NVR's consolidated financial statements for each of the periods presented. The selected financial data should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and related notes included elsewhere in this report.

	(SUCCESSOR) (1) (POST-REORGANIZATION)				(PREDECESSOR) (1) (PRE-REORGANIZATION)	
	YEAR ENDED				THREE MONTHS ENDED	NINE MONTHS ENDED
	DECEMBER 31, 1997	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994	DECEMBER 31, 1993	SEPTEMBER 30, 1993(2)
STATEMENT OF OPERATIONS DATA:						
HOMEBUILDING DATA:						
Revenues	\$1,154,022	\$1,045,930	\$869,119	\$820,915	\$209,466	\$528,418
Gross profits (3)	158,167	139,675	118,084	104,827	19,083	62,064
MORTGAGE BANKING:						
Mortgage banking fees (4)	25,946	24,029	26,297	25,118	4,354	26,573
Interest income	6,415	5,351	4,744	5,288	2,256	1,919
Interest expense	3,544	2,249	2,090	2,364	1,557	2,296
CONSOLIDATED DATA:						
Income (loss) before discontinued operations and extraordinary gains	\$ 28,879	\$ 25,781	\$ 16,400	\$ 9,018	\$ (7,010)	\$ (17,178)
Income (loss) before discontinued operations and extraordinary gains per Share/Unit (5)	\$2.18	\$1.70	\$1.06	\$0.53	\$(0.40)	\$(0.57)

	DECEMBER 31,				
	1997	1996	1995	1994	1993 (2)
CONSOLIDATED BALANCE SHEET DATA:					
Homebuilding inventory	\$ 224,041	\$ 171,693	\$ 154,713	\$109,538	\$116,389
Total assets (6)	564,621	501,165	513,598	446,942	558,091
Notes and loans payable (6)	248,138	201,592	221,295	184,414	297,208
Equity (7)	144,640	152,010	146,180	129,522	134,797

(1) Under NVR L.P.'s (the "Predecessor") plan of reorganization (the "Plan") that was completed on September 30, 1993 (the "Effective Date"), the Predecessor, which was a master limited partnership, was reorganized as a corporation (the "Incorporation Transaction"). The Incorporation Transaction included the merger of Ryan Homes, Inc. ("RHI") into NVR, Inc., (the "Successor") a newly formed Virginia corporation. NVR, Inc. then succeeded to all of the assets and liabilities of the Predecessor (the "Merger") on the Effective Date. In connection with the Plan and following a series of other consolidation and merger transactions, NVR, Inc. conducts substantially all of its homebuilding operations in NVR Homes, Inc. ("Homes"), NVR's wholly-owned homebuilding company, and its mortgage banking operations in NVR Financial Services, Inc. ("NVRFS"), NVR's wholly owned mortgage banking holding company. Unless the context otherwise requires, "NVR" or the "Company" refers to NVR L.P. prior to the Merger and to NVR, Inc. after the Merger.

(2) Effective September 30, 1993, NVR Savings Bank, F.S.B. ("NVRSB") is presented on a discontinued operations basis. Statement of operations and balance sheet data for prior periods have been

reclassified to reflect this change. In March, 1994 NVR completed the sale of the assets and liabilities of NVRSB to a financial institution.

(3) Gross profits in the fourth quarter of 1993 include a non-cash \$9,000 inventory valuation adjustment. This adjustment negatively impacted gross profits and was required by Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7") issued by the American Institute of Certified Public Accountants as part of "fresh-start" accounting and reporting. Effective October 1, 1993, NVR discontinued the capitalization of interest costs into inventory since the effect of directly charging such costs to expense as compared to capitalization is not expected to have a material impact on NVR's results of operations. Capitalized interest costs relieved to cost of sales for periods prior to October 1, 1993 have not been reclassified to interest expense.

(4) Effective January 1, 1995, NVR adopted Statement of Financial Accounting Standards ("SFAS") No. 122, Accounting For Mortgage Servicing Rights. SFAS No. 122, as superseded by SFAS No. 125, Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, requires that a mortgage banking enterprise that acquires mortgage servicing rights through either the purchase or origination of mortgage loans recognize those rights as separate assets by allocating the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair value. Retroactive application of SFAS No. 122 to periods prior to the fiscal year of adoption is prohibited, and thus, mortgage banking fees for the years ended December 31, 1997, 1996 and 1995 are not directly comparable to prior periods. For the years ended December 31, 1997, 1996 and 1995, application of SFAS No. 122 increased (decreased) mortgage banking fees by \$(928), \$906 and \$1,717, respectively.

(5) In connection with the effectiveness of the Plan, NVR was reorganized as a corporation and 17,057,326 common shares were issued and outstanding on September 30, 1993. For the years ended December 31, 1997, 1996, 1995 and 1994, and for the three months ended December 31, 1993, income (loss) from continuing operations per share was computed based on 13,244,677, 15,137,009, 15,405,263, 17,097,172 and 17,690,553 shares, respectively, which represents the weighted average number of shares and share equivalents outstanding. The weighted average number of Units outstanding and the weighted average number of Unit equivalents, which include option rights and warrants, were approximately 30,396,000 for the nine months ended September 30, 1993. The weighted average number of shares and share equivalents and the weighted average number of units and unit equivalents were calculated based upon the requirements of SFAS No. 128, Earnings per Share, for all periods presented and represent the shares/units and share/unit equivalents used to calculate diluted earnings per share before discontinued operations and extraordinary gains. Prior year earnings per share data has been restated to conform with the requirements of SFAS No. 128.

(6) Effective in the fourth quarter of 1996, the Limited Purpose Financing Subsidiaries are presented on a net basis. Accordingly, balance sheet data for prior periods have been reclassified to reflect this change. See note 1 to the accompanying consolidated financial statements.

(7) On September 30, 1993, the preferred partnership interests and the Units, including the Units issued in connection with NVR's subordinated debt-for-equity exchange, were exchanged for 17,057,326 common shares with an aggregate fair value on the date of the exchange of \$130,000. No cash dividends for common stock were declared for any of the periods presented.

ITEM 7. 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 Form 10-K, as well as statements made by the Company in periodic press releases, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risk factors include, but are not limited to, general economic and business conditions, interest rate changes, competition, the availability and cost of land and other raw materials used by the Company in its homebuilding operations, shortages of labor, weather related slow downs, building moratoria, governmental regulation, the ability of the Company to integrate any acquired business, certain conditions in financial markets, technological problems encountered with the Year 2000 Issue (defined below) and other factors over which the Company has little or no control.

NVR, INC. CONSOLIDATED

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

NVR, Inc. ("NVR" or the "Company") is a holding company that operates in two business segments: homebuilding and mortgage banking. The results of these two segments are discussed separately below. Holding company general and administrative expenses are fully allocated to the homebuilding and mortgage banking segments in the information presented below.

HOMEBUILDING SEGMENT

Homebuilding revenues for 1997 increased 10.3% to \$1,154,022 from \$1,045,930 in 1996. The increase in revenues was primarily due to a 7.2% increase in the number of homes settled from 5,695 in 1996 to 6,107 in 1997 and to a 2.7% increase in the average settlement price from \$182.7 in 1996 to \$187.7 in 1997. New orders for 1997 increased 17.5% to 6,686 compared with 5,690 in 1996. The increase in new orders is attributed to a more favorable interest rate environment in the current year compared to the prior year, and to sales associated with the Company's expansion markets. Homebuilding revenues for 1996 increased 20.3% to \$1,045,930 from \$869,119 in 1995. The increase in revenues was primarily due to a 17.3% increase in the number of homes settled from 4,857 in 1995 to 5,695 in 1996 and to a 2.8% increase in the average settlement price from \$177.7 in 1995 to \$182.7 in 1996. New orders for 1996 increased 1.5% to 5,690 compared with 5,606 in 1995.

Gross profit margins increased to 13.7% in 1997 compared to 13.4% in 1996. The increase in gross profit margins from that experienced in 1996 was primarily attributable to more favorable market conditions in certain of the Company's markets, fewer additional weather-related costs incurred in the construction of homes as a result of mild winter weather conditions in NVR's principal markets in the first quarter of 1997 as compared to the first quarter of 1996, and continued emphasis on controlling construction costs. Gross profit margins decreased to 13.4% in 1996 compared to 13.6% in 1995. The decrease in gross profit margins in 1996 from the 1995 year was primarily attributable to more competitive market conditions in certain of the Company's markets and, to a lesser extent, higher lumber costs.

SG&A expenses for 1997 increased \$16,047 to \$87,231 from \$71,184 in 1996, and as a percentage of revenues increased to 7.8% in 1997 from 6.8% in 1996. The dollar increase is partially due to increased costs that correspond to the aforementioned increase in revenues, and costs incurred to grow the Company's expansion markets to full operational levels. Further, the higher SG&A is also attributable to an increase of approximately \$6,000 for a non-cash expense associated with an equity based

management incentive plan, and to a non-recurring \$1,600 incentive payment earned by the Company's Board of Directors pursuant to the terms of the Company's Plan of Reorganization that became effective on September 30, 1993. SG&A expenses for 1996 increased \$7,984 to \$71,184 from \$63,200 in 1995, but as a percentage of revenues decreased from 7.3% in 1995 to 6.8% in 1996. The dollar increase in SG&A expenses in 1996 was primarily due to increased costs that correspond to the aforementioned increase in revenues.

Backlog units and dollars were 3,195 and \$623,705, respectively, at December 31, 1997 compared to backlog units of 2,466 and dollars of \$453,211 at December 31, 1996. The increase in backlog dollars and units was primarily due to a 33.5% increase in new orders for the six months ended December 31, 1997 as compared to the six months ended December 31, 1996. Backlog units and dollars were 2,466 and \$453,211, respectively, at December 31, 1996 compared to backlog units of 2,471 and dollars of \$442,268 at December 31, 1995. The increase in backlog dollars was primarily due to a 2.6% increase in the average sales prices during 1996 as compared to the same 1995 period.

The Company believes that earnings before interest, taxes, depreciation and amortization ("EBITDA") provides a meaningful comparison of operating performance of the homebuilding segment because it excludes the amortization of certain intangible assets and other non-cash items. Although the Company believes the calculation is helpful in understanding the performance of the homebuilding segment, EBITDA should not be considered a substitute for net income or cash flow as indicators of the Company's financial performance or its ability to generate liquidity.

CALCULATION OF HOMEBUILDING EBITDA:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Operating income	\$65,533	\$62,755	\$49,413
Depreciation	3,588	2,863	2,211
Amortization of excess reorganization value/goodwill	6,635	7,048	7,048
Other non-cash items	7,986	2,239	1,740
Homebuilding EBITDA	\$83,742	\$74,905	\$60,412
% of Homebuilding revenues	7.3%	7.2%	7.0%

Homebuilding EBITDA in 1997 was 11.8% higher than in 1996, and as a percentage of revenues increased from 7.2% in 1996 to 7.3% in 1997. Homebuilding EBITDA in 1996 was 24.0% higher than in 1995, and as a percentage of revenues increased from 7.0% to 7.2%.

MORTGAGE BANKING SEGMENT

The mortgage banking segment generated operating income of \$4,767 for the year ended December 31, 1997 compared to operating income of \$2,583 during the year ended December 31, 1996 and operating income of \$1,162 during the year ended December 31, 1995. Mortgage loan closings were \$1,485,763, \$1,243,945 and \$1,092,676 during the respective years ended December 31, 1997, 1996 and 1995. The increases in operating income and mortgage loan closings were achieved despite continued strong price competition.

Mortgage banking fees increased \$1,917 when comparing 1997 and 1996 and decreased \$2,268 when comparing 1996 and 1995. A summary of mortgage banking fees is noted below:

MORTGAGE BANKING FEES:	1997	1996	1995
Net gain on sale of loans	\$16,731	\$14,401	\$8,320
Servicing	1,733	4,894	7,128
Title services	6,413	5,928	5,315
Gain (loss) on sale of servicing	1,069	(1,194)	5,534
	\$25,946	\$24,029	\$26,297

Effective during the second quarter of 1997, the mortgage banking operations sold the remaining portion of its core mortgage servicing portfolio. The sale of the core mortgage servicing portfolio and the ongoing sale of servicing rights on a flow basis are the result of the concentration of the mortgage banking operations on the primary business of providing mortgage financing and related services to NVR and other homebuyers.

Mortgage banking fees in 1997 were higher in comparison to 1996, primarily as a result of higher gain on sale of loans. The higher gain on sale of loans can be attributed to increased loan closings and higher servicing values realized through the sale of mortgage servicing rights. These gains were partially offset by the lower servicing fee revenues resulting from the reduction in the mortgage servicing portfolio. Operating income was higher in 1997 in comparison to 1996 as a result of the increase in mortgage loan closings noted above and other income from a joint venture which effectively began operations during 1997.

Mortgage banking fees in 1996 were lower in comparison to 1995, which was primarily attributable to the loss on sale of servicing rights and lower servicing fee revenues resulting from the reduction in the mortgage loan servicing portfolio. These lower revenues were partially offset by the improved marketing results on the sale of mortgage loans and higher servicing values realized through the sale of mortgage servicing rights recognized under Statement of Financial Accounting Standards ("SFAS") No. 122, Accounting for Mortgage Servicing Rights. Operating income was higher in 1996 in comparison to 1995 as a result of the cost cutting measures enacted by the mortgage banking group during 1996 and the increase in mortgage loan closings noted above.

SEASONALITY

The results of NVR's homebuilding operations generally reflect the seasonality of the housing market in the Middle Atlantic region of the United States. NVR historically has entered into more sales contracts in this region during the first and second quarters, and the highest numbers of settlements historically have occurred in the second, third and fourth quarters. Because NVR's mortgage banking operations generate part of their business from NVR's homebuilding operations and from other homebuilders affected by seasonality, to the extent that homebuilding is affected by seasonality, mortgage banking operations may also be affected. The existence of mortgage banking and title services offices outside of the Middle Atlantic region and the existence of third-party business tend to reduce the effects of seasonality on the results of NVR's operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, Reporting Comprehensive Income, and SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Both statements are effective for fiscal years beginning after December 15, 1997. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Based on the nature of the Company's operations, Management does not expect that, upon adoption of SFAS No. 130, future reported comprehensive income will differ materially from future reported net income. SFAS No. 131 establishes standards for the way that public enterprises report information about operating segments in annual and interim financial statements. Adoption of SFAS No. 131 will have no impact on the Company's results of operations or financial condition.

YEAR 2000 ISSUE

The Year 2000 Issue is the risk that computer programs using two-digit date fields will fail to properly recognize the year 2000, with the result being business interruptions due to computer system failures by the Company's software or hardware or that of government entities, service providers and

vendors. In response to the Year 2000 Issue, the Company has developed a plan to assess the Company's exposure to Year 2000 Issues, and is currently in the process of performing its review. Based on a preliminary assessment, Management does not believe that the Company's exposure to Year 2000 Issues will have a material effect on its financial position or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

NVR's homebuilding segment generally provides for its working capital cash requirements using cash generated from operations and a credit facility. The homebuilding segment has available a \$60,000 unsecured Working Capital Revolving Credit Agreement that expires in May 2000 to fund its working capital needs, under which no amounts were outstanding at December 31, 1997.

NVR's mortgage banking segment provides for its mortgage origination and other operating activities using cash generated from operations as well as various short-term credit facilities. NVR Mortgage Finance, Inc. ("NVR Finance") has available a \$125,000 mortgage warehouse facility to fund its mortgage origination activities, under which \$77,765 was outstanding at December 31, 1997. NVR Finance from time to time enters into various gestation and repurchase agreements. NVR Finance currently has available an aggregate of \$145,000 of borrowing capacity in such uncommitted and committed facilities. There was an aggregate of \$30,628 outstanding under such gestation and repurchase agreements at December 31, 1997.

On January 20, 1998, the Company filed a shelf registration statement with the Securities and Exchange Commission for the issuance of up to \$400 million of the Company's debt securities. The shelf registration statement was declared effective on February 28, 1998 and provides that securities may be offered from time to time in one or more series, and in the form of senior or subordinated debt. To date, no debt securities have been issued under the shelf registration statement.

Various debt agreements limit the ability of NVR's subsidiaries to transfer funds to NVR in the form of dividends, loans or advances. NVR's subsidiaries had net assets (after intercompany eliminations) of \$261,806 as of December 31, 1997, that were so restricted.

As shown in NVR's consolidated statement of cash flows for the year ended December 31, 1997, NVR's operating activities used cash of \$15,025 for this period. The cash was used primarily to increase homebuilding inventory due to a general increase in the Company's business activity. Further, cash was also used due to an increase in mortgage loans held for sale which was related to a 19% increase in mortgage loan closings during 1997 compared to fiscal year 1996's loan closing volume.

Net cash provided by investing activities was \$19,165 for the year ended December 31, 1997. The primary sources of cash were principal payments on and proceeds from the sale of mortgage-backed securities, which are primarily used for the redemption of bonds as discussed below, and proceeds from the sale of mortgage servicing rights. The primary use of cash for investment activities involved the Company's acquisition of Fox Ridge Homes, Inc. on October 31, 1997. NVR Fox Ridge, Inc., ("Fox Ridge"), a wholly owned subsidiary of NVR Homes, Inc., itself wholly owned by NVR, purchased substantially all of the assets and assumed certain liabilities of Fox Ridge Homes, Inc. ("FRH"), a home builder in Nashville, Tennessee. In addition to Fox Ridge assuming approximately \$11,000 of FRH's construction debt plus certain other liabilities, Fox Ridge paid FRH \$14,250 in cash at settlement on October 31, 1997, and issued a note payable for the remaining \$4,750 purchase price. The note bears interest at 200 basis points above the federal funds target rate, and will be paid in three annual installments on October 31, 1998, 1999, and 2000, including accrued interest.

Net cash used for financing activities was \$33,195 for the year ended December 31, 1997. Cash was primarily used for NVR's purchase of approximately 2.8 million shares of its common stock for an aggregate purchase price of \$45,545 during the year ended December 31, 1997. The Company may, from

time to time, repurchase additional shares of its common stock, pursuant to repurchase authorizations by the Board of Directors and subject to the restrictions contained within the Company's debt agreements. NVR had net borrowings under the mortgage banking credit lines of approximately \$40,930 used to finance mortgage loan inventory. The Company also repaid the \$11,000 construction loan assumed in the acquisition of Fox Ridge noted above. Cash was also used for the redemption of collateralized bonds using cash provided by the related mortgage backed securities as discussed above.

The Company believes that internally generated cash and borrowings available under credit facilities will be sufficient to satisfy near and long term cash requirements for working capital and debt service in both its homebuilding and mortgage banking operations.

NVR FINANCIAL SERVICES, INC.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

NVR Financial Services, Inc. ("NVRFS" or the "Company") is a wholly owned subsidiary of NVR, Inc. ("NVR"), and through its subsidiaries, conducts all of NVR's mortgage banking operations.

NVRFS generated operating income of \$3,930 for the year ended December 31, 1997 compared to operating income of \$1,785 during the year ended December 31, 1996 and operating income of \$978 during the year ended December 31, 1995. Mortgage loan closings were \$1,485,763, \$1,243,945 and \$1,092,676 during the respective years ended December 31, 1997, 1996 and 1995. The increases in operating income and mortgage loan closings were achieved despite continued strong price competition.

Mortgage banking fees increased \$1,917 when comparing 1997 and 1996 and decreased \$2,268 when comparing 1996 and 1995. A summary of mortgage banking fees is noted below:

MORTGAGE BANKING FEES:	1997	1996	1995
	-----	-----	-----
Net gain on sale of loans	\$16,731	\$14,401	\$ 8,320
Servicing	1,733	4,894	7,128
Title services	6,413	5,928	5,315
Gain (loss) on sale of servicing	1,069	(1,194)	5,534
	-----	-----	-----
	\$25,946	\$24,029	\$26,297
	=====	=====	=====

Effective during the second quarter of 1997, NVRFS sold the remaining portion of its core mortgage servicing portfolio. The sale of the core mortgage servicing portfolio and the ongoing sale of servicing rights on a flow basis are the result of the concentration of the mortgage banking operations on the primary business of providing mortgage financing and related services to NVR and other homebuyers.

Mortgage banking fees in 1997 were higher in comparison to 1996, primarily as a result of higher gain on sale of loans. The higher gain on sale of loans can be attributed to increased loan closings and higher servicing values realized through the sale of mortgage servicing rights. These gains were partially offset by the lower servicing fee revenues resulting from the reduction in the mortgage servicing portfolio. Operating income was higher in 1997 in comparison to 1996 as a result of the increase in mortgage loan closings noted above and other income from a joint venture which effectively began operations during 1997.

Mortgage banking fees in 1996 were lower in comparison to 1995, which was primarily attributable to the loss on sale of servicing rights and lower servicing fee revenues resulting from the reduction in the mortgage loan servicing portfolio. These lower revenues were partially offset by the improved marketing results on the sale of mortgage loans and higher servicing values realized through the sale of mortgage servicing rights recognized under Statement of Financial Accounting Standards ("SFAS")

No. 122, Accounting for Mortgage Servicing Rights. Operating income was higher in 1996 in comparison to 1995 as a result of the cost cutting measures enacted by the mortgage banking group during 1996 and the increase in mortgage loan closings noted above.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, Reporting Comprehensive Income, and SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Both statements are effective for fiscal years beginning after December 15, 1997. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Based on the nature of the Company's operations, Management does not expect that, upon adoption of SFAS No. 130, future reported comprehensive income will differ materially from future reported net income. SFAS No. 131 establishes standards for the way that public enterprises report information about operating segments in annual and interim financial statements. Adoption of SFAS No. 131 will have no impact on the Company's results of operations or financial condition.

SEASONALITY

Because NVRFS's mortgage banking operations generate part of their business from NVR's homebuilding operations and from other homebuilders affected by seasonality, to the extent that homebuilding is affected by seasonality, mortgage banking operations may also be affected. The existence of mortgage banking and title services offices outside of the Middle Atlantic region and the existence of third-party business tend to reduce the effects of seasonality on the results of NVRFS's operations.

YEAR 2000 ISSUE

The Year 2000 Issue is the risk that computer programs using two-digit date fields will fail to properly recognize the year 2000, with the result being business interruptions due to computer system failures by the Company's software or hardware or that of government entities, service providers and vendors. In response to the Year 2000 Issue, the Company has developed a plan to assess the Company's exposure to Year 2000 Issues, and is currently in the process of performing its review. Based on a preliminary assessment, Management does not believe that the Company's exposure to Year 2000 Issues will have a material effect on its financial position or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

NVRFS provides for its mortgage origination and other operating activities using cash generated from operations as well as various short-term credit facilities. NVR Mortgage Finance, Inc. ("NVR Finance") has available a \$125,000 mortgage warehouse facility to fund its mortgage origination activities, under which \$77,765 was outstanding at December 31, 1997. NVR Finance from time to time enters into various gestation and repurchase agreements. NVR Finance currently has available an aggregate of \$145,000 of borrowing capacity in such uncommitted and committed facilities. There was an aggregate of \$30,628 outstanding under such gestation and repurchase agreements at December 31, 1997.

Various debt agreements limit the ability of NVRFS to transfer funds to NVR in the form of dividends, loans or advances. NVRFS had net assets (after intercompany eliminations) of \$8,750 as of December 31, 1997, that were so restricted.

As shown in NVRFS's consolidated statement of cash flows for the year ended December 31, 1997, operating activities used cash of \$47,104 for this period. The cash was used primarily to increase mortgage loans held for sale which was related to a 19% increase in mortgage loan closings during 1997 compared to fiscal year 1996's loan closing volume.

Net cash provided by investing activities was \$34,373 for the year ended December 31, 1997. The primary sources of cash were principal payments on and proceeds from the sale of mortgage-backed securities, which are primarily used for the redemption of bonds as discussed below, and proceeds from the sale of mortgage servicing rights.

Net cash provided by financing activities was \$13,525 for the year ended December 31, 1997. Cash was primarily used for the redemption of collateralized bonds using cash provided by the related mortgage backed securities as discussed above. NVRFS also issued dividends of \$8,329 to NVR during the year ended December 31, 1997. Offsetting the cash outflows were net borrowings under the mortgage banking credit lines of approximately \$40,930 used to finance mortgage loan inventory.

The Company believes that internally generated cash and borrowings available under credit facilities will be sufficient to satisfy near and long term cash requirements for working capital and debt service.

NVR HOMES, INC. CONSOLIDATED

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

NVR Homes, Inc. ("Homes") is a wholly owned subsidiary of NVR, Inc. ("NVR"), and conducts all of NVR's homebuilding operations.

Homes' revenues for 1997 increased 10.3% to \$1,154,022 from \$1,045,930 in 1996. The increase in revenues was primarily due to a 7.2% increase in the number of homes settled from 5,695 in 1996 to 6,107 in 1997 and to a 2.7% increase in the average settlement price from \$182.7 in 1996 to \$187.7 in 1997. New orders for 1997 increased 17.5% to 6,686 compared with 5,690 in 1996. The increase in new orders is attributed to a more favorable interest rate environment in the current year compared to the prior year, and to sales associated with the Company's expansion markets. Homebuilding revenues for 1996 increased 20.3% to \$1,045,930 from \$869,119 in 1995. The increase in revenues was primarily due to a 17.3% increase in the number of homes settled from 4,857 in 1995 to 5,695 in 1996 and to a 2.8% increase in the average settlement price from \$177.7 in 1995 to \$182.7 in 1996. New orders for 1996 increased 1.5% to 5,690 compared with 5,606 in 1995.

Gross profit margins increased to 13.7% in 1997 compared to 13.4% in 1996. The increase in gross profit margins from that experienced in 1996 was primarily attributable to more favorable market conditions in certain of the Company's markets, fewer additional weather-related costs incurred in the construction of homes as a result of mild winter weather conditions in Homes' principal markets in the first quarter of 1997 as compared to the first quarter of 1996, and continued emphasis on controlling construction costs. Gross profit margins decreased to 13.4% in 1996 compared to 13.6% in 1995. The decrease in gross profit margins in 1996 from the 1995 year was primarily attributable to more competitive market conditions in certain of the Company's markets and, to a lesser extent, higher lumber costs.

SG&A expenses for 1997 increased \$33,141 to \$108,236 from \$75,095 in 1996, and as a percentage of revenues increased to 9.4% in 1997 from 7.2% in 1996. The dollar increase is partially due to increased costs that correspond to the aforementioned increase in revenues, and costs incurred to grow the Company's expansion markets to full operational levels. Further, beginning on October 1, 1996, Homes incurs royalty expenses for use of the Ryan Homes and NVHomes tradenames based on a percentage of settlement revenues. The tradenames are owned by RVN, Inc., a subsidiary of NVR. During the years ended December 31, 1997 and 1996, Homes incurred royalty expenses totaling \$21,687 and \$4,711, respectively. SG&A expenses for 1996 increased \$13,204 to \$75,095 from \$61,891 in 1995, and as a percentage of revenues increased from 7.1% in 1995 to 7.2% in 1996. The dollar increase in SG&A expenses in 1996 was primarily due to increased costs that correspond to the aforementioned increase in revenues, and to the royalty expenses described above.

Backlog units and dollars were 3,195 and \$623,705, respectively, at December 31, 1997 compared to backlog units of 2,466 and dollars of \$453,211 at December 31, 1996. The increase in backlog dollars and units was primarily due to a 33.5% increase in new orders for the six months ended December 31, 1997 as compared to the six months ended December 31, 1996. Backlog units and dollars were 2,466 and \$453,211, respectively, at December 31, 1996 compared to backlog units of 2,471 and dollars of \$442,268 at December 31, 1995. The increase in backlog dollars was primarily due to a 2.6% increase in the average sales prices during 1996 as compared to the same 1995 period.

SEASONALITY

The results of the Company's operations generally reflect the seasonality of the housing market in the Middle Atlantic region of the United States. NVR historically has entered into more sales contracts in this region during the first and second quarters, and the highest numbers of settlements historically have occurred in the second, third and fourth quarters.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, Reporting Comprehensive Income, and SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Both statements are effective for fiscal years beginning after December 15, 1997. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Based on the nature of the Company's operations, Management does not expect that, upon adoption of SFAS No. 130, future reported comprehensive income will differ materially from future reported net income. SFAS No. 131 establishes standards for the way that public enterprises report information about operating segments in annual and interim financial statements. Adoption of SFAS No. 131 will have no impact on the Company's results of operations or financial condition.

YEAR 2000 ISSUE

The Year 2000 Issue is the risk that computer programs using two-digit date fields will fail to properly recognize the year 2000, with the result being business interruptions due to computer system failures by the Company's software or hardware or that of government entities, service providers and vendors. In response to the Year 2000 Issue, the Company has developed a plan to assess the Company's exposure to Year 2000 Issues, and is currently in the process of performing its review. Based on a preliminary assessment, Management does not believe that the Company's exposure to Year 2000 Issues will have a material effect on its financial position or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Homes' generally provides for its working capital cash requirements using cash generated from operations and a credit facility. The Company has available a \$60,000 unsecured Working Capital Revolving Credit Agreement that expires in May 2000 to fund its working capital needs, under which no amounts were outstanding at December 31, 1997.

Various debt agreements limit the ability of Homes to transfer funds to NVR in the form of dividends, loans or advances. Homes had net assets (after intercompany eliminations) of \$253,056 as of December 31, 1997, that were so restricted.

As shown in Homes' consolidated statement of cash flows for the year ended December 31, 1997, operating activities provided cash of \$3,350 for this period. Operating cash generated during the period was used to increase homebuilding inventory due to a general increase in the Company's business activity.

Net cash used by investing activities was \$15,087 for the year ended December 31, 1997. The primary use of cash for investment activities involved the Company's acquisition of Fox Ridge Homes, Inc. on October 31, 1997. NVR Fox Ridge, Inc., ("Fox Ridge"), a wholly owned subsidiary of Homes, purchased substantially all of the assets and assumed certain liabilities of Fox Ridge Homes, Inc. ("FRH"), a home builder in Nashville, Tennessee. In addition to Fox Ridge assuming approximately \$11,000 of FRH's construction debt plus certain other liabilities, Fox Ridge paid FRH \$14,250 in cash at settlement on October 31, 1997, and issued a note payable for the remaining \$4,750 purchase price. The note bears interest at 200 basis points above the federal funds target rate, and will be paid in three annual installments on October 31, 1998, 1999, and 2000, including accrued interest.

Net cash used for financing activities was \$18,061 for the year ended December 31, 1997. Cash was primarily used to repay the \$11,000 construction loan assumed in the acquisition of Fox Ridge noted above. Cash was also used to repay non-interest bearing intercompany advances from NVR.

The Company believes that internally generated cash and borrowings available under credit facilities will be sufficient to satisfy near and long term cash requirements for working capital and debt service in its homebuilding operations.

RVN, INC.
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RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1997 AND THE THREE MONTHS ENDED DECEMBER 31, 1996

On October 1, 1996, NVR, Inc. ("NVR") capitalized RVN, Inc. ("RVN"), a Delaware holding company, with \$65 in cash and the Ryan Homes and NVHomes tradenames (the "Tradenames"). Under a royalty agreement entered into on October 1, 1996 with NVR Homes, Inc. ("Homes"), NVR's homebuilding subsidiary, RVN earns royalty fees based on a percentage of settlement revenue for allowing Homes to use the Tradenames to market homes. RVN earns 100% of its revenue from Homes.

RVN earned royalty revenues of \$21,687 for the year ended December 31, 1997 compared to \$4,711 for the three months ended December 31, 1996. The increase was attributable to earning royalty revenue on a full year of Homes' settlement revenues as compared to only three months of operation in the 1996 calendar year. RVN has no significant other income or general and administrative expenses.

SEASONALITY AND CERTAIN CONCENTRATIONS

RVN earns 100% of its revenue from Homes. As Homes' revenues are affected by seasonality, RVN is similarly affected. Homes' homebuilding operations generally reflect the seasonality of the housing market in the Middle Atlantic region of the United States. Homes historically has entered into more sales contracts in this region during the first and second quarters, and the highest numbers of settlements historically have occurred in the second, third and fourth quarters.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, Reporting Comprehensive Income, and SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Both statements are effective for fiscal years beginning after December 15, 1997. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Based on the nature of the Company's operations, Management does not expect that, upon adoption of SFAS No. 130, future reported comprehensive income will differ materially from future reported net income. SFAS No. 131 establishes standards for the way that public enterprises report information about operating segments in annual and interim financial statements. Adoption of SFAS No. 131 will have no impact on the Company's results of operations or financial condition.

The Year 2000 Issue is the risk that computer programs using two-digit date fields will fail to properly recognize the year 2000, with the result being business interruptions due to computer system failures by the Company's software or hardware or that of government entities, service providers and vendors. In response to the Year 2000 Issue, the Company has developed a plan to assess the Company's exposure to Year 2000 Issues, and is currently in the process of performing its review. Based on a preliminary assessment, Management does not believe that the Company's exposure to Year 2000 Issues will have a material effect on its financial position or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

RVN provides for its working capital cash requirements using cash generated solely from operations. As shown in RVN's statement of cash flows for the year ended December 31, 1997, operating activities provided cash of \$13,659 for this period, and was derived substantially by net income. Net cash used for financing activities was \$13,710, which reflects aggregate dividend payments issued to NVR during 1997. Insofar as Homes' ability to make royalty payments is not impaired, the Company believes that internally generated cash will be sufficient to satisfy its near and long term cash requirements.

FOX RIDGE HOMES, INC.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

NVR Fox Ridge, Inc., a wholly owned subsidiary of NVR Homes Inc. ("Homes"), itself wholly owned by NVR, Inc. ("NVR"), was formed during 1997 to purchase substantially all of the assets and assume certain liabilities (the "Purchase Transaction") of Fox Ridge Homes, Inc. ("FRH" or the "Predecessor"), a home builder in Nashville, Tennessee. NVR Fox Ridge, Inc. was renamed Fox Ridge Homes, Inc. ("Fox Ridge" or the "Successor") in November, 1997. To consummate the purchase on October 31, 1997 (the "Purchase Date"), Fox Ridge assumed approximately \$15,160 of FRH's liabilities, paid FRH \$14,250 in cash at settlement on October 31, 1997, and issued a note payable for the remaining \$4,750 purchase price. The note bears interest at 200 basis points above the federal funds target rate, and will be paid in three annual installments on October 31, 1998, 1999 and 2000, including accrued interest.

Fox Ridge accounted for this acquisition using the purchase method, which resulted in a new basis of accounting for the assets and liabilities assumed at the Purchase Date. Excess of amounts paid for the business acquisition over the net fair value of the assets acquired and the liabilities assumed ("Goodwill") generated pursuant to the Purchase Transaction is being amortized using the straight line method over 10 years.

The below analysis of the results of operations includes combined results of the Predecessor and the Successor for the year ended December 31, 1997.

Fox Ridge revenues for 1997 decreased 13.3% to \$47,617 from \$54,891 in 1996. The decrease in revenues was primarily due to a 21.8% decrease in the number of homes settled from 436 in 1996 to 341 in 1997, which was partially offset by a 10.9% increase in average settlement price from \$125.9 in 1996 to \$139.6 in 1997. New orders for 1997 increased 11.1% to 360 compared with 324 in 1996 due to a more favorable interest rate environment in the current year compared to the prior year. Revenues for 1996 increased 42.1% to \$54,891 from \$38,622 in 1995. The increase in revenues was primarily due to a 36.3% increase in the number of homes settled from 320 in 1995 to 436 in 1996 and to a 4.3% increase in the average settlement price from \$120.7 in 1995 to \$125.9 in 1996. New orders for 1996 decreased

23.0% to 324 compared with 421 in 1995. The large number of new orders in 1995 were the result of extremely favorable overall market conditions in the Nashville, Tennessee market. Market conditions returned to more normal sustainable levels during 1996.

Gross profit margins decreased to 19.0% in 1997 compared to 21.5% in 1996. The decrease in gross profit margins is primarily attributable to more competitive market conditions and to a lesser extent an increase in finished lot costs. Gross profit margins decreased to 21.5% in 1996 compared to 22.2% in 1995 primarily due to an increase in finished lot costs.

SG&A expenses for 1997 increased \$208 to \$5,694 from \$5,486 in 1996. The dollar increase is primarily due to the amortization of goodwill for the two months ended December 31, 1997 as described above. SG&A expenses for 1996 increased \$927 to \$5,486 from \$4,559 in 1995, and as a percentage of revenues decreased to 10.0% in 1996 from 11.8% in 1995. The dollar increase is primarily due to increased costs that correspond to the aforementioned increase in revenues.

Backlog units and dollars were 135 and \$20,029, respectively, at December 31, 1997 compared to backlog units of 116 and dollars of \$16,147 at December 31, 1996. Backlog units and dollars were 228 and \$27,357, respectively, at December 31, 1995. The decrease in backlog units and dollars at December 31, 1996 was due to the aforementioned decrease in new orders for 1996.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, Reporting Comprehensive Income, and SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Both statements are effective for fiscal years beginning after December 15, 1997. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Based on the nature of the Company's operations, Management does not expect that, upon adoption of SFAS No. 130, future reported comprehensive income will differ materially from future reported net income. SFAS No. 131 establishes standards for the way that public enterprises report information about operating segments in annual and interim financial statements. Adoption of SFAS No. 131 will have no impact on the Company's results of operations or financial condition.

YEAR 2000 ISSUE

The Year 2000 Issue is the risk that computer programs using two-digit date fields will fail to properly recognize the year 2000, with the result being business interruptions due to computer system failures by the Company's software or hardware or that of government entities, service providers and vendors. In response to the Year 2000 Issue, the Company has developed a plan to assess the Company's exposure to Year 2000 Issues, and is currently in the process of performing its review. Based on a preliminary assessment, Management does not believe that the Company's exposure to Year 2000 Issues will have a material effect on its financial position or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Fox Ridge generally provides for its working capital cash requirements using cash generated from operations and working capital intercompany advances from Homes.

As shown in Fox Ridge's statement of cash flows for the two months ended December 31, 1997, operating activities provided cash of \$1,580 for this period, and was primarily provided by the reduction of homebuilding inventory. Net cash used by investing activities was \$16 representing fixed asset purchases for the two months ended December 31, 1997. Net cash used for financing activities was \$3,281 for the two months ended December 31, 1997 and was used primarily to repay intercompany working capital borrowings with Homes.

Insofar as Homes' ability to make working capital intercompany advances is not impaired, the Company believes that internally generated cash and borrowings available from Homes will be sufficient to satisfy near and long term cash requirements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required by this Item are included in the financial statements and schedules included herein under Item 14 and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Item 10 is hereby incorporated by reference to NVR's Proxy Statement to be filed with the Securities and Exchange Commission on or prior to April 30, 1998. Reference is also made regarding the executive officers of the registrant to "Executive Officers of the Registrant" following Item 4 of Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION.

Item 11 is hereby incorporated by reference to NVR's Proxy Statement to be filed with the Securities and Exchange Commission on or prior to April 30, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Item 12 is hereby incorporated by reference to NVR's Proxy Statement to be filed with the Securities and Exchange Commission on or prior to April 30, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Item 13 is hereby incorporated by reference to NVR's Proxy Statement to be filed with the Securities and Exchange Commission on or prior to April 30, 1998.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

FINANCIAL STATEMENTS

NVR, INC. - CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

NVR FINANCIAL SERVICES, INC. - CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Shareholder's Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

NVR HOMES, INC. - CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Shareholder's Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

FOX RIDGE HOMES, INC. - FINANCIAL STATEMENTS

Report of Independent Auditors
Balance Sheets
Statements of Income
Statements of Shareholder's Equity
Statements of Cash Flows
Notes to Financial Statements

RVN, INC. - FINANCIAL STATEMENTS

Report of Independent Auditors
Balance Sheets
Statements of Income
Statements of Shareholder's Equity
Statements of Cash Flows
Notes to Financial Statements

FINANCIAL STATEMENT SCHEDULES

Schedule I - Condensed Financial Information of Registrant

DESCRIPTION OF EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
2.1	Debtors' Second Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code (as modified to July 21, 1993). Incorporated by reference to Exhibit 2.1 in NVR, Inc.'s 1993 Registration Statement on Form S-1 (No. 33-63190) (the "1993 Registration Statement").
3.1	Restated Articles of Incorporation of NVR, Inc. Incorporated by reference to Exhibit 3.7 in NVR, Inc.'s 1993 Registration Statement.
3.2	Bylaws of NVR, Inc. Incorporated by reference to Exhibit 3.8 in NVR, Inc.'s 1993 Registration Statement.
3.3	Restated Articles of Incorporation of NVR Homes, Inc. Incorporated by reference to Exhibit 3.9 in NVR, Inc.'s 1993 Registration Statement.
3.4	Bylaws of NVR Homes, Inc. Incorporated by reference to Exhibit 3.10 in NVR, Inc.'s 1993 Registration Statement.
3.5	Articles of Incorporation of NVR Financial Services, Inc., as amended. Incorporated by reference to Exhibit 3.5 and 3.11 in NVR, Inc.'s 1993 Registration Statement.
3.6	Bylaws of NVR Financial Services, Inc. Incorporated by reference to Exhibit 3.6 in NVR, Inc.'s 1993 Registration Statement.
3.7	Certificate of Incorporation of RVN, Inc.
3.8	Bylaws of RVN, Inc.
3.9	Charter of Fox Ridge Homes, Inc. Incorporated by reference to Exhibit 3.9 in NVR's Form S-3 filed with the Securities and Exchange Commission on January 20, 1998.
3.10	Bylaws of Fox Ridge Homes, Inc. Incorporated by reference to Exhibit 3.10 in NVR's Form S-3 filed with the Securities and Exchange Commission on January 20, 1998.
4.1	Form of Trust Indenture between NVR, Inc., as issuer, NVR Homes, Inc. and NVR Financial Services, Inc. as guarantors, and IBJ Schroder Bank & Trust Company as trustee. Incorporated by reference to Exhibit 4.1 in NVR, Inc.'s 1993 Registration Statement.
4.2	Form of Note (included in Indenture filed as Exhibit 4.1).
4.4	Form of Supplemental Trust Indenture between NVR, Inc., as issuer, NVR Homes, Inc., NVR Financial Services, Inc. and RVN, Inc., as guarantors, and IBJ Schroder Bank & Trust Company, as trustee.
*4.5	Form of Second Supplemental Trust Indenture between NVR, Inc., as issuer, NVR Homes, Inc., NVR Financial Services, Inc., RVN, Inc. and Fox Ridge Homes, Inc., as guarantors, and IBJ Schroder Bank & Trust Company, as trustee.
10.1	Employment Agreement between NVR, Inc. and Dwight C. Schar dated January 1, 1996.
10.3	Executive Employment Agreement between NVR, Inc. and Paul C. Saville dated January 1, 1995.
10.5	Employment Agreement between NVR, Inc. and William J. Inman dated November 13, 1995.

- 10.6 Second Amended and Restated Loan Agreement dated as of June 13, 1996 among NVR Mortgage Finance, Inc. and Bank One, Texas, N.A., as Agent, and the other lenders party thereto.
- 10.7 NVR, Inc. Equity Purchase Plan. Incorporated by reference to Exhibit 10.10 in NVR, Inc.'s 1993 Registration Statement.
- 10.8 NVR, Inc. Directors Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.11 in NVR, Inc.'s 1993 Registration Statement.
- 10.9 NVR, Inc. Management Equity Incentive Plan. Incorporated by reference to Exhibit 10.2 in NVR, Inc.'s 1993 Registration Statement.
- 10.10 Pledge Agreement dated September 30, 1993 between IBJ Schroder Bank & Trust Company, as collateral agent, and NVR, Inc. Incorporated by reference to Exhibit 10.18 in NVR, Inc.'s 1993 Registration Statement.
- 10.11 Credit and Security Agreement dated September 30, 1993 among NVR Homes, Inc., NVR, Inc. and The First National Bank of Boston, as agent. Incorporated by reference to Exhibit 10.2 in NVR, Inc.'s Current Report on Form 8-K dated October 4, 1993.
- 10.12 Guaranty of Collection between NVR, Inc. and The First National Bank of Boston, as agent. Incorporated by reference to Exhibit 10.3 in NVR, Inc.'s Current Report on Form 8-K dated October 4, 1993.
- 10.14 Gestation Financing Agreement dated January 14, 1994 between NVR Mortgage Finance, Inc. and Bank One, Texas, National Association. Incorporated by reference to Exhibit 10.14 in NVR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1993.
- 10.18 Agreement among Crestar Bank, NVR Savings Bank, FSB, and NVR Financial Services, Inc. dated November 8, 1993. Incorporated by reference to NVR's Current Report on Form 8-K dated March 17, 1994.
- 10.19 Employee Stock Ownership Plan of NVR, Inc.
- 10.20 Amended and restated credit and security agreement dated as of May 5, 1995 among NVR Homes, Inc. as borrower and NVR, Inc. as Guarantor and Certain Banks and The First National Bank of Boston, as Agent for itself and Certain Banks.
- 10.22 NVR, Inc. 1994 Management Equity Incentive Plan.
- 10.25 First modification of amended and restated credit and security agreement dated as of January 16, 1996 among NVR Homes, Inc. as borrower and NVR, Inc. as Guarantor and Certain Banks and The First National Bank of Boston, as Agent for itself and Certain Banks.
- 10.26 NVR, Inc. Management Long-Term Stock Option Plan. Incorporated by reference to Exhibit 99.3 of NVR, Inc.'s Form S-8 Registration Statement filed May 31, 1996.
- 10.27 NVR, Inc. Directors' Long-Term Stock Option Plan. Incorporated by reference to Exhibit 99.3 of NVR, Inc.'s Form S-8 Registration Statement filed May 31, 1996.
- 10.28 Second modification of amended and restated credit and security agreement dated as of May 5, 1996 among NVR Homes, Inc. as borrower and NVR, Inc. as Guarantor and Certain Banks and The First National Bank of Boston, as Agent for itself and Certain Banks.
- 10.29 Third modification of amended and restated credit and security agreement dated as of December 31, 1996 among NVR Homes, Inc. as borrower and NVR, Inc. as Guarantor and Certain Banks and The First National Bank of Boston, as Agent for itself and Certain Banks.

- 10.30 NVR, Inc. High Performance Compensation Plan dated as of January 1, 1996.
- 10.31 Uncommitted Gestation Financing Agreement dated as of March 15, 1996 between NVR Mortgage Finance, Inc. and Bank One, Texas, National Association.
- *10.32 Whole Loan Purchase and Sale Agreement between NVR Mortgage Finance, Inc., as seller, and Prudential Securities Realty Funding Corporation, as Purchaser, dated as of August 11, 1997.
- *10.33 Mortgage Loan Purchase and Sale Agreement dated as of January 15, 1997 between Prudential Securities Realty Funding Corporation and NVR Mortgage Finance, Inc.
- *10.34 Gestation Financing Agreement between NVR Mortgage Finance, Inc. and Bank One Investment Advisors Corporation dated as of August 15, 1997.
- *10.35 Standby Gestation Financing Agreement between NVR Mortgage Finance and Bank One, Texas N.A. dated as of August 15, 1997.
- *11 Computation of Earnings per Share.
- *21 NVR, Inc. Subsidiaries.
- *23 Consent of KPMG Peat Marwick LLP (independent auditors).
- *27 Financial Data Schedule

*Filed herewith.

REPORTS ON FORM 8-K (NONE)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Dwight C. Schar

 Dwight C. Schar
 Chairman of the Board of Directors,
 President and Chief Executive Officer

Dated: March 9, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ Dwight C. Schar ----- Dwight C. Schar	Chairman of the Board of Directors, President and Chief Executive Officer	March 9, 1998
/s/ C. Scott Bartlett, Jr. ----- C. Scott Bartlett, Jr.	Director	March 9, 1998
/s/ Manuel H. Johnson ----- Manuel H. Johnson	Director	March 9, 1998
/s/ William A. Moran ----- William A. Moran	Director	March 9, 1998
/s/ Richard H. Norair, Sr. ----- Richard H. Norair, Sr.	Director	March 9, 1998
/s/ David A. Preiser ----- David A. Preiser	Director	March 9, 1998
/s/ George E. Slye ----- George E. Slye	Director	March 9, 1998
/s/ John M. Toups ----- John M. Toups	Director	March 9, 1998
/s/ Paul C. Saville ----- Paul C. Saville	Senior Vice President, Chief Financial Officer and Treasurer	March 9, 1998

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
NVR, Inc.:

We have audited the accompanying consolidated balance sheets of NVR, Inc. and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NVR, Inc. and subsidiaries as of December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 28, 1998

NVR, INC.
Consolidated Balance Sheets
(dollars in thousands, except share data)

	DECEMBER 31,	
	1997	1996
ASSETS		
HOMEBUILDING:		
Cash and cash equivalents	\$ 41,684	\$ 71,533
Receivables	3,398	2,927
Inventory:		
Lots and housing units, covered under sales agreements with customers	165,132	126,456
Unsold lots and housing units	51,434	37,940
Manufacturing materials and other	7,475	7,297
	-----	-----
	224,041	171,693
Property, plant and equipment, net	17,241	17,916
Reorganization value in excess of amounts allocable to identifiable assets, net	69,366	75,818
Goodwill, net	10,753	-
Contract land deposits	36,992	36,383
Other assets	22,424	21,008
	-----	-----
	425,899	397,278
	-----	-----
MORTGAGE BANKING:		
Cash and cash equivalents	4,041	3,247
Mortgage loans held for sale, net	115,744	75,735
Mortgage servicing rights, net	2,220	6,309
Property and equipment, net	637	917
Reorganization value in excess of amounts allocable to identifiable assets, net	11,700	12,788
Other assets	4,380	4,891
	-----	-----
	138,722	103,887
	-----	-----
TOTAL ASSETS	\$564,621	\$501,165
	=====	=====

See notes to consolidated financial statements.

NVR, INC.
Consolidated Balance Sheets
(dollars in thousands, except share data)

	DECEMBER 31,	
	1997	1996
LIABILITIES AND SHAREHOLDERS' EQUITY		
HOMEBUILDING:		
Accounts payable	\$ 67,987	\$ 54,894
Accrued expenses and other liabilities	94,931	85,260
Notes payable	5,728	86
Other term debt	14,017	14,043
Senior notes	120,000	120,000
	-----	-----
	302,663	274,283
	-----	-----
MORTGAGE BANKING:		
Accounts payable and other liabilities	8,925	7,409
Notes payable	108,393	67,463
	-----	-----
	117,318	74,872
	-----	-----
Total liabilities	419,981	349,155
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 19,995,494 and 19,881,515 shares issued for 1997 and 1996, respectively	200	199
Additional paid-in-capital	164,731	157,842
Retained earnings	75,977	47,098
Less treasury stock at cost - 8,900,972 and 6,307,108 shares at December 31, 1997 and 1996, respectively	(96,268)	(53,129)
	-----	-----
Total shareholders' equity	144,640	152,010
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$564,621	\$501,165
	=====	=====

See notes to consolidated financial statements.

NVR, INC.
Consolidated Statements of Income
(dollars in thousands, except share data)

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
HOMEBUILDING:			
Revenues	\$1,154,022	\$1,045,930	\$ 869,119
Other income	1,232	1,312	1,577
Cost of sales	(995,855)	(906,255)	(751,035)
Selling, general and administrative	(87,231)	(71,184)	(63,200)
Amortization of reorganization value in excess of amounts allocable to identifiable assets/goodwill	(6,635)	(7,048)	(7,048)
	-----	-----	-----
Operating income	65,533	62,755	49,413
Interest expense	(16,410)	(16,611)	(17,166)
	-----	-----	-----
Homebuilding income	49,123	46,144	32,247
MORTGAGE BANKING:			
Mortgage banking fees	25,946	24,029	26,297
Interest income	6,415	5,351	4,744
Other income	674	47	46
General and administrative	(23,636)	(23,507)	(26,747)
Amortization of reorganization value in excess of amounts allocable to identifiable assets	(1,088)	(1,088)	(1,088)
Interest expense	(3,544)	(2,249)	(2,090)
	-----	-----	-----
Operating income	4,767	2,583	1,162
TOTAL SEGMENT INCOME	53,890	48,727	33,409
Income tax expense	(25,011)	(22,946)	(17,009)
	-----	-----	-----
Income before extraordinary gains	28,879	25,781	16,400
Extraordinary gain-repurchase of debt (net of tax expense of \$645 for the year ended December 31, 1995)	-	-	927
	-----	-----	-----
NET INCOME	\$ 28,879	\$ 25,781	\$ 17,327
	=====	=====	=====
BASIC EARNINGS PER SHARE:			
Income before extraordinary gain	\$ 2.44	\$ 1.76	\$ 1.07
Extraordinary gain	-	-	0.06
	-----	-----	-----
Basic earnings per share	\$ 2.44	\$ 1.76	\$ 1.13
	=====	=====	=====
DILUTED EARNINGS PER SHARE:			
Income before extraordinary gain	\$ 2.18	\$ 1.70	\$ 1.06
Extraordinary gain	-	-	0.06
	-----	-----	-----
Diluted earnings per share	\$ 2.18	\$ 1.70	\$ 1.12
	=====	=====	=====

See notes to consolidated financial statements.

NVR, INC.
Consolidated Statements of Shareholders' Equity
(dollars in thousands)

	COMMON STOCK	PAID-IN CAPITAL	ADDITIONAL RETAINED EARNINGS	TREASURY STOCK
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1994	\$181	\$142,163	\$ 4,299	\$(17,121)
Net income	-	-	17,327	-
Purchase of common stock for treasury	-	-	-	(2,581)
Performance share activity	1	1,739	-	-
Warrant activity	-	1	-	-
Option activity	2	169	-	-
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1995	184	144,072	21,626	(19,702)
Net income	-	-	25,781	-
Purchase of common stock for treasury	-	-	-	(35,137)
Performance share activity	-	529	-	1,710
Warrant activity	15	13,146	(309)	-
Option activity	-	95	-	-
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1996	199	157,842	47,098	(53,129)
Net income	-	-	28,879	-
Purchase of common stock for treasury	-	-	-	(45,545)
Performance share activity	-	5,580	-	2,406
Tax benefit from stock options exercised	-	464	-	-
Option activity	1	845	-	-
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1997	\$200	\$164,731	\$75,977	\$(96,268)
	=====	=====	=====	=====

See notes to consolidated financial statements.

NVR, INC.
Consolidated Statements of Cash Flows
(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 28,879	\$ 25,781	\$ 17,327
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Extraordinary gain - extinguishment of debt	-	-	(1,572)
Depreciation and amortization	13,338	15,417	14,814
Gain on sales of loans	(16,731)	(14,401)	(8,320)
Deferred tax provision	(629)	(322)	(3,596)
Interest accrued and added to bond principal	-	1,180	2,749
Mortgage loans closed	(1,485,763)	(1,243,945)	(1,092,676)
Proceeds from sales of mortgage loans	1,450,618	1,268,254	1,052,550
(Gain) loss on sales of mortgage servicing rights	(1,069)	1,194	(5,534)
Net change in assets and liabilities:			
Increase in inventories	(31,354)	(16,980)	(45,175)
Decrease (increase) in receivables	693	5,084	(2,191)
Increase (decrease) in accounts payable and accrued expenses	20,556	(611)	20,720
Other, net	6,437	(1,869)	(7,184)
	(15,025)	38,782	(58,088)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale of marketable securities	-	-	5,000
Proceeds from sales of mortgage-backed securities	15,126	45,835	1,069
Business acquisition, net of cash acquired	(12,533)	-	-
Purchase of property, plant and equipment	(3,053)	(4,267)	(3,590)
Principal payments on mortgage-backed securities	4,190	15,511	16,932
Purchase of mortgage servicing rights	-	(193)	(10,664)
Proceeds from sales of mortgage servicing rights	14,199	23,518	16,050
Other, net	1,236	4,458	1,242
	19,165	84,862	26,039
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of bonds	(18,019)	(62,306)	(20,104)
Repurchase of senior notes	-	-	(12,962)
Purchases of treasury stock	(45,545)	(35,137)	(2,581)
Net borrowings (repayments) under notes payable and credit lines	29,523	(19,935)	51,663
Other, net	846	12,947	124
	(33,195)	(104,431)	16,140
Net increase (decrease) in cash	(29,055)	19,213	(15,909)
Cash, beginning of year	74,780	55,567	71,476
	\$ 45,725	\$ 74,780	\$ 55,567
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid during the year	\$ 21,255	\$ 22,160	\$ 25,214
	=====	=====	=====
Income taxes paid during the year, net of refunds	\$ 23,018	\$ 26,492	\$ 16,745
	=====	=====	=====

See notes to consolidated financial statements.

NVR, INC.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of NVR, Inc. ("NVR" or "The Company"), its wholly-owned subsidiaries and certain partially-owned entities. All significant intercompany transactions have been eliminated in consolidation.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes short-term investments with original maturities of three months or less.

HOMEBUILDING INVENTORY

Inventory is stated at the lower of cost or market value. Cost of lots and completed and uncompleted housing units represent the accumulated actual cost thereof. Field construction supervisors' salaries and related direct overhead expenses are included in inventory costs. Interest costs are not capitalized into inventory. Upon settlement, the cost of the units is expensed on a specific identification basis. Cost of manufacturing materials is determined on a first-in, first-out basis.

REORGANIZATION VALUE IN EXCESS OF AMOUNTS ALLOCABLE TO IDENTIFIABLE ASSETS

Reorganization value in excess of amounts allocable to identifiable assets ("reorganization value") is being amortized on a straight-line basis over 15 years. Accumulated amortization as of December 31, 1997 and 1996 was \$34,489 and \$26,948, respectively. Determination of any impairment losses related to this intangible asset is based on consideration of projected undiscounted cash flows.

GOODWILL

The excess of amounts paid for business acquisitions over the net fair value of the assets acquired and the liabilities assumed ("Goodwill") is amortized using the straight line method over ten years, and originated from the October 31, 1997 acquisition of Fox Ridge Homes, Inc. See Note 2. Accumulated amortization was \$182 at December 31, 1997. Determination of any impairment losses related to this intangible asset is based on consideration of projected undiscounted cash flows.

NVR, INC.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share data)

MORTGAGE LOANS HELD FOR SALE

Mortgage loans held for sale are valued at the lower of cost or market on a net aggregate basis.

MORTGAGE-BACKED SECURITIES AND MORTGAGE-BACKED BONDS

Prior to 1996, the Company's ownership interests in mortgage-backed securities and the related mortgage-backed bonds were presented on a gross basis on the consolidated balance sheets and income statements. Accordingly, the book values of the mortgage-backed securities and mortgage-backed bonds were presented separately as assets and liabilities, respectively, on the consolidated balance sheets, and interest income on mortgage-backed securities and interest expense of the mortgage-backed bonds were presented separately as income and expense, respectively, on the consolidated income statements. All of such interests are at, or are nearing, the ends of their economic useful lives, and as such, NVR does not anticipate that such assets will generate significant amounts of income or cash flow in the future. The Company's consolidated balance sheets for all periods presented reflect its ownership interests in mortgage-backed securities net of the related mortgage-backed bonds as a component of other assets of the mortgage banking segment, and the consolidated statements of income for all periods presented reflect earnings from such interests net of the related interest expense as a component of other income of the mortgage banking segment.

ADOPTION OF NEW ACCOUNTING PRINCIPLES

In February 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share. SFAS No. 128 supersedes APB Opinion No. 15, Earnings per Share ("Opinion No. 15") and requires the calculation and dual the measures of primary is effective for prior period EPS data presentation of Basic and fully-diluted EPS as financial statements to conform with SFAS and Diluted earnings per reported under Opinion issued for periods No. 128 is required. share ("EPS"), replacing No. 15. SFAS No. 128 ending December 31, 1997. Restatement of prior period EPS data to conform with SFAS No. 128 is required.

The following weighted average shares and share equivalents are used to calculate Basic and Diluted EPS for the years ended December 31, 1997, 1996 and 1995:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
Weighted average number of shares outstanding used to calculate Basic EPS	11,838,743	14,620,593	15,334,148
Dilutive securities:			
Warrants	-	211,502	-
Stock Options	1,405,934	304,914	71,115
	-----	-----	-----
Weighted average number of shares and share equivalents outstanding used to calculate Diluted EPS	13,244,677	15,137,009	15,405,263
	=====	=====	=====

NVR, INC.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share data)

The Company also adopted SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities during the year ended December 31, 1997. Such adoption did not have a material impact on the Company's financial condition or results of operations.

REVENUES-HOMEBUILDING OPERATIONS

NVR Homes, Inc. ("Homes"), a wholly owned subsidiary of NVR, builds light-frame, low-rise residences which generally are produced on a pre-sold basis for the ultimate customer. Revenues are recognized at the time units are completed and title passes to the customer. Additionally, to a significantly lesser degree, Homes sells house packages to builder-dealers and other homebuilders and recognizes revenue at the time the product is delivered to the builder-dealer or homebuilder.

MORTGAGE BANKING FEES

Mortgage banking fees include income earned by NVR's mortgage banking subsidiaries for originating and processing mortgage loans, servicing mortgage loans held in the servicing portfolio, title fees, gains and losses on the sale of mortgage loans and mortgage servicing and other activities incidental to mortgage banking. Loan origination fees and direct loan origination costs are deferred and the net deferred fees, or costs, are recognized either upon the sale of the loan or as an adjustment of the yield over the life of the loan.

MORTGAGE SERVICING RIGHTS

Mortgage servicing rights are recorded by allocating the total cost of acquiring mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values.

NVR measures the impairment of the mortgage servicing rights based on their current fair value. Current fair value is determined through the discounted present value of estimated future net servicing cashflows using a risk-based discount rate and assumptions based upon market estimates for future servicing revenues and expenses (including prepayment expectations, servicing costs, default rates, and interest earnings on escrows). For the purposes of evaluating and measuring impairment of the mortgage servicing rights, they are stratified using the predominant risk characteristic of the underlying mortgage loans. NVR has determined that the predominant risk characteristic of the underlying mortgage loans is interest rate. Impairment, and subsequent changes in measurement of impairment, of any individual stratum is recognized through a valuation allowance for that stratum. The mortgage servicing rights are amortized to general and administrative expense in proportion to, and over the period of, the estimated net servicing income.

DEPRECIATION

Depreciation is based on the estimated useful lives of the assets using the straight-line method. Amortization of capital lease assets is included in depreciation expense.

NVR, INC.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share data)

INCOME TAXES

NVR files a consolidated federal income tax return. Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by enacted tax rules and regulations.

FINANCIAL INSTRUMENTS

Except as otherwise noted in notes 1 and 4 to the financial statements, NVR believes that insignificant differences exist between the carrying value and the fair value of its financial instruments. The estimated fair value of NVR's 11% Senior Notes due 2003 ("Senior Notes") as of December 31, 1997 and 1996 was \$130,776 and \$127,044, respectively, with a carrying value of \$120,000 at both respective dates. The estimated fair values are based on quoted market prices for these instruments.

STOCK-BASED COMPENSATION

As permitted under SFAS No. 123, NVR has elected to continue to follow the guidance of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, in accounting for its stock-based employee compensation arrangements. The pro forma financial information required by SFAS No. 123 is included in footnote 10.

2. ACQUISITION

NVR Fox Ridge, Inc., a wholly owned subsidiary of Homes, was formed during 1997 to purchase substantially all of the assets and assume certain liabilities of Fox Ridge Homes, Inc. ("FRH"), a leading homebuilder in Nashville, Tennessee. NVR Fox Ridge, Inc. was renamed Fox Ridge Homes, Inc. ("Fox Ridge") in November, 1997. To consummate the purchase on October 31, 1997, Fox Ridge assumed approximately \$15,160 of FRH's liabilities, paid FRH \$14,250 in cash at settlement on October 31, 1997, and issued a note payable for the remaining \$4,750 purchase price. The note bears interest at 200 basis points above the federal funds target rate, and will be paid in three annual installments on October 31, 1998, 1999 and 2000, including accrued interest.

Fox Ridge accounted for this acquisition using the purchase method, and the operations of the acquired business have been included in NVR's consolidated statements of income since its acquisition. Goodwill that was generated pursuant to the purchase transaction is being amortized using the straight line method over 10 years.

The following unaudited pro forma summary of combined operations was prepared to illustrate the estimated effects of the 1997 acquisition of FRH as if such acquisition had occurred on the first day of the respective periods presented.

	YEAR ENDED DECEMBER 31,	
	----- 1997	1996 -----
Homebuilding revenues	\$1,192,684	\$1,100,821
Net income	29,343	28,209
Diluted earnings per share	2.22	1.86

NVR, INC.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share data)

3. SEGMENT INFORMATION, NATURE OF OPERATIONS, AND CERTAIN CONCENTRATIONS

NVR is a holding company that operates in two business segments: homebuilding and mortgage banking. The homebuilding segment is one of the largest homebuilders in the United States and in the Washington, D.C. and Baltimore, Maryland metropolitan areas, where NVR derived approximately 66% of its 1997 homebuilding revenues. NVR's homebuilding segment primarily constructs and sells single-family detached homes, townhomes and condominium buildings in three distinct product lines, through two divisions and one wholly owned subsidiary: Ryan Homes, NVHomes and Fox Ridge. Ryan Homes builds moderately priced homes in sixteen metropolitan areas located in Maryland, Virginia, Pennsylvania, New York, North Carolina, South Carolina, Ohio, New Jersey, Delaware and Tennessee, and markets its homes primarily to first-time buyers. NVHomes builds homes largely in the Washington, D.C. metropolitan area, and markets its homes primarily to move-up buyers. Fox Ridge Homes, Inc. builds moderately priced homes in Nashville, TN and also markets its homes primarily to first-time homebuyers.

The mortgage banking segment, which operates under NVR Financial Services, Inc. ("NVRFS"), currently includes a national mortgage banking operation and a limited-purpose financing subsidiary (the "Limited-Purpose Financing Subsidiary") which was formed to facilitate the financing of long-term mortgage loans through the sale of non-recourse bonds collateralized by mortgage-backed securities. The Company sells all of the mortgage loans it closes into the secondary markets and sells its originated mortgage servicing rights on a flow basis. A significant portion of the Company's mortgage operations are conducted in the Washington, D.C. and Baltimore, Maryland metropolitan area. Although NVR's mortgage banking operations provide financing to a substantial portion of NVR's homebuilding customers, NVR's homebuilding customers accounted for only 43% of the dollar amount of loans closed in 1997.

Because there are no significant holding company revenues, unallocable selling, general and administrative expense and assets other than its investment in the homebuilding and mortgage banking subsidiaries, the holding company (excluding its investment in its subsidiaries) is presented as part of the homebuilding segment in the accompanying consolidated financial statements and following:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
REVENUES:			
Homebuilding	\$1,155,254	\$1,047,242	\$870,696
Mortgage Banking	33,035	29,427	31,087
	-----	-----	-----
	\$1,188,289	\$1,076,669	\$901,783
	=====	=====	=====
	YEAR ENDED	YEAR ENDED	YEAR ENDED
	DECEMBER 31, 1997	DECEMBER 31, 1996	DECEMBER 31, 1995
	-----	-----	-----
OPERATING INCOME:			
Homebuilding	\$ 65,533	\$ 62,755	\$ 49,413
Mortgage Banking	3,932	1,804	1,005
Intersegment transactions*	835	779	157
	-----	-----	-----
	\$ 70,300	\$ 65,338	\$ 50,575
	=====	=====	=====

NVR, INC.
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	DECEMBER 31, 1997	DECEMBER 31, 1996	
	-----	-----	
IDENTIFIABLE ASSETS:			
Homebuilding	\$425,899	\$397,278	
Mortgage Banking	138,722	103,887	
	-----	-----	
	\$564,621	\$501,165	
	=====	=====	
	YEAR ENDED	YEAR ENDED	YEAR ENDED
	DECEMBER 31, 1997	DECEMBER 31, 1996	DECEMBER 31, 1995
	-----	-----	-----
DEPRECIATION AND AMORTIZATION:			
Homebuilding	\$ 11,019	\$ 10,899	\$10,322
Mortgage Banking	2,319	4,518	4,492
	-----	-----	-----
Total	\$ 13,338	\$ 15,417	\$14,814
	=====	=====	=====
CAPITAL EXPENDITURES:			
Homebuilding	\$ 2,708	\$ 4,019	\$ 2,448
Mortgage Banking	345	248	1,142
	-----	-----	-----
Total	\$ 3,053	\$ 4,267	\$ 3,590
	=====	=====	=====

*Intersegment transactions primarily represent intercompany advances and related interest income/expense of the mortgage banking segment.

4. RELATED PARTY TRANSACTIONS

During 1997, 1996, and 1995, NVR purchased, at market prices, developed lots from a company that is controlled by a member of the board of directors. Those purchases totaled \$8,066, \$6,612, and \$8,877 during 1997, 1996 and 1995, respectively. NVR expects to purchase the remaining lots under contract as of December 31, 1997 over the next 18 to 24 months for an aggregate purchase price of approximately \$32,000.

During the years ended December 31, 1997, 1996 and 1995, one of the executive officers of NVR was a partner in a law firm which billed NVR approximately \$375, \$344 and \$324, respectively, in fees and expenses for legal services.

During the year ended December 31, 1995, NVR paid \$181 to a company partially owned by the chief executive officer of NVR as rent for its executive office space. Effective October 1995, the chief executive officer divested his ownership interest.

During 1996, NVR repurchased, at market prices, 2,370,839 shares of its common stock for an aggregate purchase price of \$25,401 from certain investors who at the time of the purchases were beneficial owners of greater than five percent (5%) of the Company's common stock. In addition, during 1996, the Company also repurchased, at market prices, 304,735 warrants to purchase the Company's common stock at an aggregate purchase price of \$166 from certain of the aforementioned investors.

NVR, INC.
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5. LOAN SERVICING PORTFOLIO, MORTGAGE LOAN COMMITMENTS AND OFF-BALANCE SHEET RISK

At December 31, 1997 and 1996, NVRFS was servicing approximately 2,947 and 9,200 mortgage loans for various investors with aggregate balances of approximately \$224,000 and \$579,000, respectively.

At December 31, 1997, NVRFS had capitalized mortgage servicing rights of \$2,220 which related to approximately \$175 million of the aggregate \$224 million in loans serviced. The mortgage servicing rights associated with the remaining \$49 million in loans serviced are not subject to capitalization because the loans were originated and sold prior to NVR's adoption of SFAS No. 122 on January 1, 1995. At December 31, 1996, NVRFS had capitalized purchased mortgage servicing rights of \$6,309.

NVRFS assesses the fair value of the capitalized mortgage servicing rights by stratifying the underlying loans by interest rate. The fair value of the mortgage servicing rights is then determined through the present value of estimated future net servicing cashflows using a risk based discount rate, and assumptions based upon market estimates for future servicing revenues and expenses (including prepayment expectations, servicing costs, default rates, and interest earnings on escrows). The fair value of the capitalized mortgage servicing rights was \$2,471 and \$7,563 at December 31, 1997 and 1996, respectively. The fair value of the mortgage servicing rights not subject to capitalization was \$490 and \$650 at December 31, 1997 and 1996, respectively. Based on management's estimate of the fair value of the designated strata, no impairment valuation allowance is necessary.

NVRFS amortizes the capitalized mortgage servicing rights in proportion to, and over the period of, the estimated net servicing income. The amortization for the periods ending December 31, 1997, 1996 and 1995 was \$506, \$1,627 and \$2,665, respectively.

In the normal course of business, NVR Finance enters into contractual commitments involving financial instruments with off-balance sheet risk. These financial instruments include commitments to extend mortgage loans to customers and forward contracts to sell mortgage-backed securities to broker/dealers. These instruments involve, to varying degrees, elements of credit and market rate risk in excess of the amounts recognized in the balance sheet.

NVR Finance's exposure to credit loss, in the event of non-performance by the customers, is represented by the contractual amount of the commitment for the mortgage loans. NVR Finance uses the same credit policies in making commitments as it does for on-balance sheet mortgage loans.

There were mortgage loan commitments aggregating approximately \$129,949 and \$94,901 outstanding at December 31, 1997 and 1996, respectively. There were open forward delivery contracts aggregating approximately \$195,719 and \$130,891 at December 31, 1997 and 1996, respectively.

NVR Finance enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within time frames established by NVR Finance. 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 to a broker/dealer. This market risk is managed by entering into forward contracts as discussed below.

Since certain of the commitments are expected to expire without a loan closing, the total contractual amounts do not necessarily represent future cash requirements. Collateral for loans granted is obtained by a

NVR, INC.
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first mortgage security interest in real estate whose appraised values exceed the contractual amount of the commitment.

NVR Finance enters into optional and mandatory forward delivery contracts to sell mortgage-backed securities at specific prices and dates to broker/dealers. NVR Finance has established policies governing which broker/dealers can be used to conduct these activities. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position, and at December 31, 1997 and 1996 there were no such positions. There were no counterparty default losses on forward contracts in 1997, 1996 or 1995. Market risk with respect to forward contracts arises from changes in the value of contractual positions due to fluctuations in interest rates. NVR Finance limits its exposure to market risk by monitoring differences between the total of commitments to customers and loans held for sale and forward contracts with broker/dealers. In the event NVR Finance has forward delivery contract commitments in excess of available mortgage-backed securities, NVR Finance completes the transaction by either paying or receiving a fee to/from the broker/dealer equal to the increase/decrease in the market value of the forward contract. NVRFS has no market risk associated with optional delivery contracts because NVRFS has the right but not the obligation to deliver mortgage backed securities to broker/dealers under these contracts.

6. PROPERTY, PLANT AND EQUIPMENT, NET

	DECEMBER 31,	
	1997	1996
HOMEBUILDING:		
Office facilities and other	\$ 7,926	\$ 7,460
Model home furniture and fixtures	5,947	4,255
Manufacturing facilities	7,199	7,964
Property under capital leases	14,177	14,177
	-----	-----
	35,249	33,856
Less accumulated depreciation and amortization	(18,008)	(15,940)
	-----	-----
	\$ 17,241	\$ 17,916
	=====	=====
MORTGAGE BANKING:		
Office facilities and other	\$ 3,965	\$ 4,284
Less accumulated depreciation and amortization	(3,328)	(3,367)
	-----	-----
	\$ 637	\$ 917
	=====	=====

Included in Homebuilding property, plant and equipment are amounts for land totaling \$1,732 at December 31, 1997 and 1996.

Certain property, plant and equipment listed above is collateral for various debt of NVR and certain of its subsidiaries as more fully described in note 7.

NVR, INC.
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7. DEBT

	DECEMBER 31,	
	----- 1997	1996 -----
HOMEBUILDING:		
Notes payable:		
Working capital revolving credit (a)	\$ -	\$ -
Other (b)	5,728	86
	-----	-----
	\$ 5,728	\$ 86
	=====	=====
Other term debt:		
Capital lease and financing obligations and mortgages due in monthly installments through 2014 (c)	\$ 14,017	\$ 14,043
	=====	=====
Senior notes (d)	\$120,000	\$120,000
	=====	=====
MORTGAGE BANKING:		
Mortgage warehouse revolving credit (e)	\$ 77,765	\$ 61,259
Mortgage repurchase facility (f)	30,628	6,204
	-----	-----
	\$108,393	\$ 67,463
	=====	=====

(a) On September 30, 1993, Homes as borrower and NVR as guarantor entered into a working capital revolving credit agreement (the "Working Capital Revolving Credit" or "Senior Bank Indebtedness"). This facility currently provides for unsecured borrowings up to \$60,000, subject to certain borrowing base limitations, and is generally available to fund working capital needs of Homes and for certain payments of NVR. Up to approximately \$24,000 of this facility is currently available for issuance in the form of letters of credit of which \$6,059 and \$5,345 were outstanding at December 31, 1997 and 1996, respectively. The Working Capital Revolving Credit is for a three year period ending May 31, 2000 and outstanding amounts bear interest at the election of the Company, at (i) the base rate of interest announced by the Facility agent or (ii) 2.0% above the Eurodollar Rate. The weighted average interest rates for the amounts outstanding under the facility were 8.1% and 8.0% for 1997 and 1996, respectively. NVR's guarantee is a guarantee of collection only and is unsecured.

The Working Capital Revolving Credit agreement contains numerous operating and financial covenants, including required levels of net worth, fixed charge coverage ratios, and several other covenants related to the construction operations of Homes. In addition, the Working Capital Revolving Credit agreement contains restrictions on the ability of Homes and, in certain cases, NVR to, among other things, incur debt and make investments. Also, the Working Capital Revolving Credit agreement prohibits NVR from paying dividends to shareholders.

(b) Other notes payable as of December 31, 1997 is principally comprised of a \$4,750 note payable issued in connection with the acquisition of Fox Ridge (see Note 2). The weighted average interest rate was 7.5% during 1997.

(c) The capital lease and financing obligations and mortgages have either fixed or variable interest rates ranging from 3.0% to 13.9% and are collateralized by land, buildings and equipment with a net book value of \$11,602 and \$12,181 at December 31, 1997 and 1996, respectively.

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The following schedule provides future minimum lease payments under all financing and capital leases together with the present value as of December 31, 1997:

YEARS ENDING DECEMBER 31:	

1998	\$ 1,783
1999	1,851
2000	1,851
2001	1,870
2002	1,929
Thereafter	34,748

	44,032
Amount representing interest	(30,015)

	\$ 14,017
	=====

(d) On September 30, 1993, NVR received gross proceeds of \$160,000 from the sale of its Senior Notes. The Senior Notes bear interest at a rate of 11% per annum, payable semi-annually on June 1 and December 1 of each year and are due in 2003. The Senior Notes will be redeemable at the option of the Company, in whole or in part, at any time on or after December 1, 1998 at redemption prices ranging from 105.5% of par in 1998 to par beginning in 2001.

The Senior Notes are senior obligations of the Company and rank pari passu in right of payment to all existing and future senior indebtedness of the Company and senior in right of payment to all existing and future subordinated indebtedness of the Company. The Senior Notes are secured by a first priority pledge of the capital stock of Homes, Fox Ridge, NVRFS and RVN, Inc. ("RVN") (Homes, Fox Ridge, NVRFS and RVN, collectively, the "Guarantors"). The Senior Notes also are guaranteed on a senior, unsecured basis by the Guarantors; provided, however, that the guarantee by Homes is subordinated to up to \$60,000 of Senior Bank Indebtedness. During the year ended 1995, the Company purchased \$15,000 in principal amount of its Senior Notes in the open market. These transactions resulted in a pre-tax gain of \$1,572 for the year ended 1995, and is included in the accompanying financial statements as an extraordinary item, net of applicable taxes. Through December 31, 1997, the Company has repurchased \$40,000 in the aggregate of its Senior Notes in the open market.

The indenture governing the Senior Notes has, among other items, limitations on asset sales by NVR and the Guarantors and requires that NVR, on a consolidated basis, maintain net worth of at least \$80,000. In addition, the indenture limits dividends, certain investments and NVR's and the Guarantors' ability to incur additional debt if NVR is in default under the indenture or if NVR does not meet certain fixed charge coverage ratios.

(e) The mortgage warehouse facility (the "Mortgage Warehouse Revolving Credit") of NVR Mortgage Finance, Inc. ("NVR Finance") currently has a borrowing limit of \$105,000. The interest rate under the Mortgage Warehouse Revolving Credit is either: (i) the federal funds rate plus either 1.35% or 1.5% depending on the type of collateral, or (ii) 1.5% to the extent that NVR Finance provides compensating balances. The weighted average interest rates for amounts outstanding under the Mortgage Warehouse Revolving Credit line were 5.4% and 3.6% during 1997 and 1996, respectively. The Mortgage Warehouse Revolving Credit is collateralized primarily by mortgage loans and gestation mortgage-backed securities. The Mortgage Warehouse Revolving Credit Agreement is an annually renewable facility and currently expires in June 1998.

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The Mortgage Warehouse Revolving Credit agreement includes, among other items, restrictions on NVR Finance incurring additional borrowings and making intercompany dividends and tax payments. In addition, NVR Finance is required to maintain a minimum net worth.

(f) NVR Finance from time to time enters into various gestation and repurchase agreements. NVR Finance currently has available an aggregate of \$145,000 of borrowing capacity in such uncommitted and committed facilities. Amounts outstanding thereunder accrue interest at various rates tied to the federal funds rate and are collateralized by gestation mortgage-backed securities and whole loans. The uncommitted and committed facilities generally require NVR Finance to, among other items, maintain a minimum net worth and limit its level of liabilities in relation to its net worth. The weighted average interest rates for amounts outstanding under the uncommitted and committed facilities were 6.8% and 6.1% during 1997 and 1996, respectively.

Maturities with respect to the other notes payable, other term debt, and the Senior Notes as of December 31, 1997 are as follows:

YEARS ENDING DECEMBER 31:	

1998	\$ 2,056
1999	2,160
2000	2,107
2001	331
2002	323
Thereafter	136,078

The \$136,078 maturing after 2002 includes \$120,000 in Senior Notes which mature in April 2003.

Various debt agreements limit the ability of NVR's subsidiaries to transfer funds to NVR in the form of dividends, loans or advances. NVR's subsidiaries had net assets, after intercompany eliminations, of \$261,806 as of December 31, 1997 that were so restricted.

At December 31, 1997, the homebuilding and mortgage banking segments had restricted cash of \$1,272 and \$3,723, respectively, which includes customer deposits, mortgagor tax, insurance, completion escrows and other amounts collected at closing which relates to mortgage loans held for sale and to home sales.

8. COMMON STOCK

There were 11,094,522 and 13,574,402 common shares outstanding at December 31, 1997 and 1996, respectively. As of December 31, 1997, NVR had reacquired a total of 9,247,255 shares of NVR common shares at an aggregate cost of \$100,383. In February 1997 and 1996, 172,247 and 174,036 common shares, respectively, were issued from the treasury in satisfaction of employee benefit liabilities accrued at December 31, 1996 and 1995. The average cost basis for the shares reissued from the treasury in 1997 was \$13.97 per share, and the average cost basis for those reissued in 1996 was \$9.82 per share. In addition, 117,472 stock options were exercised during 1997 with NVR realizing \$846 in equity proceeds.

On September 30, 1993, NVR issued warrants to purchase 2,162,828 shares of common stock at an exercise price of \$8.80 per share with an expiration date of September 30, 1996. During 1996, 1,495,515 warrants were exercised for a like number of common shares, with NVR realizing \$13,161 in aggregate equity proceeds. In addition, during 1996 NVR repurchased 561,135 warrants, at market prices, for an

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aggregate purchase price of \$309. NVR retired the repurchased warrants with a charge to retained earnings equal to the purchase price. A total of 106,178 warrants expired unexercised.

9. INCOME TAXES

The provision for income taxes consists of the following:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
CURRENT:			
Federal	\$22,539	\$19,070	\$16,383
State	3,101	4,198	4,222
DEFERRED:			
Federal	(1,030)	(539)	(3,071)
State	401	217	(525)
	-----	-----	-----
	\$25,011	\$22,946	\$17,009
	=====	=====	=====

In addition to amounts applicable to income before taxes, the following income tax expense (benefit) amounts were recorded in shareholders' equity:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
Compensation expense for tax purposes in excess of amounts recognized for financial statement purposes	\$ (464)	\$ -	\$ -
	=====	=====	=====

Deferred income taxes on NVR's consolidated balance sheets are comprised of the following:

	DECEMBER 31,	
	-----	-----
	1997	1996
	-----	-----
Total deferred tax assets	23,561	\$23,830
Less: valuation allowance	2,852	2,852
	-----	-----
	20,709	20,978
Less: deferred tax liabilities	9,158	10,056
	-----	-----
	\$11,551	\$10,922
	=====	=====

Deferred tax assets arise principally as a result of various reserves required for financial reporting purposes which are not currently deductible for tax return purposes. Deferred tax liabilities arise principally as a result of depreciation and accounting for certain sales on the installment method for tax return purposes.

Management believes the Company will have sufficient available carry-backs and future taxable income to make it more likely than not that the net deferred tax asset will be realized. Taxable income was \$66,833, \$56,159 and \$43,454 for the years ended December 31, 1997, 1996 and 1995.

Tax benefits realized in subsequent periods related to unrecognized deferred tax assets as of September 30, 1993 will be recorded as a reduction of reorganization value in excess of amounts allocable to identifiable assets. For the years ended December 31, 1997, 1996 and 1995, \$0, \$7,000 and \$0, respectively, of such benefits were realized. Unrecognized deferred tax assets which arose as of September 30, 1993 amounted to \$2,852 as of December 31, 1997 and 1996, respectively.

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A reconciliation of income tax expense in the accompanying statements of income to the amount computed by applying the statutory Federal income tax rate to income before income taxes, discontinued operations and extraordinary gains is as follows:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
Income taxes computed at the Federal statutory rate	\$18,862	\$17,054	\$11,693
State income taxes, net of Federal income tax benefit	2,276	2,870	2,403
Non-deductible amortization	2,639	2,848	2,848
Non-deductible expense	1,093	-	-
Other, net	141	174	65
	\$25,011	\$22,946	\$17,009
	=====	=====	=====

10. PROFIT SHARING AND INCENTIVE PLANS

Profit Sharing Plans--NVR has a trustee-administered, profit sharing retirement plan (the "Profit Sharing Plan") and an Employee Stock Ownership Plan ("ESOP") covering substantially all employees. The Profit Sharing Plan and the ESOP provide for annual contributions in amounts as determined by the NVR Board of Directors (the "Board"). The combined retirement plan expense for the years ended December 31, 1997, 1996 and 1995 was \$3,081, \$4,627 and \$3,993, respectively. During 1997 and 1996, the ESOP purchased in the open market 110,569 and 150,000 shares respectively of NVR common stock using cash contributions provided by NVR. As of December 31, 1997, all shares held by the ESOP have been allocated to participant accounts.

Management Incentive Plans--Management long-term incentive plans provide several types of equity incentives to NVR's executives and managers. The equity incentives take the form of stock options and performance share awards as described below. Stock options issued under the management long-term incentive plans are issued with an exercise price equal to the market value of the underlying shares on the date of grant.

Under the Management Incentive Plan adopted by the Board in 1993, participants received options to purchase a total of 1,117,949 NVR shares (the "1993 NVR Share Options"). The 1993 NVR Share Options issued under the Management Incentive Plan were fully vested as of December 31, 1996, and generally expire 10 years after the dates upon which they were granted.

	1997		1996		1995	
MANAGEMENT INCENTIVE PLAN	Options	Weighted Average Exercise Prices	Options	Weighted Average Exercise Prices	Options	Weighted Average Exercise Prices
Options outstanding at the beginning of the year	1,076,424	\$7.60	1,085,450	\$7.59	1,130,213	\$7.58
Granted	-	-	6,503	8.21	24,528	7.96
Canceled	(5,000)	7.62	(800)	7.62	(46,965)	7.62
Exercised	(117,472)	7.64	(14,729)	7.16	(22,326)	7.62
	953,952	\$7.60	1,076,424	\$7.60	1,085,450	\$7.59
	=====	=====	=====	=====	=====	=====
Outstanding at end of year	953,952	\$7.60	1,076,424	\$7.60	868,360	\$7.59
	=====	=====	=====	=====	=====	=====
Exercisable at end of year	953,952	\$7.60	1,076,424	\$7.60	868,360	\$7.59
	=====	=====	=====	=====	=====	=====

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Exercise prices for Management Incentive Plan options outstanding at December 31, 1997 range from \$5.06 to \$9.11 per share, and their weighted average remaining contractual life equals 5.75 years.

Under the 1994 Management Incentive Plan (the "1994 Incentive Plan"), executive officers and other key employees of the Company are eligible to receive stock options (the "1994 NVR Share Options") and performance shares (the "1994 Performance Shares"). There are 48,195 1994 NVR Share Options and 1,124,929 1994 Performance Shares authorized for grant under the 1994 Incentive Plan. The 1994 NVR Share Options generally expire 10 years after the dates upon which they were granted, and vest in one-third increments on each of December 31, 1997, 1998 and 1999, with vesting based upon continued employment.

	1997		1996		1995	
	Options	Weighted Average Exercise Prices	Options	Weighted Average Exercise Prices	Options	Weighted Average Exercise Prices
Options outstanding at the beginning of the year	-	\$ -	-	\$ -	-	\$ -
Granted	35,000	14.00	-	-	-	-
Canceled	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding at end of year	35,000	\$14.00	-	-	\$ -	\$ -
Exercisable at end of year	11,667	\$14.00	-	-	\$ -	\$ -

All 1994 Incentive Plan options outstanding at December 31, 1997 have an exercise price of \$14.00 per share, and their weighted average remaining contractual life equals 9.2 years.

A total of 1,105,200 1994 Performance Shares have been granted to employees as of December 31, 1997 and one-third of the 1994 Performance Shares have vested. Up to one-third of the total 1994 Performance Shares authorized may vest on each of December 31, 1998 and 1999 if certain earnings targets are met or exceeded. All 1994 Performance Shares that do not vest are forfeited back to NVR on December 31, 1999.

During 1996, the Company's Shareholders approved the Board of Directors' adoption of the Management Long-Term Stock Option Plan (the "Management Long Term Stock Option Plan"). There are 2,000,000 non-qualified stock options ("Options") authorized under the Management Long Term Stock Option Plan. The Options generally expire 10 years after the dates upon which they were granted, and vest in one-third increments on each of December 31, 2000, 2001 and 2002, with vesting based upon continued employment.

	1997		1996		1995	
	Options	Weighted Average Exercise Prices	Options	Weighted Average Exercise Prices	Options	Weighted Average Exercise Prices
Options outstanding at the beginning of the year	1,554,000	\$10.58	-	\$ -	-	\$ -
Granted	216,000	16.51	1,554,000	10.58	-	-
Canceled	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding at end of year	1,770,000	\$11.30	1,554,000	\$10.58	-	\$ -
Exercisable at end of year	-	\$ -	-	\$ -	-	\$ -

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Exercise prices for Management Long-Term Incentive Plan options outstanding at December 31, 1997 range from \$10.625 to \$22.625 per share, and their weighted average remaining contractual life equals 9.6 years.

The weighted average fair values of grants made in 1997 and 1996 for management incentive plans were \$10.13 and \$6.14, respectively. The fair values of the options granted were estimated on the grant date using the Black-Scholes option pricing model based on the following weighted average assumptions:

	1997 -----	1996 -----
Estimated option life	10 years	10 years
Risk free interest rate	6.79%	7.10%
Expected volatility	35.16%	28.9%
Expected dividend yield	0.0%	0.0%

Directors' Incentive Plans -- The NVR Directors' Long Term Incentive Plan provides for each eligible director to be granted options ("Directors' Options") to purchase 22,750 shares of common stock with a maximum number of shares issuable under the plan of 364,000. There were 182,000 Directors' Options granted to eligible directors on September 30, 1993, leaving 182,000 options available for future grants as of December 31, 1997. The option exercise price for those options granted on September 30, 1993 was \$16.60 per share, which exceeded the fair value of the underlying shares on the date of grant. None of the Directors' Options granted have been canceled or exercised since the grant date. The options became exercisable six months after the date of grant and expire in September 2003. Pursuant to the plan, each outside director also received a one-time cash payment of \$200 during 1997 for the achievement of certain performance goals under a five-year measurement period beginning September 30, 1993.

In addition, there were 192,000 NVR share options authorized and granted in 1996 to the Company's outside directors under the Directors' Long Term Stock Option Plan (the "Directors' Long Term Plan"). There are no additional options available for grant under this plan. The option exercise price for the options granted was \$10.25 per share, which was equal to the fair market value of the Company's Shares on the date of grant. The Options were granted for a 10 year period beginning from the date of grant, and vest in one-third increments on each of December 31, 1999, 2000, and 2001. The weighted average grant-date fair value of the options granted during 1996 was \$5.98 per share. The fair value was calculated using the Black-Scholes option pricing model, under the following assumptions: i) the estimated option life was equal to ten years, ii) the risk free interest rate was 7.1% (based on the U.S. Treasury Strip quote on the date of grant, iii) the expected volatility equaled 28.9%, and iv) the estimated dividend yield was 0%.

SFAS No. 123 requires companies who continue to apply Opinion 25 to account for their stock-based employee compensation arrangements to provide pro forma net income and earnings per share as if the fair value based method had been used to account for compensation cost. Accordingly, pro forma net income and earnings per share would have been \$27,637 (\$2.09 per diluted share), \$24,849 (\$1.64 per diluted share), and \$17,327 (\$1.12 per diluted share) for the years ended December 31, 1997, 1996 and 1995, respectively, if the Company had accounted for its stock based employee compensation arrangements using the fair value method. The 1997, 1996 and 1995 effects of applying SFAS No. 123 for providing pro forma disclosures are not likely to be representative of the effects on reported net income and earnings per share for future years because the number of option grants and the fair value assigned to the grants could differ.

NVR, INC.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share data)

11. COMMITMENTS AND CONTINGENT LIABILITIES

NVR is committed under several non-cancelable operating leases involving office space and equipment, manufacturing facilities and equipment. Future minimum lease payments under these operating leases as of December 31, 1997 are as follows:

YEARS ENDED DECEMBER 31,	

1998	\$ 4,418
1999	2,559
2000	1,626
2001	1,031
2002	831
Thereafter	3,558

	\$14,023
	=====

Total rent expense incurred under operating leases was approximately \$3,425, \$3,180 and \$3,363 for the years ended December 31, 1997, 1996 and 1995, respectively.

During the ordinary course of operating the mortgage banking and homebuilding businesses, NVR is required to enter into bond or letter of credit arrangements with local municipalities, government agencies, or land developers to collateralize its obligations under various contracts. NVR had approximately \$13,364 of contingent obligations under such agreements as of December 31, 1997. NVR believes it will fulfill its obligations under the related contracts and does not anticipate any losses under these bonds or letters of credit.

NVR and its subsidiaries are also involved in litigation arising from the normal course of business. In the opinion of management, and based on advice of legal counsel, this litigation will not have any material adverse effect on the financial position or results of operations of NVR.

12. MORTGAGE-BACKED SECURITIES, NET OF MORTGAGE-BACKED BONDS, AND RELATED ASSETS AND LIABILITIES

Mortgage-backed securities ("MBS") serve as collateral for the related mortgage-backed bonds ("Bonds") sold to third parties. The MBS cannot be sold except upon specified call dates of the Bonds. The calling of the Bonds at those dates is solely at the option of the Company. Principal and interest payments on the MBS are used to make the quarterly payments on the Bonds. In addition, prepayments of the underlying MBS are passed through as repayments of the Bonds so that the Bonds may be fully paid prior to their stated maturities. The Bonds are not guaranteed by NVR or any of its subsidiaries, other than the issuing Limited-Purpose Financing Subsidiary.

The MBS and the reserve amounts which constitute the collateral for the Bonds of a series are held by a trustee for the benefit of the bondholders. The specific collateral pledged to secure a particular series is not available as collateral for any other series. In addition, the Company may, under certain circumstances, redeem certain series of Bonds. In such certain circumstances, the Bonds are redeemed at par and any market appreciation or depreciation accrues to the Company.

NVR, INC.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share data)

During 1997, NVR sold, at a premium, MBS totaling \$15,126, the proceeds of which were used to redeem in full the related outstanding Bonds which totaled \$14,074. The sales of the MBS resulted in a pre-tax gain of \$590, which was substantially offset by a pre-tax loss on the related Bonds of \$552.

During 1996, NVR sold, at a premium, MBS totaling \$45,835, the proceeds of which were used to redeem in full the related outstanding Bonds which totaled \$44,518. The sales of the MBS resulted in a pre-tax gain of \$2,077, which was partially offset by a pre-tax loss on the related Bonds of \$1,586.

The following comprise the assets and liabilities of the Limited Purpose Financing Subsidiary:

	DECEMBER 31,	
	1997	1996
	-----	-----
ASSETS:		
Mortgage-backed securities, net	\$20,010	\$37,294
Funds held by trustee	245	557
Other assets	1,030	1,388
	-----	-----
TOTAL ASSETS	21,285	39,239
	-----	-----
LIABILITIES:		
Accrued expenses and other liabilities	681	771
Mortgage-backed bonds	21,243	39,211
Unamortized discounts	(648)	(747)
	-----	-----
TOTAL LIABILITIES	21,276	39,235
	-----	-----
Mortgage-backed securities, net of mortgage-backed bonds, and related assets and liabilities	\$ 9	\$ 4
	=====	=====

The weighted average portfolio yield on the MBS was 9.1% and 8.9% at December 31, 1997 and 1996, respectively. The Bonds mature through May 1, 2017 and bear interest ranging from 8.0% to 9.0%.

NVR, INC.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share data)

13. QUARTERLY RESULTS [UNAUDITED]

The following table sets forth unaudited selected financial data and operating information on a quarterly basis for the years ended December 31, 1997 and 1996.

	YEAR ENDED DECEMBER 31, 1997			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Revenues-homebuilding operations	\$238,987	\$281,437	\$316,874	\$316,724
Gross profit - homebuilding operations	\$ 31,518	\$ 38,628	\$ 44,566	\$ 43,455
Mortgage banking fees	\$ 5,122	\$ 6,698	\$ 6,407	\$ 7,719
Income before discontinued operations and extraordinary gain	\$ 5,763	\$ 9,043	\$ 9,006	\$ 5,067
Earnings per share before discontinued operations and extraordinary gain (1)	\$0.42	\$0.71	\$0.68	\$0.39
Contracts for sale, net of cancellations (homes)	1,445	2,041	1,366	1,834
Settlements (homes)	1,315	1,494	1,639	1,659
Backlog, end of period (homes) (2)	2,596	3,143	2,870	3,195
Loans closed	\$297,698	\$349,253	\$396,117	\$442,695

	YEAR ENDED DECEMBER 31, 1996			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Revenues-homebuilding operations	\$200,235	\$283,532	\$312,658	\$249,505
Gross profit - homebuilding operations	\$ 26,390	\$ 38,175	\$ 42,283	\$ 32,827
Mortgage banking fees	\$ 5,999	\$ 6,819	\$ 6,225	\$ 4,986
Income before discontinued operations and extraordinary gain	\$ 3,740	\$ 8,770	\$ 8,274	\$ 4,997
Earnings per share before discontinued operations and extraordinary gain (1)	\$0.23	\$0.56	\$0.58	\$0.34
Contracts for sale, net of cancellations (homes)	1,492	1,801	969	1,428
Settlements (homes)	1,107	1,556	1,672	1,360
Backlog, end of period (homes)	2,856	3,101	2,398	2,466
Loans closed	\$289,228	\$321,795	\$338,895	\$294,027

(1) Earnings per share before discontinued operations and extraordinary gains represent diluted earnings per share as defined in SFAS No. 128. Quarterly data for the year ended December 31, 1996 and for the first three quarters of 1997 have been restated from earnings per share data previously published in the Company's Form 10-Q's for the respective quarters pursuant to the requirements of SFAS No. 128.

(2) As discussed in Note 2, Homes acquired Fox Ridge on October 31, 1997. The acquisition of Fox Ridge increased the Company's backlog by 150 units on the date of the acquisition.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholder
NVR Financial Services, Inc.:

We have audited the accompanying consolidated balance sheets of NVR Financial Services, Inc. and subsidiaries, a wholly owned subsidiary of NVR, Inc., as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholder's equity, and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NVR Financial Services, Inc. and subsidiaries as of December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 28, 1998

NVR FINANCIAL SERVICES, INC.
Consolidated Balance Sheets
(dollars in thousands, except share data)

	DECEMBER 31,	
	1997	1996
	-----	-----
ASSETS		
MORTGAGE BANKING:		
Cash and cash equivalents	\$ 4,041	\$ 3,247
Receivables	3,308	3,596
Mortgage loans held for sale, net	115,744	75,735
Property and equipment, net	637	917
Real estate acquired through foreclosure	504	538
Mortgage servicing rights, net	2,220	6,309
Reorganization value in excess of amount allocable to identifiable assets, net	11,700	12,788
Other assets	559	753
	-----	-----
	138,713	103,883
LIMITED-PURPOSE FINANCING SUBSIDIARIES:		
Mortgage-backed securities, net	20,010	37,294
Funds held by trustee	245	557
Receivables	799	548
Other assets	231	840
	-----	-----
	21,285	39,239
	-----	-----
TOTAL ASSETS	\$159,998	\$143,122
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
MORTGAGE BANKING:		
Accounts payable	\$ 5,380	\$ 3,480
Accrued expenses and other liabilities	3,824	4,286
Due to affiliates	116	1,173
Notes payable	108,393	67,463
	-----	-----
	117,713	76,402
LIMITED-PURPOSE FINANCING SUBSIDIARIES:		
Accrued expenses and other liabilities	681	771
Bonds payable, net	20,595	38,464
	-----	-----
	21,276	39,235
	-----	-----
TOTAL LIABILITIES	138,989	115,637
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Common stock, \$1 par value, 1,000 shares authorized; 100 shares issued and outstanding	-	-
Additional paid-in capital	20,382	28,711
Retained earnings (deficit)	627	(1,226)
	-----	-----
Total shareholder's equity	21,009	27,485
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$159,998	\$143,122
	=====	=====

See notes to consolidated financial statements.

NVR FINANCIAL SERVICES, INC.
Consolidated Statements of Income
(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
MORTGAGE BANKING:			
Interest income	\$ 6,415	\$ 5,351	\$ 4,744
Gain on sales of mortgage loans	16,731	14,401	8,320
Servicing fees	1,733	4,894	7,128
Gain (loss) on sales of servicing	1,069	(1,194)	5,534
Title fees	6,413	5,928	5,315
Other, net	672	28	-
	-----	-----	-----
Total revenues	33,033	29,408	31,041
	-----	-----	-----
Interest expense	(3,544)	(2,249)	(2,090)
Interest on advances from affiliates	(835)	(779)	(138)
General and administrative	(23,130)	(21,880)	(24,082)
Amortization of mortgage servicing rights	(506)	(1,627)	(2,665)
Amortization of reorganization value in excess of amounts allocable to identifiable assets	(1,088)	(1,088)	(1,088)
	-----	-----	-----
Total expenses	(29,103)	(27,623)	(30,063)
	-----	-----	-----
Operating income	3,930	1,785	978
LIMITED-PURPOSE FINANCING SUBSIDIARIES:			
Interest income	2,212	6,260	8,309
Interest expense	(2,217)	(6,398)	(8,143)
Other, net	7	157	(139)
	-----	-----	-----
Operating income	2	19	27
	-----	-----	-----
TOTAL OPERATING INCOME	3,932	1,804	1,005
Income tax expense	(2,079)	(1,201)	(859)
	-----	-----	-----
NET INCOME	\$ 1,853	\$ 603	\$ 146
	=====	=====	=====

See notes to consolidated financial statements.

NVR FINANCIAL SERVICES, INC.
 Consolidated Statements of Shareholder's Equity
 (dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL EQUITY
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1994	\$ -	\$ 54,504	\$(1,975)	\$ 52,529
Return of capital	-	(3,000)	-	(3,000)
Net income	-	-	146	146
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1995	-	51,504	(1,829)	49,675
Return of capital	-	(22,793)	-	(22,793)
Net income	-	-	603	603
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1996	-	28,711	(1,226)	27,485
Return of capital	-	(8,329)	-	(8,329)
Net income	-	-	1,853	1,853
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1997	\$ -	\$ 20,382	\$ 627	\$ 21,009
	=====	=====	=====	=====

See notes to consolidated financial statements.

NVR FINANCIAL SERVICES, INC.
Consolidated Statements of Cash Flows
(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 1,853	\$ 603	\$ 146
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Accretion of net discount on mortgage-backed securities	(95)	(237)	1,469
Amortization	1,840	4,083	2,320
Gain on sales of loans	(16,731)	(14,401)	(8,320)
Mortgage loans closed	(1,485,763)	(1,243,945)	(1,092,676)
Proceeds from sales of mortgage loans	1,450,618	1,268,254	1,052,550
(Gain) loss on sales of mortgage servicing rights	(1,069)	1,194	(5,534)
Interest accrued and added to bond principal	-	1,180	2,749
Deferred tax provision	(987)	278	(1,650)
Other, net	3,230	(2,380)	5,844
	-----	-----	-----
Net cash provided by (used in) operating activities	(47,104)	14,629	(43,102)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in funds held by trustee	312	1,977	141
Principal payments on mortgage-backed securities	4,190	15,511	16,932
Proceeds from sales of mortgage-backed securities	15,126	45,835	1,069
Purchases of office facilities and equipment	(345)	(248)	(1,142)
Proceeds from sales of mortgage servicing rights	14,199	23,518	16,050
Purchases of mortgage servicing rights	-	(193)	(10,664)
Other, net	891	2,326	1,215
	-----	-----	-----
Net cash provided by investing activities	34,373	88,726	23,601
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in notes payable	40,930	(19,714)	51,936
Redemption of bonds	(18,019)	(62,306)	(20,104)
Return of capital/dividend to parent	(8,329)	(22,793)	(3,000)
Payment of financing fees	-	-	(48)
Change in due to affiliates	(1,057)	1,049	(10,483)
	-----	-----	-----
Net cash provided by (used in) financing activities	13,525	(103,764)	18,301
	-----	-----	-----
Net increase (decrease) in cash	794	(409)	(1,200)
Cash, beginning of year	3,247	3,656	4,856
	-----	-----	-----
Cash, end of year	\$ 4,041	\$ 3,247	\$ 3,656
	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid during the year	\$ 6,502	\$ 7,211	\$ 9,166
	=====	=====	=====
Taxes paid during the year, net of refunds	\$ 2,913	\$ 1,013	\$ (278)
	=====	=====	=====

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of NVR Financial Services, Inc. ("NVRFS" or the "Company"), its wholly owned subsidiaries and certain majority owned entities. NVRFS is a wholly owned subsidiary of NVR, Inc. ("NVR"). All significant intercompany transactions have been eliminated in consolidation.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes short-term investments with original maturities of three months or less.

MORTGAGE LOANS HELD FOR SALE

Mortgage loans held for sale are valued at the lower of cost or market on a net aggregate basis, including effects of forward contracts.

MORTGAGE-BACKED SECURITIES

Mortgage-backed securities of the Limited-Purpose Financing Subsidiary (the "Limited-Purpose Financing Subsidiary") serve as collateral for the Limited-Purpose Financing Subsidiary bonds sold to third parties. The mortgage-backed securities cannot be sold except upon specified call dates of the bonds. The calling of the bonds at those dates is at the option of the Limited-Purpose Financing Subsidiary.

PROPERTY AND EQUIPMENT

Property and equipment are valued at cost less accumulated depreciation of \$3,328 and \$3,367 at December 31, 1997 and 1996, respectively. Depreciation is based on the estimated useful lives of the assets using the straight-line method.

ADOPTION OF ACCOUNTING PRINCIPLE

The Company adopted SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities during the year ended December 31, 1997. SFAS No. 125 superseded SFAS No. 122, Accounting for Mortgage Servicing Rights. Such adoption did not have a material impact on the Company's financial condition or results of operations.

NVR FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements
(dollars in thousands)

MORTGAGE SERVICING RIGHTS

Mortgage servicing rights are recorded by allocating the total cost of acquiring mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values.

NVRFS measures the impairment of the mortgage servicing rights based on their current fair value. Current fair value is determined through the discounted present value of estimated future net servicing cashflows using a risk-based discount rate and assumptions based upon market estimates for future servicing revenues and expenses (including prepayment expectations, servicing costs, default rates and interest earnings on escrows). For the purposes of evaluating and measuring impairment of the mortgage servicing rights, they are stratified using the predominant risk characteristic of the underlying mortgage loans. NVRFS has determined that the predominant risk characteristic of the underlying mortgage loans is interest rate. Impairment, and subsequent changes in measurement of impairment, of any individual stratum is recognized through a valuation allowance for that stratum. The mortgage servicing rights are amortized to general and administrative expense in proportion to, and over the period of, the estimated net servicing income.

REORGANIZATION VALUE IN EXCESS OF AMOUNTS ALLOCABLE TO IDENTIFIABLE ASSETS

Reorganization value in excess of amounts allocable to identifiable assets is being amortized on a straight-line basis over 15 years. Accumulated amortization as of December 31, 1997 and 1996 was \$4,658 and \$3,570, respectively. Determination of any impairment losses related to this intangible asset is based on consideration of projected undiscounted cash flows.

MORTGAGE SERVICING

Trust funds of mortgagors on deposit in special bank accounts in connection with serviced mortgage loans are not included in the accompanying consolidated balance sheets. The amount of such trust funds as of December 31, 1997 and 1996 was \$4,899 and \$6,859, respectively. Servicing fees are recognized upon receipt of cash payments.

GAIN ON SALES OF MORTGAGE LOANS

Gains on sales of mortgage loans are recorded at the time of funding by the investor as the difference between the sale proceeds and NVRFS's cost (including adjustments, if any, to value loans at the lower of cost or market) as adjusted for loan origination fees, direct loan origination costs and adjustment to the gain or loss recognized in an amount measured by the relative fair value of the mortgage servicing rights related to such loans.

LOAN ORIGINATION FEES

Loan origination fees offset by direct loan origination costs are deferred and recognized either upon the sale of the loan or amortized as an adjustment of yield over the life of the loan if held for investment.

NVR FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements
(dollars in thousands)

FINANCIAL INSTRUMENTS

Management believes that insignificant differences exist between the carrying value and fair value of NVRFS's financial instruments except as otherwise noted in note 10 to the financial statements. As discussed in Note 4, NVRFS has guaranteed the 11% Senior Notes due 2003 of NVR. Management believes that it is not practical to estimate the fair value of such guarantee.

2. LIMITED-PURPOSE FINANCING SUBSIDIARY

The Limited-Purpose Financing Subsidiary was organized to facilitate the financing of long-term mortgage loans on homes sold by Ryan Homes, Inc., the predecessor to NVR, and its subsidiaries and affiliates through issuing bonds collateralized by GNMA, FNMA and/or FHLMC mortgage-backed securities. NVR Mortgage Finance, Inc. ("NVR Finance"), a subsidiary of NVRFS, acts as servicing agent for mortgage loans backing certain of the mortgage-backed securities and receives a normal servicing fee. There have been no bonds issued since 1988.

3. NATURE OF OPERATIONS AND CERTAIN CONCENTRATIONS

NVRFS is primarily a national mortgage banking operation that provides financing to residential mortgage customers and also includes a limited-purpose financing subsidiary as described in note 2 above. NVRFS sells all of the mortgage loans it closes into the secondary markets. During 1997, NVR sold the remaining portion of its core mortgage servicing portfolio, and intends to sell future originated mortgage servicing rights on a flow basis. A significant portion of the Company's mortgage operations are conducted in the Washington, D.C. and Baltimore, Maryland metropolitan areas. Although NVR's mortgage banking operations provide financing to a substantial portion of NVR's homebuilding customers, NVR's homebuilding customers accounted for only 43% of the dollar amount of loans closed in 1997.

4. RELATED PARTY TRANSACTIONS

NVRFS loan closing activity includes mortgage loans to buyers of homes built by a homebuilding subsidiary of NVR; and in connection therewith, NVRFS typically collects a 1% origination fee. The amount of such loans was \$634,346, \$558,629 and \$453,929 during the years ended December 31, 1997, 1996 and 1995, respectively.

Certain general and administrative expenses incurred by NVR were allocated to its subsidiaries, including NVRFS. NVRFS was allocated general and administrative expenses of \$2,400 in each of the years ended December 31, 1997, 1996 and 1995.

The Senior Notes, issued by NVR on September 30, 1993, are secured by a first priority pledge of the capital stock of NVRFS; NVR Homes, Inc. ("Homes"); Fox Ridge Homes, Inc. ("Fox Ridge"); and RVN, Inc. ("RVN"). The Senior Notes are also guaranteed on a senior unsecured basis by NVRFS, RVN, Homes and Fox Ridge provided, however, that the guarantee by Homes is subordinated up to \$60,000 of senior bank indebtedness.

NVR FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements
(dollars in thousands)

5. CASH AND CASH EQUIVALENTS

As of December 31, 1997 and 1996, NVRFS had restricted cash of \$3,723 and \$2,103, respectively, which includes mortgagor tax, insurance, completion escrows and other amounts collected at closing which relate to mortgage loans held for sale.

6. MORTGAGE LOANS HELD FOR SALE

Mortgage loans held for sale consist of first mortgage loans on residential property which are in the process of being pooled into mortgage-backed securities or sold to private investors. Premiums (discounts) adjusting the principal balance of mortgage loans consist of the following items:

	DECEMBER 31,	
	----- 1997	1996 -----
Premiums received at closing	\$ 532	\$ 134
Deferred loan origination income	(118)	(171)
Valuation allowance	(215)	(102)
	-----	-----
	\$ 199	\$ (139)
	=====	=====

7. NOTES PAYABLE

	DECEMBER 31,	
	----- 1997	1996 -----
Mortgage Warehouse Revolving Credit: (a)		
Outstanding	\$ 69,484	\$57,119
In-transit	8,281	4,140
Repo Facility (b)	30,628	6,204
Subordinated note to NVR (c)	-	-
	-----	-----
	\$108,393	\$67,463
	=====	=====

(a) The mortgage warehouse facility (the "Mortgage Warehouse Revolving Credit") currently has a borrowing limit of \$105,000. The interest rate under the Mortgage Warehouse Revolving Credit is either: (i) the federal funds rate plus either 1.35% or 1.5% depending on the type of collateral, or (ii) 1.5% to the extent that NVR Finance provides compensating balances. The weighted average interest rates for amounts outstanding under the facility were 5.4% and 3.6% during 1997 and 1996, respectively. The Mortgage Warehouse Revolving Credit is collateralized primarily by mortgage loans and gestation mortgage-backed securities. The Mortgage Warehouse Revolving Credit agreement is an annually renewable facility and currently expires in June 1999.

The Mortgage Warehouse Revolving Credit agreement includes, among other items, restrictions on NVR Finance incurring additional borrowings and making intercompany dividends and tax payments. In addition, NVR Finance is required to maintain a minimum net worth.

In-transit items represent closed loans for which the related funding draft has not yet been presented to the agent bank for payment which will result in amounts outstanding under the Mortgage Warehouse Revolving Credit.

NVR FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements
(dollars in thousands)

(b) NVR Finance from time to time enters into various gestation and repurchase agreements. NVR Finance currently has available an aggregate of \$145,000 of borrowing capacity in such uncommitted and committed facilities. Amounts outstanding thereunder accrue interest at various rates tied to the federal funds rate and are collateralized by gestation mortgage-backed securities and whole loans. The uncommitted and committed facilities generally require NVR Finance to, among other items, maintain a minimum net worth and limit its level of liabilities in relation to its net worth. The weighted average interest rates for amounts outstanding under the uncommitted and committed facilities were 6.8% and 6.1% during 1997 and 1996, respectively.

Information related to the uncommitted and committed facilities during 1997 and 1996 is as follows:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996
	-----	-----
Average amount outstanding during the year	\$ 9,583	\$ 13,788
Maximum amount outstanding	\$ 43,123	\$ 64,957
Weighted average rate during the year	6.8%	6.1%
Rate at end of the year	6.5%	5.9%

(c) NVRFS entered into a subordinated demand revolving credit borrowing facility with NVR. This indebtedness is subordinated in right of payment to the Mortgage Warehouse Revolving Credit. The maximum amount available under this facility is \$75,000, and it accrues interest at the monthly short-term applicable Federal Rate published monthly by the Internal Revenue Service.

8. BONDS PAYABLE AND MORTGAGE-BACKED SECURITIES

Bonds payable at December 31 consist of the following series of bonds issued by the indicated Limited-Purpose Financing Subsidiary and collateralized by mortgage-backed securities:

	BOND PRINCIPAL OUTSTANDING		RANGE OF RATES (%)	RANGE OF STATED MATURITY	MORTGAGE-BACKED SECURITIES	
	1997	1996			1997	1996
ISSUER	-----	-----	-----	-----	-----	-----
RYMAC IV	\$ 21,243	\$ 39,211	8.0% to 9.0%	4/1/15 to 5/1/16	\$ 20,597	\$ 38,845
Less discounts	(648)	(747)			(587)	(1,551)
	-----	-----			-----	-----
	\$ 20,595	\$ 38,464			\$ 20,010	\$ 37,294
	=====	=====			=====	=====

Principal and interest payments on the mortgage-backed securities are used to make the quarterly payments on the bonds payable. In addition, prepayments of the underlying mortgage-backed securities are passed through as repayments of the bonds payable so that the bonds payable may be fully paid prior to their stated maturities.

NVR FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements
(dollars in thousands)

The Limited-Purpose Financing Subsidiary may also be required under certain circumstances to pledge, as additional collateral, certain reserve amounts for each series of bonds. These amounts may be used by the trustee for the payment of interest on the bonds to the extent cash is not otherwise available. The obligation of the Limited-Purpose Financing Subsidiary to establish reserve amounts may be satisfied by either cash or letters of credit. There were no such letters of credit or cash pledged as of December 31, 1997 and 1996. The bonds payable are not guaranteed by NVRFS or any of its subsidiaries other than the issuing Limited-Purpose Financing Subsidiary.

The mortgage-backed securities and the reserve amounts which constitute the collateral for the bonds of a series are held by the trustee for the benefit of the bondholders. The fair value of mortgage-backed securities at December 31, 1997 and 1996 was \$21,546 and \$40,044, respectively. Gross unrealized holding gains related to the mortgage-backed securities were \$1,536 and \$2,750 at December 31, 1997 and 1996, respectively. There were no gross unrealized holding losses related to the mortgage-back securities at the same respective dates. The specific collateral pledged to secure a particular series is not available as collateral for any other series. In addition, the Limited-Purpose Financing Subsidiary may, under certain circumstances, redeem certain series of bonds.

The weighted average portfolio yield on mortgage-backed securities was 9.1% and 8.9% at December 31, 1997 and 1996, respectively. During 1997, NVR sold, at a premium, MBS totaling \$15,126, the proceeds of which were used to redeem in full the related outstanding Bonds, which totaled \$14,074. The sales of the MBS resulted in a pre-tax gain of \$590, which was substantially offset by a pre-tax loss on the related Bonds of \$552. During 1996, NVR sold, at a premium, MBS totaling \$45,835, the proceeds of which were used to redeem in full the related outstanding Bonds which totaled \$44,518. The sales of the MBS resulted in a pre-tax gain of \$2,077, which was partially offset by a pre-tax loss on the related redemptions of the Bonds of \$1,586.

Funds held by trustee represent cash deposited with the trustee for the exclusive use of payment of principal and interest on the bonds payable.

9. GAIN ON SALES OF MORTGAGE LOANS

Gain on sales of mortgage loans is comprised of the following items:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
Cash gain (loss) on sales	\$ 1,096	\$ 201	\$ (1,825)
Servicing rights produced	23,226	18,819	15,702
Loan origination fees	12,437	11,156	10,568
Direct loan origination costs	(19,373)	(16,029)	(15,683)
Change in market valuation allowance	-	45	-
Effect of deferrals	(655)	209	(442)
	-----	-----	-----
	\$ 16,731	\$ 14,401	\$ 8,320
	=====	=====	=====

NVR FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements
(dollars in thousands)

10. MORTGAGE LOAN SERVICING PORTFOLIO

At December 31, 1997 and 1996, NVRFS was servicing approximately 2,947 and 9,200 mortgage loans for various investors with aggregate balances of approximately \$224,000 and \$579,000, respectively.

At December 31, 1997, NVRFS had capitalized mortgage servicing rights of \$2,220 which related to approximately \$175 million of the aggregate \$224 million in loans serviced. The mortgage servicing rights associated with the remaining \$49 million in loans serviced are not subject to capitalization because the loans were originated and sold prior to NVRFS's adoption of SFAS No. 122 on January 1, 1995. At December 31, 1996, NVRFS had capitalized purchased mortgage servicing rights of \$6,309.

NVRFS assesses the fair value of the capitalized mortgage servicing rights by stratifying the underlying loans by interest rate. The fair value of the mortgage servicing rights is then determined through the discounted present value of estimated future net servicing cashflows using a risk based discount rate, and assumptions based upon market estimates for future servicing revenues and expenses (including prepayment expectations, servicing costs, default rates, and interest earnings on escrows). The fair value of the capitalized mortgage servicing rights was \$2,471 and \$7,563 at December 31, 1997 and 1996, respectively. The fair value of the mortgage servicing rights not subject to capitalization was \$490 and \$650 at December 31, 1997 and 1996, respectively. Based on management's estimate of the fair value of the designated strata, no impairment valuation allowance is necessary.

NVRFS amortizes the capitalized mortgage servicing rights in proportion to, and over the period of, the estimated net servicing income. The amortization for the years ending December 31, 1997, 1996 and 1995 was \$506, \$1,627 and \$2,665, respectively.

As of December 31, 1997, NVRFS had aggregate fidelity bond and errors and omissions insurance coverage of \$1,275.

11. INCOME TAXES

NVRFS is included in the consolidated federal income tax return of NVR and, therefore, has entered into a tax allocation agreement with NVR. According to this agreement, NVRFS will make federal income tax payments to NVR in an amount equal to its share of the net federal income tax obligation of the entire NVR consolidated tax group based on the amount of the tax obligation of NVRFS on a "separate return" basis. In the event NVRFS incurs a tax loss on a "separate return" basis for any year, NVRFS generally will be compensated for the tax effects of such tax loss through a reimbursement of such loss from NVR.

NVR FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements
(dollars in thousands)

The provision for income taxes consists of the following:

	DECEMBER 31, 1997	DECEMBER 31, 1996	DECEMBER 31, 1995
	-----	-----	-----
CURRENT:			
Federal	\$ 2,527	\$ 708	\$ 2,122
State	539	215	387
DEFERRED:			
Federal	(903)	252	(1,409)
State	(84)	26	(241)
	-----	-----	-----
	\$ 2,079	\$ 1,201	\$ 859
	=====	=====	=====

Deferred income taxes on NVRFS' consolidated balance sheets are comprised of the following:

	DECEMBER 31	
	-----	-----
	1997	1996
	-----	-----
Deferred tax assets	\$ 2,778	\$ 3,120
Deferred tax liabilities	1,286	2,615
	-----	-----
Deferred tax assets, net	\$ 1,492	\$ 505
	=====	=====

Deferred tax assets arise principally as a result of various reserves required for financial reporting purposes which are not currently deductible for tax return purposes. Deferred tax liabilities arise principally as a result of the capitalization of mortgage servicing rights for financial reporting purposes.

A reconciliation of income tax expense in the accompanying statement of income to the amount computed by applying the statutory Federal income tax rate to income before income taxes and discontinued operations is as follows:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
Income taxes computed at the Federal statutory rate	\$ 1,377	\$ 631	\$ 352
State income taxes, net of Federal income tax benefit	296	157	95
Non-deductible amortization	381	381	381
Other, net	25	32	31
	-----	-----	-----
	\$ 2,079	\$ 1,201	\$ 859
	=====	=====	=====

NVR FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements
(dollars in thousands)

12. COMMITMENTS AND CONTINGENCIES

NVRFS is committed under several non-cancelable operating leases involving office space and equipment. Future minimum lease payments under these operating leases as of December 31, 1997, are as follows:

YEARS ENDED DECEMBER 31:	

1998	\$1,673
1999	1,047
2000	504
2001	120
2002	21
Thereafter	-

	\$3,365
	=====

Total rent expense incurred under operating leases was \$1,383, \$1,353 and \$1,579 for the years ended December 31, 1997, 1996 and 1995, respectively.

NVRFS is required to enter into collateral arrangements with various state regulatory agencies in order to conduct its mortgage lending operations. NVRFS has approximately \$1,621 of contingent obligations under such agreements as of December 31, 1997. NVRFS believes it will fulfill its obligation under the contracts and does not anticipate any losses under these bond arrangements.

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, NVRFS enters into contractual commitments involving financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend mortgage loans to customers and forward contracts to sell mortgage-backed securities to broker/dealers. These instruments involve, to varying degrees, elements of credit and market rate risk in excess of the amount recognized in the accompanying balance sheets.

NVRFS's exposure to credit loss, in the event of nonperformance by the customers, is represented by the contractual amount of the commitment for the mortgage loans. NVRFS uses the same credit policies in making commitments as it does for on-balance-sheet mortgage loans.

A summary of off-balance-sheet financial instruments is as follows:

	CONTRACT AMOUNTS DECEMBER 31,	
	----- 1997 -----	----- 1996 -----
FINANCIAL INSTRUMENTS WHOSE CONTRACT AMOUNTS REPRESENT CREDIT RISK:		
Commitments to extend credit	\$129,949 =====	94,901 =====
FINANCIAL INSTRUMENTS WHOSE NOTIONAL OR CONTRACT AMOUNTS EXCEED THE AMOUNT OF CREDIT RISK:		
Forward contracts	\$195,719 =====	\$130,891 =====

NVRFS enters into contractual commitments to extend credit to buyers of single family homes with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within timeframes established by NVRFS. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the

NVR FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements
(dollars in thousands)

time of the "lock-in" of rates by the borrower and sale date to a broker/dealer. This market risk is managed by entering into forward contracts as discussed below.

Since certain of the commitments are expected to expire without a loan closing, the total contractual amounts do not necessarily represent future cash requirements. Collateral for loans granted is obtained by a first mortgage security interest in real estate whose appraised values exceed the contractual amount of the commitment.

NVRFS enters into optional and mandatory forward delivery contracts to sell mortgage-backed securities at specified prices and dates to broker/dealers. NVRFS has established policies governing which broker/dealers can be used to conduct these activities. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position, and at December 31, 1997 and 1996, there were no such positions. There were no counterparty default losses on forward contracts in 1997, 1996, or 1995. Market risk with respect to forward contracts arises from changes in the value of contractual positions due to fluctuations in interest rates. NVRFS limits its exposure to market risk by monitoring differences between the total of commitments to customers and loans held for sale and forward contracts with broker/dealers. In the event NVRFS has forward delivery contract commitments in excess of available mortgage-backed securities, NVRFS completes the transaction by either paying or receiving a fee to/from the broker/dealer equal to the increase/decrease in the market value of the forward contract. NVRFS has no market risk associated with optional delivery contracts because NVRFS has the right but not the obligation to deliver mortgage backed securities to broker/dealers under these contracts.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholder
NVR Homes, Inc.:

We have audited the accompanying consolidated balance sheets of NVR Homes, Inc. and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholder's equity, and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NVR Homes, Inc. and subsidiaries as of December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 28, 1998

NVR HOMES, INC.
Consolidated Balance Sheets
(dollars in thousands, except share data)

	DECEMBER 31,	
	1997	1996
ASSETS		
Cash and cash equivalents	\$ 41,673	\$ 71,471
Receivables	3,671	3,247
Inventory:		
Lots and housing units, covered under sales agreements with customers	165,132	126,456
Unsold lots and housing units	51,434	37,940
Manufacturing materials and other	7,475	7,297
	-----	-----
	224,041	171,693
Property, plant & equipment, net	10,147	10,272
Reorganization value in excess of amounts allocable to identifiable assets, net	69,366	75,818
Goodwill, net	10,753	-
Contract land deposits	36,992	36,383
Other assets	19,869	18,058
	-----	-----
TOTAL ASSETS	\$416,512	\$386,942
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable	\$ 67,534	\$ 54,325
Accrued expenses and other liabilities	77,453	75,451
Advances from affiliates, net	102,461	107,896
Notes payable	5,650	-
Other term debt	5,627	5,859
	-----	-----
TOTAL LIABILITIES	258,725	243,531
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Common stock, \$0.01 par value; 100 shares authorized; 100 shares issued and outstanding	-	-
Additional paid-in capital	94,688	94,688
Retained earnings	63,099	48,723
	-----	-----
Total shareholder's equity	157,787	143,411
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$416,512	\$386,942
	=====	=====

See notes to consolidated financial statements

NVR HOMES, INC.
Consolidated Statements of Income
(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
REVENUES:			
Homebuilding revenues	\$1,154,022	\$1,045,930	\$869,119
Other income	1,203	1,311	1,499
	-----	-----	-----
Total revenues	1,155,225	1,047,241	870,618
EXPENSES:			
Cost of sales	995,855	906,451	751,035
Interest expense-external	1,507	1,729	1,992
Interest expense-affiliates	14,675	14,676	14,676
Selling, general and administrative	108,236	75,095	61,891
Amortization of reorganization value in excess of amounts allocable to identifiable assets/goodwill	6,635	7,048	7,048
	-----	-----	-----
Total expenses	1,126,908	1,004,999	836,642
Income before income tax expense	28,317	42,242	33,976
Income tax expense	(13,941)	(19,976)	(16,805)
	-----	-----	-----
NET INCOME	\$ 14,376	\$ 22,266	\$ 17,171
	=====	=====	=====

NVR HOMES, INC.
Consolidated Statements of Shareholder's Equity
(dollars in thousands)

	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	RETAINED EARNINGS -----
BALANCE, DECEMBER 31, 1994	\$ -	\$94,688	\$ 9,286
Net income	-	-	17,171
	-----	-----	-----
BALANCE, DECEMBER 31, 1995	-	94,688	26,457
Net income	-	-	22,266
	-----	-----	-----
BALANCE, DECEMBER 31, 1996	-	94,688	48,723
Net income	-	-	14,376
	-----	-----	-----
BALANCE, DECEMBER 31, 1997	\$ -	\$94,688	\$63,099
	=====	=====	=====

See notes to consolidated financial statements.

NVR HOMES, INC.
Consolidated Statements of Cash Flows
(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
CASH FLOWS FROM			
OPERATING ACTIVITIES:			
Net income	\$ 14,376	\$ 22,266	\$ 17,171
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	9,686	9,586	9,011
Deferred tax provision	482	165	(2,020)
Net change in assets and liabilities:			
Increase in inventories	(31,354)	(16,980)	(45,175)
Decrease (increase) in receivables	(282)	5,173	(3,331)
Increase in accounts payable and accrued liabilities	12,068	8,226	26,945
Other, net	(1,626)	(4,984)	(9,934)
	-----	-----	-----
Net cash provided (used) by operating activities	3,350	23,452	(7,333)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale of marketable securities	-	-	5,000
Purchase of property, plant & equipment	(2,587)	(3,764)	(2,129)
Business acquisition, net of cash acquired	(12,533)	-	-
Proceeds from sale of property, plant & equipment	33	155	12
	-----	-----	-----
Net cash provided (used) by investing activities	(15,087)	(3,609)	2,883
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in advances from affiliates	(6,662)	(69)	(10,059)
Principal repayments of term debt	(232)	(214)	(200)
Net borrowings (repayments) under credit lines and other notes payable	(11,167)	-	-
	-----	-----	-----
Net cash used by financing activities	(18,061)	(283)	(10,259)
	-----	-----	-----
Net increase (decrease) in cash	(29,798)	19,560	(14,709)
Cash, beginning of the year	71,471	51,911	66,620
	-----	-----	-----
Cash, end of year	\$ 41,673	\$ 71,471	\$ 51,911
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid during the year	\$ 16,022	\$ 16,210	\$ 16,253
	=====	=====	=====
Taxes paid during the year (net of refunds)	\$ 18,279	\$ 17,707	\$ 8,090
	=====	=====	=====

See notes to consolidated financial statements.

NVR Homes, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include consolidated financial information for NVR Homes, Inc. ("Homes" or the "Company") and its subsidiaries as of December 31, 1997 and 1996 and for the years ended December 31, 1997, 1996 and 1995. Homes is a wholly-owned subsidiary of NVR, Inc. ("NVR"). All significant intercompany transactions have been eliminated in consolidation.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes short-term investments with original maturities of three months or less.

HOMEBUILDING INVENTORY

Inventory is stated at the lower of cost or market value. Cost of lots and completed and uncompleted housing units represent the accumulated actual cost thereof. Field construction supervisors' salaries and related direct overhead expenses are included in inventory costs. Interest costs are not capitalized into inventory. Upon settlement, the cost of the units is expensed on a specific identification basis. Cost of manufacturing materials is determined on a first-in, first-out basis.

REORGANIZATION VALUE IN EXCESS OF AMOUNTS ALLOCABLE TO IDENTIFIABLE ASSETS

Reorganization value in excess of amounts allocable to identifiable assets is being amortized on a straight-line basis over 15 years. Accumulated amortization as of December 31, 1997 and 1996 was \$29,831 and \$23,378, respectively. Determination of any impairment losses related to this intangible asset is based on consideration of projected undiscounted cash flows.

GOODWILL

The excess of amounts paid for business acquisitions over the net fair value of the assets acquired and the liabilities assumed ("Goodwill") is amortized using the straight line method over ten years, and originated from the October 31, 1997 acquisition of Fox Ridge Homes, Inc. (See Note 2.) Accumulated amortization was \$182 at December 31, 1997. Determination of any impairment losses related to this intangible asset is based on consideration of projected undiscounted cash flows.

NVR Homes, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)

HOMEBUILDING REVENUES

Homes builds light-frame, low-rise residences which generally are produced on a pre-sold basis for the ultimate customer. Revenues are recognized at the time units are completed and title passes to the customer. Additionally, to a significantly lesser degree, Homes sells house packages to builder-dealers and other homebuilders and recognizes revenue at the time the product is delivered to the builder-dealer or homebuilder.

DEPRECIATION

Depreciation is based on the estimated useful lives of the assets using the straight-line method. Amortization of capital lease assets is included in depreciation expense.

INCOME TAXES

Homes is included in the consolidated federal income tax return of NVR and therefore has entered into a tax allocation agreement with NVR. According to this agreement, Homes will generally make federal income tax payments to NVR in an amount equal to its share of the net federal income tax obligation of the entire NVR consolidated tax group based upon the amount of the tax obligation of Homes on a "separate return" basis. Also, in the event Homes incurs a tax loss on a "separate return" basis for any year, Homes will generally be compensated for the tax effects of such tax loss through payments received from others in the consolidated group.

Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by enacted tax rules and regulations.

FINANCIAL INSTRUMENTS

Management believes that insignificant differences exist between the carrying value and fair value of Homes' financial instruments. Homes and Fox Ridge have guaranteed the 11% Senior Notes due 2003 ("Senior Notes") of NVR. Management believes that it is not practical to estimate the fair value of such guarantee.

ROYALTY FEES

Homes incurs royalty expenses for use of the Ryan Homes and NVHomes tradenames based upon a percentage of settlement revenues. The royalty expenses are included on the consolidated statement of income as a component of selling, general and administrative expenses.

ADOPTION OF ACCOUNTING PRINCIPLE

During 1997, the Company adopted Statement of Financial Accounting Standards No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Such adoption did not have a material impact on the Company's financial condition or results of operations.

NVR Homes, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)

2. ACQUISITION

NVR Fox Ridge, Inc., a wholly owned subsidiary of Homes, was formed during 1997 to purchase substantially all of the assets and assume certain liabilities of Fox Ridge Homes, Inc. ("FRH"), a leading homebuilder in Nashville, Tennessee. NVR Fox Ridge, Inc. was renamed Fox Ridge Homes, Inc. ("Fox Ridge") in November, 1997. To consummate the purchase on October 31, 1997, Fox Ridge assumed approximately \$15,160 of FRH's liabilities, paid FRH \$14,250 in cash at settlement on October 31, 1997, and issued a note payable for the remaining \$4,750 purchase price. The note bears interest at 200 basis points above the federal funds target rate, and will be paid in three annual installments on October 31, 1998, 1999 and 2000, including accrued interest.

Fox Ridge accounted for this acquisition under the purchase method, and the operations of the acquired business have been included in Home's consolidated statements of income since its acquisition. Goodwill that was generated pursuant to the purchase transaction is being amortized using the straight line method over 10 years.

The following unaudited pro forma summary of combined operations was prepared to illustrate the estimated effects of the 1997 acquisition of FRH as if such acquisition had occurred on the first day of the respective periods presented.

	YEAR ENDED DECEMBER 31,	
	1997	1996
Revenues	\$1,192,684	\$1,100,821
Net income	14,840	24,694

3. NATURE OF OPERATIONS, AND CERTAIN CONCENTRATIONS

Homes is one of the largest homebuilders in the United States and in the Washington, D.C. and Baltimore, Maryland metropolitan area, where Homes derived approximately 66% of its 1997 homebuilding revenues. The Company primarily constructs and sells single-family detached homes, townhomes and condominium buildings in three distinct product lines, through two divisions and one wholly owned subsidiary: Ryan Homes, NVHomes and Fox Ridge. Ryan Homes builds moderately priced homes in sixteen metropolitan areas located in Maryland, Virginia, Pennsylvania, New York, North Carolina, South Carolina, Ohio, New Jersey, Delaware and Tennessee, and markets its homes primarily to first-time buyers. NVHomes builds homes largely in the Washington, D.C. metropolitan area, and markets its homes primarily to move-up buyers. Fox Ridge builds moderately priced homes in Tennessee and also markets its homes primarily to first-time buyers.

4. RELATED PARTY TRANSACTIONS

During 1997, 1996, and 1995, Homes purchased, at market prices, developed lots from a company that is controlled by a member of the board of directors. Those purchases totaled \$8,066, \$6,612, and \$8,877 during 1997, 1996 and 1995, respectively, and Homes expects to purchase the remaining lots under contract at December 31, 1997 over the next 18 to 24 months for an aggregate purchase price of approximately \$32,000.

NVR Homes, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)

During the years ended December 31, 1997 and 1996, Homes incurred \$21,687 and \$4,711, respectively, of royalty expenses for the use of the Ryan Homes and NVHomes tradenames (the "Tradenames"). The Tradenames are owned by RVN, Inc. ("RVN"), a subsidiary of NVR. Homes had a \$1,880 and \$1,441 royalty expense payable due to RVN at December 31, 1997 and 1996, respectively.

As of December 31, 1997 and 1996, Homes had \$32,948 and \$26,946, respectively, of non-interest bearing intercompany advances to NVR due on demand, offset by a \$133,460 note payable to NVR due in 2003 which accrues interest at a rate of 11%. Also, at December 31, 1997 and 1996, Homes had \$69 and \$(59), respectively, of non-interest bearing intercompany advances due to (from) NVR Financial Services, Inc. ("NVRFS"), a subsidiary of NVR.

Certain selling, general and administrative expenses incurred by NVR were allocated to its subsidiaries, including Homes. Homes was allocated \$17,158, \$7,625 and \$8,308 in selling, general and administrative expenses during the years ended December 31, 1997, 1996 and 1995, respectively.

The Senior Notes, issued by NVR on September 30, 1993, are secured by a first priority pledge of the capital stock of Homes; Fox Ridge; NVR Financial Services, Inc. ("NVRFS"); and RVN. The Senior Notes are also guaranteed on a senior unsecured basis by Homes, Fox Ridge, RVN and NVRFS provided, however, that the guarantee by Homes is subordinated to up to \$60,000 of Senior Bank Indebtedness.

5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, which are stated at cost, consist of the following:

	DECEMBER 31,	
	1997	1996
Office facilities and other	\$ 3,727	\$ 3,176
Model home furniture and fixtures	5,947	4,255
Manufacturing facilities	7,199	7,964
Property under capital leases excluding manufacturing facilities	4,033	4,033
	20,906	19,428
Less accumulated depreciation and amortization	(10,759)	(9,156)
	\$ 10,147	\$10,272

The property, plant and equipment listed above is collateral for various debt of Homes as more fully discussed in note 6.

NVR Homes, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)

6. DEBT

Debt consists of the following:

	DECEMBER 31,	
	1997	1996
Notes payable:		
Working capital revolving credit (a)	\$ -	\$ -
	=====	=====
Other (b)	\$ 5,650	\$ -
	=====	=====
Other term debt:		
Capital lease and financing obligations and mortgages due in monthly installments through 2014 (c)	\$ 5,627	\$ 5,859
	=====	=====

(a) On September 30, 1993, Homes as borrower and NVR as guarantor entered into a working capital revolving credit agreement (the "Working Capital Revolving Credit" or "Senior Bank Indebtedness"). This facility currently provides for unsecured borrowings up to \$60,000, subject to certain borrowing base limitations, and is generally available to fund working capital needs of Homes and for certain payments of NVR. Up to approximately \$24,000 of this facility is currently available for issuance in the form of letters of credit of which \$6,059 and \$5,345 were issued at December 31, 1997 and 1996, respectively. The Working Capital Revolving Credit is for a three year period ending May 31, 2000 and outstanding amounts bear interest, at the election of the Company, at (i) the base rate of interest announced by the facility agent or (ii) 2.0% above the Eurodollar rate. The weighted average interest rates for amounts outstanding under the facility were 8.1% and 8.0% during 1997 and 1996, respectively. NVR's guarantee is a guarantee of collection only and is unsecured.

The Working Capital Revolving Credit agreement contains numerous operating and financial covenants, including required levels of net worth, fixed charge coverage ratios, and several other covenants related to the construction operations of Homes. In addition, the Working Capital Revolving Credit agreement contains restrictions on the ability of Homes and, in certain cases, NVR to, among other things, incur debt and make investments.

The Working Capital Revolving Credit agreement restricts substantially all dividends and intercompany loans from Homes to NVR. Dividends and intercompany loans from Homes to NVR are permitted by the Working Capital Revolving Credit agreement up to the amount of any capital contributions made by NVR subsequent to the Effective Date, as long as NVR is in compliance with certain covenants in the agreement.

(b) Other notes payable as of December 31, 1997 is principally comprised of a \$4,750 note payable issued in connection with the acquisition of Fox Ridge (see Note 2). The weighted average interest rate was 7.5% during 1997.

(c) The capital lease and financing obligations and mortgages have either fixed or variable interest rates ranging from 3.0% to 13.0% and are collateralized by land, buildings and equipment with a net book value of \$5,169 and \$5,470 at December 31, 1997 and 1996, respectively.

The following schedule provides future minimum lease payments under all financing and capital leases together with the present value as of December 31, 1997:

NVR Homes, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)

YEARS ENDING DECEMBER 31:	

1998	\$ 830
1999	853
2000	853
2001	853
2002	853
Thereafter	8,202

	12,444
Amount representing interest	(6,817)

	\$ 5,627
	=====

Maturities with respect to notes payable and other term debt as of December 31, 1997 are as follows:

YEARS ENDING DECEMBER 31:	

1998	\$ 2,046
1999	2,150
2000	2,097
2001	321
2002	313
Thereafter	4,350

7. INCOME TAXES

The provision for income taxes consists of the following:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
Current:			
Federal	\$11,312	\$15,978	\$14,832
State	2,147	3,833	3,993
Deferred:			
Federal	(33)	(149)	(1,725)
State	515	314	(295)
	-----	-----	-----
	\$13,941	\$19,976	\$16,805
	=====	=====	=====

Deferred income taxes on Homes' consolidated balance sheets are comprised of the following:

	DECEMBER 31,	
	1997	1996
	-----	-----
Deferred tax assets	\$14,239	\$13,807
Less: valuation allowance	2,852	4,078
	-----	-----
	11,387	9,729
Less: deferred tax liabilities	915	2
	-----	-----
Deferred tax assets, net	\$10,472	\$ 9,727
	=====	=====

Deferred tax assets arise principally as a result of various reserves required for financial reporting purposes which are not currently deductible for tax return purposes in addition to higher tax basis inventory resulting from uniform capitalization and interest capitalization required for tax purposes but not

NVR Homes, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)

for financial reporting. Deferred tax liabilities arise principally as a result of the goodwill that originated from the acquisition of Fox Ridge having a higher basis for financial reporting purposes.

Management believes the Company will have sufficient available carry-backs and future taxable income to make it more likely than not that the net deferred tax asset will be realized. Taxable income was \$34,300, \$49,457, and \$37,197 for the years ended December 31, 1997, 1996 and 1995.

Tax benefits realized in subsequent periods related to unrecognized deferred tax assets as of September 30, 1993 will be recorded as a reduction of reorganization value in excess of amounts allocable to identifiable assets. For the years ended December 31, 1997, 1996 and 1995, \$0, \$7,000 and \$0, respectively, of such benefits were realized. Unrecognized deferred tax assets which arose as of September 30, 1993 amounted to \$2,852 as of December 31, 1997 and 1996.

A reconciliation of income tax expense in the accompanying consolidated statements of income to the amount computed by applying the statutory Federal income tax rate to income before income taxes is as follows:

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----
Income taxes computed at the Federal statutory rate	\$ 9,911	\$14,785	\$11,892
State income taxes, net of Federal income tax benefit	1,730	2,696	2,404
Non-deductible amortization	2,259	2,467	2,467
Other, net	41	28	42
	-----	-----	-----
	\$13,941	\$19,976	\$16,805
	=====	=====	=====

NVR Homes, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)

8. COMMITMENTS AND CONTINGENT LIABILITIES

Homes is committed under several non-cancelable operating leases involving office space, manufacturing facilities and equipment. Future minimum lease payments under these operating leases as of December 31, 1997 are as follows:

YEARS ENDED DECEMBER 31:	

1998	\$2,437
1999	1,195
2000	797
2001	578
2002	469
Thereafter	2,760

	\$8,236
	=====

Total rent expense incurred under operating leases was approximately \$1,703, \$1,493 and \$1,518 for the years ended December 31, 1997, 1996 and 1995, respectively.

During the ordinary course of operating its business, Homes is required to enter into bond or letter of credit arrangements with local municipalities, government agencies, or land developers to collateralize its obligations under various contracts. Homes had approximately \$11,434 of contingent obligations under such agreements as of December 31, 1997. Homes believes it will fulfill its obligations under the related contracts and does not anticipate any losses under these bonds or letters of credit.

Homes is also involved in litigation arising from the normal course of business. In the opinion of management, and based on advice of legal counsel, this litigation will not have any material adverse effect on the financial position or results of operations of Homes.

At December 31, 1997, Homes has restricted cash of \$1,272, representing deposits on homes under sales contracts in certain markets where the Company operates.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholder
Fox Ridge Homes, Inc.:

We have audited the accompanying balance sheets of Fox Ridge Homes, Inc. as of December 31, 1997 and 1996 and the related statements of income, shareholder's equity, and cash flows for the two months ended December 31, 1997, the ten months ended October 31, 1997 and the years ended December 31, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fox Ridge Homes, Inc. as of December 31, 1997 and 1996 and the results of its operations and its cash flows for the two months ended December 31, 1997, the ten months ended October 31, 1997, and the years ended December 31, 1996 and 1995, in conformity with generally accepted accounting principles.

As discussed in note 1 to the financial statements, certain assets of the Predecessor were acquired and certain liabilities of the Predecessor were assumed by Fox Ridge Homes, Inc. on October 31, 1997. Accordingly, Fox Ridge Homes, Inc. accounted for the transaction as a purchase pursuant to the requirements of Accounting Principles Board Opinion No. 16, "Business Combinations". As a result, the financial statements for periods subsequent to October 31, 1997 are not comparable to the financial statements for periods prior to this date.

KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 28, 1998

FOX RIDGE HOMES, INC.
Balance Sheets
(dollars in thousands)

	SUCCESSOR	*PREDECESSOR
	DECEMBER 31,	
	1997	1996
	-----	-----
ASSETS		
Cash and cash equivalents	\$ -	\$ 657
Restricted cash	-	3
Accounts receivable	302	142
Inventory, net	19,879	17,232
Prepaid expenses	12	18
Investment in FRP, LP	179	298
Note receivable-Valley Brooke, LLC	-	475
Property and equipment, net	228	191
Goodwill, net	10,753	-
Non-compete agreement, less accumulated amortization of \$404	-	179
	-----	-----
TOTAL ASSETS	\$31,353	\$19,195
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
Notes payable - lot acquisitions	\$ 900	\$ -
Notes payable - construction loans	-	6,205
Notes payable - acquisition note	4,750	-
Accounts payable	2,281	1,850
Due to affiliate	8,012	-
Accrued expenses	637	1,242
Deferred taxes	281	-
Dividends payable	-	999
Negative goodwill, less accumulated amortization of \$132	-	373
	-----	-----
TOTAL LIABILITIES	16,861	10,669
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Common stock, 100,000 (\$.01 par) and 4,000,000 (no par) shares authorized at December 31, 1997 and 1996, respectively; 100 and 1,798,206 shares issued and outstanding for 1997 and 1996, respectively	-	-
Additional paid in capital	14,250	2,000
Retained earnings	242	6,526
	-----	-----
Total shareholder's equity	14,492	8,526
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$31,353	\$19,195
	=====	=====

*Period is prior to the date that the Company was acquired by NVR, Inc. (see note 1).

See notes to financial statements.

FOX RIDGE HOMES, INC.
STATEMENTS OF INCOME
(dollars in thousands)

	[SUCCESSOR]	[PREDECESSOR]*		
	TWO MONTHS ENDED DECEMBER 31, 1997	TEN MONTHS ENDED OCTOBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
Sales	\$8,955	\$38,662	\$54,891	\$38,622
Cost of sales	7,138	31,455	43,062	30,051
Gross profit	1,817	7,207	11,829	8,571
Selling, general and administrative	1,261	4,433	5,486	4,559
Income from operations	556	2,774	6,343	4,012
Other income (expense):				
Interest income	3	36	34	35
Interest expense	(186)	(676)	(847)	(702)
Gain on condemnation of inventory	-	-	-	209
Equity in earnings of FRP, LP	17	51	77	120
Other, net	10	257	46	38
Net other expense	(156)	(332)	(690)	(300)
Income before income taxes	400	2,442	5,653	3,712
Income tax expense	158	197	338	227
Net income	\$ 242	\$ 2,245	\$ 5,315	\$ 3,485

*Periods are prior to the date that the Company was acquired by NVR, Inc. (see note 1).

See notes to financial statements.

FOX RIDGE HOMES, INC.
Statements of Shareholder's Equity
(dollars in thousands)

	(SUCCESSOR)				*(PREDECESSOR)			
	COMMON STOCK	PAID IN CAPITAL	RETAINED EARNINGS	TOTAL	COMMON STOCK	PAID IN CAPITAL	RETAINED EARNINGS	TOTAL
*Balance, December 31, 1994	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000	\$ 786	\$ 2,786
Net income	-	-	-	-	-	-	3,485	3,485
Dividends declared	-	-	-	-	-	-	(1,038)	(1,038)
*Balance, December 31, 1995	-	-	-	-	-	2,000	3,233	5,233
Net income	-	-	-	-	-	-	5,315	5,315
Dividends declared	-	-	-	-	-	-	(2,022)	(2,022)
*Balance, December 31, 1996	-	-	-	-	-	2,000	6,526	8,526
Net income	-	-	-	-	-	-	2,245	2,245
Dividends declared	-	-	-	-	-	-	(1,072)	(1,072)
*Balance, October 31, 1997	-	-	-	-	-	2,000	7,699	9,699
Effect of acquisition	-	14,250	-	14,250	-	(2,000)	(7,699)	(9,699)
Net income	-	-	242	242	-	-	-	-
Balance, December 31, 1997	\$ -	\$ 14,250	\$ 242	\$14,492	\$ -	\$ -	\$ -	\$ -

*Periods are prior to the date that the Company was acquired by NVR, Inc. (see note 1).

See notes to financial statements.

FOX RIDGE HOMES, INC.
Statements of Cash Flows
(dollars in thousands)

	[SUCCESSOR]	[PREDECESSOR]*		
	TWO MONTHS ENDED DECEMBER 31, 1997	TEN MONTHS ENDED OCTOBER 31, 1996	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31 1995
Cash flows from operating activities				
Net income	\$ 242	\$ 2,245	\$ 5,315	\$ 3,485
Adjustments to reconcile net income to net cash and cash equivalents provided (used) by operating activities:				
Depreciation	36	95	91	51
Amortization, net	182	56	67	141
Equity in earnings of FRP	(17)	(51)	(77)	(120)
Gain on condemnation of inventory	-	-	-	(209)
Decrease in restricted cash	-	2	19	105
Increase in accounts receivable	(160)	(53)	(41)	(158)
Decrease (increase) in inventories	1,115	(4,738)	(1,908)	(2,500)
Deferred tax expense	281	-	-	-
(Increase) decrease in prepaid expenses	-	4	(1)	3
(Decrease) increase in accounts payable and accrued expenses	(99)	19	(34)	955
Net cash and cash equivalents provided (used) by operating activities	1,580	(2,421)	3,431	1,753
Cash flows from investing activities:				
Notes receivable from Valley Brook, LLC	-	-	(475)	-
Notes receivable from Turnberr Homes, LLC	-	(507)	-	-
Repayments of note receivable from FRP, LP	-	78	24	-
Repayments of notes receivable from Valley Brooke, LLC	-	153	-	-
Dividends received from FRP, LP	-	117	93	-
Purchase of property and equipment	(16)	(152)	(136)	(100)
Net cash and cash equivalents used by investing activities	(16)	(311)	(494)	(100)
Cash flows from financing activities:				
Decrease in due to affiliates	(3,270)	-	-	-
Dividends paid	-	(2,071)	(1,634)	(944)
Net borrowings from construction loans	(11)	4,963	(728)	35
Net borrowings under development loans	-	-	(103)	(251)
Repayment of principal on 1993 acquisition debt	-	-	-	(380)
Proceeds from notes payable	-	900	-	-
Net cash and cash equivalents provided (used) by financing activities	(3,281)	3,792	(2,465)	(1,540)
Net increase (decrease) in cash and cash equivalents	(1,717)	1,060	472	113
Cash and cash equivalents at beginning of period	1,717	657	185	72
Cash and cash equivalents at end of period	\$ -	\$ 1,717	\$ 657	\$ 185
Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest	\$ 143	\$ 624	\$ 894	\$ 703
Income taxes	\$ -	\$ 133	\$ 286	\$ 149

* Periods are prior to the date that the Company was acquired by NVR, Inc. (see note 1).

See notes to financial statements.

FOX RIDGE HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
(dollars in thousands)

1. ACQUISITION

NVR Fox Ridge, Inc., a wholly owned subsidiary of NVR Homes Inc. ("Homes"), itself wholly owned by NVR, Inc. ("NVR"), was formed during 1997 to purchase substantially all of the assets and assume certain liabilities (the "Purchase Transaction") of Fox Ridge Homes, Inc. ("FRH" or the "Predecessor"), a home builder in Nashville, Tennessee. NVR Fox Ridge, Inc. was renamed Fox Ridge Homes, Inc. ("Fox Ridge" or the "Successor") in November, 1997. To consummate the purchase on October 31, 1997 (the "Purchase Date"), Fox Ridge assumed approximately \$15,160 of FRH's liabilities, paid FRH \$14,250 in cash at settlement on October 31, 1997, and issued a note payable for the remaining \$4,750 purchase price. The note bears interest at 200 basis points above the federal funds target rate, and will be paid in three annual installments on October 31, 1998, 1999 and 2000, including accrued interest.

Fox Ridge accounted for this acquisition using the purchase method, which resulted in a new basis of accounting for the assets acquired and liabilities assumed at the Purchase Date. As a result, the financial statements for periods subsequent to the Purchase Date are not comparable to the financial statements for periods prior to this date. Excess of amounts paid for the business acquisition over the net fair value of the assets acquired and the liabilities assumed ("Goodwill") generated pursuant to the Purchase Transaction is being amortized using the straight line method over 10 years.

The following unaudited pro forma summary of combined operations was prepared to illustrate the estimated effects of the 1997 acquisition of FRH as if such acquisition had occurred on the first day of the respective periods presented.

	YEAR ENDED DECEMBER 31,	
	1997	1996
	----	----
Revenues	\$47,617	\$54,891
Net income	1,270	2,864

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements include the accounts of the Successor for the two months ended December 31, 1997, and the accounts of the Predecessor for the ten months ended October 31, 1997 and the years ended December 31, 1996 and 1995. Reference to the "Company" refers to the Predecessor prior to the Purchase Date and to the Successor subsequent to the Purchase date unless the context otherwise specifies.

Certain prior year amounts have been reclassified to conform to the current period presentation.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FOX RIDGE HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
(dollars in thousands)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes short-term investments with original maturities of three months or less.

RESTRICTED CASH

Restricted cash consists of the compensating balances the Company is required to maintain with municipalities or county authorities for bond arrangements.

GOODWILL

Goodwill is amortized using the straight line method over ten years, and originated from the Purchase Transaction (see Note 1). Accumulated amortization was \$182 at December 31, 1997. Determination of any impairment loss related to this intangible asset is based on consideration of projected undiscounted cash flows.

NEGATIVE GOODWILL

Negative goodwill recorded at December 31, 1996 represents the excess of net assets acquired over the purchase price in connection with a 1993 stock purchase. The negative goodwill was being amortized on a straight-line basis over a period of 15 years. Amortization for the ten months ended October 31, 1997 and for the years ended December 31, 1996 and 1995 was \$28, \$33 and \$33, respectively.

ADOPTION OF NEW ACCOUNTING PRINCIPLE

Fox Ridge adopted SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities during the year ended December 31, 1997. Such adoption did not have a material impact on the Company's financial condition or results of operations.

FINANCIAL INSTRUMENTS

Management believes that insignificant differences exist between the carrying value and fair value of Fox Ridge's financial instruments. As discussed in Note 8, Fox Ridge has guaranteed the 11% Senior Notes ("Senior Notes") due 2003 of NVR. Management believes that it is not practical to estimate the fair value of such guarantee.

NON-COMPETE AGREEMENT

The non-compete agreement was being amortized on a straight-line basis over a period of five years, the length of the agreement. Amortization expense for the ten months ended October 31, 1997 and for the years ended December 31, 1996 and 1995 was \$84, \$100 and \$100, respectively.

HOMEBUILDING INVENTORY

Inventory is stated at the lower of cost or market value. Cost of lots and completed and uncompleted housing units represent the accumulated actual cost thereof. Such costs include land, land improvements, property taxes and direct construction costs. Prior to the Purchase Date, interest costs were

FOX RIDGE HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
(dollars in thousands)

capitalized into inventory. Subsequent to the Purchase Date, interest costs are not capitalized into inventory. Upon settlement, the cost of the units is expensed on a specific identification basis.

REVENUES

Fox Ridge builds light-frame, low-rise residences which generally are produced on a pre-sold basis for the ultimate customer. Revenues are recognized at the time units are completed and title passes to the customer.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of 5 years for furniture and equipment, 3 years for motor vehicles, and 2 years for model house furnishings, or the lease term if shorter.

INCOME TAXES

Subsequent to the Purchase Date, Fox Ridge is included in the consolidated federal income tax return of NVR and therefore has entered into a tax allocation agreement with NVR. According to this agreement, Fox Ridge will generally make federal income tax payments to NVR in an amount equal to its share of the net federal income tax obligation of the entire NVR consolidated tax group based upon the amount of the tax obligation of Fox Ridge on a "separate return" basis. Also, in the event Fox Ridge incurs a tax loss on a "separate return" basis for any year, Fox Ridge will generally be compensated for the tax effects of such tax loss through payments received from others in the consolidated group.

Prior to the Purchase Date, the Company elected to be taxed as an S Corporation under the provisions of the Internal Revenue Code. As an S Corporation, any federal tax liability or refund receivable related to income or loss generated during the year is the responsibility of the individual shareholders of the Company. State income taxes are payable directly by the Company.

Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by enacted tax rules and regulations.

3. NATURE OF OPERATIONS AND CERTAIN CONCENTRATIONS

The Company is one of the largest homebuilders in the Nashville, Tennessee metropolitan area, where the Company derived all of its 1997 homebuilding revenues. The Company primarily constructs and sells moderately priced, single-family detached homes and townhomes, and markets its homes primarily to first-time buyers.

FOX RIDGE HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
(dollars in thousands)

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, which are stated at cost, consist of the following:

	DECEMBER 31,	
	1997	1996
Furniture and equipment	\$ 159	\$ 116
Motor vehicles	208	131
Model home furnishings	137	89
Leasehold improvements	6	6
	-----	-----
	510	342
Less accumulated depreciation	(282)	(151)
	-----	-----
	\$ 228	\$ 191
	=====	=====

5. INVENTORY

Inventory consists of the following:

	DECEMBER 31,	
	1997	1996
Undeveloped land	\$ 365	\$ 1,247
Finished lots	8,802	4,984
Direct construction costs	10,362	10,337
Land development costs	350	664
	-----	-----
	\$19,879	\$17,232
	=====	=====

During 1995, a portion of the Company's inventory with a book value of \$41 was condemned. The Company received \$250 as proceeds resulting in a gain of \$209 included in the accompanying 1995 statement of income.

As of December 31, 1996, there was \$228 of interest capitalized as inventory.

6. INVESTMENT IN FRP, LP

On May 17, 1994, the Company invested \$140 for a 66 2/3% interest in a limited partnership, FRP, LP (the Partnership). The Partnership purchased a residential development consisting of 122 lots from an unrelated party. At December 31, 1997, the Company has an option to buy the remaining 17 lots from the Partnership at \$22 per lot. During the two months ended December 31, 1997, the ten months ended October 31, 1997 and the years ended December 31, 1996 and 1995, the Company purchased 3 lots for approximately \$66; 21 lots for approximately \$327; 37 lots for approximately \$564; and 30 lots for approximately \$507, respectively. The Company, as a limited partner, does not have control of the business due to the general partner (FRP, Inc.) having control of the management of the partnership and the only authority to bind the partnership. Profits are allocated according to the partners' capital contribution ratios: the Company: 66 2/3% and FRP, Inc.: 33 1/3%. The Company accounts for the investment using the equity method of accounting. The net income for the Partnership for the two months ended December 31, 1997, the ten months ended October 31, 1997 and for the years ended December 31, 1996 and 1995 was \$25, \$76, \$116 and \$180, respectively. The Company's portion of that income was \$17, \$51, \$77 and \$120, respectively. The Partnership paid dividends of \$175 in 1997. The Company's portion of those

FOX RIDGE HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
(dollars in thousands)

dividends was \$117. Also, at December 31, 1996, the Company had a receivable from FRP, LP in the amount of \$78.

Unaudited condensed balance sheets of the Partnership at December 31, 1997 and 1996 and the respective statements of income for the two months ended December 31, 1997, the ten months ended October 31, 1997 and the years ended December 31, 1996 and 1995 follow:

	DECEMBER 31,	
	1997	1996
ASSETS:		
Cash	\$ 138	\$ 42
Finished lots	180	450
	-----	-----
TOTAL ASSETS	\$ 318	\$492
	=====	=====
LIABILITIES:		
Accounts payable - Fox Ridge Homes, Inc.	-	78
Notes payable	-	34
Other liabilities	51	45
Partners' equity	267	335
	-----	-----
TOTAL LIABILITIES AND PARTNERS' EQUITY	\$ 318	\$492
	=====	=====

	TWO MONTHS ENDED DECEMBER 31, 1997	TEN MONTHS ENDED OCTOBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----	-----	-----
Net sales	\$ 66	\$ 327	\$ 564	\$ 507
Cost of sales	34	236	416	363
	-----	-----	-----	-----
Gross profit	32	91	148	144
Interest expense	-	1	27	61
Property taxes	1	13	3	13
Other operating expenses	7	1	2	16
	-----	-----	-----	-----
		15	32	90
Income before extraordinary item	25	76	116	54
	-----	-----	-----	-----
Extraordinary gain-refinancing of notes payable	-	-	-	126
	-----	-----	-----	-----
Net income	\$ 25	\$ 76	\$ 116	\$ 180
	=====	=====	=====	=====

7. BENEFIT PLAN

The Company sponsors a 401(K) plan for all employees with at least one year of service. Contributions to the plan by the Company are discretionary. Participants vest in the Company's contributions at 25% for each year of service with 100% vesting after four years. The Company contributed \$30, \$131, \$199 and \$182 for the two months ended December 31, 1997, the ten months ended October 31, 1997 and the years ended December 31, 1996 and 1995, respectively.

FOX RIDGE HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
(dollars in thousands)

8. RELATED PARTY TRANSACTIONS

During the ten months ended October 31, 1997, the Predecessor purchased, at market prices, developed lots from companies controlled by a member of the Predecessor's board of directors. Those purchases totaled \$1,260. Of the total, 50 lots were obtained by issuing a \$900 note payable (see note 10); the remaining 20 lots were purchased with \$360 in cash. In addition, certain lots were acquired during the ten months ended October 31, 1997 and the years ended December 31, 1996 and 1995 from FRP, LP (see note 6). Certain of the Predecessor's board of directors and employees hold controlling equity interests in FRP, LP.

As of December 31, 1997, Fox Ridge had \$8,012 of interest bearing intercompany advances to Homes due on demand to fund its working capital needs. The advances bear interest at 2.0% above the Eurodollar rate.

The Senior Notes, issued by NVR on September 30, 1993, are secured by a first priority pledge of the capital stock of Fox Ridge; Homes; NVR Financial Services, Inc. ("NVRFS"); and RVN, Inc. ("RVN"). The Senior Notes are also guaranteed on a senior unsecured basis by Fox Ridge, Homes, RVN and NVRFS provided, however, that the guarantee by Homes is subordinated to up to \$60,000 of Senior Bank Indebtedness.

In 1996 the Company loaned \$475 to a limited liability corporation, Valley Brooke, LLC (the Corporation), an entity in whom certain members of the Predecessor's board of directors and certain employees of the Predecessor had a financial interest. The Corporation purchased approximately 194 acres of undeveloped land and an option on an adjoining 30 acres of land from an unrelated party for approximately \$2 million. This receivable was not part of the Purchase Transaction.

9. INCOME TAXES

Prior to the Purchase Date, the Predecessor elected to be taxed as an S Corporation under the provisions of the Internal Revenue Code. As an S Corporation, any federal tax liability or refund receivable related to income or loss generated during the year was the responsibility of the individual shareholders of the Predecessor. Income tax expense incurred prior to the Purchase Date was comprised solely of state income taxes and were payable directly by the Predecessor.

For the two months ended December 31, 1997, the Successor's income tax expense (benefit) consists of the following:

	TWO MONTHS ENDED DECEMBER 31, 1997

Current:	
Federal	\$ (121)
State	(2)
Deferred:	
Federal	255
State	26

	\$ 158
	=====

FOX RIDGE HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
(dollars in thousands)

Deferred income taxes on the Successor's December 31, 1997 balance sheet is comprised of the following:

DECEMBER 31, 1997	

Deferred tax assets	\$ 632
Less: deferred tax liabilities	913

Deferred tax liability	\$ 281
	=====

Deferred tax assets arise principally as a result of inventory acquired in the Purchase Transaction having a higher basis for tax return purposes than for financial reporting purposes. Similarly, deferred tax liabilities arise principally as a result of goodwill originated from the Purchase Transaction having a higher basis for financial reporting purposes than for tax return purposes.

A reconciliation of income tax expense in the accompanying statement of income for the two months ended December 31, 1997 to the amount computed by applying the statutory Federal income tax rate to income before income taxes is as follows:

YEAR ENDED	
DECEMBER 31, 1997	

Income taxes computed at the Federal statutory rate	\$ 140
State income taxes, net of Federal income tax benefit	16
Other, net	2

	\$ 158
	=====

10. DEBT

Debt consists of the following:

	DECEMBER 31,	
	1997	1996
	-----	-----
Notes payable:		
Lot acquisition (a)	\$ 900	\$ -
	=====	=====
Acquisition Note (b)	\$4,750	\$ -
	=====	=====
Construction loans (c)	\$ -	\$6,205
	=====	=====

(a) The lot acquisition notes consist of two lot acquisition notes with an aggregate face value of \$900. Of the total, \$270 bears interest at the prime rate and is due in full in October 1998. The remaining \$630 of principal outstanding is interest free until October 1998 and then bears interest at the current prime rate, adjusted every six months, and is due in various amounts through 2001. The weighted average interest rate for the two months ended December 31, 1997 for the interest-bearing portion of the debt was 7.5%.

(b) The acquisition note was issued in connection with the Purchase Transaction (see note 1). The acquisition note bears interest at 200 basis points above the federal funds target rate, and will be paid in three annual installments on October 31, 1998, 1999 and 2000, including accrued interest.

FOX RIDGE HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
(dollars in thousands)

(c) The construction loans were repaid on October 31, 1997 in connection with the Purchase Transaction (note 1).

11. COMMITMENTS AND CONTINGENT LIABILITIES

Fox Ridge is committed under a non-cancelable operating lease involving office space that expires in 1999. Total rent expense incurred under the operating lease was approximately \$14, \$75, \$84, and \$74 for the two months ended December 31, 1997, the ten months ended October 31, 1997, and the years ended December 31, 1996 and 1995, respectively. Future minimum lease payments under these operating leases as of December 31, 1997 are as follows:

YEARS ENDED DECEMBER 31:	

1998	\$ 73
1999	36

	\$109
	====

During the ordinary course of operating its business, Fox Ridge is required to enter into bond or letter of credit arrangements with local municipalities, government agencies, or land developers to collateralize its obligations under various contracts. Fox Ridge had approximately \$1,540 of such contingent obligations under such agreements as of December 31, 1997. Fox Ridge believes it will fulfill its obligations under the related contracts and does not anticipate any losses under these bonds or letters of credit.

Fox Ridge is also involved in litigation arising from the normal course of business. In the opinion of management, and based on advice of legal counsel, this litigation will not have any material adverse effect on the financial position or results of operations of Fox Ridge.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholder
RVN, Inc.:

We have audited the accompanying balance sheet of RVN, Inc. as of December 31, 1997 and 1996 and the related statements of income, shareholder's equity, and cash flows for the year ended December 31, 1997 and the three months ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RVN Inc. as of December 31, 1997 and 1996 and the results of its operations and its cash flows for the year ended December 31, 1997 and the three months ended December 31, 1996, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 28, 1998

RVN, INC.
Balance Sheets
(dollars in thousands, except share data)

	DECEMBER 31,	
	1997	1996
ASSETS		
Cash and cash equivalents	\$ 11	\$ 62
Royalty receivable	1,880	1,441
	-----	-----
TOTAL ASSETS	\$1,891	\$1,503
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued expenses	\$ 643	\$ 530
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Common stock, \$1 par value; 3,000 shares authorized; 1,000 shares issued and outstanding	1	1
Additional paid-in capital	64	64
Retained earnings	1,183	908
	-----	-----
Total shareholder's equity	1,248	973
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$1,891	\$1,503
	=====	=====

RVN, INC.
Statements of Income
(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1997	THREE MONTHS ENDED DECEMBER 31, 1996
	-----	-----
REVENUES:		
Royalty revenue	\$ 21,687	\$ 4,711
Other income	8	-
	-----	-----
	21,695	4,711
EXPENSES:		
General and administrative	(54)	(30)
	-----	-----
Income before income tax expense	21,641	4,681
Income tax expense	(7,656)	(1,638)
	-----	-----
NET INCOME	\$ 13,985	\$ 3,043
	=====	=====

See notes to financial statements

RVN, INC.
Statements of Shareholder's Equity
(dollars in thousands)

	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	RETAINED EARNINGS -----
BALANCE, OCTOBER 1, 1996	\$ -	\$ -	\$ -
Capital contribution	1	64	-
Net income	-	-	3,043
Dividend to parent	-	-	(2,135)
	-----	-----	-----
BALANCE, DECEMBER 31, 1996	1	64	908
Net income	-	-	13,985
Dividend to parent	-	-	(13,710)
	-----	-----	-----
BALANCE, DECEMBER 31, 1997	\$ 1	\$ 64	\$ 1,183
	=====	=====	=====

RVN, INC.
Statements of Cash Flows
(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1997 -----	THREE MONTHS ENDED DECEMBER 31, 1996 -----
CASH FLOWS FROM		
OPERATING ACTIVITIES:		
Net income	\$ 13,985	\$ 3,043
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Net change in assets and liabilities:		
Increase in receivables	(439)	(1,441)
Increase in accounts payable and accrued liabilities	113	530
	-----	-----
Net cash provided by operating activities	13,659	2,132
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend to parent	(13,710)	(2,135)
Capital contribution	-	65
	-----	-----
Net cash used by financing activities	(13,710)	(2,070)
	-----	-----
Net (decrease) increase in cash	(51)	62
Cash, beginning of the period	62	-
	-----	-----
Cash, end of period	\$ 11	\$ 62
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid during the period	\$ -	\$ -
	=====	=====
Taxes paid during the period (net of refunds)	\$ 7,517	\$ 1,134
	=====	=====

See notes to financial statements.

RVN, INC.
Notes to Financial Statements
(dollars in thousands)

1. BASIS OF PRESENTATION

The accompanying financial statements include financial information for RVN, Inc. ("RVN" or the "Company") as of December 31, 1997 and 1996 and for the year ended December 31, 1997 and the three months ended December 31, 1996. RVN is a wholly owned subsidiary of NVR, Inc. ("NVR").

2. NATURE OF OPERATIONS AND CERTAIN CONCENTRATIONS

On October 1, 1996, NVR capitalized RVN, a Delaware holding company, with \$65 in cash and the Ryan Homes and NVHomes tradenames (the "Tradenames"). Under a royalty agreement entered into on October 1, 1996 with NVR Homes, Inc. (Homes), NVR's homebuilding subsidiary, RVN earns royalty fees based on a percentage of settlement revenue for allowing Homes to use the Tradenames to market homes. RVN earns 100% of its revenue from Homes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes short-term investments with original maturities of three months or less.

INCOME TAXES

RVN is included in the consolidated federal income tax return of NVR and therefore has entered into a tax allocation agreement with NVR. According to this agreement, RVN will generally make federal income tax payments to NVR in an amount equal to its share of the net federal income tax obligation of the entire NVR consolidated tax group based upon the amount of the tax obligation of RVN on a "separate return" basis. Also, in the event RVN incurs a tax loss on a "separate return" basis for any year, RVN will generally be compensated for the tax effects of such tax loss through payments received from others in the consolidated group.

FINANCIAL INSTRUMENTS

Management believes that insignificant differences exist between the carrying value and fair value of RVN's financial instruments. RVN has guaranteed the 11% Senior Notes due 2003 ("Senior Notes") of NVR. Management believes that it is not practical to estimate the fair value of such guarantee.

RVN, INC.
Notes to Financial Statements
(dollars in thousands)

ROYALTY FEES

Royalty fees are recorded in the same period that the associated settlement revenue is recognized by Homes. Homes recognizes settlement revenue in the period when the construction process is complete and title passes to its customer.

4. RELATED PARTY TRANSACTIONS

During the year ended December 31, 1997 and the three months ended December 31, 1996, RVN earned \$21,687 and \$4,711, respectively, in royalty fees for allowing Homes to use the Tradenames to market its homes. RVN had a \$1,880 and \$1,441 royalty receivable due from Homes at December 31, 1997 and 1996, respectively.

The Senior Notes, issued by NVR on September 30, 1993, are secured by a first priority pledge of the capital stock of RVN, Homes, Fox Ridge Homes, Inc. ("Fox Ridge") and NVR Financial Services, Inc. ("NVRFS"). The Senior Notes are also guaranteed on a senior unsecured basis by RVN, Homes, Fox Ridge and NVRFS provided, however, that the guarantee by Homes is subordinated to up to \$60,000 of Senior Bank Indebtedness.

5. INCOME TAXES

The provision for income taxes consists of the following:

	YEAR ENDED DECEMBER 31, 1997 -----	THREE MONTHS ENDED DECEMBER 31, 1996 -----
Current:		
Federal	\$ 7,531	\$ 1,638
State	125	-
Deferred:		
Federal	-	-
State	-	-
	----- \$ 7,656 =====	----- \$ 1,638 =====

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
NVR, Inc.:

Under date of January 28, 1998, we reported on the consolidated balance sheets of NVR, Inc. and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997 which are included in the NVR, Inc. annual report on Form 10-K for the year 1997. In connection with our audits of the aforementioned consolidated financial statements, we have also audited the related financial statement schedule included in the annual report on Form 10-K. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, the schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 28, 1998

SCHEDULE I

NVR, INC.
(Parent Company)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS
(dollars in thousands, except share data)

	DECEMBER 31,	
	1997	1996
ASSETS		
Cash and cash equivalents	\$ -	\$ -
Property and equipment, net	7,094	7,644
Investment in and advances to homebuilding subsidiaries	259,546	250,897
Investment in and advances to mortgage banking subsidiaries	21,194	28,599
Other assets	2,561	2,987
	-----	-----
TOTAL ASSETS	\$ 290,395	\$ 290,127
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued expenses	\$ 17,287	\$ 9,847
Note payable	78	86
Other term debt	8,390	8,184
Senior notes	120,000	120,000
	-----	-----
TOTAL LIABILITIES	145,755	138,117
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 19,995,494 and 19,881,515 shares issued for 1997 and 1996, respectively	200	199
Additional paid-in-capital	164,731	157,842
Retained earnings	75,977	47,098
Less treasury stock at cost - 8,900,972 and 6,307,108 shares at December 31, 1997 and 1996, respectively	(96,268)	(53,129)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	144,640	152,010
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 290,395	\$ 290,127
	=====	=====

See notes to financial statement schedule.

SCHEDULE I
(continued)

NVR, INC.
(Parent Company)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF INCOME
(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1997 -----	YEAR ENDED DECEMBER 31, 1996 -----	YEAR ENDED DECEMBER 31, 1995 -----
REVENUES			
Interest and other income	\$ 29	\$ 197	\$ 78
Interest income-affiliates, net	15,515	15,461	14,837
	-----	-----	-----
Total revenues	15,544	15,658	14,915
EXPENSES			
Interest expense	(14,908)	(14,888)	(15,178)
General and administrative, net of allocations to subsidiaries	(636)	(770)	(1,309)
Equity in earnings of homebuilding subsidiaries	28,361	25,309	17,171
Equity in earnings of mortgage banking subsidiaries	1,853	603	146
	-----	-----	-----
Total expenses	14,670	10,254	830
	-----	-----	-----
Income before income taxes and extraordinary gain	30,214	25,912	15,745
Income tax (expense) benefit	(1,335)	(131)	655
Extraordinary gain-repurchase of debt (net of tax expense of \$645 for the year ended December 31, 1995)	-	-	927
	-----	-----	-----
NET INCOME	\$ 28,879 =====	\$ 25,781 =====	\$ 17,327 =====

See notes to financial statement schedule.

SCHEDULE I
(continued)

NVR, INC.
(Parent Company)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF SHAREHOLDERS' EQUITY
(dollars in thousands)

	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	RETAINED EARNINGS -----	TREASURY STOCK -----
BALANCE, DECEMBER 31, 1994	\$ 181	\$ 142,163	\$ 4,299	\$ (17,121)
Net income	-	-	17,327	-
Purchase of common stock for treasury	-	-	-	(2,581)
Performance share activity	1	1,739	-	-
Warrant activity	-	1	-	-
Option activity	2	169	-	-
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1995	184	144,072	21,626	(19,702)
Net income	-	-	25,781	-
Purchase of common stock for treasury	-	-	-	(35,137)
Performance share activity	-	529	-	1,710
Warrant activity	15	13,146	(309)	-
Option activity	-	95	-	-
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1996	199	157,842	47,098	(53,129)
Net income	-	-	28,879	-
Purchase of common stock for treasury	-	-	-	(45,545)
Performance share activity	-	5,580	-	2,406
Tax benefit from stock option exercises	-	464	-	-
Option activity	1	845	-	-
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1997	\$ 200	\$ 164,731	\$ 75,977	\$ (96,268)
	=====	=====	=====	=====

See notes to financial statement schedule.

SCHEDULE I
(continued)

NVR, INC.
(Parent Company)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS
(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1997 -----	YEAR ENDED DECEMBER 31, 1996 -----	YEAR ENDED DECEMBER 31, 1995 -----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 28,879	\$ 25,781	\$ 17,327
Adjustments to reconcile net income to net cash provided/ (used) by operating activities:			
Depreciation and amortization	1,333	1,313	1,311
Extraordinary gain - extinguishment of debt	-	-	(1,572)
Equity in income of subsidiaries	(30,214)	(25,912)	(17,317)
Net change in assets and liabilities:			
Increase (decrease) in accounts payable and accrued expenses	7,904	(7,225)	(9,912)
Other	7,956	3,370	2,510
	-----	-----	-----
Net cash provided/(used) by operating activities	15,858	(2,673)	(7,653)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(121)	(455)	(445)
Investments in and advances to/from homebuilding and mortgage banking subsidiaries, net	28,970	25,325	23,542
	-----	-----	-----
Net cash provided by investing activities	28,849	24,870	23,097
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchase of senior debt	-	-	(12,962)
Purchase of treasury stock and warrants	(45,545)	(35,446)	(2,581)
Other, net	838	13,249	99
	-----	-----	-----
Net cash used by financing activities	(44,707)	(22,197)	(15,444)
	-----	-----	-----
Net decrease in cash	-	-	-
Cash, beginning of year	-	-	-
	-----	-----	-----
Cash, end of year	\$ -	\$ -	\$ -
	=====	=====	=====

See notes to financial statement schedule.

NVR, INC.
(Parent Company)
NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(dollars in thousands)

1. DEBT AND GUARANTEES

	DECEMBER 31,	
	1997	1996
Note payable	\$ 78	\$ 86
Other term debt	8,390	8,184
Senior notes (a)	120,000	120,000
	-----	-----
	\$ 128,468	\$ 128,270
	=====	=====

(a) On September 30, 1993, NVR, Inc. ("NVR" or the "Company") received gross proceeds of \$160,000 from the sale of its Senior Notes. The Senior Notes bear interest at a rate of 11% per annum, payable semi-annually on June 1 and December 1 of each year and are due in 2003. The Senior Notes will be redeemable at the option of NVR, in whole or in part, at any time on or after December 1, 1998 at redemption prices ranging from 105.5% of par in 1998 to par beginning in 2001.

The Senior Notes are senior obligations of NVR and rank pari passu in right of payment to all existing and future senior indebtedness of NVR and senior in right of payment to all existing and future subordinated indebtedness of NVR. The Senior Notes are secured by a first priority pledge of the capital stock of NVR Homes, Inc. ("Homes"), Fox Ridge Homes, Inc. ("Fox Ridge"), NVR Financial Services, Inc. ("NVRFS") and RVN, Inc. ("RVN"), (Homes, Fox Ridge, NVRFS, and RVN collectively, the "Guarantors"). The Senior Notes also are guaranteed on a senior, unsecured basis by the Guarantors; provided, however, that the guarantee by Homes is subordinated to up to \$60,000 of Senior Bank Indebtedness. During the year ended December 31, 1995, NVR purchased \$15,000 in principal amount of its Senior Notes in the open market. These transactions resulted in a pre-tax gain of \$1,572 for the year ended December 31, 1995 and is included in the accompanying financial statements as an extraordinary item, net of the applicable taxes. Through December 31, 1997, the Company has repurchased \$40,000 in the aggregate of its Senior Notes in the open market.

The indenture governing the Senior Notes has, among other items, limitations on asset sales by NVR and the Guarantors and requires that NVR, on a consolidated basis, maintain net worth of at least \$80,000. In addition, the indenture limits dividends, certain investments and NVR's and the Guarantors' ability to incur additional debt if NVR is in default under the indenture or if NVR does not meet certain fixed charge coverage ratios.

Also on September 30, 1993, Homes as borrower and NVR as guarantor entered into a working capital revolving credit agreement (the "Working Capital Revolving Credit" or "Senior Bank Indebtedness"). This facility currently provides for unsecured borrowings up to \$60,000, subject to certain borrowing base limitations, and is generally available to fund working capital needs of Homes and for certain payments of NVR. Up to approximately \$24,000 of this facility is currently available for issuance in the form of letters of credit of which \$6,059 and \$5,345 was outstanding at December 31, 1997 and 1996, respectively. The Working Capital Revolving Credit is for a three year period ending May 31, 2000 and outstanding amounts bear interest, at the election of the Company, at (i) the base rate of interest announced by the facility agent or (ii) 2.0% above the Eurodollar Rate. The weighted average interest rates for amounts outstanding under the facility were 8.1% and 8.0% during 1997 and 1996, respectively. NVR's guarantee is a guarantee of collection only and is unsecured.

The Working Capital Revolving Credit agreement contains numerous operating and financial covenants, including required levels of net worth, fixed charge coverage ratios, and several other covenants related to the

NVR, INC.
(Parent Company)
NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(dollars in thousands)

construction operations of Homes. In addition, the Working Capital Revolving Credit agreement contains restrictions on the ability of Homes and, in certain cases, NVR to, among other things, incur debt and make investments. Also, the Working Capital Revolving Credit agreement prohibits NVR from paying dividends to shareholders.

Maturities with respect to the notes payable, other term debt and the Senior Notes as of December 31, 1997 are as follows:

YEARS ENDING DECEMBER 31:		

1998	\$	10
1999		10
2000		10
2001		10
2002		10
Thereafter		131,728

The \$131,728 maturing after 2002 includes \$120,000 in Senior Notes which mature in April 2003.

2. DIVIDENDS PAID TO THE REGISTRANT

NVR received returns of capital of \$22,039, \$24,928 and \$3,000 from its consolidated subsidiaries during the years ended December 31, 1997, 1996 and 1995, respectively.

=====

NVR, INC.

AND

NVR HOMES, INC.,

NVR FINANCIAL SERVICES, INC.,

RVN, INC.

and

NVR FOX RIDGE, INC.,
as Joint and Several Guarantors

\$160,000,000

11% SENIOR NOTES due 2003

SECOND SUPPLEMENTAL INDENTURE

Dated as of November 7, 1997

IBJ SCHRODER BANK & TRUST COMPANY

as Trustee

=====

SECOND SUPPLEMENTAL INDENTURE dated as of November 7, 1997 (the "Supplemental Indenture") among NVR, Inc., a Virginia corporation ("NVR" or "Company"), and NVR Homes, Inc., a Virginia corporation ("Homes"), and NVR Financial Services, Inc., a Pennsylvania corporation ("NVRFS"), and RVN, Inc., a Delaware corporation ("RVN"), and NVR Fox Ridge, Inc., a Tennessee corporation ("Fox Ridge"), as joint and several guarantors, and IJB Schroder Bank & Trust Company, a banking corporation organized under the laws of the State of New York, as trustee ("Trustee"), amending and supplementing the Indenture dated as of September 30, 1993, as supplemented by the First Supplemental Indenture dated as of January 7, 1997 (the "Indenture") among NVR, and Homes, NVRFS, and RVN, as joint and several guarantors, and the Trustee.

RECITALS

WHEREAS, NVR and Homes, NVRFS, and RVN, as joint and several guarantors, and the Trustee have entered into the Indenture for the benefit of each other and for the equal and ratable benefit of the Holders of the 11% Senior Notes due 2003 of NVR (the "Securities"); all capitalized terms used and not otherwise defined herein having the meanings set forth in the Indenture; and

WHEREAS, Fox Ridge has been organized as a Subsidiary of Homes and is the transferee of certain property or assets of Homes; and

WHEREAS, in accordance with the provisions of the Indenture, the Company desires to designate Fox Ridge as a Restricted Subsidiary; and

WHEREAS, in accordance with the provisions of Section 11.05 of the Indenture, Fox Ridge desires to enter into this Supplemental Indenture to provide for the unconditional Guarantee of all of the Company's Obligations under the Securities on the terms set forth in the Indenture; and

WHEREAS, to further evidence such Guarantee, Fox Ridge, simultaneously with the execution of this Supplemental Indenture, has executed and delivered to the Trustee a Subsidiary Guarantee substantially in the form included in Exhibit C to the Indenture; and

WHEREAS, in accordance with the provisions of Section 10.01 of the Indenture and Section 6 of the Pledge Agreement, the Company, simultaneously with the execution of this Supplemental Indenture, has executed and delivered to the Collateral Agent a Second Pledge Amendment dated November 7, 1997, providing for the pledge of 100% of the Capital Stock of Fox Ridge, as well as the certificate representing such shares and duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Collateral Agent; and

WHEREAS, in accordance with Section 9.01(iv) of the Indenture, the Company, the Guarantors and the Trustee are authorized and permitted to amend and supplement the Indenture as set forth herein, without the consent of any Securityholder, and all requirements set forth in Article 9 to make this Supplemental Indenture effective have been satisfied; and

WHEREAS, the execution, delivery and due performance of this Supplemental Indenture by each of the Company and the Guarantors, respectively, have been authorized, approved and directed by all necessary and appropriate action of the boards of directors of each of the Company and the Guarantors, respectively; and

WHEREAS, the execution, delivery and due performance of this Supplemental Indenture by the Trustee have been authorized, approved and directed by all necessary and appropriate corporate action of the Trustee;

NOW, THEREFORE, for and in consideration of the mutual premises and agreements herein contained, the Company and each of Homes, NVRFS, RVN, and Fox Ridge, in its capacity as a joint and several guarantor, and the Trustee agree as follows for the benefit of each other and for the equal and ratable benefit of the Holders of the Securities:

AGREEMENT

SECTION 1.01. SUBSIDIARY GUARANTEE.

Subject to the provisions of Article 11 of the Indenture, Fox Ridge, jointly and severally, unconditionally guarantees all of the Company's Obligations under the Securities on the terms set forth in the Indenture.

SECTION 1.02. FURTHER AGREEMENTS.

All actions necessary to constitute Fox Ridge as a Guarantor and a Restricted Subsidiary under the terms of the Indenture have been taken, and all references in the Indenture to a Guarantor or a Restricted Subsidiary shall on and after the date hereof include Fox Ridge. On and after the date hereof, the Indenture shall be deemed to include this Supplemental Indenture, and the Indenture, as amended and supplemented by this Supplemental Indenture, shall remain in full force and effect.

SECTION 1.03. COUNTERPART ORIGINALS.

The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

SECTION 1.04. HEADINGS.

The Headings of the Sections of this Supplemental Indenture have been inserted for convenience of reference only, are not to be considered a part of this Supplemental Indenture and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 1.05. GOVERNING LAW.

The internal law of the State of New York shall govern this Supplemental Indenture.

SIGNATURES

Dated as of November 7, 1997

NVR, Inc.

By:/s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice President

Attest:

/s/ Dennis M. Seremet

(SEAL)

Dated as of November 7, 1997

NVR HOMES, INC., as Guarantor

By:/s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice President

Attest:

/s/ Dennis M. Seremet

(SEAL)

Dated as of November 7, 1997

NVR FINANCIAL SERVICES, INC.,
as Guarantor

By:/s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice President

Attest:

/s/ Peter J. Fitzsimmons

(SEAL)

Dated as of November 7, 1997

RVN, INC., as Guarantor

By: /s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice President

Attest:

/s/ Dennis M. Seremet

(SEAL)

Dated as of November 7, 1997

NVR FOX RIDGE, INC., as Guarantor

By: /s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice President

Attest:

/s/ Dennis M. Seremet

(SEAL)

Dated as of November 12, 1997

IBJ SCHRODER BANK & TRUST
COMPANY, as Trustee

By: /s/ Luis Perez

Name: Luis Perez
Title: Assistant Vice President

Attest:

(SEAL)

WHOLE LOAN PURCHASE AND SALE AGREEMENT

MORTGAGE LOAN PURCHASE AND SALE AGREEMENT

between

NVR MORTGAGE FINANCE, INC.

Seller

and

PRUDENTIAL SECURITIES REALTY FUNDING CORPORATION

Purchaser

One New York Plaza
New York, New York 10004

DATED: AUGUST 11, 1997

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MORTGAGE LOAN PURCHASE AND SALE AGREEMENT

This Mortgage Loan Purchase and Sale Agreement ("Agreement"), dated as of the date set forth on the cover page hereof, is by and between PRUDENTIAL SECURITIES REALTY FUNDING CORPORATION ("Purchaser") and the Seller whose name is set forth on the cover page hereof ("Seller").

PRELIMINARY STATEMENT

Seller may, in its sole discretion, offer to sell to Purchaser from time to time a 100% undivided ownership interest in certain Mortgage Loans, and Purchaser, in its sole discretion, may agree to purchase such Mortgage Loans from Seller in accordance with the terms and conditions set forth in this Agreement. Seller, subject to the terms hereof, will cause each Mortgage Loan to be purchased by Takeout Investor. During the period from the purchase of a Mortgage Loan to the sale of the Mortgage Loan to Takeout Investor, Purchaser expects to rely entirely upon Seller to service such Mortgage Loan.

The parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS.

Capitalized terms used but not defined herein shall have the meanings set forth in the Custodial Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Act of Insolvency": With respect to Seller, (a) the commencement by Seller as debtor of any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar law, or Seller's seeking the appointment of a receiver, trustee, custodian or similar official for Seller or any substantial part of its property, or (b) the commencement of any such case or proceeding against Seller, or another seeking such appointment, or the filing against Seller of an application for a protective decree which (1) is consented to or not timely contested by Seller, (2) results in the entry of an order for relief, such an appointment, the issuance of such a protective decree or the entry of an order having a similar effect, or (3) is not dismissed within thirty (30) days, (c) the making by Seller of a general assignment for the benefit of creditors, or (d) the admission in writing by Seller that Seller is unable to pay its debts as they become due or the nonpayment generally by Seller of its debts as they become due.

"Assignee": As defined in Section 7.

"Business Day": Any day other than (a) a Saturday, Sunday or other day on which banks located in The City of New York, New York are authorized or obligated by law or executive order to be closed or (b) any day on which Purchaser or Seller is closed for business, provided that notice thereof shall have been given not less than seven (7) calendar days prior to such day, and provided further that such closing does not conflict with any business between Seller and Purchaser scheduled for such date prior to the giving of such notice.

"Collateral": As defined in Section 8(c).

"Commitment Amount": The aggregate outstanding principal amount of Mortgage Loans to be purchased pursuant to a Takeout Commitment. If the Commitment Amount is expressed as a fixed

amount plus or minus a percentage in the related Takeout Confirmation, then the amount required to be delivered by Seller shall be the minimum amount of such range and the amount required to be purchased by Takeout Investor shall be the maximum amount of such range.

"Commitment Date": The date set forth in a Takeout Confirmation as the commitment date.

"Commitment Guidelines": The guidelines, if any, issued by Takeout Investor regarding the issuance of Takeout Commitments, as amended from time to time by Takeout Investor.

"Commitment Number": With respect to a Takeout Commitment, the number identified on the Takeout Confirmation as the commitment number.

"Completion Fee": With respect to each Mortgage Loan Pool, an amount equal to the Discount plus the Net Carry Adjustment, less any reduction pursuant to Section 4(c), which amount shall be payable to Seller by Purchaser as compensation to Seller for its services hereunder in connection with the purchase of a Mortgage Loan Pool.

"Confirmation": A written confirmation of Purchaser's intent to purchase a Mortgage Loan Pool, which written confirmation shall be substantially in the form attached hereto as Exhibit F.

"Credit File": All Mortgage Loan papers and documents required to be maintained pursuant to the Sale Agreement, and all other papers and records of whatever kind or description whether developed or originated by Seller or others, required to document or service the Mortgage Loan provided, however, -----
that such Mortgage Loan papers, documents and records shall not include any Mortgage Loan papers, documents or records which are contained in the Custodial File.

"Cure Date": With respect to a Mortgage Loan, the date which is 15 Business Days after the related Commitment Date, unless extended by written waiver from the Buyer.

"Custodial Account": As defined in Section 5(b).

"Custodial Agreement": The custodial Agreement, dated as of the date set forth on the cover sheet thereof, among Seller, Purchaser and Custodian.

"Custodial File": As defined in the Custodial Agreement.

"Custodian": The Custodian whose name is set forth on the cover page of the Custodial Agreement and its permitted successors thereunder.

"Cut-off Date": With respect to a Mortgage Loan, the last day of a month on which the Settlement Date can occur if accrued interest for such month is to be collected by Takeout Investor.

"Defective Mortgage Loan": With respect to any Mortgage Loan, either (i) the Document File does not contain a document required to be contained therein, (ii) a document within a Document File is, in the judgment of Takeout Investor, defective or inaccurate in any material respect as determined upon

evaluation of the Document File against the requirements of the Sale Agreement, or (iii) a document in the Document File is not legal, valid and binding.

"Discount": With respect to Mortgage Loan Pool sold by Seller to Purchaser, the amount set forth on the related Confirmation as the Discount.

"Document File": The Credit File and the Custodial File.

"Due Date": The day of the month on which the Monthly Payment is due on a Mortgage Loan.

"Exhibit B-1 Letter": As defined in Section 2(a).

"Exhibit C-1 Letter": As defined in Section 2(a).

"Expiration Date": With respect to any Takeout Commitment, the expiration date thereof.

"FDIC": Federal Deposit Insurance Corporation or any successor thereto.

"FHLMC": Federal Home Loan Mortgage Corporation or any successor thereto.

"FNMA": Federal National Mortgage Association or any successor thereto.

"Losses": Any and all losses, claims, damages, liabilities or expenses (including interest and reasonable attorneys' fees) incurred by any person specified; provided, however, that "Losses" shall not include any losses, claims, damages, liabilities or expenses which would have been avoided had such person taken reasonable actions to mitigate such losses, claims, damages, liabilities or expenses.

"Monthly Payment": The scheduled monthly payment of principal and interest on a Mortgage Loan.

"Mortgage": The mortgage, deed of trust or other instrument creating a lien on an estate in fee simple in real property securing a Mortgage Note.

"Mortgage Interest Rate": The annual rate of interest borne on a Mortgage Note.

"Mortgage Loan": A mortgage loan which is subject to this Agreement, and which satisfies the requirements of the Sale Agreement as the same may be modified from time to time.

"Mortgage Loan Pool": A group of Mortgage Loans purchased by Purchaser hereunder and subject to a single Confirmation.

"Mortgage Note": The note or other evidence of the indebtedness of a Mortgagor secured by a Mortgage.

"Mortgaged Property": The property subject to the lien of the Mortgage securing a Mortgage Note.

"Mortgagor": The obligor on a Mortgage Note.

"NCUA": National Credit Union Administration, or any successor thereto.

"Net Carry Adjustment": As defined in Section 4(b).

"Notice of Rejection of Trade Assignment": With respect to any Mortgage Loan that Purchaser elects not to purchase, a notification by Purchaser to Takeout Investor in the form of Exhibit G.

"OTS": Office of Thrift Supervision or any successor thereto.

"Parent Company": A corporation or other entity owning at least 50% of the outstanding shares of voting stock of Seller.

"Pass-Through Rate": With respect to each Mortgage Loan Pool purchased by Purchaser hereunder, the rate at which interest from the Mortgage is passed through to Purchaser which initially shall be the rate of interest specified in the related Confirmation as the Pass-Through Rate, subject to adjustment in the manner agreed to by Purchaser and Seller.

"Price Adjustment": With respect to a Takeout Commitment, the incremental percentage by which the trade price is adjusted by applying the appropriate formula set forth in a price adjustment summary sheet when delivered by Purchaser to Seller which price adjustment summary sheet may be amended from time to time by Purchaser's delivery to Seller of a new price adjustment summary sheet.

"Purchase Date": With respect to any Mortgage Loan Pool purchased by Purchaser hereunder, the date of payment thereof by Purchaser to Seller of the Purchase Price.

"Purchase Price": With respect to each Mortgage Loan Pool purchased by Purchaser hereunder, an amount equal to the Trade Principal less an amount equal to the product of the Trade Principal and the Discount.

"Purchaser": Prudential Securities Realty Funding Corporation and its successors in interest, including, but not limited to, a party to whom a Trust Receipt is assigned as provided hereunder and in the Custodial Agreement.

"Purchaser's Wire Instructions": The wire instructions set forth in a letter in the form of Exhibit E.

"RTC": Resolution Trust Corporation or any successor thereto.

"Sale Agreement": The agreement providing for the purchase by Takeout Investor of Mortgage Loans from Seller.

"Seller": The Seller whose name is set forth on the cover page hereof and its permitted successors hereunder.

"Seller's Wire Instructions": The wire instructions set forth in a letter in the form of Exhibit C-2.

"Settlement Date": With respect to any Mortgage Loan, the date of payment thereof by Takeout Investor to Purchaser of the Takeout Proceeds.

"Settlement Modification Letter": A letter in the form of Exhibit H.

"Successor Servicer": An entity designated by Purchaser, with notice provided in conformity with Section 17, to replace Seller as issuer and servicer, mortgagee or seller/servicer of the Mortgage Loans evidenced by a Trust Receipt.

"Takeout Commitment": A commitment of Seller to sell one or more Mortgage Loans to Takeout Investor and of Takeout Investor to purchase one or more Mortgage Loans from Seller.

"Takeout Confirmation": The written notification to Seller from Takeout Investor containing all of the relevant details of the Takeout Commitment, which notification may take the form of a trade confirmation.

"Takeout Investor": An Agency or a Conduit, as applicable.

"Takeout Proceeds": With respect to any Mortgage Loan Pool, the related Trade Principal plus accrued interest as calculated in accordance with Section 3(a)(2), as amended by any related Settlement Modification Letter accepted by Purchaser.

"Third Party Underwriter": Any third party, including but not limited to a mortgage loan pool insurer, who underwrites the Mortgage Loan(s) prior to the purchase by Purchaser of the related Mortgage Loan Pool.

"Third Party Underwriter's Certificate": A certificate issued by a Third Party Underwriter with respect to a Mortgage Loan, certifying that such Mortgage Loan complies with its underwriting requirements.

"Trade Assignment": The assignment by Seller to Purchaser of Seller's rights under a specific Takeout Commitment, in the form of Exhibit D-1, or of Seller's rights under all Takeout Commitments, in the form of Exhibit D-2.

"Trade Price": The trade price set forth on a Takeout Commitment less any applicable Price Adjustment.

"Trade Principal": With respect to any Mortgage Loan Pool, the aggregate outstanding principal balance of such Mortgage Loan multiplied by a percentage equal to the Trade Price.

"Warehouse Lender": Any lender providing financing to Seller for the purpose of originating or purchasing Mortgage Loans which has a security interest in such Mortgage Loans as collateral for the obligations of Seller to such lender.

"Warehouse Lender's Wire Instructions": The wire instructions set forth in a letter in the form of Exhibit B-2.

SECTION 2. PROCEDURES FOR PURCHASES OF MORTGAGE LOANS.

(a) Purchaser may, in its sole discretion, from time to time, purchase one or more Mortgage Loan Pools from Seller. Prior to Purchaser's actual purchase of any Mortgage Loan Pool, Purchaser shall have received from Custodian (i) an original Trust Receipt relating to all Mortgage Loans (including the Mortgage Loan Pool being purchased) relating to Cash Window Transactions or Conduit Transactions, as applicable, fully completed and authenticated by Custodian, (ii) a copy of the Takeout Confirmation related to the Mortgage Loan(s) in such Mortgage Loan Pool, together with a Trade Assignment in the form of Exhibit D-1 or Exhibit D-2; executed by Seller and Takeout Investor, and (iii) an original letter in the form of Exhibit B-1 (an "Exhibit B-1 Letter") from the applicable Warehouse Lender (if any), or an original letter in the form of Exhibit C-1 (an "Exhibit C-1 Letter") in the event that there is no Warehouse Lender. Simultaneously with the payment by Purchaser of the Purchase Price, in accordance with the Warehouse Lender's Wire Instructions or Seller's Wire Instructions, as applicable, with respect to a Mortgage Loan Pool, Seller hereby conveys to Purchaser all of Seller's right, title and interest in and to the related Mortgage Loan(s) free and clear of any lien, claim or encumbrance. Notwithstanding the satisfaction by Seller of the conditions specified in this Section 2(a), Purchaser is not obligated to purchase any Mortgage Loans offered to it hereunder.

(b) If Purchaser elects to purchase any Mortgage Loan Pool, Purchaser shall pay the amount of the Purchase Price for such Mortgage Loan Pool by wire transfer of immediately available funds in accordance with the Warehouse Lender's Wire Instructions or if there is no Warehouse Lender, Seller's Wire Instructions. Upon such payment and not otherwise, Purchaser shall be deemed to have accepted the related Trade Assignment. In the event that Purchaser rejects a Mortgage Loan for purchase for any reason and/or does not transmit the applicable Purchase Price, (i) the Trust Receipt delivered by Custodian to Purchaser in anticipation of such purchase shall automatically be null and void and the previously existing Trust Receipt for that type of transaction shall be in full force and effect, (ii) Purchaser shall not consummate the transactions contemplated in the applicable Takeout Confirmation and shall deliver to Takeout Investor (with a copy to Seller and Custodian) a Notice of Rejection of Trade Assignment, provided, however, that failure of Purchaser to give such notice

shall not affect the rejection by Purchaser of the Trade Assignment, and (iii) if Purchaser shall nevertheless receive any portion of the related Takeout Proceeds, Purchaser shall promptly pay such Takeout Proceeds to Seller in accordance with Seller's Wire Instructions.

(c) The terms and conditions of the purchase of each Mortgage Loan Pool shall be as set forth in this Agreement.

SECTION 3. SALE OF MORTGAGE LOANS TO TAKEOUT INVESTOR.

(a) With respect to Mortgage Loan(s) that Purchaser has elected to purchase, Purchaser may, at its option, either (i) instruct Custodian to deliver to Takeout Investor, in accordance with Takeout Investor's instructions, the Custodial File in respect of such Mortgage Loans, in the manner and at the time set forth in the Custodial Agreement, or (ii) provide for the delivery of the Custodial File through an escrow arrangement satisfactory to Purchaser and Takeout Investor. Seller shall on or after the Purchase Date, but in no event later than the related Expiration Date, promptly deliver to Takeout Investor

the related Credit File and thereafter any and all additional documents requested by Takeout Investor to enable Takeout Investor to purchase such Mortgage Loan(s) on or before the related Cure Date.

(b) Except when Purchaser has accepted a Settlement Modification Letter, unless the Takeout Proceeds are received by Purchaser (in immediately available funds in accordance with Purchaser's Wire Instructions) with respect to the Mortgage Loans in a Mortgage Pool, on or before the related Cure Date, the Completion Fee relating to such Mortgage Pool shall not be payable until the earlier to occur of (1) the date of receipt by Purchaser of the Takeout Proceeds and, (2) the satisfaction by Seller of its obligations pursuant to the exercise by Purchaser of any remedial election authorized by this Section 3. Upon receipt by Purchaser, prior to the Cure Date, of a Settlement Modification Letter, duly executed by Takeout Investor and Seller, Purchaser may, at its election, agree to the postponement of the Settlement Date and such other matters as are set forth in the Settlement Modification Letter. If Purchaser elects to accept a Settlement Modification Letter, Purchaser shall, not later than two (2) Business Days after receipt of such Settlement Modification Letter execute the Settlement Modification Letter and send, via facsimile, copies of such fully executed Settlement Modification Letter to Seller and Takeout Investor. Upon execution by Purchaser of a Settlement Modification Letter, Purchaser shall recalculate the amount of the Completion Fee, if any, due to Seller using the new terms included in the Settlement Modification Letter and shall pay to Seller, not later than two (2) Business Days after Purchaser's execution of such Settlement Modification Letter, the amount of such recalculated Completion Fee.

(c)(1) If a breach by Seller of this Agreement results in any Mortgage Loan being a Defective Mortgage Loan at the time of the delivery of the related Trust Receipt to Purchaser and in Purchaser's sole judgment the defects in such Mortgage Loan will not be cured (or in fact are not cured) by Seller prior to the Cure Date, Purchaser, at its election, may require that Seller, upon receipt of notice from Purchaser of its exercise of such right, either (i) immediately repurchase Purchaser's ownership interest in such Defective Mortgage Loan by remitting to Purchaser (in immediately available funds in accordance with Purchaser's Wire Instructions) the amount paid by Purchaser for such Defective Mortgage Loan plus interest at the Pass-Through Rate on the principal amount thereof from the date of Purchaser's purchase of the related Mortgage Loan Pool to the date of such repurchase or (ii) deliver to Custodian a Mortgage Loan in exchange for such Defective Mortgage Loan, which newly delivered Mortgage Loan shall be in all respects acceptable to Purchaser in Purchaser's reasonable discretion. If the aggregate principal balance of all Mortgage Loan(s) that are accepted by Purchaser pursuant to clause (ii) of the immediately preceding sentence is less than the aggregate principal balance of all Defective Mortgage Loan(s) that are being replaced by such Mortgage Loan(s), Seller shall remit with such Mortgage Loan to Purchaser an amount equal to the difference between the aggregate principal balance of the new Mortgage Loan(s) accepted by Purchaser and the aggregate principal balance of the Defective Mortgage Loan(s) being replaced thereby.

(c)(2) If Seller fails to comply with its obligations in the manner described in Section 3(c)(1), not later than the third day after receipt by Seller of notice from Purchaser, Seller's rights and obligations to service Mortgage Loan(s) as provided in this Agreement, shall terminate. If an Act of Insolvency occurs at any time, Seller's rights and obligations to service the Mortgage Loan(s), as provided in this Agreement, shall terminate immediately, without any notice or action by Purchaser.

Upon any such termination, Purchaser is hereby authorized and empowered as the exclusive agent for Seller to sell and transfer such rights to service the Mortgage Loan(s) for such price and on such terms and conditions as Purchaser shall reasonably determine, and Seller shall not otherwise

attempt to sell or transfer such rights to service without the prior consent of Purchaser. Seller shall perform all acts and take all action so that the Mortgage Loan(s) and all files and documents relating to such Mortgage Loan(s) held by Seller, together with all escrow amounts relating to such Mortgage Loan(s), are delivered to Successor Servicer. To the extent that the approval of any Third Party Underwriter or any other insurer or guarantor is required for any such sale or transfer, Seller shall fully cooperate with Purchaser to obtain such approval. Upon exercise by Purchaser of its remedies under this Section 3(c)(2), Seller hereby authorizes Purchaser to receive all amounts paid by any purchaser of such rights to service the Mortgage Loan(s) and to remit such amounts to Seller subject to Purchaser's rights of set-off under this Agreement. Upon exercise by Purchaser of its remedies under this Section 3(c)(2), Purchaser's obligation to pay and Seller's right to receive any portion of the Completion Fee relating to such Mortgage Loan(s) shall automatically be canceled and become null and void, provided that such cancellation shall in no way relieve Seller or otherwise affect the obligation of Seller to indemnify and hold Purchaser harmless as specified in Section 3(e).

(d) Each Mortgage Loan required to be delivered to Successor Servicer by Section 3(c)(2) shall be delivered free of any servicing rights in favor of Seller and free of any title, interest, lien, encumbrance or claim of any kind of Seller and Seller hereby waives its right to assert any interest, lien, encumbrance or claim of any kind. Seller shall deliver or cause to be delivered all files and documents relating to each Mortgage Loan held by Seller to Successor Servicer. Seller shall promptly take such actions and furnish to Purchaser such documents that Purchaser deems necessary or appropriate to enable Purchaser to cure any defect in each such Mortgage Loan or to enforce such Mortgage Loans, as appropriate.

(e) In the event that a Mortgage Loan or Mortgage Pool is not purchased by a Takeout Investor on or before the Cure Date, upon not less than five (5) days notice from Purchaser to Seller, Seller shall either obtain a Commitment from another Takeout Investor to purchase such Mortgage Loan or Mortgage Pool or issue a Commitment on its own behalf to purchase such Mortgage Loan or Mortgage Pool.

(f) Seller agrees to indemnify and hold Purchaser and its assigns harmless from and against all Losses resulting from or relating to any breach or failure to perform by Seller of any representation, warranty, covenant, term or condition made or to be performed by Seller under this Agreement.

(g) No exercise by Purchaser of its rights under this Section 3 shall relieve Seller of responsibility or liability for any breach of this Agreement.

(h) Seller hereby grants Purchaser a right of set-off against the payment of any amounts that may be due and payable to Purchaser from Seller, such right to be upon any and all monies or other property of Seller held or received by Purchaser, or due and owing from Purchaser to Seller.

SECTION 4. COMPLETION FEE.

(a) With respect to each Mortgage Loan Pool that Purchaser elects to purchase hereunder, Purchaser shall pay to Seller a Completion Fee. The Completion Fee shall be payable by Purchaser as provided in subsection (e) below.

(b) For purposes of calculating that portion of' the Completion Fee composed of the "Net Carry Adjustment", the Net Carry Adjustment shall be an amount (which may be a negative number) equal to (A) the product obtained by multiplying the number of days in the period beginning on the Purchase Date to but not including the Settlement Date and the difference between (i) the product of' the rate of interest to be borne by the related Mortgage Loans in the Mortgage Pool and the aggregate principal amount of such Mortgage Loans and (ii) the daily application of the applicable Pass-Through Rate to the Purchase Price; divided by (B) 360.

(c) If a Mortgage Loan Pool is purchased by Purchaser in the month prior to the month in which the related Settlement Date occurs, (A) all interest which accrues on the related Mortgage Loans, on and after the Purchase Date, through the last day of the month prior to the month in which such Settlement Date occurs, shall be paid to Purchaser by Seller, as servicer, on the related Settlement Date and (B) all interest which accrues on the Mortgage Loans in such Mortgage Loan Pool on and after the first day of the month in which such Settlement Date occurs, through the day immediately prior to such Settlement Date, will be paid to Purchaser by Takeout Investor on such Settlement Date unless such Settlement Date occurs after the Cut-off Date of such month in which event Seller, as servicer, shall pay such amount to Purchaser on such Settlement Date. If a Mortgage Loan Pool is purchased by Purchaser in the same month in which the related Settlement Date occurs, (A) all interest, if any, which accrues on such Mortgage Loan(s) from the first day of such month to but not including the related Purchase Date shall be paid by Purchaser to Seller on such Settlement Date, and (B) all interest which accrues on such Mortgage Loan(s), on and after the Purchase Date to but not including the Settlement Date will be paid to Purchaser by Takeout Investor on the Settlement Date unless such Settlement Date occurs after the Cut-off Date or in a month in which interest has been prepaid by the Mortgagor in either of which events Seller, as servicer, shall pay such amount to Purchaser on such Settlement Date. For purposes of this paragraph all interest payments shall be deemed to accrue at the applicable rate set forth in the related Takeout Commitment.

(d) It is understood by Seller and Purchaser that, if Seller requests and Purchaser agrees to pay the Completion Fee prior to the Settlement Date, the amount of such Completion Fee shall be adjusted as mutually agreed by Seller and Purchaser.

(e) The Completion Fee relating to each Mortgage Loan Pool is payable on the earlier to occur of (1) the date of receipt by Purchaser of the Trade Price, and (2) the satisfaction by Seller of its obligations pursuant to this Agreement notwithstanding the exercise by Purchaser of any remedial election authorized herein.

SECTION 5. SERVICING OF THE MORTGAGE LOANS.

(a) Seller shall service and administer the Mortgage Loan(s) on behalf of Purchaser in accordance with prudent mortgage loan servicing standards and procedures generally accepted in the mortgage banking industry and in accordance with the requirements of Takeout Investor, provided that Seller shall at all times comply with applicable law, and the requirements of any applicable insurer or guarantor including, without limitation, any Third Party Underwriter, so that the insurance in respect of any Mortgage Loan is not voided or reduced. Seller shall at all times maintain accurate and complete records of its servicing of each Mortgage Loan, and Purchaser may, at any time during Seller's business hours on reasonable notice, examine and make copies of such records. In addition, if a Mortgage Loan is not purchased by Takeout Investor on or before the Cure Date, Seller shall at Purchaser's request deliver to Purchaser monthly reports regarding the status of such Mortgage Loan, which reports shall include, but

shall not be limited to, a description of each Mortgage Loan in default for more than thirty (30) days, and such other circumstances with respect to any Mortgage Loan (whether or not such Mortgage Loan is included in the foregoing list) that could materially adversely affect any such Mortgage Loan, Purchaser's ownership of any such Mortgage Loan or the collateral securing any such Mortgage Loan. Seller shall deliver such a report to Purchaser every thirty (30) days until (i) the purchase by Takeout Investor of such Mortgage Loan pursuant to the related Takeout Commitment or (ii) the exercise by Purchaser of any remedial election pursuant to Section 3.

(b) Within five (5) business days of notice from Purchaser, Seller shall establish and maintain a separate custodial account (the "Custodial Account") entitled "[Name of Seller], in trust for Prudential Securities Realty Funding Corporation and its assignees under the Mortgage Loan Purchase and Sale Agreement dated [the date of this Agreement]" and shall promptly deposit into such account in the form received with any necessary endorsements all collections received in respect of each Mortgage Loan that are payable to Purchaser as the owner of each such Mortgage Loan.

(c) Amounts deposited in the Custodial Account with respect to any Mortgage Loan shall be held in trust for Purchaser as the owner of such Mortgage Loan and shall be released only as follows:

(1) Except as otherwise provided in Section 5(c)(2), following receipt by Purchaser or its designee of the Takeout Proceeds for such Mortgage Loan from Takeout Investor, amounts deposited in the Custodial Account related to such Mortgage Loan not otherwise subject to setoff as provided hereunder shall be released to Seller. The amounts paid to Seller (if any) pursuant to this Section 5(c)(1) shall constitute Seller's sole compensation for servicing the Mortgage Loans as provided in this Section 5.

(2) If Successor Servicer takes delivery of such Mortgage Loan (either under the circumstances set forth in Section 3 or otherwise), all amounts deposited in the Custodial Account shall be paid to Purchaser promptly upon such delivery.

(3) If a Mortgage Loan is not purchased by Takeout Investor on or before the Cure Date, during the period thereafter that Seller remains as servicer, all amounts deposited in the Custodial Account shall be released only in accordance with a Purchaser's written instructions.

SECTION 6. TRADE ASSIGNMENTS.

Seller hereby assigns to Purchaser, free of any security interest, lien, claim or encumbrance of any kind, Seller's rights, under each Takeout Commitment as to which Takeout Investor has consented to assignment, to deliver the Mortgage Loan(s) specified therein to the related Takeout Investor and to receive the Takeout Proceeds therefore from such Takeout Investor. Purchaser shall not be deemed to have accepted any Trade Assignment unless and until it purchases the related Mortgage Loans, and nothing set forth herein shall be deemed to impair Purchaser's right to reject any Mortgage Loan for any reason, in its sole discretion.

SECTION 7. TRANSFERS OF BENEFICIAL INTEREST IN MORTGAGE LOANS BY PURCHASER.

Purchaser may, in its sole discretion, assign all of its right, title and interest in or grant a security interest in any Mortgage Loan sold by Seller hereunder and all rights of Purchaser under this Agreement and the Custodial Agreement, in respect of such Mortgage Loan to a tri-party custody and clearing agent ("Assignee"), subject only to an obligation on the part of Assignee to deliver each such Mortgage Loan to Takeout Investor pursuant to Section 6 or to Purchaser to permit Purchaser or its designee to make delivery thereof to a Takeout Investor pursuant to Section 6. It is anticipated that such assignment to an Assignee will be made by Purchaser, and Seller hereby irrevocably consents to such assignment. No notice of such assignment shall be given by Purchaser to Seller or Takeout Investor. Assignment by Purchaser of the Mortgage Loans as provided in this Section 7 shall not release Purchaser from its obligations otherwise under this Agreement.

Without limitation of the foregoing, an assignment of the Mortgage Loans to an Assignee, as described in this Section 7, shall be effective upon delivery to the Assignee of a duly executed and authenticated Trust Receipt.

SECTION 8. RECORD TITLE TO MORTGAGE LOANS; INTENT OF PARTIES; SECURITY

INTEREST.

(a) From and after the issuance and delivery of the related Trust Receipt, and subject to the remedies of Purchaser in Section 3, Seller shall remain the last named payee or endorsee of each Mortgage Note and the mortgagee or assignee of record of each Mortgage in trust for the benefit of Purchaser, for the sole purpose of facilitating the servicing of such Mortgage Loan.

(b) Seller shall maintain a complete set of books and records for each Mortgage Loan which shall be clearly marked to reflect the ownership interest in each Mortgage Loan of the holder of the related Trust Receipt.

(c) Purchaser and Seller confirm that the transactions contemplated herein are intended to be sales of the Mortgage Loans by Seller to Purchaser rather than borrowings secured by the Mortgage Loans. In the event, for any reason, any transaction is construed by any court or regulatory authority as a borrowing rather than as a sale, Seller and Purchaser intend that Purchaser or its Assignee, as the case may be, shall have a perfected first priority security interest in the Mortgage Loans, the Custodial Account, and all proceeds thereof, the Takeout Commitments and the proceeds of any and all of the foregoing (collectively, the "Collateral"), free and clear of adverse claims. In such case, Seller shall be deemed to have hereby granted to Purchaser or Assignee, as the case may be, a first priority security interest in and lien upon the Collateral, free and clear of adverse claims. In such event, this Agreement shall constitute a security agreement, the Custodian shall be deemed to be an independent custodian for purposes of perfection of the security interest granted to Purchaser or Assignee, as the case may be, and Purchaser or Assignee, as the case may be, shall have all of the rights of a secured party under applicable law.

SECTION 9. REPRESENTATIONS AND WARRANTIES.

(a) Seller hereby represents and warrants to Purchaser as of the date hereof and as of the date of each issuance and delivery of a Trust Receipt that:

(i) Seller is duly organized, validly existing and in good standing under the laws of the state of its organization and has all licenses necessary to carry on its

business as now being conducted and is licensed, qualified and in, good standing in the state where the Mortgaged Property is located if the laws of such state require licensing or qualification in order to conduct business of the type conducted by Seller. Seller has all requisite power and authority (including, if applicable, corporate power) to execute and deliver this Agreement and to perform in accordance herewith; the execution, delivery and performance of this Agreement (including all instruments of transfer to be delivered pursuant to this Agreement) by Seller and the consummation of the transactions contemplated hereby have been duly and validly authorized; this Agreement evidences the valid, binding and enforceable obligation of Seller; and all requisite action (including, if applicable, corporate action) has been taken by Seller to make this Agreement valid and binding upon Seller in accordance with its terms;

(ii) No approval of the transactions contemplated by this Agreement from the OTS, the NCUA, the FDIC or any similar federal or state regulatory authority having jurisdiction over Seller is required, or if required, such approval has been obtained. There are no actions or proceedings pending or affecting Seller which would adversely affect its ability to perform hereunder. The transfers, assignments and conveyances provided for herein are not subject to the bulk transfer or any similar statutory provisions in effect in any applicable jurisdiction;

(iii) The consummation of the transactions contemplated by this Agreement are in the ordinary course of business of Seller and will not result in the breach of any term or provision of the charter or by-laws of Seller or result in the breach of any term or provision of, or conflict with or constitute a default under or result in the acceleration of any obligation under, any agreement, indenture or loan or credit agreement or other instrument to which Seller or its property is subject, or result in the violation of any law, rule, regulation, order, judgment or decree to which Seller or its property is subject;

(iv) This Agreement, the Custodial Agreement and every document to be executed by Seller pursuant to this Agreement is and will be valid, binding and subsisting obligations of Seller, enforceable in accordance with their respective terms. No consents or approvals are required to be obtained by Seller or its Parent Company for the execution, delivery and performance of this Agreement or the Custodial Agreement by Seller;

(v) Seller has not sold, assigned, transferred, pledged or hypothecated any interest in any Mortgage Loan sold hereunder to any person other than Purchaser, and upon delivery of a related Trust Receipt to Purchaser, Purchaser will be the sole owner thereof, free and clear of any lien, claim or encumbrance; and

(vi) All information relating to Seller that Seller has delivered or caused to be delivered to Purchaser, including, but not limited to, all documents related to this Agreement, the Custodial Agreement or Seller's financial statements, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make

the statements made therein or herein in light of the circumstances under which they were made, not misleading.

(b) Seller hereby represents, warrants and covenants to Purchaser with respect to each Mortgage Loan as of the Purchase Date of such Mortgage Loan that:

(i) The Mortgage Loan conforms in all respects to the requirements of this Agreement, the Sale Agreement, the Commitment Guidelines and the requirements of the related Third Party Underwriter's Certificate;

(ii) Seller is the sole owner and holder of the Mortgage Loan free and clear of any and all liens, pledges, charges or security interests of any nature and has full right and authority, subject to no interest or participation of, or agreement with, any other party, to sell and assign the same pursuant to this Agreement;

(iii) No servicing agreement has been entered into with respect to the Mortgage Loan, or any such servicing agreement has been terminated and there are no restrictions, contractual or governmental, which would impair the ability of Purchaser or Purchaser's designees from servicing the Mortgage Loan;

(iv) The Mortgage is a valid and subsisting lien on the property therein described and the Mortgaged Property is free and clear of all encumbrances and liens having priority over the lien of the Mortgage except for liens for real estate taxes and special assessments not yet due and payable and other liens permitted by Purchaser. In the event that the Mortgage is not a first priority lien on the property described therein, there is no event of default or situation which upon the passage of time would become a default under any obligation secured by a senior lien on the Mortgaged Property. Any pledge account, security agreement, chattel mortgage or equivalent document related to, and delivered to Purchaser with the Mortgage, establishes in Seller a valid and subsisting lien on the property described and the priority provided therein, and Seller has full right to sell and assign the same to Purchaser;

(v) Neither Seller nor any prior holder of the Mortgage has modified the Mortgage in any material respect; satisfied, canceled or subordinated the Mortgage in whole or in part; released the Mortgaged Property in whole or in part from the lien of the Mortgage; or executed any instrument of release, cancellation, modification or satisfaction unless such release, cancellation, modification or satisfaction does not adversely affect the value of the Mortgage Loan and is contained in the related Document File;

(vi) The Mortgage Loan is not in default, and all Monthly Payments due prior to the Purchase Date and all taxes, governmental assessments, insurance premiums, water, sewer and municipal charges, leasehold payments or ground rents have been paid. Seller has not advanced funds, or induced or solicited any advance of funds by a party other than the Mortgagor directly or indirectly, for the payment of any amount required by the Mortgage Loan. The collection practices used by each entity which has serviced the Mortgage Loan have been in all respects legal, proper, prudent, and customary in the mortgage servicing business. With respect to escrow deposits and

payments in those instances where such were required, there exist no deficiencies in connection therewith for which customary arrangements for repayment thereof' have not been made and no escrow deposits or payments or other charges or payments have been capitalized under any Mortgage or the related Mortgage Note;

(vii) There is no default, breach, violation or event of acceleration existing under the Mortgage or the related Mortgage Note and no event which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration; and Seller has not waived any default, breach, violation or event of acceleration;

(viii) The Mortgage Loan is not subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, nor will the operation of any of the terms of the Mortgage Note or the Mortgage, or the exercise of any right thereunder, render either the Mortgage Note or the Mortgage unenforceable, in whole or in part, or subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto;

(ix) The Mortgage Note and the related Mortgage are genuine and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms. All parties to the Mortgage Note and the Mortgage had legal capacity to execute the Mortgage Note and the Mortgage and each Mortgage Note and Mortgage have been duly and properly executed by the Mortgagor;

(x) The Mortgage Loan meets, or is exempt from, applicable state or federal laws, regulations and other requirements pertaining to usury, and the Mortgage Loan is not usurious;

(xi) Any and all requirements of any federal, state or local law including, without limitation, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity or disclosure laws applicable to the Mortgage Loan have been complied with, and Seller shall deliver to Purchaser upon demand, evidence of compliance with all such requirements;

(xii) Either: (A) Seller and every other holder of the Mortgage, if any, were authorized to transact and do business in the jurisdiction in which the Mortgaged Property is located at all times when such party held the Mortgage; or (B) the loan of mortgage funds, the acquisition of the Mortgage (if Seller was not the original lender), the holding of the Mortgage and the transfer of the Mortgage did not constitute the transaction of business or the doing of business in such jurisdiction;

(xiii) Not less than 95% of the proceeds of the Mortgage Loan have been fully disbursed, there is no requirement for future advances thereunder greater than 5% of the Mortgage Loan and any and all requirements as to completion of any on-site or off-site improvements and as to disbursements of any escrow funds, therefore, have been

or will be complied with. All costs, fees and expenses incurred in making, closing or recording the Mortgage Loans were paid;

(xiv) The related Mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the Mortgaged Property of the benefits of the security, including, (i) in the case of a Mortgage designated as a deed of trust, by trustee's sale, and (ii) otherwise by judicial foreclosure. There is no homestead or other exemption available to the Mortgagor which would interfere with the right to sell the Mortgaged Property at a trustee's sale or the right to foreclose the Mortgage;

(xv) The Mortgage Loan was originated free of any "original issue discount" with respect to which the owner of the Mortgage Loan could be deemed to have income pursuant to Sections 1271 et seq. of the Internal Revenue Code;
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(xvi) Each Mortgage Loan was originated by an institution described in Section 3(a)(41)(A)(ii) of the Securities Exchange Act of 1934, as amended;

(xvii) At origination, the Mortgaged Property was free and clear of all mechanics' and materialmen's liens or liens in the nature thereof which are or could be prior to the Mortgage lien except as provided in the Mortgage, and no rights are outstanding that under law could give rise to any such lien;

(xviii) All of the improvements which are included for the purpose of determining the appraised value of the Mortgaged Property lie wholly within the boundaries and building restriction lines of such property, and no improvements on adjoining properties encroach upon the Mortgaged Property;

(xix) At origination, no improvement located on or being part of the Mortgaged Property was in violation of any applicable zoning law or regulation and all inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the Mortgaged Property, and with respect to the use and occupancy of the same, including but not limited to certificates of occupancy and fire underwriting certificates, had been made or obtained from the appropriate authorities and the Mortgaged Property was lawfully occupied under applicable law. No improvement located on or being part of the Mortgaged Property is in violation of any applicable zoning law or regulation and all inspections, licenses and certificates required to be made or issued with respect to the Mortgaged Property, and with respect to the use and occupancy of the same, including but not limited to certificates of occupancy and fire underwriting certificates, have been made or obtained from the appropriate authorities and the Mortgaged Property is lawfully occupied under applicable law;

(xx) There is no proceeding pending for the total or partial condemnation of the Mortgaged Property and said property is undamaged by waste, fire, earthquake or earth movement, windstorm, flood, tornado or other casualty;

(xxi) The Custodial File contains and the Credit File contains or shall contain prior to the Cure Date each of the documents and instruments specified to be included therein duly executed and in due and proper form and each such document or instrument is either in form acceptable to or to the best of the Seller's knowledge would be acceptable to FNMA or is a FNMA/FHLMC uniform instrument. Each Mortgage Note and Mortgage are on forms approved by to or to the best of the Seller's knowledge would be approved by FNMA with such riders as have been approved or to Seller's best knowledge would be approved by FNMA; Seller is currently in possession of the Custodial File for each Mortgage Loan and is in possession or shall be prior to the Expiration Date of the Credit File for each Mortgage Loan and there are no custodial agreements in effect adversely affecting the rights of Seller to make the deliveries required within the required time. Seller shall not deliver a Credit File to Takeout Investor after the related Commitment Date;

(xxii) Each Mortgage Loan is covered by a mortgage title insurance policy acceptable to FNMA, issued by, and the valid and binding obligation of, a title insurer acceptable to FNMA and qualified to do business in the jurisdiction where the Mortgaged Property is located, insuring Seller, its successors and assigns, as to the validity and appropriate priority of the lien created by the Mortgage in the original principal amount of the Mortgage Loan, Seller is the named insured and the sole insured of such mortgage title insurance policy, the assignment to Purchaser of Seller's interest in such mortgage title insurance policy does not require the consent of or notification to the insurer, such mortgage title insurance policy is in full force and effect and will be in full force and effect and inure to the benefit of Purchaser upon the consummation of the transactions contemplated by this Agreement and no claims have been made under such mortgage title insurance policy and no prior holder of the related Mortgage, including Seller, has done, by act or omission, anything which would impair the coverage of such mortgage title insurance policy;

(xxiii) All buildings upon the Mortgaged Property are insured against loss by fire, hazards of extended coverage and such other hazards as are customary in the area where the Mortgaged Property is located, pursuant to fire and hazard insurance policies with extended coverage or other insurance required by the Sale Agreement, in an amount at least equal to the lesser of (i) the outstanding principal balance of the Mortgage Loan or (ii) the maximum insurable value (replacement cost without deduction for depreciation) of the improvements constituting the Mortgaged Property. If applicable laws limit the amount of such insurance to the replacement cost of the improvements constituting the Mortgaged Property or to some other amount, then such insurance is in an amount equal to the maximum allowed by such laws. Such insurance amount is sufficient to prevent the Mortgagor or the loss payee under the policy from becoming a co-insurer. The insurer issuing such insurance is acceptable pursuant to the Sale Agreement. All individual insurance policies contain a standard mortgagee clause naming Seller, its successors and assigns, as mortgagee and all premiums thereon have been paid. Each Mortgage obligates the Mortgagor thereunder to maintain all such insurance at Mortgagor's cost and expense, and upon the Mortgagor's failure to do so, authorizes the holder of the Mortgage to obtain and maintain such insurance at Mortgagor's cost and

expense and to seek reimbursement therefor from the Mortgagor. Any flood insurance required by applicable law has been obtained;

(xxiv) The original principal amount of the related Mortgage Note (plus the amount of all other prior obligations for which their is a senior lien on the Mortgaged Property) either (a) was not more than 80% of the lesser of (i) the purchase price of the Mortgaged Property paid by the Mortgagor at the origination of the Mortgage Loan and (ii) the appraised value of the Mortgaged Property, such appraised value being, for the purposes hereof, the amount set forth in an appraisal made in connection with the origination of such Mortgage Loan, or (b) is and will be insured as to payment defaults by a policy of primary mortgage guaranty insurance in accordance with the Sale Agreement and all provisions of such primary mortgage guaranty insurance policy have been and are being complied with, such policy is in full force and effect, and all premiums due thereunder have been paid. Any Mortgage Loan subject to any such policy of primary mortgage guaranty insurance obligates the Mortgagor thereunder to maintain such insurance and pay all premiums and charges in connection therewith. The original principal amount of each Mortgage Note was not more than 95 % of the purchase price of the related Mortgaged Property paid by the Mortgagor at the origination of the Mortgage Loan. No action, event or state of facts exists or has existed which, because involving or arising from any dishonest, fraudulent, criminal, negligent or knowingly wrongful act, error or omission by the Mortgagor or the originator or servicer of the Mortgage Loan, would result in the exclusion from, denial of, or defense, to coverage which otherwise would be provided by such insurance;

(xxv) At the time that the related Mortgage Loan was made the Mortgagor represented that the Mortgagor would occupy such Mortgaged Property as Mortgagor's primary residence;

(xxvi) The Mortgaged Property consists of a single parcel of real property; and

(xxvii) There are no circumstances or conditions with respect to the Mortgage, the Mortgaged Property, the Mortgagor or the Mortgagor's credit standing that can be reasonably expected to cause private institutional investors to regard the Mortgage Loan as an unacceptable investment, cause the Mortgage Loan to become delinquent or adversely affect the value or marketability of the Mortgage Loan.

The representations and warranties of Seller in this Section 9 are unaffected by and supersede any provision in any endorsement of any Mortgage Loan or in any assignment with respect to such Mortgage Loan to the effect that such endorsement or assignment is without recourse or without representation or warranty.

SECTION 10. COVENANTS OF SELLER.

Seller hereby covenants and agrees with Purchaser as follows.

(a) Seller shall deliver to Purchaser:

(i) Within one hundred twenty (120) days after the end of each fiscal year of Seller, consolidated balance sheets of Seller and its consolidated subsidiaries and the related consolidated statements of income showing the financial condition of Seller and its consolidated subsidiaries as of the close of such fiscal year and the results of operations during such year, and a consolidated statement of cash flows, as of the close of such fiscal year, setting forth, in each case, in comparative form the corresponding figures for the preceding year, all the foregoing consolidated financial statements to be reported on by, and to carry the report (acceptable in form and content to Purchaser) of an independent public accountant of national standing acceptable to Purchaser;

(ii) Within sixty (60) days after the end of each of the first three fiscal quarters of each fiscal year of Seller, unaudited consolidated balance sheets and consolidated statements of income, all to be in a form acceptable to Purchaser, showing the financial condition and results of operations of Seller and its consolidated subsidiaries on a consolidated basis as of the end of each such quarter and for the then elapsed portion of the fiscal year, setting forth, in each case, in comparative form the corresponding figures for the corresponding periods of the preceding fiscal year, certified by a financial officer of Seller (acceptable to Purchaser) as presenting fairly the financial position and results of operations of Seller and its consolidated subsidiaries and as having been prepared in accordance with generally accepted accounting principles consistently applied, in each case, subject to normal year-end audit adjustments;

(iii) Promptly upon receipt thereof, a copy of each other report submitted to Seller by its independent public accountants in connection with any annual, interim or special audit of Seller;

(iv) Promptly upon becoming aware thereof, notice of (1) the commencement of, or any determination in, any legal, judicial or regulatory proceedings, (2) any dispute between Seller or its Parent Company and any governmental or regulatory body, (3) any event or condition, which, in any case of (1) or (2) if adversely determined, would have a material adverse effect on (A) the validity or enforceability of this Agreement, (B) the financial condition or business operations of Seller, or (C) the ability of Seller to fulfill its obligations under this Agreement or (4) any material adverse change in the business, operations, prospects or financial condition of Seller, including, without limitation, the insolvency of Seller or its Parent Company;

(v) Promptly upon becoming available, copies of all financial statements, reports, notices and proxy statements sent by its Parent Company, Seller or any of Seller's consolidated subsidiaries in a general mailing to their respective stockholders and of all reports and other material (including copies of all registration statements under the Securities Act of 1933, as amended) filed by any of them with any securities exchange or with the Securities and Exchange Commission or any governmental authority succeeding to any or all of the functions of said Commission;

(vi) Promptly upon becoming available, copies of any press releases issued by its Parent Company or Seller and copies of any annual and quarterly financial reports and any reports on Form H-(b)12 which its Parent Company or Seller may be required to file with the OTS or the RTC or comparable reports which a Parent Company or Seller may be required to file with the FDIC or any other federal banking agency containing such financial statements and other information concerning such Parent Company's or Seller's business and affairs as is required to be included in such reports in accordance with the rules and regulations of the OTS, the RTC, the FDIC or such other banking agency, as may be promulgated from time to time;

(vii) Such supplements to the aforementioned documents and such other information regarding the operations, business, affairs and financial condition of its Parent Company, Seller or any of Seller's consolidated subsidiaries as Purchaser may request;

(viii) A copy of (1) the articles of incorporation of Seller and any amendments thereto, certified by the Secretary of State of Seller's state of incorporation, (2) a copy of Seller's by-laws, together with any amendments thereto, (3) a copy of the resolutions adopted by Seller's Board of Directors authorizing Seller to enter into this Agreement and the Custodial Agreement and authorizing one or more of Seller's officers to execute the documents related to this Agreement and the Custodial Agreement, and (4) a certificate of incumbency and signature of each officer of Seller executing any document in connection with this Agreement;

(ix) Neither Seller nor any affiliate thereof will acquire at any time any economic interest in or obligation with respect to any Mortgage Loan;

(x) Under generally accepted accounting principles ("GAAP") and for federal income tax purposes, Seller will report each sale of a Mortgage Loan to the Purchaser hereunder as a sale of the ownership interest in the Mortgage Loan. Seller has been advised by or has confirmed with its independent public accountants that the foregoing transactions will be so classified under ("GAAP");

(xi) The consideration received by Seller upon the sale of each Mortgage Loan Pool will constitute reasonably equivalent value and fair consideration for the ownership interest in the Mortgage Loans included therein;

(xii) Seller will be solvent at all relevant times prior to, and will not be rendered insolvent by, any sale of a Mortgage Loan to the Purchaser; and

(xiii) Seller will not sell any Mortgage Loan to the Purchaser with any intent to hinder, delay or defraud any of Seller's creditors.

(b) Seller shall comply, in all material respects, with all laws, rules and regulations to which it is or may become subject.

(c) Seller shall, upon request of Purchaser, promptly execute and deliver to Purchaser all such other and further documents and instruments of transfer, conveyance and assignment, and shall take such other action as Purchaser may require more effectively to transfer, convey, assign to and vest in Purchaser and to put Purchaser in possession of the property to be transferred, conveyed, assigned and delivered hereunder and otherwise to carry out more effectively the intent of the provisions under this Agreement.

SECTION 11. TERM

This Agreement shall continue in effect until terminated as to future transactions by written instruction signed by either Seller or Purchaser and delivered to the other, provided that no termination will affect the obligations hereunder as to any of the Mortgage Loans purchased hereunder.

SECTION 12. EXCLUSIVE BENEFIT OF PARTIES; ASSIGNMENT.

This Agreement is for the exclusive benefit of the parties hereto and their respective successors and assigns and shall not be deemed to give any legal or equitable right to any other person, including the Custodian. Except as provided in Section 7, no rights or obligations created by this Agreement may be assigned by any party hereto without the prior written consent of the other parties.

SECTION 13. AMENDMENTS; WAIVERS; CUMULATIVE RIGHTS.

This Agreement may be amended from time to time only by written agreement of Seller and Purchaser. Any forbearance, failure or delay by either party in exercising any right, power or remedy hereunder shall not be deemed to be a waiver thereof, and any single or partial exercise by Purchaser of any right, power or remedy hereunder shall not preclude the further exercise thereof. Every right, power and remedy of Purchaser shall continue in full force and effect until specifically waived by Purchaser in writing. No right, power or remedy shall be exclusive, and each such right, power or remedy shall be cumulative and in addition to any other right, power or remedy, whether conferred hereby or hereafter available at law or in equity or by statute or otherwise.

SECTION 14. EXECUTION IN COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

SECTION 15. EFFECT OF INVALIDITY OF PROVISIONS.

In case any one or more of the provisions contained in this Agreement should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall in no way be affected, prejudiced or disturbed thereby.

SECTION 16. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflict of laws rules.

SECTION 17. NOTICES.

Any notices, consents, elections, directions and other communications given under this Agreement shall be in writing and shall be deemed to have been duly given when telecopied or delivered by overnight courier, personally delivered, or on the third day following the placing thereof in the mail, first class postage prepaid, to the respective addresses set forth on the cover page hereof for Seller and Purchaser, or to such other address as either party shall give notice to the other party pursuant to this Section 17. Notices to any Assignee shall be given to such address as Assignee shall provide to Seller in writing.

SECTION 18. ENTIRE AGREEMENT.

This Agreement and the Custodial Agreement contain the entire agreement between the parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements between them, oral or written, of any nature whatsoever with respect to the subject matter hereof.

SECTION 19. COSTS OF ENFORCEMENT.

In addition to any other indemnity specified in this Agreement, in the event of a breach by Seller of this Agreement, the Custodial Agreement or a Takeout Commitment, Seller agrees to pay the reasonable attorneys' fees and expenses of Purchaser and/or Assignee incurred as a consequence of such breach.

SECTION 20. CONSENT TO SERVICE.

Each party irrevocably consents to the service of process by registered or certified mail, postage prepaid, to it at its address given in or pursuant to Section 17.

SECTION 21. SUBMISSION TO JURISDICTION.

With respect to any claim arising out of this Agreement each party (a) irrevocably submits to the nonexclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, and (b) irrevocably waives (i) any objection which it may have at any time to the laying of venue of any suit, action or proceeding arising out of or relating hereto brought in any such court, (ii) any claim that any such suit, action or proceeding brought in any such court has been brought in any inconvenient forum and (iii) the right to object, with respect to such claim, suit, action or proceeding brought in any such court, that such court does not have jurisdiction over such party.

SECTION 22. JURISDICTION NOT EXCLUSIVE.

Nothing herein will be deemed to preclude either party hereto from bringing an action or proceeding in respect of this Agreement in any jurisdiction other than as set forth in Section 21.

SECTION 23. CONSTRUCTION.

The headings in this Agreement are for convenience only and are not intended to influence its construction. References to Sections, Exhibits and Annexes in this Agreement are to the Sections of and Exhibits to this Agreement. The Exhibits are part of this Agreement, and are incorporated herein by reference. The singular includes the plural, the plural the singular, and the words "and" and "or" are used in the conjunctive or disjunctive as the sense and circumstances may require.

IN WITNESS WHEREOF, Purchaser and Seller have duly executed this Agreement as of the date and year set forth on the cover page hereof.

PRUDENTIAL SECURITIES REALTY FUNDING CORPORATION

By: /s/ Michael Pillari

Name: Michael Pillari
Title: Vice President

NVR MORTGAGE FINANCE, INC.

By: /s/ James L. Callison

Name: James L. Callison
Title: Senior Vice President
Address (if different from cover page):

PURCHASE AND SALE AGREEMENT

MORTGAGE LOAN PURCHASE AND SALE AGREEMENT

between

[NVR MORTGAGE FINANCE, INC.]

Seller

and

PRUDENTIAL SECURITIES REALTY FUNDING CORPORATION
Purchaser

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MORTGAGE LOAN PURCHASE AND SALE AGREEMENT

This is a MORTGAGE LOAN PURCHASE AND SALE AGREEMENT ("Agreement"), dated as of January 15, 1997 between PRUDENTIAL SECURITIES REALTY FUNDING CORPORATION ("Purchaser and [NVR MORTGAGE FINANCE, INC.] ("Seller").

PRELIMINARY STATEMENT

Seller desires to sell to Purchaser from time to time all of Seller's right, title and interest in and to designated pools of full amortizing first lien residential Mortgage Loans eligible in the aggregate to back Securities with the terms described in related Takeout Commitments, each in the form of a 100% ownership interest evidenced by a Participation Certificate.

Purchaser desires and may in its sole discretion purchase such Participation Certificates from Seller in accordance with the terms and conditions set forth in this Agreement. Seller, subject to the terms hereof, will cause (a) Mortgage Loans evidenced by a Participation Certificate to back a GNMA Security issued by Seller and guaranteed by GNMA, a FNMA Security issued and guaranteed by FNMA or a FHLMC Security issued and guaranteed by FHLMC and (b) Delivery of such GNMA Security, FNMA Security or FHLMC Security by GNMA, FNMA or FHLMC to Purchaser or its designee, which GNMA Security, FNMA Security or FHLMC Security will be purchased by a Takeout Investor.

Purchaser's willingness to purchase any Participation Certificate evidencing particular Mortgage Loans is based on Purchaser's expectation, in reliance upon Seller's representations and warranties herein, that such Mortgage Loans in the aggregate, constitute a pool or pools of mortgage loans that are eligible to back a Security and that the Security, in the amount and with the terms described in the related Takeout Commitment, will be issued and Purchaser will receive Delivery thereof within the time period agreed upon between Purchaser and Seller and reflected in the terms of such Participation Certificate.

The amount of the Purchase Price and the Completion Fee to be paid by Purchaser to Seller with respect to each Participation Certificate will be calculated on the expectation of Purchaser, based upon the representations and warranties of the Seller herein, that Purchaser will receive Delivery of the Security to be backed by the Mortgage Loans evidenced by the Participation Certificate purchased by Purchaser on the specified Anticipated Delivery Date and that failure to receive such Delivery will result in a material decrease in the market value of the Participation Certificate and the underlying Mortgage Loans considered as a whole. During the period from the purchase of a Participation Certificate to Delivery of the related Security, Purchaser expects to rely entirely upon Seller to service the Mortgage Loans evidenced by the applicable Participation Certificate, it being acknowledged that the continued effectiveness of Seller's Approvals during such period constitutes an essential factor in the calculation by Purchaser of the Purchase Price and the Completion Fee paid to Seller for the related Participation Certificate and that loss of such Approvals by Seller would result in a material decrease in the market value of the Participation Certificate and the underlying Mortgage Loans considered as a whole.

The parties hereto hereby agree as follows:

Section 1. Definitions.

Capitalized terms used but not defined herein shall have the meanings set forth in the Custodial Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Act of Insolvency": With respect to Seller, (a) the commencement by Seller as debtor of any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar law, or Seller's seeking the appointment of a receiver, trustee, custodian or similar official for Seller or any substantial part of its property, or (b) the commencement of any such case or proceeding against Seller, or another seeking such appointment, or the filing against Seller of an application for a protective decree which (1) is consented to or not timely contested by Seller, (2) results in the entry of an order for relief, such an appointment, the issuance of such a protective decree or the entry of an order having a similar effect, or (3) is not dismissed within thirty (30), (c) the making by Seller of a general assignment for the benefit of creditors, or (d) the admission in writing by Seller that Seller is unable to pay its debts as they become due or the nonpayment generally by Seller of its debts as they become due.

"Affiliate": With respect to any specified entity, any other entity controlling or controlled by or under common control with such specified entity. For the purposes of this definition, "control" when used with respect to any specified entity means the power to direct the management and policies of such entity, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" having meanings correlative to the foregoing.

"Agency Guide": The FHLMC Guide, the FNMA Guide or the GNMA Guide, as applicable.

"Agency Program": The FHLMC Program, the FNMA Program or the GNMA Program, as applicable.

"Anticipated Delivery Date": With respect to a Security, the date specified in the related Form HUD 11705 (Schedule of Subscribers), Fannie Mae Form 2014 (Delivery Schedule), or FHLMC Form 939 (Settlement and Information Multiple Registration Form), as applicable, on which it is anticipated that Delivery of the Security by the Applicable Agency will be made.

"Applicable Agency": GNMA, FNMA or FHLMC, as applicable.

"Approvals": With respect to the Seller, the approvals obtained by the Applicable Agency in designation of such Seller as a GNMA-approved issuer, a GNMA-approved servicer, a FHA-approved mortgagee, a VA-approved lender, a FNMA approved lender or a FHLMC-approved Seller/Servicer, as applicable, in good standing.

"Assignee": As defined in Section 7.

"Assignment of Mortgage": As defined in Section 7.

"Collateral": As defined in Section 8(c).

"Completion Fee": With respect to each Participation Certificate, an amount equal to the Final Installment plus the Net Carry Adjustment, less any reduction pursuant to Section 4(c), which amount shall be payable to Seller by Purchaser as compensation to Seller for its services in connection with the issuance of a Security.

"Confirmation": A written confirmation of Purchaser's intent to purchase a Participation Certificate, which written confirmation shall be substantially in the form attached hereto as Exhibit F.

"Custodial Account": As defined in Section 6(b).

"Custodial Agreement": The Custodial Agreement, dated of even date herewith, among Seller, Purchaser and Custodian.

"Custodian": _____ (which, under the appropriate circumstance, may include FHLMC as Custodian) and its permitted successors under the Custodial Agreement.

"Defective Mortgage Loan": With respect to a Participation Certificate, a mortgage loan that is not in Strict Compliance with the GNMA Program, FNMA Program or FHLMC Program, as applicable.

"Delivery": The later to occur of (a) the issuance of the related Security and (b) the transfer of all of the right, title and ownership interest in that Security to Purchaser.

"Discount": With respect to each Participation Certificate, the portion of the Trade Principal of the related Security agreed upon by Seller and Purchaser, as set forth in the related Confirmation, to reserve for the possibility that Seller may be unable to perform its obligations under this Agreement in accordance with their terms.

"FDIC": The Federal Deposit Insurance Corporation or any successor thereto.

"FHA": The Federal Housing Administration or any successor thereto.

"FHLMC": The Federal Home Loan Mortgage Corporation or any successor thereto.

"FHLMC as Custodian": With respect to FHLMC Participation Certificates, the circumstances in which Seller elects to appoint FHLMC (as opposed to some other third party as permitted by the FHLMC Guide) as Custodian for the FHLMC Mortgage Loans subject to the FHLMC Participation Certificates to be purchased by Purchaser hereunder.

"FHLMC Guide": The Freddie Mac Sellers' and Servicers' Guide, as such Guide may hereafter from time to time be amended.

"FHLMC Mortgage Loan": With respect to any FHLMC Participation Certificate or any FHLMC Security, a mortgage loan that is in Strict Compliance with the eligibility requirements specified for the applicable FHLMC Program described in the FHLMC Guide.

"FHLMC Participation Certificate": With respect to the FHLMC Program, a certificate, in the form of Exhibit A, issued by Seller and authenticated by Custodian, evidencing the 100% undivided ownership interest in the Mortgage Loans that are either (a) set forth on a copy of the FHLMC Form 11 (Mortgage Submission Schedule) attached to such Participation Certificate or ((b)) identified on a computer tape compatible with MIDANET as belonging to the mortgage loan pool described in such Participation Certificate.

"FHLMC Program": The FHLMC Home Mortgage Guarantor Program or the FHLMC FHA/VA Home Mortgage Guarantor Program, as described in the FHLMC Guide.

"FHLMC Security": A modified pass-through mortgage-backed participation certificate, evidenced by a book-entry account in a depository institution having book-entry accounts at the Federal Reserve Bank of New York, issued and guaranteed, with respect to timely payment of interest and ultimate payment of principal, by FHLMC and backed by a pool of FHLMC Mortgage Loans, in substantially the principal amount and with substantially the other terms as specified with respect to such FHLMC Security in the related Takeout Commitment, if any.

"Final Installment": The amount equal to the difference between the Trade Principal and the Initial Installment.

"FNMA" or "Fannie Mae": Federal National Mortgage Association or any successor thereto.

"FNMA" Guide": The Fannie Mae MBS Selling and Servicing Guide, as such Guide may hereafter from time to time be amended.

"FNMA" Mortgage Loan": With respect to any FNMA" Participation Certificate or any FNMA Security, a mortgage loan that is in Strict Compliance with the eligibility requirements specified for the applicable FNMA Program described in the FNMA Guide.

"FNMA" Participation Certificate": With respect to the FNMA Program, a certificate, in the form of Exhibit A, authenticated by Custodian, evidencing the 100% undivided ownership interest in the Mortgage Loans set forth on Fannie Mae Form 2005 (Schedule of Mortgages).

"FNMA Program": The FNMA Guaranteed Mortgage-Backed Securities Programs, as described in the FNMA Guide.

"FNMA Security": An ownership interest in a pool of FNMA Mortgage Loans, evidenced by a book-entry account in a depository institution having book-entry accounts at the Federal Reserve Bank of New York, in substantially the principal amount and with substantially the other terms as specified with respect to such FNMA Security in the related Takeout Commitment, if any.

"GNMA": Government National Mortgage Association or any successor thereto.

"GNMA Guide": The GNMA Mortgage-Backed Securities Guide I or II, as such Guide may hereafter from time to time be amended.

"GNMA Mortgage Loan": With respect to any GNMA Participation Certificate or any GNMA Security, a mortgage loan that is in Strict Compliance with the eligibility requirements specified for the applicable GNMA Program in the applicable GNMA Guide.

"GNMA Participation Certificate": With respect to the GNMA Program, a certificate, in the form of Exhibit A, issued by Seller and authenticated by Custodian, evidencing the 100% undivided ownership interest in the Mortgage Loans set forth on the Form HUD 11706 (Schedule of Pooled Mortgages).

"GNMA Program": The GNMA Mortgage-Backed Securities Programs, as described in a GNMA Guide.

"GNMA Security": A fully-modified pass-through mortgage-backed certificate guaranteed by GNMA, evidenced by a book-entry account in a depository institution having book-entry accounts at Participants Trust Company and backed by a pool of GNMA Mortgage Loans, in substantially the principal amount and with substantially the other terms as specified with respect to such GNMA Security in the related Takeout Commitment, if any.

"HUD": United States Department of Housing and Urban Development or any successor thereto.

"Initial Installment": The excess of the Trade Principal over the Discount.

"Issuance Date": With respect to a Security, the first day of the month in the month when the Security is issued.

"Losses": Any and all losses, claims, damages, liabilities or expenses, including reasonable administrative expenses and attorneys' fees and expenses, incurred by any person specified; provided, however, that "Losses" shall not include any losses, claims, damages, liabilities or expenses which would have been avoided had such person taken reasonable actions to mitigate such losses, claims, damages, liabilities or expenses.

"MIDANET": The FHLMC automated system by which sellers and servicers of mortgage loans to FHLMC transfer mortgage summary and record data or mortgage accounting and servicing information from their computer system or service bureau to FHLMC, as more fully described in the FHLMC Guide.

"Mortgage": A mortgage, deed of trust or other security instrument, securing a Mortgage Note.

"Mortgage Loan": A GNMA Mortgage Loan, a FNMA Mortgage Loan or a FHLMC Mortgage Loan.

"Mortgage Note": A promissory note or other evidence of indebtedness of the obligor thereunder, evidencing a Mortgage Loan, and secured by the related Mortgage.

"Net Carry Adjustment": As defined in Section 4(b).

"OTS": Office of Thrift Supervision or any successor thereto.

"Parent Company": A corporation or other entity owning at least 50% of the outstanding shares of voting stock of Seller.

"Participation Certificate": A GNMA Participation Certificate, a FNMA Participation Certificate or a FHLMC Participation Certificate, as applicable.

"Purchase Date": With respect to a Participation Certificate, the date on which Purchaser elects to purchase such Participation Certificate.

"Purchase Price": With respect to each Participation Certificate, the Trade Principal of the Security to be backed by the Mortgage Loans evidenced by the Participation Certificate. Such Purchase Price shall be payable (i) on the Purchase Date in an amount equal to the Initial Installment and (ii) on the Settlement Date in an amount equal to the Final Installment. Accrued interest shall be allocated in accordance with Section 4(c).

"Purchaser": Prudential Securities Realty Funding Corporation and its successors in interest, including, but not limited to, any lender, designee or assignee to whom a Participation Certificate or a Security shall be pledged or assigned.

"Receipt": The Delivery of a Security, upon notice by Seller to Purchaser, not later than 12:00 noon, Eastern Standard Time, on the second business day prior to the applicable Settlement Date, of (a) the amount of any change in the principal amount of the Mortgage Loans backing such Security, and (b) with respect to FHLMC Securities, the FHLMC Mortgage Loan pool number applicable to such Security. If the Seller fails to so notify Purchaser, "Receipt" shall be deemed to have occurred on the later of (1) the second business day after the date on which Seller provides such notification to Purchaser and (2) the date on which Purchaser receives Delivery of the Security.

"RTC": Resolution Trust Corporation or any successor thereto.

"Security": A GNMA Security, a FNMA Security or a FHLMC Security.

"Security Issuance Deadline": The date by which the Security must be issued and delivered to the Purchaser, which, unless otherwise agreed to by the Purchaser as provided herein, shall be the Anticipated Delivery Date.

"Security Issuance Failure": Failure of the Security to be issued for any reason whatsoever on or before the Security Issuance Deadline.

"Servicing Termination Events": As defined in Section 6(e).

"Settlement Date": The date specified in a Takeout Commitment upon which the related Security is scheduled to be delivered, against payment, to the specified Takeout Investor.

"Strict Compliance": shall mean compliance of Seller and the Mortgage Loans with the requirements of the GNMA Guide, FNMA Guide or FHLMC Guide, as applicable and as amended by

any agreements between Seller and the Applicable Agency, sufficient to enable Seller to issue and GNMA to guarantee or FNMA or FHLMC to issue and guarantee a Security, provided that until copies of any such agreements between Seller and the Applicable Agency have been provided to Purchaser by Seller, such agreements shall be deemed, as between Seller and Purchaser, not to amend the requirements of the GNMA Guide, FNMA Guide or FHLMC Guide, as applicable.

"Successor Servicer": An entity with the necessary Approvals, as the circumstances may require, and designated by Purchaser, in conformity with Sections 5 (c) (2) or 6 (e), to replace Seller as issuer and servicer, mortgagee or seller/servicer of the Mortgage Loans or the Securities related thereto.

"Takeout Commitment": A fully executed trade confirmation from the Takeout Investor to Seller confirming the details of a forward trade between the Takeout Investor and Seller with respect to one or more Securities, which trade confirmation shall be enforceable and in full force and effect, and shall be validly and effectively assigned to Purchaser pursuant to a Trade Assignment, and relate to pools of Mortgage Loans that satisfy the "good delivery standards" of the Public Securities Association as set forth in the Public Securities Association Uniform Practices Guide.

"Takeout Investor": A securities dealer or other financial institution, acceptable to Purchaser, who has made a Takeout Commitment.

"Trade Assignment": A letter substantially in the form of Exhibit B.

"Trade Price": The price (expressed as a percentage of the initial principal amount of the Security) specified in a Takeout Commitment at which a Takeout Investor is obligated to purchase the Security specified in such Takeout Commitment.

"Trade Principal": The product of the Trade Price and the initial principal amount of the related Security.

"Transaction Rate": The rate of interest borne by the related Participation Certificate, which rate or rates shall be set forth, and shall adjust as described, in the related Confirmation.

"VA": United States Department of Veterans Affairs or any successor thereto.

"Warehouse Lender": Any lender providing financing to the Seller for the purpose of originating Mortgage Loans, which has a security interest in such Mortgage Loans as collateral for the obligations of Seller to such lender.

"Wire Instructions": The wire instructions set forth opposite the name of the Warehouse Lender in a letter, in the form of Exhibit G to the Custodial Agreement, executed by Seller and Custodian, receipt of which has been acknowledged by Purchaser.

SECTION 2. PROCEDURES FOR PURCHASES OF PARTICIPATION CERTIFICATES.

(a) Purchaser may, in its sole discretion from time to time, purchase one or more Participation Certificates from Seller. Seller, on behalf of Purchaser, shall arrange for the Delivery to Purchaser of a Security backed by the Mortgage Loans evidenced need by any Participation Certificate so

purchased, which Security shall be subject to a Takeout Commitment. Purchaser's obligation to purchase any Participation Certificate which Purchaser elects to purchase, shall be subject to the receipt by the Purchaser of the documents listed in Exhibit C from Seller, in form and substance satisfactory to Purchaser, and the execution of the Custodial Agreement relating to the Participation Certificate by Seller and Custodian and delivery thereof to Purchaser. Notwithstanding the satisfaction of the conditions specified in this Section 2(a), Purchaser is not obligated to purchase any Participation Certificate offered to it hereunder.

(b) If Purchaser elects to purchase any Participation Certificate, Purchaser shall pay to Seller, on the Purchase Date, the amount of the Initial Installment for such Participation Certificate. In the event that Purchaser does not transmit the Initial Installment, (i) any Participation Certificate delivered by Custodian to Purchaser in anticipation of such purchase shall automatically be null and void, (ii) Purchaser will not consummate the transactions contemplated in the applicable Trade Assignment and (iii) to the extent that Purchaser shall nevertheless receive the Security backed by the Mortgage Loans to which such Participation Certificate relates prior to its becoming null and void as provided in clause (i) above, Purchaser shall take all reasonable actions necessary to ensure that such Security shall be delivered in accordance with Seller's delivery instructions specified in Annex A.

(c) The terms and conditions of the purchase of each Participation Certificate shall be as set forth in this Agreement. Each Participation Certificate shall be deemed to incorporate, and Seller shall be deemed to make as of the applicable dates specified in Section 9, for the benefit of Purchaser and each Assignee of such Participation Certificate, the representations and warranties set forth in Section 9.

(d) Purchaser shall provide a Confirmation to Seller as soon as practicable after the Purchase Date. In the event of any conflict between the terms of a Confirmation and this Agreement, the Confirmation shall prevail.

SECTION 3. TAKEOUT COMMITMENTS.

Seller hereby assigns to Purchaser, free of any security interest, lien, claim or encumbrance of any kind, Seller's rights under each Takeout Commitment to deliver the Security specified therein to the related Takeout Investor and to receive the purchase price therefor from such Takeout Investor. Subject to Purchaser rights hereunder, Purchaser agrees that it will satisfy the Takeout Commitment on the Settlement Date specified therein. Seller understands that, as a result of this Section 3 and each Trade Assignment, Purchaser will succeed to the rights and obligations of Seller with respect to each Takeout Commitment subject to a Trade Assignment, and that in satisfying each such Takeout Commitment, Purchaser, will stand in the shoes of Seller and, consequently, will be acting as a non-dealer in exercising its rights and fulfilling its obligations assigned pursuant to this Section 3 and each Trade Assignment. Each Trade Assignment delivered by Seller to Purchaser shall be delivered by Seller in a timely manner sufficient to enable Purchaser to facilitate the settlement of the related trade on the trade date in accordance with Chapter 8 of the Public Securities Association's Uniform Practices for the Clearance and Settlement of Mortgage Backed Securities and other Related Securities, as amended from time to time .

SECTION 4. COMPLETION FEE.

(a) With respect to each Participation Certificate that Purchaser elects to purchase hereunder, Purchaser shall pay to the Seller a Completion Fee. The Completion Fee shall be payable by

Purchaser as provided in subsection (e) below; but in any case, such Completion Fee shall not be payable by the Purchaser less than four (4) business days after the Purchaser's election to purchase hereunder.

(b) For purposes of calculating that portion of the Completion Fee composed of the "Net Carry Adjustment", the Net Carry Adjustment shall be an amount (which may be a negative number) equal to (A) the product obtained by multiplying the number of days in the period beginning on the Purchase Date to but not including the Settlement Date for the related Security and the difference between (i) the product of the rate of interest to be borne by the related Security and the aggregate principal amount of the Mortgage Loans evidenced by a Participation Certificate and (ii) the daily application of the applicable Transaction Rate to the Initial Installment (B) divided by 360.

(c) If a Participation Certificate is purchased by Purchaser after the first day of the month in which the Settlement Date occurs, Purchaser shall also pay to Seller on the date of Receipt by Purchaser of the Security backed by the related Mortgage Loans an amount equal to the accrued interest on the related Security at the rate specified in the related Takeout Commitment from the first day of such month to and including the day immediately preceding the date Purchaser purchased such Participation Certificate. If a Participation Certificate is Purchased by Purchaser in the month prior to the month in which the Settlement Date occurs, the Completion Fee shall be reduced by an amount equal to all interest payments which accrue on such Participation Certificate during the period from the date of purchase of such Participation Certificate through and including the last day of the month prior to the month in which such Settlement Date

(d) It is understood by Seller and Purchaser that, if Seller requests and Purchaser agrees to pay the Completion Fee prior to the Settlement Date of the related Security, the amount of such Completion Fee shall be adjusted as mutually agreed by Seller and Purchaser.

(e) The Completion Fee relating to each Participation Certificate is payable on the earlier to occur of (1) the date of receipt by Purchaser of the Trade Price and (2) the satisfaction by Seller of its obligations pursuant to this Agreement notwithstanding the exercise by Purchaser of any remedial election authorized herein.

SECTION 5. ISSUANCE OF SECURITIES.

(a)(1) With respect to Mortgage Loans evidenced by a Participation Certificate which Purchaser has elected to purchase, Seller shall instruct (and, if Seller fails to instruct, then Purchaser may instruct) Custodian to deliver to the Applicable Agency, the documents listed in Exhibits B-1, B-2 or B-3 of the Custodial Agreement in respect of such Mortgage Loans, in the manner and at the time set forth in the Custodial Agreement. Seller shall thereafter promptly deliver to the Applicable Agency any and all additional documents requested by the Applicable Agency to enable the Applicable Agency to make Delivery to Purchaser of a Security backed by such Mortgage Loans on the related Anticipated Delivery Date. Seller shall not revoke such instructions to Custodian and shall not revoke its instructions to the Applicable Agency to make Delivery to Purchaser or its designee of a Security backed by such Mortgage Loans.

(a)(2) Seller shall notify Purchaser, not later than 12:00 noon, Eastern Standard Time, on the second business day prior to the applicable Settlement Date, (i) of the amount of any change in the principal amount of the Mortgage Loans backing each such Security related to such Settlement Date and

(ii) with respect to FHLMC Securities, the FHLMC mortgage loan pool number applicable to each Security to which such Settlement Date relates. Upon Delivery of such Security to Purchaser or its designee, Purchaser shall cease to have any interest under such Participation Certificate in the Mortgage Loans backing such Security, notwithstanding anything to the contrary in the Participation Certificate.

(a)(3) With respect to each Participation Certificate that Purchaser elects to purchase hereunder, Purchaser shall owe to Seller a Completion Fee. Notwithstanding any provision hereof to the contrary, no amounts shall be owed by Purchaser to Seller upon issuance of such Security in the circumstances contemplated in Section 5(c)(2). Except as otherwise provided in Section 4 and in Section 5(b), and subject to Purchaser's right of set-off set forth in Section 5(g), any Completion Fee owed by Purchaser with respect to a Participation Certificate shall be paid by Purchaser to Seller not later than the Settlement Date of the related Security.

(b) Unless Receipt of a Security backed by the Mortgage Loans evidenced by a Participation Certificate purchased hereunder has occurred by 12:00 noon, Eastern Standard Time, on the related Settlement Date, (1) the Completion Fee relating to such Participation Certificate shall be reduced daily for the period from the Settlement Date to but not including the earlier of the date of Receipt of such Security and the date of satisfaction of the obligations of Seller pursuant to the exercise by Purchaser of any remedial election authorized by this Section 5 by an amount equal to (A) the Initial Installment for such Participation Certificate multiplied by (B) the result obtained by dividing (i) the Transaction Rate for the Participation Certificate plus one percent by (ii) three hundred and sixty (360) and (2) the Completion Fee, if any, relating to such Participation Certificate shall not be payable until the end of the period specified in clause (1) of this paragraph.

(c)(1) If a breach by Seller of this Agreement results in any Mortgage Loan being a Defective Mortgage Loan at the time of the delivery of the related Participation Certificate to Purchaser, Purchaser in its sole discretion may require that Seller, upon receipt of notice from Purchaser of its exercise of such right, either (i) immediately repurchase Purchaser's ownership interest in such Defective Mortgage Loan by remitting to Purchaser the allocable amount paid by Purchaser for such Defective Mortgage Loan plus interest at the Transaction Rate on the principal amount thereof from the date of Purchaser's purchase of such Participation Certificate to the date of such repurchase together with any Losses suffered by Purchaser relating to such repurchase (including, without limitation, any Losses incurred by Purchaser resulting from adjustments to the trade required by the Takeout Investor), or (ii) deliver to Custodian a Mortgage Loan eligible to back such Security in exchange for such Defective Mortgage Loan, which newly delivered Mortgage Loan shall be in all respects acceptable to Purchaser in Purchaser's sole discretion, and such newly delivered Mortgage Loan will thereupon become one of the Mortgage Loans evidenced by the Participation Certificate. If the aggregate principal balance of any Mortgage Loans that are accepted by Purchaser pursuant to clause (ii) of the immediately preceding sentence is less than the aggregate principal balance of any Defective Mortgage Loan that is being replaced by such Mortgage Loan, Seller shall remit with such Mortgage Loan to Purchaser an amount equal to the difference between the aggregate principal balance of the new Mortgage Loan accepted by Purchaser and the aggregate principal balance of the Defective Mortgage Loan being replaced thereby.

(c)(2) If Seller fails to comply with its obligations in the manner described in Section 5(c)(1), or Seller is in breach of Section 9 (a) (viii) or 9(b)(vii), not later than the third calendar day after receipt by Seller of notice from Purchaser (or if such day is not a business day, the next business day thereafter), Seller's rights and obligations to service the Mortgage Loans evidenced by such Participation Certificate, as provided in this Agreement, shall terminate. If at any time an Act of Insolvency occurs or any of Seller's Approvals are withdrawn or materially modified, Seller's rights and obligations to service the Mortgage Loans, as provided in this Agreement, shall terminate immediately, without any notice or action by Purchaser. Upon any such termination, Purchaser is hereby authorized and empowered as the exclusive agent for Seller to sell and transfer such rights to service the Mortgage Loans for such price and on such terms and conditions as Purchaser shall reasonably determine. Seller shall not otherwise attempt to sell or transfer such rights to service without the prior consent of Purchaser. Seller shall perform all acts and take all action so that the Mortgage Loans and all files and documents relating to such Mortgage Loans held by Seller, together with all escrow amounts relating to such Mortgage Loans, are delivered to Successor Servicer. To the extent that the approval of the Applicable Agency is required for any such sale or transfer, Seller shall fully cooperate with Purchaser to obtain such approval. Upon exercise by Purchaser of its remedies under this Section 5(c)(2), Seller hereby authorizes Purchaser to receive all amounts paid by any purchaser of such rights to service the Mortgage Loans and to remit such amounts to Seller subject to Purchaser's rights of set-off under this Agreement. Upon exercise by Purchaser of its remedies under this Section 5(c)(2), Purchaser's obligation to pay and Seller's right to receive any portion of the Completion Fee relating to such Mortgage Loans shall automatically be canceled and become null and void, provided that such cancellation shall in no way relieve Seller or otherwise affect the obligation of Seller to indemnify and hold Purchaser harmless as specified in Section 5(e).

(d) Mortgage Loans required to be delivered to Successor Servicer by Section 5(c)(2) shall be delivered free of any servicing rights in favor of Seller and free of any title, interest, lien, encumbrance or claim of any kind of Seller. Seller shall deliver or cause to be delivered all files and documents relating to such Mortgage Loans held by Seller to Successor Servicer. Seller shall promptly take such actions and furnish to Purchaser such documents that Purchaser deems necessary or appropriate to enable Purchaser to obtain a Security backed by such Mortgage Loans or to enforce such Mortgage Loans, as appropriate.

(e) Seller agrees to indemnify and hold Purchaser and its assigns harmless from and against all Losses (including, without limitation, Losses incurred by Purchaser on account of fees paid by Purchaser to the Applicable Agency to cause the Securities to be issued or any Losses in connection with any indemnification by Purchaser of the Applicable Agency) resulting from or relating to any breach or failure to perform by Seller of any representation, warranty, covenant, term or condition made or to be performed by Seller under this Agreement.

(f) No exercise by Purchaser of its rights under this Section 5 shall relieve Seller of responsibility or liability for any breach of this Agreement.

(g) Seller hereby grants Purchaser a right of set-off against the payment of any amounts that may be due and payable to Purchaser from Seller, such right to be upon any and all monies or other property of Seller held or received by Purchaser or due and owing from Purchaser to Seller.

SECTION 6. SERVICING OF THE MORTGAGE LOANS.

(a) Seller and Purchaser each agrees and acknowledges that each Mortgage Loan shall be sold to Purchaser on a servicing retained basis and that Purchaser is engaging, and Purchaser does hereby engage, Seller to provide interim servicing of each Mortgage Loan for the benefit of Purchaser (and any other registered holder of the Participation Certificate) on the Purchase Date for each transaction. The Seller shall have no further servicing obligations or duties to the Purchaser under the terms of this Agreement with respect to the relevant Mortgage Loans upon issuance of the Security.

Except as expressly provided herein, Seller shall neither assign, encumber or pledge servicing (including any "excess servicing".) hereunder in whole or in part, nor delegate its rights or duties under this Agreement without the prior written consent of Purchaser. The granting of such consent shall be in the sole discretion of Purchaser, the Seller hereby acknowledging that (i) Purchaser shall be entering into this Agreement in reliance upon Seller's representations as to the adequacy of its (and each subservicer's) financial standing, servicing facilities, personnel, records, procedures, reputation and integrity, and the continuance thereof; and (ii) Seller's engagement hereunder to provide mortgage servicing for the benefit of Purchaser (and any other registered holder of the Participation Certificate) is intended by the parties to be a "personal service contract" and the Seller is hereunder intended by the parties to be an "independent contractor".

(b) Seller shall service and administer the Mortgage Loans evidenced by a Participation Certificate on behalf of Purchaser in accordance with prudent mortgage loan servicing standards and procedures generally accepted in the mortgage banking industry and in accordance with the requirements of the GNMA Program, FNMA Program or FHLMC Program, as the case may be, provided that Seller shall at all times comply with applicable law, FHA regulations and VA regulations and the requirements of any private mortgage insurer so that the FHA insurance, VA guarantee or any other applicable insurance or guarantee in respect of any Mortgage Loan is not voided or reduced. Seller shall at all times maintain accurate and complete records of its servicing of the Mortgage Loans, and Purchaser may, at any time during Seller's business hours on reasonable notice, examine and make copies of such records. In addition, if Delivery of a Security is not made to Purchaser on or before the Anticipated Delivery Date, Seller shall deliver to Purchaser monthly reports regarding the status of those Mortgage Loans for which a Security has not yet been issued, which reports shall include, but shall not be limited to, a description of those Mortgage Loans in default for more than thirty (30) days, and such other circumstances with respect to any Mortgage Loans (whether or not such Mortgage Loans are included in the foregoing list) that could materially adversely affect any of such Mortgage Loans, Purchaser's ownership of any of such Mortgage Loans or the collateral securing any of such Mortgage Loans. Seller shall deliver such a report to Purchaser every thirty (30) days until (i) Delivery of the related Security to Purchaser or (ii) the exercise by Purchaser of any remedial election pursuant to Section 5.

(c) Within five (5) business days of notice from Purchaser, Seller, as servicer, shall establish and maintain a separate custodial account (the "Custodial Account") entitled "[_____] Custodial Account, in trust for Prudential Securities Realty Funding Corporation and its assignees under the Mortgage Loan Purchase and Sale Agreement dated [the date of this Agreement]" and shall promptly deposit into such account in the form received, with any necessary endorsements, all collections received in respect of the Mortgage Loans that are payable to Purchaser as the owner of the Mortgage Loans.

(d) Amounts deposited in the Custodial Account with respect to any Mortgage Loan shall be held in trust for Purchaser as the owner of the Mortgage Loans and shall be released only as follows:

(1) Except as otherwise provided in Section 6(d)(2), upon Delivery of the Security backed by such Mortgage Loans to Purchaser and either (i) receipt by Purchaser or its designee of the purchase price for the Security from the Takeout Investor or (ii) if earlier, on the date required by the GNMA Guide, FNMA Guide or FHLMC Guide, as the case may be, amounts deposited in the Custodial Account shall be released in accordance with Sections 4(c) and 5(a)(3). Notwithstanding the foregoing, all amounts deposited in the Custodial Account shall be paid to Seller upon the Delivery of the related Security to Purchaser if, and to the extent that, the amounts due and payable to Purchaser hereunder have been set-off against the Purchase Price for the related Participation Certificate or the Completion Fee relating to the Mortgage Loans underlying such Participation Certificate. The amounts paid to Seller (if any) pursuant to this Section 6(d)(1) shall constitute Seller's sole compensation for servicing the Mortgage Loans as provided in this Section 6.

(2) If Successor Servicer takes delivery of such Mortgage Loans either under the circumstances set forth in Section 3 or otherwise, all amounts deposited in the Custodial Account shall be paid to Purchaser promptly upon such delivery.

(3) If a Security is not issued during the month in which the related Settlement Date occurs, in any period thereafter during which Seller remains as servicer, all amounts deposited in the Custodial Account shall be released only in accordance with Purchaser's written instructions.

(e) In the event of a Security Issuance Failure, Purchaser, in its sole discretion, may terminate the Seller's rights and duties as servicer of the affected Mortgage Loans, provided that upon purchaser's election so to terminate Seller as servicer, Seller's obligations respecting transfer of servicing to a successor servicing entity shall remain in force. Without limiting Purchaser's rights to terminate Seller as servicer as provided above, Purchaser (or any other registered holder of the related Participation Certificate) shall nonetheless be entitled, by written notice to Seller to effect termination of Seller's interim servicing rights and obligations respecting the affected Mortgage Loans in the event any of the following circumstances or events ("Servicing Termination Events") occur and are continuing:

(i) any failure by the Seller to remit to Purchaser (or other registered holder of the Participation Certificate) any payment required to be made under the terms of this Agreement or such Participation Certificate which payment failure continues unremedied for a period of 2 business days, and after Seller's receipt of demand for payment from purchaser or other registered holder of the Participation Certificate; or

(ii) failure by the Seller duly to observe or perform in any material respect any of Seller's other covenants or agreements set forth in this Agreement or in the Custodial Agreement which continues unremedied for a period of 2 business days (or such longer period provided in the relevant notice to Seller) after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Seller by Purchaser; or

(iii) an Act of Insolvency with respect to the Seller or any Parent Company; or

(iv) the Seller ceases to meet the qualifications for maintaining all Approvals; or

(v) the Seller attempts to assign its right to servicing compensation hereunder or to resell an ownership interest in a Mortgage Loan in a manner inconsistent with the terms hereof, or the Seller attempts without the consent of the Purchaser to sell or otherwise dispose of all or substantially all of its property or assets or to assign this Agreement or the servicing responsibilities hereunder or to delegate its duties hereunder or any portion thereof (to other than a subservicer); or

(vi) the Seller or any of its Affiliates fails to operate or conduct its business operations or any material portion thereof in the ordinary course, or Seller experiences any other material adverse change in its business operations or financial condition, and such event continues unremedied for more than 5 business days.

In the case of the event described in subclause (iii), immediately upon the occurrence of any such event, regardless of whether notice of such event shall have been given to or by the Purchaser or Seller, and in each and every other case, so long as the Servicing Termination Event shall not have been remedied (but only to the extent, and within the time period, of any remedy period provided above), in addition to whatever rights the Purchaser may have at law or equity to damages, including injunctive relief and specific performance, by notice in writing to the Seller, Purchaser may terminate all the interim servicing rights and obligations of the Seller under this Agreement.

Upon receipt by the Seller of such written notice, all authority and power of the Seller respecting its interim mortgage servicing rights and duties under this Agreement, shall pass to and be vested in the successor servicer appointed by Purchaser (a "Designated Servicer"). Upon written request by Purchaser, the Seller shall prepare, execute and deliver to the Designated Servicer any and all documents and other instruments, place in such successor's possession all files pertaining to such Mortgage Loans and do or cause to be done all other acts or things necessary or appropriate to effect the purposes of such notice of termination, including, but not limited to, the transfer, endorsement and assignment of the Mortgage Loans and related documents, at the Seller's sole expense.

(f) The Seller shall indemnify and hold Purchaser harmless against any and all actions, claims, liabilities or other losses resulting from or otherwise arising in connection with the failure of Seller to perform Seller's obligations (including, without limitation, any failure to perform interim servicing obligations) in strict compliance with the terms of this Agreement.

SECTION 7. TRANSFERS OF PARTICIPATION CERTIFICATES AND SECURITIES BY PURCHASER.

Purchaser may, in its sole discretion and without the consent of Seller, assign all of its right, title and interest or grant a security interest in any Participation Certificate, any Mortgage Note, Mortgage and any assignment of Mortgages (an "Assignment of Mortgage"), each Security in respect thereof of which Delivery is made to Purchaser and all rights of Purchaser under this Agreement (including, but not limited to, the Custodial Account) in respect of such Participation Certificate, Mortgage Note, Mortgage, Assignment of Mortgage and such Security, to any person (an "Assignee"), subject only to an

obligation on the part of the Assignee to deliver each such Security to a Takeout Investor or to Purchaser to permit Purchaser or its designee to make delivery thereof to a Takeout Investor. Assignment by Purchaser of a Participation Certificate as provided in this Section 7 will not release Purchaser from its obligations otherwise under this Agreement.

Without limitation of the foregoing, an assignment of the Participation Certificate to an Assignee, as described in this Section 7, shall be effective upon delivery of the Participation Certificate to the Assignee or its designee, together with a duly executed Assignment substantially in the form of Exhibit E.

SECTION 8. RECORD TITLE TO MORTGAGE LOANS; INTENT OF PARTIES; SECURITY

INTEREST.

(a) From and after the issuance and delivery of the related Participation Certificate, and subject to the remedies of Purchaser in Section 5, Seller shall remain the last named payee or endorsee of each Mortgage Note and the mortgagee or assignee of record of each Mortgage, in trust for the benefit of Purchaser, for the sole purpose of facilitating the servicing of such Mortgage Loan and the issuance of a Security backed by such Mortgage Loan. Where Seller has appointed FHLMC as Custodian, the parties hereto acknowledge that the Mortgage Notes acquired hereunder have been deposited with FHLMC to facilitate the issuance of FHLMC Securities with respect thereto and that prior to such issuance FHLMC is holding such Mortgage Notes as Custodian for Purchase.

(b) Seller shall maintain a complete set of books and records for each Mortgage Loan which shall be clearly marked to reflect the ownership interest in each Mortgage Loan of the holder of the related Participation Certificate.

(c) Purchaser and Seller confirm that the transactions contemplated herein are intended to be sales of the Mortgage Loans by Seller to Purchaser rather than borrowings secured by the Mortgage Loans. In the event, for any reason, any transaction is construed by any court or regulatory authority as a borrowing rather than as a sale, the Seller and Purchaser intend that Purchaser or its Assignee, as the case may be, shall have a perfected first priority security interest in the Participation Certificates, the Custodial Account, the Mortgage Loans subject to each Participation Certificate, all documents evidencing the Mortgage Loans, the Securities to be issued as contemplated hereunder and all proceeds thereof, the Takeout Commitments and the proceeds of any and all of the foregoing (collectively, the "Collateral") free and clear of adverse claims. In such case, Seller shall be deemed to have hereby granted to Purchaser or its Assignee, as the case may be, a first priority security interest in and lien upon the Collateral, free and clear of adverse claims. In such event, this Agreement shall constitute a security agreement, the Custodian shall be deemed to be an independent custodian for purposes of perfection of the security interest granted to Purchaser, and Purchaser or each such Assignee shall have all of the rights of a secured party under applicable law.

SECTION 9. REPRESENTATIONS AND WARRANTIES.

(a) Seller hereby represents and warrants to Purchaser as of the date hereof and as of the date of each issuance and delivery of a Participation Certificate that:

(i) All representations and warranties made and all information (including, without limitation, any financial information concerning Seller) and documents or copies of documents

furnished by Seller to Purchaser pursuant to or in connection with this Agreement are and will be true and correct at the time when made and at all times thereafter or, if limited to a specific date, as of the date to which they refer;

(ii) Seller is duly organized and validly existing under the laws of the jurisdiction of its organization, and it has qualified to do business in each jurisdiction in which it is legally required to do so. Seller has the authority under its charter and applicable law to enter into this Agreement and the Custodial Agreement and to perform all acts contemplated hereby and thereby or in connection herewith and therewith; this Agreement, the Custodial Agreement and the transactions contemplated hereby and thereby have been approved by the Board of Directors of Seller, and Seller has taken all action necessary to make this Agreement and the Custodial Agreement its valid and binding obligation enforceable in accordance with the terms hereof;

(iii) This Agreement, the Custodial Agreement and every document to be executed by Seller pursuant to this Agreement is and will be valid, binding and subsisting obligations of Seller, enforceable in accordance with their respective terms. No consents or approvals are required to be obtained by Seller or its Parent Company for the execution, delivery and performance of this Agreement or the Custodial Agreement by Seller;

(iv) The consummation of the transactions contemplated by this Agreement and the Custodial Agreement are in the ordinary course of business of Seller and will not result in the breach of any provision of the charter or by-laws of Seller or result in the breach of any provision of, or conflict with or constitute a default under or result in the acceleration of any obligation under, any agreement, indenture, loan or credit agreement or other instrument to which Seller, the Mortgage Loans or any of Seller's property is subject, or result in the violation of any law, rule, regulation, order, judgment or decree to which Seller, the Mortgage Loans or Seller's property is subject. Without limiting the generality of the foregoing, the consummation of the transactions contemplated herein or therein will not violate any policy, regulation or guideline of the FHA or VA or result in the voiding or reduction of the FHA insurance, VA guarantee or any other insurance or guarantee in respect of any Mortgage Loan, and such insurance or guarantee is in full force and effect or shall be in full force and effect as required by the applicable GNMA Guide, FNMA Guide or FHLMC Guide;

(v) Seller has not sold, assigned, transferred, pledged or hypothecated any interest in any Participation Certificate to any person other than Purchaser, and upon delivery of a Participation Certificate to Purchaser, Purchaser will be the sole owner thereof, free and clear of any lien, claim or encumbrance;

(vi) All information relating to Seller that Seller has delivered or caused to be delivered to Purchaser, including, but not limited to, all documents related to this Agreement, the Custodial Agreement or Seller's financial statements, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein or herein in light of the circumstances under which they were made, not misleading;

(vii) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body pending or, to Seller's knowledge, threatened against or affecting Seller (or, to Seller's knowledge, any basis therefor) wherein an unfavorable decision,

ruling or finding would adversely affect the validity or enforceability of this Agreement, the Custodial Agreement or any agreement or instrument to which Seller is a party and which is used or contemplated for use in the consummation of the transactions contemplated hereby, would adversely affect the proceedings of Seller in connection herewith or would or could materially and adversely affect Seller's ability to carry out its obligations hereunder;

(viii) Seller has all requisite Approvals;

(ix) The Custodian is an eligible custodian under the Agency Guide and Agency Program, and is not an Affiliate of the Seller; and

(x) The Agreement and the Custodial Agreement, any other document contemplated hereby or thereby and each transaction have not been entered into fraudulently by Seller hereunder or the Custodian, or with the intent to hinder, delay or defraud any creditor or the Purchaser.

(b) Seller hereby represents and warrants to Purchaser with respect to each Mortgage Loan as of the date of the payment by Purchaser of the Purchase Price of the related Participation Certificate that:

(i) Such Mortgage Loan was, immediately prior to the sale to Purchaser of the related Participation Certificate, owned solely by Seller, is not subject to any lien, claim or encumbrance, including, without limitation, any such interest pursuant to a loan or credit agreement for warehousing mortgage loans, and was originated and serviced in accordance with all applicable law and regulations, including without limitation the Federal Truth-in-Lending Act, the Real Estate Settlement Procedures Act, regulations issued pursuant to any of the aforesaid, and any and all rules, requirements, guidelines and announcements of the Applicable Agency, and, as applicable, the FHA and VA, as the same may be amended from time to time;

(ii) The improvements on the land securing such Mortgage Loan are and will be kept insured at all times by responsible insurance companies reasonably acceptable to Purchaser against fire and extended coverage hazards under policies, binders or certificates of insurance with a standard mortgagee clause in favor of Seller and its assigns, providing that such policy may not be canceled without prior notice to Seller. Any proceeds of such insurance shall be held in trust for the benefit of Purchaser. The scope and amount of such insurance shall satisfy the rules, requirements, guidelines and announcements of the Applicable Agency, and shall in all cases be at least equal to the lesser of (A) the principal amount of such Mortgage Loan or (B) the maximum amount permitted by applicable law, and shall not be subject to reduction below such amount through the operation of a coinsurance, reduced rate contribution or similar clause;

(iii) Each Mortgage is a valid first lien on the mortgaged property and is covered by an attorney's opinion of title acceptable to GNMA, FNMA or FHLMC, as applicable, or by a policy of title insurance on a standard ALTA or similar lender's form in favor of Seller and its assigns, subject only to exceptions permitted by the GNMA, FNMA or FHLMC Program, as applicable. Seller shall hold in trust for Purchaser such policy of title insurance, and, upon request of Purchaser, shall immediately deliver such policy to Purchaser or to the Custodian on behalf of Purchaser;

(iv) To the extent applicable, such Mortgage Loan is either insured by the FHA under the National Housing Act, guaranteed by the VA under the Servicemen's Readjustment Act of 1944 or is otherwise insured or guaranteed in accordance with the requirements of the GNMA, FNMA or FHLMC Program, as applicable, and is not subject to any defect that would prevent recovery in full or in part against the FHA, VA or other insurer or guarantor, as the case may be;

(v) Such Mortgage Loan is in Strict Compliance with the requirements and specifications (including, without limitation, all representations and warranties required in respect thereof) set forth in the GNMA Guide, FNMA Guide or FHLMC Guide, as applicable;

(vi) Such Mortgage Loan conforms in all respects with all requirements of the Takeout Commitment applicable to the Security to be backed by such Mortgage Loan; and

(vii) To the extent applicable, each Mortgage Loan is being serviced by a mortgage sub-servicer having all Approvals necessary to make such Mortgage Loan eligible to back a GNMA, FNMA or FHLMC Security, as applicable.

The representations and warranties of Seller in this Section 9 are unaffected by and supersede any provision in any endorsement of any Mortgage Loan or in any assignment with respect to such Mortgage Loan to the effect that such endorsement or assignment is without recourse or without representation or warranty.

SECTION 10. COVENANTS OF SELLER.

Seller hereby covenants and agrees with Purchaser as follows:

(a) Seller shall deliver to Purchaser:

(1) Within one hundred twenty (120) days after the end of each fiscal year of Seller, consolidated balance sheets of Seller and its consolidated subsidiaries and the related consolidated statements of income showing the financial condition of Seller and its consolidated subsidiaries as of the close of such fiscal year and the results of operations during such year, and a consolidated statement of cash flows, as of the close of such fiscal year, setting forth, in each case, in comparative form the corresponding figures for the preceding year, all the foregoing consolidated financial statements to be reported on by, and to carry the report (acceptable in form and content to Purchaser) of, an independent public accountant of national standing acceptable to Purchaser;

(2) Within sixty (60) days after the end of each of the first three fiscal quarters of each fiscal year of Seller, unaudited consolidated balance sheets and consolidated statements of income, all to be in a form acceptable to Purchaser, showing the financial condition and results of operations of Seller and its consolidated subsidiaries on a consolidated basis as of the end of each such quarter and for the then elapsed portion of the fiscal year, setting forth, in each case, in comparative form the corresponding figures for the corresponding periods of the preceding fiscal year, certified by a financial officer of Seller (acceptable to Purchaser) as presenting fairly the financial position and results of operations of Seller and its consolidated subsidiaries and as having

been prepared in accordance with generally accepted accounting principles consistently applied, in each case, subject to normal year-end audit adjustments;

(3) Promptly upon receipt thereof, a copy of each other report submitted to Seller by its independent public accountants in connection with any annual, interim or special audit of Seller;

(4) Promptly upon becoming aware thereof, notice of (i) the commencement of, or any determination in, any legal, judicial or regulatory proceedings, (ii) any dispute between Seller or its Parent Company and any governmental or regulatory body, (iii) any event or condition, which, in any case of (i) or (ii), if adversely determined, would have a material adverse effect on (A) the validity or enforceability of this Agreement, (B) the financial condition or business operations of Seller, (C) the Approvals of Seller or (D) the ability of Seller to fulfill its obligations under this Agreement or (iv) any material adverse change in the business, operations, prospects or financial condition of Seller, including, without limitation, the insolvency of Seller or its Parent Company;

(5) Promptly upon becoming available, copies of all financial statements, reports, notices and proxy statements sent by its Parent Company, Seller or any of Seller's consolidated subsidiaries in a general mailing to their respective stockholders and of all reports and other material (including copies of all registration statements under the Securities Act of 1933, as amended) filed by any of them with any securities exchange or with the Securities and Exchange Commission or any governmental authority succeeding to any or all of the functions of said Commission;

(6) Promptly upon becoming available, copies of any press releases issued by its Parent Company or Seller and copies of any annual and quarterly financial reports and any reports on Form H-(b)12 which its Parent Company or Seller may be required to file with the OTS or the RTC or comparable reports which a Parent Company or Seller may be required to file with the FDIC or any other federal banking agency containing such financial statements and other information concerning such Parent Company's or Seller's business and affairs as is required to be included in such reports in accordance with the rules and regulations of the OTS, the RTC, the FDIC or such other banking agency, as may be promulgated from time to time;

(7) Such supplements to the aforementioned documents and such other information regarding the operations, business, affairs and financial condition of its Parent Company, Seller or any of Seller's consolidated subsidiaries as Purchaser may request; and

(8) A copy of (i) the articles of incorporation of Seller and any amendments thereto, certified by the Secretary of State of Seller's state of incorporation, (ii) a copy of Seller's by-laws, together with any amendments thereto, (iii) a copy of the resolutions adopted by Seller's Board of Directors authorizing Seller to enter into this Agreement and the Custodial Agreement and authorizing one or more of Seller's officers to execute the documents related to this Agreement and Custodial Agreement, and (iv) a certificate of incumbency and signature of each officer of Seller executing any document in connection with this Agreement;

(b) Neither the Seller nor any affiliate thereof will acquire at any time any Participation Certificate or any other economic interest in or obligation with respect to any Mortgage Loan.

(c) Under generally accepted accounting principles ("GAAP") and for federal income tax purposes, the Seller will report each sale of a Participation Certificate to the Purchaser as a sale of the ownership interest in the Mortgage Loans evidenced by that Participation Certificate. The Seller has been advised by or has confirmed with its independent public accountants that the foregoing transactions will be so classified under GAAP.

(d) The consideration received by the Seller upon the sale of each Participation Certificate will constitute reasonably equivalent value and fair consideration for the ownership interest in the Mortgage Loans evidenced by that Participation Certificate.

(e) The Seller will be solvent at all relevant times prior to, and will not be rendered insolvent by, any sale of a Participation Certificate to the Purchaser.

(f) The Seller will not sell any Participation Certificate to the Purchaser with any intent to hinder, delay or defraud any of the Seller's creditors.

(g) Seller shall take all necessary action to maintain its Approvals at all times during the term of this Agreement. If, for any reason, Seller ceases to maintain such Approvals, Seller shall so notify Purchaser immediately.

(h) Seller will comply in all material respects with all laws, rules and regulations to which it is or may become subject.

(i) Seller shall, upon request of Purchaser, promptly execute and deliver to Purchaser all such other and further documents and instruments of transfer, conveyance and assignment, and shall take such other action as Purchaser may require more effectively to transfer, convey, assign to and vest in Purchaser and to put Purchaser in possession of the property to be transferred, conveyed, assigned and delivered hereunder and otherwise to carry out more effectively the intent of the provisions under this Agreement.

SECTION 11. TERM.

This Agreement shall continue in effect until terminated as to future transactions by written instruction signed by either Seller or Purchaser and delivered to the other, provided that no termination will affect the obligations hereunder as to any of the Participation Certificates then outstanding hereunder or any Security not yet delivered to the related Takeout Investor.

SECTION 12. EXCLUSIVE BENEFIT OF PARTIES; ASSIGNMENT.

This Agreement is for the exclusive benefit of the parties hereto and their respective successors and assigns and shall not be deemed to give any legal or equitable right to any other person, including the Takeout Investor and Custodian. Except as provided in Section 7, no rights or obligations created by this Agreement may be assigned by either party hereto without the prior written consent of the other party.

SECTION 13. AMENDMENTS; WAIVERS; CUMULATIVE RIGHTS.

This Agreement may be amended from time to time only by written agreement of Seller and Purchaser. Any forbearance, failure or delay by Purchaser in exercising any right, power or remedy hereunder shall not be deemed to be a waiver thereof, and any single or partial exercise by Purchaser of any right, power or remedy hereunder shall not preclude the further exercise thereof. Every right, power and remedy of Purchaser shall continue in full force and effect until specifically waived by Purchaser in writing. No right, power or remedy shall be exclusive, and each such right, power or remedy shall be cumulative and in addition to any other right, power or remedy, whether conferred hereby or hereafter available at law or in equity or by statute or otherwise.

SECTION 14. EXECUTION IN COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

SECTION 15. EFFECT OF INVALIDITY OF PROVISIONS.

In case any one or more of the provisions contained in this Agreement should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall in no way be affected, prejudiced or disturbed thereby.

SECTION 16. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflict of laws rules.

SECTION 17. NOTICES.

Any notices, consents, elections, directions and other communications given under this Agreement shall be in writing and shall be deemed to have been duly given when telecopied or delivered by overnight courier to, personally delivered to, or on the third day following the placing thereof in the mail, first class postage prepaid to, the parties hereto at the related address set forth in Annex I or to such other address as either party shall give notice to the other party pursuant to this Section. Notices to any Assignee shall be given to such address as the Assignee shall provide to Seller in writing.

SECTION 18. ENTIRE AGREEMENT.

This Agreement, the Participation Certificates and the Custodial Agreement contain the entire agreement between the parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements between them, oral or written, of any nature whatsoever with respect to the subject matter hereof.

SECTION 19. COSTS OF ENFORCEMENT.

In addition to any other indemnity specified in this Agreement, in the event of a breach by Seller of this Agreement, the Custodial Agreement, a Participation Certificate or a Takeout Commitment,

Seller agrees to pay the reasonable attorneys' fees and expenses of Purchaser and/or any Assignee incurred as a consequence of such breach.

SECTION 20. CONSENT TO SERVICE.

Each party irrevocably consents to the service of process by registered or certified mail, postage prepaid, to it at its address provided pursuant to Section 17.

SECTION 21. SUBMISSION TO JURISDICTION.

With respect to claim arising out of this Agreement each party (a) irrevocably submits to the nonexclusive, jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, and (b) irrevocably waives (i) any objection which it may have at any time to the laying of venue of any suit, action or proceeding arising out of or relating hereto brought in any such court, (ii) any claim that any such suit, action or proceeding brought in any such court has been brought in any inconvenient forum and (iii) the right to object, with respect to such claim, suit, action or proceeding brought in any such court, that such court does not have jurisdiction over such party.

SECTION 22. JURISDICTION NOT EXCLUSIVE.

Nothing herein will be deemed to preclude either party hereto from bringing an action or proceeding in respect of this Agreement in any jurisdiction other than as set forth in Section 21.

SECTION 23. CONSTRUCTION.

The headings in this Agreement are for convenience only and are not intended to influence its construction. References to Sections, Exhibits and Annexes in this Agreement are to the Sections of and Exhibits and Annexes to this Agreement. The Exhibits and Annexes are part of this Agreement. In this Agreement, the singular includes the plural, the plural the singular, and the words 'and' and 'or' are used in the conjunctive or disjunctive as the sense and circumstances may require.

IN WITNESS WHEREOF, Purchaser and Seller have duly executed this Agreement as of the date and year set forth on the cover page hereof.

PRUDENTIAL SECURITIES REALTY
FUNDING CORPORATION

By: /s/ Michael Pillari
Name: Michael Pillari
Title: Vice President

[NVR MORTGAGE FINANCE, INC.]

By: /s/ James L. Callison
Name: James L. Callison
Title: Senior Vice President

GESTATION FINANCING AGREEMENT

between

NVR MORTGAGE FINANCE, INC.
a Virginia corporation

and

BANC ONE INVESTMENT ADVISORS CORPORATION
an Ohio corporation,
acting as agent on behalf of its customers and not individually

August 15, 1997

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GESTATION FINANCING AGREEMENT

THIS GESTATION FINANCING AGREEMENT is made and entered into as of August 15, 1997 between NVR Mortgage Finance, Inc., a Virginia corporation (the "Borrower"), and Banc One Investment Advisors Corporation, an Ohio corporation, acting as agent on behalf of its customers and not individually ("BOIA").

PRELIMINARY MATTERS

The Borrower and BOIA wish to set forth their agreement regarding the terms upon which BOIA will extend certain credit to Borrower pursuant to this Agreement.

AGREEMENT

The parties hereto hereby agree as follows:

ARTICLE I

GENERAL TERMS

Section 1.1 Definitions. As used in this Agreement, the following terms have the meanings specified:

"Adjusted Current Ratio" is the ratio referred to in Section 7.10.

"Advance" means an advance by BOIA pursuant to Section 2.1.

"Affiliate" of any Person means any other Person which, directly or indirectly, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, the term "control" (and the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession or ownership, directly or indirectly, of the power either to (i) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise, or (ii) vote or direct the voting of 25% or more of the securities having ordinary power for the election of directors of such Person.

"Affiliate Note" means that certain subordinated revolving credit note issued by Borrower payable on demand to the order of NVR Financial Services, Inc., dated as of the date indicated thereon, a true and correct copy of which is attached as Exhibit "M".

"Agency" means FNMA, FHLMC or GNMA.

"Agency Commitment" means a binding and enforceable agreement on the part of (a) FNMA or FHLMC to issue Mortgage Backed Securities in exchange for Mortgage Loans or (b) GNMA to guarantee Mortgage Backed Securities to be issued by the Borrower. Agency

Commitment includes the FNMA Guide, the FHLMC Guide or the GNMA Guide, as applicable, pursuant to which such Agency Commitment was issued.

"Agency Forms" means forms promulgated by an Agency for use in

connection with the delivery of Mortgage Loans and the issuance or guaranty of a Mortgage Backed Security pursuant to an Agency Commitment.

"Agent" means Bank One, Texas in its capacity as agent for BOIA under

the Custody Agreement.

"Agreement" means this Gestation Financing Agreement, as amended,

modified or supplemented from time to time.

"Allocated" has the meaning specified in Section 3.2.

"Appraisal" means a written statement as to the market value of the

property in which a Lien is granted pursuant to a Mortgage to secure a Mortgage Loan.

"Appraisal Laws and Regulations" means laws set forth in Title XI of

the Financial Institutions, Reform, Recovery and Enforcement Act of 1989 and the Federal Deposit Insurance Corporation Improvement Act of 1991 and regulations promulgated by the OCC or any other Governmental Authority in connection therewith regarding Appraisals with respect to loans made by Persons regulated by the OCC.

"Average Advances" for a particular Computation Period means the

amount equal to (a) the sum of the outstanding Advances for each day in such Computation Period divided by (b) the number of days in such Computation Period.

"Average Borrowing Base" for a particular Computation Period means the

amount equal to (a) the sum of the Borrowing Base for each day in such Computation Period divided by (b) the number of days in such Computation Period.

"Average MBS Collateral Value" for a particular Computation Period

means the amount equal to (a) the sum of the Collateral Value attributable to Eligible Mortgage Backed Securities for each day in such Computation Period divided by (b) the number of days in such Computation Period.

"Backup Gestation Agreement" means that certain \$50,000,000 Standby

Gestation Financing Agreement by and between the Borrower and Lender substantially in the form of Exhibit "E"

"Bailee Letter" means bailee letter and trust receipts substantially

in the forms of Exhibits "G-1" and "G-2" or such other forms, including any form

required by an Agency and acceptable to BOIA, as to which Borrower and BOIA may
agree.

"Bank One, Texas" means Bank One, Texas, National Association.

"Base Rate" for a particular Computation Period means the per annum

rate of interest equal to the sum of (a) the Federal Funds Rate and (b) thirty
one-hundredths of one percent (0.30%).

"BOIA" has the meaning specified in the preamble of this Agreement.

"Borrower" has the meaning specified in the preamble of this

Agreement.

"Borrowing" means a borrowing consisting of an Advance by BOIA.

"Borrowing Base" as of any time of determination means the aggregate

Collateral Value of all Eligible Mortgage Backed Securities.

"Borrowing Base Report" means a report substantially in the form of

Exhibit "N".

"Borrowing Request" means a request, in the form of Exhibit "B", for a

Borrowing pursuant to Article II.

"Business Day" means any day other than Saturdays, Sundays and other

days on which commercial banks are authorized or required by law to close in the
State of Texas or Ohio.

"Cash Equivalents" means Eligible Commercial Paper, Eligible Deposits,

and U.S. Government Securities.

"Code" means the Internal Revenue Code of 1986, as amended from time

to time.

"Collateral" means all right, title and interest of the Borrower in

and to the "Collateral" as such term is defined in the Security Agreement.

"Collateral Value" means:

(a) With respect to a pool of Eligible Mortgage Loans, an amount equal
to ninety-nine percent (99%) of the Take-Out Price for such pool of Eligible
Mortgage Loans; and

(b) with respect to an Eligible Mortgage Backed Security, an amount equal to ninety-nine percent (99%) of the Take-Out Price for such Eligible Mortgage Backed Security.

Any item of Collateral which ceases to be or is not an Eligible Mortgage Loan or an Eligible Mortgage Backed Security shall have a Collateral Value of zero.

"Computation Period" means the period during which one or more Advances is outstanding.

"Custody Agreement" means that certain Custodian Agreement among Borrower, BOIA and the Agent, substantially in the form of Exhibit "I".

"Debtor Laws" means all applicable liquidation, conservatorship, bankruptcy, moratorium, arrangement, receivership, insolvency, reorganization, fraudulent conveyance or similar laws from time to time in effect affecting the rights of creditors generally.

"Default" means any condition or event which, with the giving of notice or lapse of time or both and unless cured or waived, would constitute an Event of Default.

"Dividends" means: (a) cash distributions or any other distributions on, or in respect of, any class of equity security of Borrower, except for (i) distributions made solely in shares of securities of the same class and (ii) permitted Returns of Capital; and (b) any and all funds, cash or other payments made in respect of the redemption, repurchase or acquisition of (i) such securities or (ii) any option, warrant, or other right to purchase any of such securities.

"Eligible Commercial Paper" means commercial paper and other short-term money market instruments which are rated at least A-1 or the equivalent thereof by Standard & Poor's Rating Services ("Standard & Pooors") and P-1 or the equivalent thereof by Moody's Investor Services ("Moody's").

"Eligible Deposits" means time deposits and certificates of deposit of any domestic commercial bank or savings bank having capital and surplus in excess of \$200,000,000, in all such cases which has a short-term certificate of deposit rating of at least A-1 or the equivalent thereof by Standard & Pooors and a short-term bank deposit rating of least P-1 or the equivalent thereof by Moody's, or (ii) a rating of C or better from Thompson Bank Watch, Inc. or 75 or better from I.D.C. Financial Publishing, as applicable.

"Eligible Mortgage Backed Security" means a Mortgage Backed Security: (a) in which BOIA has a perfected first-priority security interest to secure the Obligations; (b) which constitutes Proceeds of Pledged Mortgage Loans and which satisfies all requirements for purchase under the Pledged Take-Out Commitment to which it has been allocated; (c) which has not been owned by the Borrower for more than five Business Days; (d) with respect to

which the Investor under the Pledged Take-Out Commitment to which such Mortgage Backed Security has been Allocated is not in default of its obligations under such Pledged Take-Out Commitment; and (e) with respect to which such Pledged Take-Out Commitment is not subject to any Lien other than a Permitted Lien.

"Eligible Mortgage Loan" means a Pledged Mortgage Loan: (a) in which -----
BOIA has a perfected first-priority security interest to secure the Obligations; (b) which satisfies all requirements for delivery under the Pledged Agency Commitment to which it has been Allocated; (c) which is a part of a pool with respect to which the Agent has notified BOIA that such pool has been certified (or initially certified) to the Agency obligated under such Pledged Agency Commitment and (d) with respect to which such Pledged Agency Commitment is not subject to any Lien other than a Permitted Lien.

"ERISA" means the Employee Retirement Income Security Act of 1974, as -----
amended from time to time.

"Event of Default" has the meaning specified in Section 8.1.

"Excess Advances" for a particular Computation Period means the amount -----
equal to the Average Advances for such Computation Period minus the MBS Advances for such Computation Period.

"Face Amount" means: (a) in the case of a Mortgage Loan, the stated -----
principal amount of the Mortgage Note which evidences such Mortgage Loan, without giving effect to any payments thereon; and (b) in the case of a Mortgage Backed Security, the par value of such Mortgage Backed Security.

"Federal Funds Rate" means for any day, the federal fund effective -----
rate as set forth in the weekly statistical release designated as H.15(519) (or any successor publication) published by the Board of Governors of the Federal Reserve Bank of New York. In the event such rate is no longer published in H.15(519) (or any successor publication), the Borrower and BOIA shall mutually agree upon a comparable rate. Any change in the Federal Funds Rate shall become effective as of 12:01 a.m. on the Business Day on which such change is so presented.

"FHLMC" means the Federal Home Loan Mortgage Corporation, or any -----
successor thereto.

"FHLMC Guide" means the FHLMC Sellers' & Servicers' Guide as amended, -----
modified, or supplemented from time to time.

"FHLMC Securities" means securities issued or guaranteed by FHLMC, -----
including, without limitation, participation certificates representing undivided interests in

mortgage loans purchased by FHLMC pursuant to the Emergency Home Finance Act of 1970, as amended.

"FNMA" means the Federal National Mortgage Association, or any

successor thereto.

"FNMA Guide" means the FNMA Selling Guide and the FNMA Servicing

Guide as amended, modified or supplemented from time to time.

"FNMA Securities" means securities issued or guaranteed by FNMA,

including, without limitation, modified pass-through mortgage-backed
certificates guaranteed by FNMA pursuant to the National Housing Act, as
amended.

"GAAP" means generally accepted accounting principles in effect in the

United States on the date hereof.

"General Intangible" has the meaning given to such term in Article 9

of the UCC.

"GNMA" means the Government National Mortgage Association, or any

successor thereto.

"GNMA Guide" means the GNMA I and GNMA II Mortgage Backed Securities

Guides, GNMA Handbooks 5500.1 and 5500.2 as amended, modified or supplemented
from time to time.

"GNMA Securities" means securities issued or guaranteed by GNMA,

including, without limitation, modified pass-through mortgage-backed
certificates guaranteed by GNMA pursuant to Section 306(g) of the National
Housing Act, as amended.

"Governmental Authority" means any nation or government, any agency,

department, state or other political subdivision thereof, and any entity
exercising executive, legislative, judicial, regulatory or administrative
functions of or pertaining to government.

"Guaranty Obligations" of any Person means any contract, agreement or

understanding of such Person pursuant to which such Person guarantees, or in
effect guarantees, any Indebtedness, lease, dividend or other obligation,
including any Mortgage Loan (the "Primary Obligation") of any other Person (the

"Primary Obligor") in any manner, whether directly or indirectly, contingently

or absolutely, in whole or in part, including without limitation, agreements:

(a) to purchase (or repurchase) such Primary Obligation or any
property constituting direct or indirect security therefor;

(b) to advance or supply funds (x) for the purchase or payment of any such Primary Obligation, or (y) to maintain working capital or other balance sheet conditions of the Primary Obligor or otherwise to maintain the net worth or solvency of the Primary Obligor;

(c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such Primary Obligation of the ability of the Primary Obligor to make payment of such Primary Obligation; or

(d) otherwise to assure or hold harmless the owner of any such Primary Obligation against loss in respect thereof;

provided, that Guaranty Obligations shall not include (x) endorsements in the ordinary course of business of negotiable instruments or documents for deposit or collection, or (y) obligations under the FNMA Guide, the FHLMC Guide, the GNMA Guide to make payments due to the holders of Mortgage Backed Securities from the Primary Obligors on the Mortgage Loans to which such Mortgage Backed Securities relate prior to the receipt of such payments from such Primary Obligors. The amount of any Guaranty Obligation shall be deemed to be the maximum amount for which the guarantor may be liable pursuant to the agreement that governs such Guaranty Obligation, unless such maximum amount is not stated or determinable, in which case the amount of such obligation shall be the maximum reasonably anticipated liability thereon, as determined by such guarantor in good faith.

"Indebtedness" of any Person means, without duplication, (i)

indebtedness of such person for borrowed money; (ii) obligations of such Person (a) evidenced by a note, bond, debenture, or similar instrument, (b) to pay the deferred purchase price of Property or services (other than trade payables incurred and timely paid in the ordinary course of business), (c) created or arising under any conditional sale or other title retention agreement with respect to Property acquired by such Person, (d) as lessee under any lease which has been or, in accordance with GAAP, should be classified as a capital lease, (e) upon which interest is paid or accrued, or (f) in respect of letters of credit, acceptances, or similar obligations issued or created for the account of such Person, (iii) Guaranty Obligations of such Person, (iv) liabilities secured by any Lien on any Property owned by such Person, whether or not such Person has assumed or otherwise become liable for the payment thereof, (v) liabilities of such Person or any related Person in respect of unfunded vested benefits under a Plan as determined in accordance with ERISA and (vi) obligations of such Person in respect of interest rate protection agreements entered into in connection with any of the items described in clauses (i), (ii), (iii), (iv) or (v) of this definition; provided, that (x) Indebtedness does not include any Ordinary Recourse Obligations, (y) the amount of Indebtedness attributable to any Guaranty Obligation shall be determined as set forth in the definition of Guaranty Obligation and (z) the amount of Indebtedness attributed to liabilities secured by any Lien on any Property owned by any Person which liabilities are non-recourse to such Person shall be the lesser of (i) the market

value of such Property, as determined by such Person in good faith, and (ii) the outstanding amount of the liabilities so secured.

"Instrument" has the meaning given to such term in Article 9 of the

UCC.

"Intangible Assets" of Borrower means those assets of Borrower which

are (i) deferred assets, (ii) contract rights to service mortgage loans, capitalized excess servicing, patents, copyrights, trademarks, trade names, franchises, goodwill, experimental expenses, and other similar assets which would be classified as intangible on a balance sheet of Borrower prepared in accordance with GAAP, (iii) unamortized debt discount and expense, and (iv) assets located, and notes and receivables due from obligors domiciled, outside of the United States of America.

"Investment" has the meaning specified in Section 7.6.

"Investor" means each Person listed on Schedule 1.2, as the same may

be amended or supplemented from time to time pursuant to Section 10.2(b).

"Lender" means Bank One, Texas (or any other commercial bank or

savings bank organized under the laws of the United States of America or any state thereof which has a capital and surplus in excess of \$200,000,000) in its capacity as lender under the Backup Gestation Agreement.

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit

arrangement, encumbrance, lien (whether statutory, consensual or otherwise), or other security arrangement of any kind (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and any financing statement filed under the UCC or comparable law of any jurisdiction in respect of any of the foregoing).

"Loan Document" means any and "Loan Documents" means the collective

reference to each of this Agreement, the Note, the Security Instruments and any and all other agreements or instruments now or hereafter executed and delivered by or on behalf of the Borrower in connection with, or as security for the payment or performance of, any or all of the Obligations, as any of such documents may be renewed, amended or supplemented from time to time.

"Material Adverse Effect" means any material adverse effect on (i) the

validity or enforceability of this Agreement, the Note, the Security Agreement or any other Loan Document, (ii) the business, operations, total Property or financial condition of the Borrower, (iii) the collateral under any Security Instrument, (iv) the enforceability or priority of the Lien in

favor of BOIA on the collateral under any Security Instrument, or (v) the ability of the Borrower timely to perform the Obligations.

"Maximum Credit Amount" means FIFTY MILLION DOLLARS (\$50,000,000).

"Maximum Rate" has the meaning specified in Section 10.9.

"MBS Advances" for a particular Computation Period means the amount

equal to (a) the product of the MBS Factor for such Computation Period times (b) the lesser of (i) the Average Advances for such Computation Period and (ii) the Average Borrowing Base for such Computation Period.

"MBS Factor" for a particular Computation Period means the amount

equal to the ratio of (a) the Average MBS Collateral Value for such Computation Period to (b) the Average Borrowing Base for such Computation Period.

"MBS Rate" for a particular Computation Period means the per annum

rate of interest equal to the sum of (a) the Federal Funds Rate for such Computation Period and (b) thirty one-hundredths of one percent (0.30%).

"Mortgage" means a mortgage or deed of trust which grants or purports

to grant, as security for a Mortgage Loan, a Lien on real property.

"Mortgage Backed Securities" means FHLMC Securities, FNMA Securities

and GNMA Securities.

"Mortgage Collateral" means, at any time, Mortgage Loans and Mortgage

Backed Securities then subject to a Lien in favor of BOIA.

"Mortgage Document Delivery Request (Correction)" means a request

substantially in the form of Exhibit "F" or such other form as to which Borrower and BOIA may agree.

"Mortgage Documents" means, for any Pledged Mortgage Loan, the

Principal Mortgage Documents and the Other Mortgage Documents.

"Mortgage Loan" means a loan which is secured by a Mortgage.

"Mortgage Note" means a promissory note which evidences a Mortgage

Loan.

"Multiemployer Plan" means a "multiemployer plan," as defined in

Section 4001(a)(3) or Section 3(37) of ERISA or Section 414 of the Code, which
is maintained for the benefit of employees of Borrower or any Related Person.

"Net Worth" of Borrower means, as of any date of determination, the

sum of (a) the total stock holder's equity which would appear on a balance sheet
of Borrower prepared as of such date in accordance with GAAP and (b) the
outstanding principal amount of Permitted Subordinated Indebtedness on such
date.

"Note" means the Gestation Financing Promissory Note delivered by the

Borrower to BOIA pursuant to Section 2.2 in the form of Exhibit "A" and all

renewals, extensions, modifications and rearrangements thereof.

"Obligations" means all present and future indebtedness, obligations,

and liabilities of the Borrower to BOIA, and all renewals, rearrangements and
extensions thereof, or any part thereof, arising pursuant to this Agreement or
any other Loan Document, and all interest accrued thereon, and reasonable
attorneys' fees and other costs incurred in the drafting, negotiation,
enforcement or collection thereof, regardless of whether such indebtedness,
obligations and liabilities are direct, indirect, fixed, contingent, joint,
several or joint and several.

"OCC" means the Office of the Comptroller of the Currency of the

United States of America and any Governmental Authority succeeding to the
functions of such office.

"Other Mortgage Documents" with respect to a Pledged Mortgage Loan

means the original recorded Mortgage relating to such Mortgage Loan, a mortgagee
policy of title insurance with respect to title to the real property covered by
such Mortgage (or a binding and unexpired commitment to issue such insurance),
any appraisals and any insurance policies which relate to such Mortgage Loan,
and all other documents executed in connection with such Mortgage Loan, other
than the Principal Mortgage Documents.

"Parent" means NVR, Inc., a Virginia corporation.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor

thereto.

"Permitted Dividends" means Dividends the declaration and payment of

which is permitted under Section 7.13.

"Permitted Intercompany Payables" means amounts due to Affiliates of

Borrower in respect of Permitted Intercompany Transactions and the Permitted
Subordinated Indebtedness.

"Permitted Intercompany Transactions" means transactions with

Affiliates of Borrower (a) which comply in all respects with Section 7.14 and

are identified on Schedule 5.22 and (b) with respect to which the aggregate

consideration paid by Borrower in any month does not exceed the amount for each
type of transaction set forth on Schedule 5.22.

"Permitted Investment" means an Investment permitted pursuant to

Section 7.6.

"Permitted Liens" means:

- (a) Liens on the Collateral which secure payment of the Obligations;
- (b) tax and other Liens permitted under Section 6.2;

(c) Liens to secure obligations of the Borrower in respect of workers compensation and other labor laws; and

(d) financing statements of record which name BOIA as "secured party."

"Permitted Returns of Capital" means Returns of Capital which are permitted under Section 7.13.

"Permitted Subordinated Indebtedness" means Indebtedness under the Affiliate Note.

"Permitted Subsidiaries" means Subsidiaries which are engaged in some aspect of the mortgage banking business, including without limitation, title companies and with respect to which the aggregate capital contributed by Borrower to all such Subsidiaries does not exceed \$400,000.

"Permitted Tax Payments" means payments to or on behalf of the Parent or any Affiliate in respect of taxes, which payments are permitted under Section 7.18.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, Governmental Authority, or other form of entity.

"Plan" means an "employee pension benefit plan" (as defined in Section 3(2) of ERISA) which is or has been established or maintained, or to which contributions are or have been made, by Borrower or any of its Related Persons, or an employee pension benefit plan as to which Borrower or any of its Related Persons would be treated as a contributory sponsor under Title IV of ERISA if it were to be terminated.

"Pledged Agency Commitment" means an Agency Commitment identified on a Borrowing Request as an Agency Commitment in which the Borrower has granted or will grant BOIA a security interest to secure the Obligations.

"Pledged Mortgage Loan" means a Mortgage Loan identified on a Borrowing Request as a Mortgage Loan in which the Borrower has granted or will grant BOIA a security interest to secure the Obligations.

"Pledged Take-Out Commitment" means a Take-Out Commitment identified

on a Borrowing Request as a Take-Out Commitment in which the Borrower has
granted or will grant BOIA a security interest to secure the Obligations.

"Principal Mortgage Documents" with respect to a Pledged Mortgage Loan

means the Mortgage Note which evidences such Pledged Mortgage Loan, the Mortgage
which secures such Pledged Mortgage Loan, an assignment in blank of such
Mortgage Note and such Mortgage, and if the Borrower is not named payee on the
face of such Mortgage Note, all intervening assignments of such Mortgage Note
and such Mortgage.

"Proceeds" means all "proceeds" as such term is defined in Section 9-

306(a) of the UCC, and, in any event, shall include all interest or other income
received by the Borrower in respect of any item of Collateral.

"Property" means any interest in any kind of property or asset,

whether real, personal or mixed, tangible or intangible.

"Related Person" means any Person that is a member of the same

controlled group of corporations (within the meaning of Section 414(b) of the
Code) as Borrower or is under common control (within the meaning of Section
414(c) of the Code or Section 4001 of ERISA) with Borrower or is a member of any
affiliated service group (within the meaning of Section 414(m) of the Code)
which includes Borrower or is otherwise treated as part of the controlled group
which includes Borrower (within the meaning of Section 414(o) of the Code).

"Release of Lien" means a release of lien in the form of Exhibit "C".

"Repurchase Agreement" means an agreement with an Investor pursuant to

which Borrower sells and agrees to repurchase interests in Mortgage Loans.

"Request for Release of Security Interest" means a request for release

of security interest substantially in the form of Exhibit "D" or such other form
as to which Borrower and BOIA may agree.

"Requested Borrowing Date" means the date on which an Advance in

respect of a Borrowing is to be made, as identified by the Borrower in the
relevant Borrowing Request.

"Required Mortgage Documents" means, with respect to a Pledged

Mortgage Loan, any Mortgage Documents not then in the possession of the Agent
which must be certified to the Agency under the Agency Commitment to which such
Pledged Mortgage Loan has been Allocated.

"Requirement of Law" means as to any Person the articles of

incorporation and by-laws or other organizational or governing documents of such Person, and any law, statute, code, ordinance, order, rule, regulation, judgment, decree, injunction, franchise, permit, certificate, license, authorization or other determination, direction or requirement (including without limitation, any of the foregoing which relate to energy regulations and occupation, safety and health standards or controls and environmental, hazardous materials use or disposal and pollution standards or controls) of any Governmental Authority, in each case applicable to or binding upon such Person or any of its Property or to which such Person or any of its Property is subject.

"Returns of Capital" means any and all payments made by Borrower to

NVR Financial Services, Inc. or the Parent which represent a return of cash capital contributions made by such Person to Borrower at any time on or after the date hereof.

"Scheduled Termination Date" means July 31, 1998.

"Securities Credit Transaction Regulations" means Regulations G, T, U

and X issued by the Board of Governors of the Federal Reserve System as in effect from time to time.

"Security Agreement" means that certain Security Agreement dated as of

August 15, 1997 between Borrower and BOIA in the form of Exhibit "J", as amended, modified or supplemented from time to time.

"Security Instruments" means (i) this Agreement, (ii) the Security

Agreement, and (iii) such other executed documents as are or may be necessary to grant to BOIA a perfected first, prior and continuing security interest in and to the Collateral, and any and all other agreements or instruments now or hereafter executed and delivered by or on behalf of the Borrower in connection with, or as security for the payment or performance of, all or any of the Obligations, including the Borrower's obligations under the Note and this Agreement, as such documents may be amended, modified or supplemented from time to time.

"Settlement Account" means the non-interest bearing demand deposit

account 1825167537 (Bank One, Texas, N.A., ABA 111000614 for credit to the account of NVR Mortgage Finance, Inc. for the benefit of Banc One Investment Advisors Corporation) established by the Borrower with the Agent which, subject to the terms of the Custody Agreement, shall be used for (i) the deposit of the proceeds from the sale of Mortgage Backed Securities; (ii) disbursements on behalf of the Borrower in accordance with Section 3.7; and (iii) the payment of

the Obligations.

"Subsidiary" of any Person (the "First Person") means any Person which

is properly treated as a subsidiary of the First Person under GAAP.

"Take-Out Commitment" means an agreement of the Borrower with a third party pursuant to which such third party agrees to purchase Mortgage Loans or Mortgage Backed Securities of specified characteristics within a specific period at a specific price or yield.

"Take-Out Price" means:

(a) with respect to a pool of Eligible Mortgage Loans which has been Allocated to an Agency Commitment, the Take-Out Price of the Mortgage Backed Security to be issued or guaranteed pursuant to such Agency Commitment; and

(b) with respect to an Eligible Mortgage Backed Security, the price for such Eligible Mortgage Backed Security under the Take-Out Commitment to which such Eligible Mortgage Backed Security has been Allocated.

"Tax Allocation Agreement" means that certain Amended and Restated Tax Allocation Agreement dated as of March 7, 1996, among the Parent, Borrower and certain Affiliates of Borrower, a true and correct copy of which is attached as Exhibit "L".

"Termination Date" means the Scheduled Termination Date or the date, if any, on which the maturity of the Obligations is accelerated pursuant to Section 8.2.

"Total Liabilities" of Borrower means, as of any date of determination, all amounts which would be included as liabilities on a balance sheet of Borrower as of such date prepared in accordance with GAAP.

"UCC" means the Uniform Commercial Code as adopted in the State of Texas, TEX. BUS. & COM. CODE ANN. (S)1.101 ET SEQ. (Vernon 1968 and Supp. 1997), as amended from time to time.

"U.S. Government Securities" means securities of the United States government or any agency thereof which are backed by the full faith and credit of the United States and have a current maturity of ninety days or less.

"Warehouse Agreement" means the Second Amended and Restated Loan Agreement among NVR Mortgage Finance, Inc., Bank One, Texas, N.A. (as Agent), and The Lenders Party Thereto, dated June 13, 1996, as amended through June 12, 1997, as the same may be further amended from time to time.

"Warehouse Permitted Lien" means:

(a) Liens to secure obligations of Borrower under the Warehouse Agreement; and

(b) all Liens permitted under the Warehouse Agreement.

"Welfare Plan" means an employee welfare benefit plan (as defined in

Section 3(1) of ERISA) or a group health plan (as defined in Section 4980B(g)(2) of the Code) which is or has been established or maintained, or to which contributions are or have been made, by Borrower or any of its Related Persons.

Section 1.2 Other Definitional Provisions.

(a) Unless otherwise specified therein, all terms defined in this Agreement have the above-defined meanings when used in the Note or any other Loan Document, certificate, report or other document made or delivered pursuant hereto.

(b) Each term defined in the singular form in this Agreement shall mean the plural thereof when the plural form of such term is used in this Agreement, the Note or any other Loan Document, certificate, report or other document made or delivered pursuant hereto, and each term defined in the plural form in this Agreement shall mean the singular thereof when the singular form of such term is used herein or therein.

(c) The words "hereof," "herein," "hereunder" and similar terms when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, schedule and exhibit references herein are references to sections, schedules and exhibits to this Agreement unless otherwise specified.

(d) As used herein, in the Note or in any other Loan Document, certificate, report or other document made or delivered pursuant hereto, accounting terms relating to any Person and not specifically defined in this Agreement or therein shall have the respective meanings given to them under GAAP.

(e) Unless otherwise specified herein, all times set forth herein are Dallas, Texas time.

(f) Unless otherwise specified herein, all Section references are to Sections in this Agreement.

ARTICLE II

AMOUNT AND TERMS OF CREDIT

Section 2.1 Credit Facility. Commencing on the date of this Agreement

through the earlier to occur of the Termination Date and the Business Day preceding the Scheduled Termination Date, and subject to all of the terms and conditions of this Agreement, BOIA agrees to make Advances to or for the account of Borrower on a revolving credit basis from time to time on any Business Day in an amount not to exceed at any one time outstanding the Maximum Credit Amount. Each Borrowing funded shall be in an aggregate amount of not less than \$100,000 and shall consist of an Advance made on the Requested Borrowing Date by BOIA; provided, that the aggregate amount of Advances at any time outstanding shall

not exceed the lesser of (i) the Maximum Credit Amount and (ii) the Borrowing Base. Subject to the other terms and conditions hereof, the Borrower may borrow, repay (whether pursuant to Section 2.4, Section 3.4, or otherwise), and

reborrow under this Section 2.1.

Section 2.2 Note. The Advances made by BOIA pursuant to Section 2.1

shall be evidenced by a Note payable to BOIA in the principal amount of the Maximum Credit Amount. The Note shall be payable and bear interest as set forth in Sections 2.4, 2.8 and 10.9.

Section 2.3 Manner of Requesting and Obtaining Borrowings. The Borrower

shall request each Borrowing as follows: Not later than 11:59 p.m. on the Business Day prior to the Requested Borrowing Date, the Borrower shall deliver a Borrowing Request and all supporting documentation to BOIA and the Agent by telecopy; the Borrower also shall deliver a hard copy of such Borrowing Request and all supporting documentation to the Agent by overnight courier service for receipt on the Requested Borrowing Date. Not later than 1:00 p.m. on the Requested Borrowing Date specified in the Borrowing Request, BOIA shall verify the accuracy and completeness of such Borrowing Request and all supporting documentation with the Agent and the satisfaction of the provisions of Section 4.2 hereof; subject to such verification and the other terms and conditions of this Agreement, BOIA shall initiate the Advance in respect of such Borrowing in accordance with the deposit or wire instructions of the Borrower set forth in such Borrowing Request.

Section 2.4 Mandatory Repayments. The Borrower shall repay the

principal amount of each outstanding Advance on the earlier of: (i) the scheduled settlement date for the sale of the Mortgage Backed Securities in respect of which such Advance was made (as set forth in the relevant Borrowing Request), which scheduled settlement date shall not, in any event, be later than the Scheduled Termination Date; (ii) the date of any mandatory redemption required pursuant to the terms of Section 3.4(c); and (iii) the Termination

Date. If at any time the aggregate amount of Advances outstanding exceeds either the Maximum Credit Amount or the Borrowing Base, the Borrower, without further notice or demand (which the Borrower hereby waives), shall immediately repay so much of the outstanding Advances as may be

necessary to eliminate such excess by borrowing such amount from the Lender pursuant to the Backup Gestation Agreement, or from any other source.

Section 2.5 Business Days. If the scheduled date for any payment

hereunder falls on a day which is not a Business Day, then for all purposes of the Note and this Agreement the same shall be deemed to have fallen on the next following Business Day, and such extension of time shall be included in the computation of payments of interest.

Section 2.6 Payment Procedure. All payments of the principal of and

interest upon the Note shall be made by the Borrower to the Settlement Account pursuant to the terms of Section 12 of the Custody Agreement before 2:00 p.m. on the respective dates when due in federal or other immediately available funds. Payments received on any day which is not a Business Day and payments received after 2:00 p.m. on any Business Day shall be treated for all purposes as having been received on the Business Day next following receipt of such payment. If no Event of Default exists or would result therefrom, payments in respect of the Obligations shall be applied to specific types of obligations (e.g., fees, expenses, principal and interest) as the Borrower directs. At any time when an Event of Default exists or would result from following the payment directions of the Borrower, payments in respect of the Obligations shall be applied to specific types of Obligations in such order as BOIA may elect.

Section 2.7 Requirements of Law. (a) In the event that the adoption of

any new Requirement of Law or any change in any existing Requirement of Law (other than any change in the articles of incorporation, by-laws or other organizational or governing documents of BOIA) or in the interpretation or application thereof or compliance by BOIA with any report or directive (whether or not having the force of law) from any central bank or other Governmental Authority issued after August 15, 1997:

(i) shall subject BOIA to any tax of any kind whatsoever with respect to this Agreement, the Note or any Advance made by it, or change the basis of taxation of payments to BOIA of principal, interest or any other amount payable hereunder (except for changes in the rate of tax on the overall net income of BOIA and changes in the computation of the overall net income of BOIA that do not specifically involve payments to BOIA under this Agreement, the Note, or any Advance, even though such changes have the effect of increasing the effective rate of tax imposed on income of BOIA);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, or deposits or other liabilities in or for the account of, commitments, advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of BOIA which are not otherwise included in the determination of any interest rate under the Note; or

(iii) shall impose on BOIA any other condition

and the result of any of the foregoing is to increase the cost to BOIA, by any amount which BOIA deems to be material, of making, renewing or maintaining this Agreement or any Advances or to reduce any amount receivable hereunder, in each case, in respect of its Advances, then, the Borrower shall, within two (2) Business Days, pay BOIA, upon its written demand setting forth the basis for such demand, any additional amounts necessary to compensate BOIA for such additional cost or reduced amount receivable. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by BOIA to the

Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and payment of the Note.

(b) In the event that BOIA shall have determined that the adoption of any new law, rule, regulation or guideline regarding capital adequacy, or any change therein or in the interpretation or application thereof or compliance by BOIA or any corporation controlling it with any request or directive regarding capital adequacy (whether or not having the force of law) from any central bank or Governmental Authority issued after August 15, 1997, including, without limitation, the issuance of any final rule, regulation or guideline, does or shall have the effect of reducing the rate of return on BOIA's or such corporation's capital to a level below that which BOIA or such corporation could have achieved but for such adoption, change or compliance (taking into consideration BOIA's or such corporation's policies with respect to capital adequacy) by an amount deemed by BOIA to be material, then the Borrower shall promptly pay BOIA, upon its written demand setting forth the basis for such demand, any additional amounts necessary to compensate BOIA or such corporation for such reduced rate of return. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by BOIA to the Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and payment of the Note.

Section 2.8 Interest.

(a) In General. Interest on an Advance shall accrue during the time that

such Advance is outstanding and shall be payable on the earlier of: (i) the scheduled settlement date for the sale of the Mortgage Backed Securities in respect of which such Advance was made (as set forth in the relevant Borrowing Request), which scheduled settlement date shall not, in any event, be later than the Scheduled Termination Date; (ii) the date of any mandatory redemption required pursuant to the terms of Section 3.4(c); and (iii) the Termination

Date. BOIA shall use its best efforts to give the Borrower written notice of the interest due hereunder no later than one (1) Business Day prior to such required interest payment date, but the failure to give such notice shall not affect the Borrower's obligation to make such payment.

(b) MBS Advances. The MBS Advances for each Computation Period shall bear

interest at the per annum rate of interest equal to the lesser of (i) the applicable MBS Rate for such Computation Period and (ii) the Maximum Rate.

(c) Excess Advances; Overdue Amounts. The Excess Advances for each

Computation Period shall bear interest at the per annum rate of interest equal to the lesser of (i) the sum of four percent (4.00%) and the Base Rate and (ii) the Maximum Rate. Overdue principal, interest and other amounts shall bear interest for each day such amounts are overdue at the per annum rate of interest equal to the lesser of (i) the sum of four percent (4.00%) and the Base Rate and (ii) the Maximum Rate; all such interest shall be payable upon demand.

(d) 360 Day Year; Maximum Rate. For purposes of calculating any interest

rate which is based on the Base Rate or the Federal Funds Rate, interest shall be calculated on the basis of the actual number of days elapsed over a 360-day year. For purposes of calculating interest at the Maximum Rate, interest shall be calculated on the basis of the actual number of days elapsed over whichever of a 365-day or a 366-day year is applicable. Reference is made to Section 10.9

for certain provisions limiting the rate of interest which may be charged under this Agreement and the other Loan Documents. The provisions of Section 10.9

shall be controlling in the event of any conflict between such provisions and (i) the provisions of this Section 2.8, (ii) any other provision of this

Agreement, or (iii) any provision of any other Loan Document.

ARTICLE III

COLLATERAL

Section 3.1 Granting Clause.

(a) To secure the punctual payment and performance of the Obligations, the Borrower hereby grants BOIA (acting as agent on behalf of its customers and not individually) a security interest in the Collateral.

(b) From time to time Borrower may grant BOIA (acting as agent on behalf of its customers and not individually) a security interest in additional Collateral pursuant to this Agreement and the Security Agreement. Borrower hereby agrees to execute all documents and instruments, and perform all other acts reasonably deemed necessary by BOIA, to perfect the security interest of BOIA in and to the Collateral identified in the granting clause of the Security Agreement.

Section 3.2 Borrowing Requests. Each Borrowing Request shall identify

the Agency Commitment pursuant to which the Mortgage Backed Securities to be backed by such Mortgage Loans are to be issued by FNMA or FHLMC or guaranteed by GNMA (such Agency Commitment being the Agency Commitment to which such Mortgage Loans have been "Allocated") and the Take-Out Commitment pursuant to which such

Mortgage Backed Securities are to be sold (such Take-Out Commitment being the Take-Out Commitment to which such Mortgage Backed Securities have been "Allocated") and shall be accompanied by:

(a) any Required Mortgage Documents with respect to such Mortgage Loans not then in the possession of the Agent;

(b) a Release of Lien for such Agency Commitment and such Take-Out Commitment, duly executed by the Borrower and the Agent; and

(c) a Bailee Letter in the form of Exhibit "G-1", duly executed by the

Borrower, the Agent and the applicable Investor; or

(d) the relevant Agency Forms, duly completed (but for certification by the Agent where applicable) and in sufficient quantity to satisfy applicable Agency requirements.

The Borrower shall (x) hold in trust for BOIA, with respect to each such Mortgage Loan, the original recorded Mortgage relating to such Mortgage Loan, a mortgagee policy of title insurance (or binding and unexpired commitment to issue such insurance if the policy has not yet been delivered to the Borrower) insuring the Borrower's perfected, first-priority Lien created by the Mortgage securing such Mortgage Loan (subject only to exceptions permitted by the Agency obligated under the Agency Commitment to which such Mortgage Loan has been Allocated), any Appraisals and any insurance policies which relate to such Mortgage Loan, and all other original documents executed in connection with such Mortgage Loan and not delivered to the Agent and (y) upon request of BOIA or the Agent, immediately deliver to the Agent such documents, together with an index specifically identifying each such document. BOIA or the Agent, in their reasonable discretion, may reject as unsatisfactory any items so delivered by written notice to the Borrower specifying the reasons therefor, whereupon the Borrower agrees promptly to use all reasonable efforts to correct any defects therein identified by BOIA or the Agent and whereupon any Pledged Mortgage Loan with respect to which any such defect which may be corrected but for which such defect is not corrected within fifteen (15) days after the request for such correction by BOIA or the Agent shall have a Collateral Value of zero. Simultaneously with the delivery of any Borrowing Request, the Borrower may deliver to the Agent a Request for Release of Security Interest in the form of Exhibit "D" for processing in accordance with Section 3.10.

Section 3.3 Power of Attorney. Effective upon the occurrence of an Event

of Default, the Borrower hereby irrevocably appoints the Agent (as agent for, and for the benefit of, BOIA) its attorney in fact, with full power of substitution, for and on behalf and in the name of the Borrower, to (i) indorse and deliver to any Person any check, instrument or other paper coming into the Agent's possession and representing payment made in respect of any Mortgage Note or Mortgage Backed Security included in the Collateral or in respect of any other collateral for the Obligations including any Agency Commitment and any Take-Out Commitment; (ii) prepare, complete, execute, deliver and record any assignment to BOIA or to any other Person of any Mortgage relating to any Mortgage Note included in the Collateral; (iii) indorse and deliver any Mortgage Note or Mortgage Backed Security included in the Collateral and do every other thing necessary or desirable to effect transfer of all or any part of the Collateral to the Agent (as agent for, and for the benefit of, BOIA) or to any other Person; (iv) take all necessary and appropriate action with respect to all Obligations and the items of Collateral to be delivered to the Agent (as agent for, and for the benefit of, BOIA) or held by the Borrower in trust for BOIA including, without limitation, instruct any title company or closing agent to deliver any Mortgage Note or Mortgage Document held by it directly to the Agent (as agent

for, and for the benefit of, BOIA); (v) commence, prosecute, settle, discontinue, defend, or otherwise dispose of any claim relating to any Agency Commitment or any Take-Out Commitment or any other part of the Collateral; and (vi) sign the Borrower's name wherever appropriate to effect the performance of this Agreement. This Section 3.3 shall be liberally, not restrictively,

construed so as to give the greatest latitude to the Agent (as agent for, and for the benefit of, BOIA), as the Borrower's attorney in fact, to collect, sell, and deliver any of the Collateral and all other documents relating thereto. The powers and authorities herein conferred on the Agent (as agent for, and for the benefit of, BOIA) may be exercised by the Agent through any Person who, at the time of the execution of a particular instrument, is an authorized officer of the Agent. The power of attorney conferred by this Section 3.3 shall become

effective upon the occurrence, and remain effective during the continuance, of an Event of Default and is granted for a valuable consideration and is coupled with an interest and irrevocable so long as the Obligations, or any part thereof, shall remain unpaid. All Persons dealing with the Agent, any officer thereof, or any substitute attorney, acting pursuant hereto shall be fully protected in treating the powers and authorities conferred by this Section 3.3

as existing and continuing in full force and effect until advised by BOIA that the Obligations have been fully and finally paid.

Section 3.4 Disposition of Collateral.

(a) Pursuant to Agency Commitments. Subject to the provisions of this

Agreement and compliance with the FNMA Guide, the FHLMC Guide or the GNMA Guide, as applicable, the Agent shall deliver the Mortgage Documents which relate to Pledged Mortgage Loans Allocated to a particular Agency Commitment to or for the account of the relevant Agency and shall, subject to the terms of the Custody Agreement, release BOIA's security interest to secure the Obligations therein. The Borrower shall complete each Agency Form such that the Mortgage Backed Security to be issued or guaranteed pursuant to a Pledged Agency Commitment is issued in the name of BOIA or its designee, or, if issued in the name of the Borrower, is issued to an account subject to the sole dominion and control of BOIA or its designee and shall take such other steps as may be requested by BOIA to cause the security interest of BOIA in and to any Mortgage Backed Security which constitutes Proceeds of one or more Pledged Mortgage Loans to be a perfected, first-priority, security interest. Without limiting the generality of the preceding sentence, unless otherwise instructed by BOIA, the Borrower shall complete each GNMA form Schedule of Subscribers such that "Manuf/Cust/FA0/Banc One Investment Advisors Corporation" appears as the Subscriber/PTC Participant; complete each FNMA form Delivery Schedule such that "Bank One, Texas as Agent/Cust" appears as the Depository Institution and Telegraphic Abbreviation and "111000614" appears as the ABA Number and "NVR Mortgage Finance, Inc. 310118" appears as the Owners Account Name/Account Number; and shall complete each FHLMC form Warehouse Lender Release of Security Interests and FHLMC form Guarantor Program; Security Settlement Information and Delivery Authorization such that "Bank One, Texas as Agent, Cust/NVR Mortgage Finance, Inc./310118" appears as the Depository

Institution/Type of Account/Beneficiary/Account Number and such that "111000614" appears as the ABA Number. Upon completion of its review of the Required Mortgage Documents and the Agency Forms relevant to a particular Agency Commitment, the Agent shall deliver such Agency Forms to the applicable Agency and shall deliver the Required Mortgage Documents to or for the account of such Agency under a bailee provided or such other form of transmittal letter as such agency may require; provided, that the release of the security interest in favor

of BOIA in such Required Mortgage Documents and the Mortgage Loans evidenced thereby shall be conditioned upon receipt by the Agent of Mortgage Backed Securities in the amount specified in the relevant Agency Commitment.

(b) Pursuant to Take-Out Commitments. Mortgage Backed Securities which

constitute Proceeds of Pledged Mortgage Loans shall be sold pursuant to the Take-Out Commitments to which such Mortgage Backed Securities have been Allocated. The Borrower agrees to take all steps necessary to satisfy the conditions to the sale of any Mortgage Backed Security which constitutes Proceeds of Pledged Mortgage Loans pursuant to the Take-Out Commitment to which it has been Allocated. Mortgage Backed Securities from time to time included in the Collateral shall be sold versus payment (and not "free"). In connection with the sale of any Mortgage Backed Security included in the Collateral, BOIA shall not be under any duty at any time to credit the Borrower for any amounts due from any Person in respect of any purchase until BOIA has actually received immediately available funds pursuant to the terms of Section 12 of the Custody Agreement. Any funds so received will be treated as payments under and processed and applied in accordance with Section 2.6. BOIA shall not be under

any duty at any time to collect any amounts or otherwise enforce any obligations due from any Person in respect of any such purchase.

(c) Mandatory Redemption. In the event that the issuance of any Mortgage

Backed Security pursuant to an Agency Commitment has not occurred within five (5) Business Days of the scheduled date for such issuance (as set forth on the relevant Borrowing Request), the Borrower agrees to make a prepayment of the Advances in an aggregate amount equal to the Collateral Value (but for any event or circumstance which caused such failure) of the Mortgage Loans intended to back such Mortgage Backed Security. In the event the sale of a Mortgage Backed Security pursuant to a Take-Out Commitment has not settled within five (5) Business Days of the scheduled settlement date for such sale (as set forth in the relevant Borrowing Request), the Borrower agrees to make a prepayment of the Advances in an aggregate amount equal to the Collateral Value (but for any event or circumstance which caused such failure) of such Mortgage Backed Security. In either such case, Borrower hereby agrees to effect such prepayments by borrowing the corresponding aggregate amount from the Lender pursuant to the Backup Gestation Agreement, or from another source.

Section 3.5 Representations and Warranties Regarding Collateral. Each

Borrowing Request shall be deemed to constitute a representation and warranty by the Borrower on the Requested Borrowing Date set forth therein that the Agency Commitment and the Take-Out

Commitment identified thereon are both in full force and effect and that all representations and warranties made or deemed made by the Borrower to the Agency or Investor thereunder are true and correct. Upon the delivery of the Borrowing Request by which such Pledged Mortgage Loan is identified, the Borrower represents and warrants with respect to each Pledged Mortgage Loan that:

(a) The Borrower (and, if the Borrower did not originate such Pledged Mortgage Loan, the originator of such Pledged Mortgage Loan) complied, and the Principal Mortgage Documents and Other Mortgage Documents relevant to such Pledged Mortgage Loan comply, in all material respects with all applicable Requirements of Law, including, without limitation, (i) any usury laws, (ii) the Real Estate Settlement Procedures Act of 1974, as amended, (iii) the Equal Credit Opportunity Act, as amended, (iv) the Federal Truth in Lending Act, as amended, (v) Regulation Z of the Board of Governors of the Federal Reserve System, as amended, and (vi) any consumer protection laws;

(b) the full Face Amount of such Pledged Mortgage Loan (less any discount points paid by or on behalf of the borrower under such Pledged Mortgage Loan) was funded to the borrower thereunder;

(c) such Pledged Mortgage Loan was underwritten in compliance with the requirements of the Agency under the Pledged Agency Commitment to which it has been Allocated and the Mortgage Backed Security to be issued or guaranteed pursuant to such Agency Commitment satisfies (or upon issuance thereof will satisfy) all requirements for purchase under the Pledged Take-Out Commitment to which it has been allocated;

(d) the Mortgage related to such Pledged Mortgage Loan creates a perfected first-priority Lien (subject only to exceptions permitted by the Agency obligated under the Agency Commitment to which such Mortgage Loan has been Allocated) on residential real property consisting of land and a one-to-four family dwelling thereon which is completed and ready for occupancy and such Mortgage, the other Principal Mortgage Documents, the title policy relevant thereto and the Other Mortgage Documents relevant thereto comply in all respects with the requirements of the Agency under the applicable Agency Commitment;

(e) such Pledged Mortgage Loan is an Eligible Mortgage Loan; and

(f) the Borrower has all requisite power and authority to grant BOIA a security interest to secure the obligations in such Pledged Mortgage Loan.

Section 3.6 Borrower Appointed Agent. BOIA hereby appoints the Borrower

(and, in the case of any Pledged Mortgage Loan originated by a Person other than the Borrower, also appoints such other Person) as its agent at the sole cost and expense of the Borrower for

purposes of (a) obtaining Appraisals with respect to the property covered by the Mortgages which relate to the Pledged Mortgage Loans and (b) otherwise complying with Appraisal Laws and Regulations.

Section 3.7 Settlement Account. The Borrower hereby expressly acknowledges

that the Settlement Account is subject in all respects to the right of offset in favor of the Agent (as agent for, and for the benefit of, BOIA) as granted under Section 10.10. The Settlement Account shall be subject to the sole dominion and

control of the Agent (as agent for, and for the benefit of, BOIA) provided, that

so long as no Default or Event of Default exists or would result therefrom, and subject to the terms of the Custody Agreement, the Agent shall disburse sums on deposit in the Settlement Account in accordance with the instructions of the Borrower.

Section 3.8 Correction of Mortgage Notes. Subject to the terms of the

Custody Agreement, Borrower may from time to time request that the Agent release a Mortgage Note (the "Released Note") that constitutes Collateral so that such

Mortgage Note may be replaced by a corrected Mortgage Note (the "Correction

Note") by delivery to the Agent of a Mortgage Document Delivery Request

(Correction) which identifies the Released Note. Upon receipt by the Agent of such a request, and so long as no Default or Event of Default shall be in existence, and subject to the terms of the Custody Agreement, the Agent shall deliver to Borrower, under a Bailee Letter and Trust Receipt (Correction) the Released Note to be corrected, with the release of the Lien in favor of BOIA being conditioned upon the receipt by the Agent of a Correction Note acceptable to it; provided, that (i) at no time shall the outstanding principal balance of all Released Notes which have not been replaced with Correction Notes exceed \$2,000,000 (the "Maximum Correction Amount") and (ii) unless the Correction Note

is delivered to the Agent indorsed in blank within fifteen (15) days of the release by the Agent of the Released Note, the Collateral Value attributed to both the Released Note and the Correction Note shall be zero.

Section 3.9 Borrowing Base Reports. No later than 11:00 a.m. on the

first Business Day of each calendar week, BOIA shall complete the Borrowing Base Report as of the close of business on the preceding Business Day and deliver a copy of such Borrowing Base Report by telecopy to Borrower.

Section 3.10 Take-Out Commitments. At any time and from time to time,

provided that no Default or Event of Default exists or would result therefrom, and subject to the terms of the Custody Agreement, Borrower may obtain the release of the security interest in favor of BOIA in any Take-Out Commitment or specific commitment under a master Take-Out Commitment in connection with the refinancing of specific Mortgage Loans upon written request to the Agent setting forth the Mortgage Loans to be refinanced and the Take-Out Commitment(s) to be released, demonstrating compliance with Section 6.20 and certifying that no

Default or Event of Default exists or would result from the requested release. In connection with any such release, BOIA shall, at Borrower's request and expense, execute such form UCC-

3 amendments and/or terminations as may reasonably be necessary (in light of maintaining the perfection and priority of any continuing security interests) to release the security interest of BOIA in the relevant Take-Out Commitment(s).

ARTICLE IV

CONDITIONS PRECEDENT

The obligation of BOIA to make Advances hereunder is subject to fulfillment of the conditions precedent stated in this Article IV.

Section 4.1 Initial Borrowing Request. The obligation of BOIA to make

Advances hereunder shall be subject to, in addition to the conditions precedent specified in Section 4.2, delivery to Bank One Trust Company, N.A. as custodian

for the benefit of BOIA (addressed as follows: Bank One Trust Company, N.A., 235 W. Schrock Road, Westerville, Ohio 43081, Attention: Robin Turner), of each of the following (each of the following documents being duly executed and delivered by each of the parties thereto and in form and substance satisfactory to BOIA and, with the exception of the Note, each in a sufficient number of originals that the Borrower and BOIA may have an executed original of each document):

- (a) this Agreement;
- (b) the Note;
- (c) the Security Agreement;
- (d) the Custody Agreement;
- (e) the Backup Gestation Agreement;

(f) a certificate of the Secretary or Assistant Secretary of the Borrower, dated as of the date of this Agreement and certifying as to (i) resolutions of the board of directors of the Borrower which authorize the execution and delivery on behalf of the Borrower by certain officers of the Borrower of this Agreement, the Note, the Security Agreement and the other Loan Documents to which it is a party, (ii) the incumbency of such officers, (iii) the validity of specimen signatures of such officers, and (iv) the articles of incorporation and by-laws of the Borrower as in effect on the date thereof;

(g) a certificate from the Secretary of the Commonwealth of Virginia of a date no earlier than July 1, 1997 as to (i) the good standing of Borrower and (ii) the existence of Borrower;

(h) a certificate from the Secretary of the Commonwealth of Pennsylvania of a date no earlier than July 1, 1997 as to (i) the good standing of Borrower and (ii) the authority of Borrower to do business in Pennsylvania; and

(i) such other documents as BOIA may reasonably request at any time at or prior to the Requested Borrowing Date of the initial Borrowing Request hereunder, including without limitation, UCC-1 financing statements identifying BOIA as "secured party" and the Borrower as "debtor."

Section 4.2 All Borrowing Requests. The obligation of BOIA to make any

Advances pursuant to this Agreement is subject to the following further conditions precedent:

(a) compliance with the terms of Section 2.3 hereof;

(b) all Property in which the Borrower has granted a Lien to BOIA to secure the Obligations shall have been physically delivered to the possession of the Agent to the extent that such possession is necessary or appropriate for the purpose of perfecting such Lien in such collateral;

(c) the representations and warranties of the Borrower contained in this Agreement and any other Loan Document (other than those representations and warranties which are by their terms limited to the date of the agreement in which they are initially made) shall be true and correct in all material respects on and as of the Requested Borrowing Date; and

(d) no Default or Event of Default shall have occurred and be continuing and no change or event which constitutes a Material Adverse Effect shall have occurred as of the Requested Borrowing Date set forth therein.

Each Borrowing Request shall be deemed to constitute a representation and warranty by the Borrower on the Requested Borrowing Date set forth therein as to the facts specified in Sections 4.2(c) and (d).

ARTICLE V

BORROWER REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants as follows:

Section 5.1 Organization and Good Standing. Borrower (a) is a corporation

duly incorporated and existing in good standing under the laws of the jurisdiction of its incorporation, (b) is duly qualified as a foreign corporation and in good standing all

jurisdictions in which its failure to be so qualified could have a Material Adverse Effect, (c) has the corporate power and authority to own its properties and assets and to transact the business in which it is engaged and is or will be qualified in those states wherein it proposes to transact business in the future and (d) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 5.2 Authorization and Power. The Borrower has the corporate power

and requisite authority to execute, deliver and perform this Agreement, the Note, the Security Agreement and the other Loan Documents to which it is a party; the Borrower is duly authorized to and has taken all corporate action necessary to authorize it to, execute, deliver and perform this Agreement, the Note, the Security Agreement and the other Loan Documents to which it is a party and is and will continue to be duly authorized to perform this Agreement, the Note, the Security Agreement and such other Loan Documents.

Section 5.3 No Conflicts or Consents. Neither the execution and delivery

by the Borrower of this Agreement, the Note, the Security Agreement or the other Loan Documents to which it is a party, nor the consummation of any of the transactions herein or therein contemplated, nor compliance with the terms and provisions hereof or with the terms and provisions thereof, will (a) materially contravene or conflict with any Requirement of Law to which the Borrower is subject, or any indenture, mortgage, deed of trust, or other agreement or instrument to which the Borrower is a party or by which the Borrower may be bound, or to which the Property of the Borrower may be subject, or (b) result in the creation or imposition of any Lien, other than the Liens granted to BOIA pursuant to the Security Agreement and this Agreement on the Property of the Borrower.

Section 5.4 Enforceable Obligations. This Agreement, the Note, the

Security Agreement and the other Loan Documents to which the Borrower is a party are the legal, valid and binding obligations of the Borrower, enforceable in accordance with their respective terms.

Section 5.5 Priority of Liens. Upon making an Advance, BOIA shall have a

valid, enforceable, perfected, first priority Lien and security interest in (i) each Pledged Mortgage Loan, (ii) each Pledged Agency Commitment, and (iii) each Pledged Take-Out Commitment.

Section 5.6 No Liens. The Borrower has good and indefeasible title to the

Collateral. All of the Collateral is free and clear of all Liens and other adverse claims of any nature, other than Permitted Liens.

Section 5.7 Financial Condition. Borrower has delivered to BOIA copies of

the balance sheet of Borrower as of December 31, 1996, and the related statements of income, stockholders' equity and cash flows for the fiscal year ended such date; such financial statements fairly present the financial condition of Borrower as of such date and the results of

operations of Borrower for the period ended on such date and have been prepared in accordance with GAAP; except as has been disclosed in writing to BOIA, as of the date hereof, there were no material obligations, liabilities or indebtedness (including material contingent and indirect liabilities and obligations and forward or long-term commitments) of Borrower which are not reflected in such financial statements; and no change which constitutes a Material Adverse Effect has occurred in the financial condition or business of Borrower since the date of such financial statements. Borrower also has delivered to BOIA copies of the balance sheet of Borrower dated as of March 31, 1997 and the related statements of income, and the cash flows as of such date; such financial statements fairly present the financial condition of Borrower as of such date and have been prepared in accordance with GAAP, subject to normal year-end adjustments; except as has been disclosed in writing to BOIA as of the date thereof, there were no material obligations, liabilities or indebtedness (including material contingent and indirect liabilities and obligations and forward or long-term commitments) of Borrower which are not reflected in such financial statements; and no change which constitutes a Material Adverse Effect has occurred in the financial condition or business of Borrower since the date of such financial statements.

Section 5.8 Full Disclosure. There is no material fact that the Borrower

has not disclosed to BOIA which could have a Material Adverse Effect. Neither the financial statements referred to in Section 5.7, nor any Borrowing Request,

officer's certificate or statement delivered by the Borrower to BOIA (including, without limitation, any such item delivered to the Agent in its capacity as agent for BOIA under the Custody Agreement), contains any untrue statement of material fact.

Section 5.9 No Default. Borrower is not in default under any loan agreement,

mortgage, security agreement or other material agreement or obligation to which it is a party or by which any of its Property is bound.

Section 5.10 No Litigation. Except as set forth on Schedule 5.10, there

are no material actions, suits or legal, equitable, arbitration or administrative proceedings pending, or to the knowledge of Borrower threatened, against Borrower the adverse determination of which could constitute a Material Adverse Effect.

Section 5.11 Taxes. All tax returns required to be filed by Borrower in

any jurisdiction have been filed and all taxes, assessments, fees and other governmental charges upon Borrower or upon any of its properties, income or franchises have been paid prior to the time that such taxes could give rise to a Lien thereon, unless protested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been established on the books of Borrower. Borrower has no knowledge of any proposed or threatened tax assessment against Borrower.

Section 5.12 Principal Office, etc. The principal office, chief

executive office and principal place of business of Borrower is located at 7601 Lewinsville Road, Suite 302, McLean, Virginia 22102, County of Fairfax.

Section 5.13 Compliance with ERISA.

(a) Borrower has not violated the fiduciary responsibility rules of Subtitle B of Title I of ERISA with respect to any Plan or any Welfare Plan in a manner that could subject Borrower to, or cause Borrower to incur, liability in respect of an action or a suit for damages, or a penalty, under ERISA, or an excise tax under Section 4975 of the Code, which action, suit, penalty or tax, in any case, would be materially adverse to Borrower.

(b) Each of Borrower and each Related Person has fulfilled its obligations under the minimum funding standards of Section 412 of the Code and Section 302 of ERISA with respect to each Plan; neither Borrower nor any Related Person has incurred, nor are any of them aware of facts which would cause them reasonably to conclude that any of them are likely to incur any material liability to the PBGC, other than for the payment of premiums; and neither Borrower nor any Related Person has incurred, nor are any of them aware of facts which would cause them reasonably to conclude that any of them are likely to incur, any material liability to any Plan or any Welfare Plan, other than for the payment of contributions in the ordinary course. Each Plan and each Welfare Plan is in compliance in all respects with, and has been operated and administered in accordance with the applicable provisions of, ERISA, the Code and each other applicable federal or state law except to the extent the failure to so comply, or to so operate or administer any such Plan and any such Welfare Plan, would not be materially adverse to Borrower. No event or condition is occurring or exists and neither Borrower nor any Related Person is aware of any facts which would cause them reasonably to conclude that any event or condition will likely occur or exist with respect to any Plan concerning which Borrower would be under an obligation to furnish a report to Agent in accordance with Section 6.17.

(c) Full payment has been timely made of all amounts which Borrower or any Related Person is required under applicable law, the terms of each Plan or any applicable collective bargaining agreement to have paid as contributions to each Plan and no accumulated funding deficiency under Section 412 of the Code or Section 302 of ERISA, whether or not waived, exists or is expected to exist with respect to any Plan. As of the most recent valuation date of each Plan, each Plan was "fully funded." For purposes of this Section 5.13, "fully funded"

means that the fair market value of the assets of each Plan (determined separately for each Plan and not in the aggregate) is not less than the present value of the accrued benefits of all participants in each Plan (determined separately for each Plan and not in the aggregate), computed on a Plan termination basis by more than \$2,000,000.

(d) Neither Borrower nor any Related Person is or has ever been obligated to contribute to any "multiple employer plan" (within the meaning of Section 4063 of ERISA) or to any Multiemployer Plan.

(e) The present value (determined in accordance with FAS 106 and using actuarial and other assumptions which are reasonable in respect of the benefits provided and the participants) of the liability of Borrower and each Related Person for post-retirement benefits under any and all Welfare Plans, whether written or unwritten, which are or have been established or maintained, or to which contributions are or have been made, by Borrower or any of its Related Persons does not materially exceed the assets under all such Welfare Plans allocable to such benefits.

(f) No failure to comply with Code Section 4908B or Part B of Title I of ERISA exists or has occurred with respect to any Welfare Plan.

Section 5.14 Ownership. The Parent owns, beneficially, of record and

either directly or indirectly, 100% of the issued and outstanding shares of capital stock of Borrower. Neither any "person" nor any "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities and Exchange Act of 1934, as amended) is the "beneficial owner" (as defined in Rule 13d-3 under such act) of more than 50% of the total aggregate voting power of all classes of voting stock of the Parent and/or warrants or options to acquire such voting stock, calculated on a fully diluted basis.

Section 5.15 Subsidiaries. Borrower has no Subsidiaries other than

Permitted Subsidiaries. Neither Borrower nor any Subsidiary has any interest in any joint venture, partnership or other Person, except to the extent that such an interest is a Permitted Investment.

Section 5.16 Indebtedness. Borrower has no Indebtedness outstanding

other than the Obligations and the other Indebtedness permitted by Section 7.2.

Section 5.17 Permits, Patents, Trademarks, etc.

(a) Borrower has all permits, licenses and governmental authorization necessary for the operation of its business. All such permits, licenses and governmental authorizations are in good standing and Borrower is in compliance with all material terms of such permits, licenses and governmental authorizations.

(b) Borrower owns or possesses (or is licensed or otherwise has the necessary right to use) all patents, trademarks, service marks, trade names (including the name "NVR Mortgage Finance, Inc.") and copyrights, technology, know-how and processes, and all rights with respect to the foregoing, which are necessary for the operation of its business, without any

known material conflict with the rights of others. The consummation of the transactions contemplated hereby will not alter or impair in any material respect any of such rights of Borrower.

Section 5.18 Status Under Certain Federal Statutes. Borrower is not (a)

a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended, (b) a "public utility," as such term is defined in the Federal Power Act, as amended, (c) an "investment company", or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, or (d) a "rail carrier," or a "person controlled by or affiliated with a rail carrier," within the meaning of Title 49 U.S.C., or a "carrier" to which 49 U.S.C. Section 11301(b)(1) is applicable.

Section 5.19 Securities Act and Securities Credit Transaction

Regulations. Borrower has not issued any unregistered securities in violation

of the registration requirements of the Securities Act of 1933, as amended, or of any other Requirement of Law, and is not violating any rule, regulation, or requirement under the Securities Act of 1933, as amended, or the Securities and Exchange Act of 1934, as amended. Borrower is not required to qualify an indenture under the Trust Indenture Act of 1939, as amended, in connection with its execution and delivery of the Notes. Borrower is not a party, whether as a customer or a creditor, to any transaction that is subject to the Securities Credit Transaction Regulations.

Section 5.20 Pollution Control. Borrower is in compliance with, and to

the best of Borrower's knowledge, Borrower has, at all times since its incorporation, been in material compliance with, all Requirements of Law relating to the environment, hazardous material or pollution control.

Section 5.21 No Approvals Required. Other than consents and approvals

previously obtained and actions previously taken, neither the execution and delivery of this Agreement, the Note, the Security Agreement and the other Loan Documents to which Borrower is a party, nor the consummation of any of the transactions contemplated hereby or thereby requires the consent or approval of, the giving of notice to, or the registration, recording or filing by Borrower of any document with, or the taking of any other action in respect of, any Governmental Authority which has jurisdiction over Borrower or any of its Property.

Section 5.22 Material Agreements with Affiliates. Except as set forth on

Schedule 5.22, Borrower is not party to any material agreement, whether written

or oral, with the Parent or any other Affiliate of Borrower. As used in the preceding sentence, "material agreement" includes any agreement in which the fair value of the consideration paid or performance due any party exceeds \$100,000 and "with the Parent or any other Affiliate of Borrower" includes any direct or indirect agreement with the Parent or any other Affiliate of Borrower.

Section 5.23 Taxpayer Identification. The Federal tax employer

identification number of Borrower is 25-1664458.

Section 5.24 Not an Insider. Neither Borrower nor the Parent, or any

other Affiliate of Borrower is, and no person having "control" (as defined in 12 U.S.C. Section 375(b)(9)) of Borrower or of any of the Parent or any other Affiliate of Borrower is, an "executive officer," "director," or "principal shareholder" (as defined in 12 U.S.C. Section 375(b)(9)) of BOIA, of any bank holding company of which BOIA is a Subsidiary, or of any Subsidiary of any bank holding company of which BOIA is a Subsidiary.

Section 5.25 Survival of Representations. All representations and

warranties by the Borrower herein shall survive delivery of the Note and the making of the Advances, and any investigation at any time made by or on behalf of BOIA shall not diminish the right of BOIA to rely thereon.

ARTICLE VI

AFFIRMATIVE COVENANTS

The Borrower shall at all times comply with the covenants contained in this Article VI, from the date hereof and for so long as any Obligation is

outstanding.

Section 6.1 Financial Statements and Reports. Borrower shall furnish to

BOIA the following, all in form and detail reasonably satisfactory to BOIA:

(a) Promptly after becoming available, and in any event within 90 days after the close of each fiscal year of Borrower, the consolidated balance sheet of Borrower and its Subsidiaries, if any, as of the end of such year, and the related consolidated statement of income of Borrower and its Subsidiaries accompanied by the related report of independent certified public accountants reasonably acceptable to BOIA which report shall be unqualified and to the effect that such statements have been prepared in accordance with GAAP applied on a basis consistent with prior periods except for such changes in such principles with which the independent public accountants shall have concurred, and, if available, accompanied by audited financial statements (including balance sheets, profit and loss statements, statements of cash flow, and any other financial statements, reports, or information specified by Agent) of NVR Financial Services, Inc., reflecting the corresponding figures as of the end of and for the preceding fiscal year in comparative form, together with the related report prepared by an independent certified public accountant reasonably acceptable to BOIA;

(b) Promptly after becoming available, and in any event within 30 days after the end of each month, a consolidated balance sheet of Borrower and its Subsidiaries, if any, as of

the end of such month and the related consolidated statements of income, stockholders' equity and cash flows of Borrower and its Subsidiaries, if any, for such month and the period from the beginning of the current fiscal year of borrower through the end of such month, (i) certified by the chief financial officer of Borrower to have been prepared in accordance with GAAP applied on a basis consistent with prior periods, subject to normal year-end adjustments, and (ii) accompanied by a completed Officer's Certificate in the form of Exhibit K,

executed by the president or chief financial officer of Borrower;

(c) Promptly (i) upon receipt thereof, a copy of each other report submitted to Borrower or any affiliate of Borrower by independent accountants in connection with an annual, interim or special audit of the books of such Person and (ii) upon preparation thereof, a copy of each audit report regarding Borrower submitted to FNMA, FHLMC or GNMA;

(d) Simultaneously with the delivery of the financial information set forth in Section 6.1(b), a report in detail satisfactory to BOIA setting forth,

for the calendar month to which such financial information relates, all Permitted Intercompany Payables, all receivables from Affiliates, all transactions of Borrower which give rise to Permitted Intercompany Payables, all receivables from Affiliates, all transactions of Borrower which give rise to Permitted Intercompany Payables and all transactions of Borrower with any Affiliate of Borrower;

(e) Promptly and in any event within 30 days after the end of each month, management report regarding Borrower's commitment position, pipeline position and production;

(f) Such other information concerning the business, Properties or financial condition of Borrower, any Affiliate or any Investor as BOIA may request.

Section 6.2 Taxes and Other Liens. Borrower shall pay and discharge

promptly all taxes, assessments and governmental charges or levies imposed upon it or upon its income or upon any of its Property as well as all claims of any kind (including claims for labor, materials, supplies and rent) which, if unpaid, might become a Lien upon any or all of its Property; provided, however, that Borrower shall not be required to pay any such tax, assessment, charge, levy or claim if the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings diligently conducted by or on behalf of Borrower and if Borrower shall have set up reserves therefor which are adequate under GAAP.

Section 6.3 Maintenance. Borrower shall (i) maintain its corporate

existence, rights and franchises; (ii) observe and comply in all material respects with all Requirements of Law, and (iii) maintain its Properties (and any Properties leased by or consigned to it or held under title retention or conditional sales contracts) in good and workable condition at all times and make all repairs, replacements, additions and improvements to its Properties as are necessary

and proper so that the business carried on in connection therewith may be conducted properly and efficiently at all times.

Section 6.4 Further Assurances. Borrower shall, within three (3)

Business Days (or, in the case of Mortgage Notes, such longer period as provided under Section 3.8) after the request of BOIA, cure any defects in the execution

and delivery of the Note, this Agreement or any other Loan Document and Borrower shall, at its expense, promptly execute and deliver to BOIA upon request all such other and further documents, agreements and instruments in compliance with or accomplishment of the covenants and agreements of Borrower in this Agreement and in the other Loan Documents or to further evidence and more fully describe the collateral intended as security for the Note, or to correct any omissions in this Agreement or the other Loan Documents, or to perfect, protect or preserve any Liens created (or intended to be created) pursuant to any of the other Loan Documents, or to make any recordings, to file any notices, or obtain any consents.

Section 6.5 Reimbursement of Expenses. The Borrower shall, within ten

(10) Business Days of notice of the amount thereof (which notice shall include appropriate evidence of the amount of such reimbursable item) pay (i) all reasonable legal fees incurred by BOIA in connection with any amendments, consents or waivers executed in connection with this Agreement, the Note and the other Loan Documents which are either requested by the Borrower or which are, in BOIA's reasonable judgment, necessitated by the Borrower's business practices, (ii) all fees, charges or taxes for the recording or filing of the Security Instruments, (iii) all shipping, postage and transfer costs incurred by BOIA in connection with the administration of this Agreement, the Note and the other Loan Documents, including courier expenses incurred in connection with the Collateral, and (iv) all amounts expended, advanced or incurred by BOIA to satisfy any obligation of the Borrower under this Agreement or any of the other Loan Documents or to collect the Note, or to enforce the rights of BOIA under this Agreement or any of the other Loan Documents, which amounts shall include all court costs, attorneys' fees (including without limitation, for trial, appeal or other proceedings), fees of auditors and accountants, and investigation expenses, reasonably incurred by BOIA in connection with any such matters, together with interest at the post-maturity rate specified in Section

2.8 on each item specified in clauses (i) through (iv) from thirty (30) days

after the date of written demand or request for reimbursement until the date of reimbursement.

Section 6.6 Insurance. Borrower shall maintain with financially sound

and reputable insurers, insurance with respect to its Properties and business against such liabilities, casualties, risks and contingencies and in such types and amounts as is customary in the case of Persons engaged in the same or similar businesses and similarly situated, including, without limitation, a fidelity bond or bonds with financially sound and reputable insurers with such coverage and in such amounts as is customary in the case of Persons engaged in the same or similar businesses and similarly situated. Borrower shall cause the improvements on the land covered by each Mortgage relevant to Mortgage Loans included in the Mortgage Collateral to

be kept continuously insured at all times by responsible insurance companies against fire and extended coverage hazards under policies, binders, letters or certificates of insurance, with a standard mortgagee clause in favor of Borrower and its assigns. Each such policy must be in an amount no less than the lesser of the maximum insurable value of the improvements or the original principal amount of the relevant Mortgage Loan, without reduction by reason of any co-insurance, reduced rate contribution, or similar clause of the policies or binders. Upon request of BOIA, Borrower shall furnish or cause to be furnished to BOIA from time to time a summary of the insurance coverage of Borrower in form satisfactory to BOIA and if requested shall furnish BOIA copies of the applicable policies.

Section 6.7 Accounts and Records. Borrower shall keep books of record

and account in which full, true and correct entries will be made of all dealings or transactions in relation to its business activities, in accordance with GAAP.

Section 6.8 Appraisals. The Borrower shall obtain and maintain a copy

of an Appraisal with respect to the underlying property covered by the Mortgage which relates to each Pledged Mortgage Loan, shall require that all Appraisals delivered to it in connection with the Pledged Mortgage Loans (whether originated by the Borrower or purchased by it) comply in all respects with the Appraisal Laws and Regulations, shall implement and maintain administrative and operating procedures which permit the Borrower and BOIA (or the Agent at BOIA's election) to verify such compliance, and shall permit and shall use all reasonable efforts to cause each Person from whom it purchases Mortgage Loans to permit any officer, employee or agent of BOIA (or the Agent at BOIA's election) to visit and inspect the Properties of the Borrower and such Person relevant to such compliance, to inspect the records of the Borrower and such Person relevant to such compliance, to take copies and extracts therefrom, and to discuss the Appraisals relevant to the Pledged Mortgage Loans with the responsible officers, employees and agents (including any third party appraisers) of the Borrower and such Person, all at such reasonable times (which may include unannounced "spot" checks) and as often as BOIA may desire.

Section 6.9 Right of Inspection. The Borrower shall permit any officer,

employee or agent of BOIA (or the Agent at BOIA's election) to visit and inspect any of the Properties of the Borrower, examine the Borrower's books of record and accounts, take copies and extracts therefrom, and discuss the affairs, finances and accounts of the Borrower with the Borrower's officers, accountants and auditors, all at such reasonable times upon reasonable notice and as often as BOIA may desire.

Section 6.10 Notice of Certain Events. Borrower shall promptly notify

BOIA of (i) the receipt of any notice from, or the taking of any other action by, the holder of any promissory note, debenture or other evidence of Indebtedness of Borrower with respect to a claimed default, together with a detailed statement by a responsible officer of Borrower specifying the notice given or other action taken by such holder and the nature of the claimed default and

what action Borrower is taking or proposes to take with respect thereto; (ii) the commencement of, or any determination in, any legal, judicial or regulatory proceedings which, if adversely determined, could have a Material Adverse Effect; (iii) the occurrence of any dispute between Borrower and any Governmental Authority or any other Person which, if adversely determined, could have a Material Adverse Effect; (iv) the occurrence of any event or condition which, if adversely determined, would have a Material Adverse Effect; or (v) obtaining knowledge of any event or condition if the effect thereof is to cause or permit with the giving of notice or lapse of time or both the holder of any promissory note, debenture or other evidence of Indebtedness of Borrower to cause such Indebtedness to become due prior to its stated maturity.

Section 6.11 Performance of Certain Obligations. Borrower shall perform

and observe in all material respects each of the provisions of each Pledged Agency Commitment and each Pledged Take-Out Commitment on its part to be performed or observed and will cause all things to be done which are necessary to have each item of Mortgage Collateral "covered" (within the meaning given such term in Section 6.20) by an Agency Commitment or a Take-Out Commitment

comply with the requirements thereof.

Section 6.12 Use of Proceeds; Margin Stock. The proceeds of the Advances

shall be used by the Borrower solely for the purpose of paying indebtedness outstanding under this Agreement and for general corporate purposes of the Borrower. None of such proceeds shall be used for the purpose of purchasing or carrying any "margin stock" as defined in Regulation U of the Board of Governors of the Federal Reserve System, or for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase or carry margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of such Regulation U. Neither the Borrower nor any Person acting on behalf of the Borrower shall (i) take any action in violation of Regulation U or Regulation X of the Board of Governors of the Federal Reserve System, (ii) violate Section 7 of the Securities Exchange Act of 1934, as amended, or any rule or regulation thereunder, or (iii) engage in any transaction which is subject to the Securities Credit Transaction Regulations.

Section 6.13 Notice of Default. The Borrower shall furnish to BOIA

immediately upon becoming aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and the action which the Borrower is taking or proposes to take with respect thereto.

Section 6.14 Compliance with Loan Documents. The Borrower shall promptly

comply with any and all covenants and provisions of this Agreement, the Note, the Security Agreement and the other Loan Documents.

Section 6.15 Compliance with Material Agreements. Borrower shall comply

in all material respects with all material agreements, indentures, or documents binding on it or affecting its Property or business.

Section 6.16 Operations and Properties. Borrower shall act prudently and

in accordance, in all material respects, with all Requirements of Law and customary industry standards in managing and operating its Property.

Section 6.17 ERISA and Plans. As soon as practicable, and in any event

within 10 days after an officer of Borrower or any Related Person knows or reasonably should know that any of the events or conditions specified below has occurred or exists, or is expected to occur or exist, Borrower shall deliver to BOIA an officer's certificate executed by the president or any vice president of Borrower and setting forth details respecting such event or condition and the action, if any, that Borrower or any Related Person proposes to take with respect thereto (and a copy of any notice or report filed with, given to or received from the PBGC, the Internal Revenue Service or the Department of Labor with respect to such event or condition);

(a) any reportable event, as defined in Section 4043(b) of ERISA and the regulations issued thereunder, with respect to a Plan, as to which the PBGC has not by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event (provided that a failure to meet the minimum funding standard of Section 412 of the Code or Section 302 of ERISA shall be a reportable event regardless of the issuance of any waivers in accordance with Section 412(d) of the Code and shall be required to be reported pursuant to this subsection (a));

(b) the filing under Section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan or the amendment of any Plan in a manner which would be treated as a termination of such Plan under Section 4041(e) of ERISA;

(c) a substantial cessation of operations within the meaning of Section 4062(e) of ERISA under circumstances which could result in the treatment of Borrower or any related Person as a substantial employer under a "multiple employer Plan" or the application of the provisions of Section 4062, 4063 or 4064 of ERISA to Borrower or any Related Person;

(d) the institution by the PBGC of proceedings under Section 4062 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by Borrower or any Related Person of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan;

(e) the complete or partial withdrawal by Borrower or any Related Person under Section 4063, 4203 or 4205 or ERISA from a Plan which is a "multiple employer Plan" or a Multiemployer Plan, or the receipt by Borrower or any Related Person of notice from a

Multiemployer Plan that it is in reorganization or it is insolvent pursuant to Section 4241 or 4245 of ERISA or that it intends to terminate under Section 4041A of ERISA or from a "multiple employer Plan" that it intends to terminate; and

(f) any event or series of events occurs or exists which could reasonably be expected to result in (i) a material liability on the part of Borrower or any Related Person under Title IV of ERISA, (ii) the institution of a proceeding against Borrower or any Related Person to enforce Section 515 of ERISA, or (iii) the imposition of a Lien on any Property of Borrower or any Related Person pursuant to Section 4068 of ERISA or Section 412(n) of the Code.

Section 6.18 Benefit Plan Obligations. Borrower shall reduce future

contributions or benefits to each Plan to which it has an obligation to contribute if and to the extent necessary to avoid the occurrence of an Event of Default hereunder, to the extent such reduction may be effected without causing a "partial termination," as that term is used in Section 411(d) of the Code and the regulations promulgated pursuant thereto, or may otherwise be effected without causing the Plan to become disqualified or violating the provisions of ERISA or the Code.

Section 6.19 Environmental Matters. Borrower shall comply in all

material respects with all Requirements of Law relating to the environment, hazardous materials or pollution control and shall furnish to BOIA immediately upon becoming aware of any claim under any such Requirement of Law, a written notice specifying the nature of such claim, the Person bringing such claim and the action which Borrower is taking or proposes to take with respect thereto.

Section 6.20 Take-Out Commitments; Coverage. Borrower shall enter into

and maintain Agency Commitments and Take-Out Commitments sufficient at all times to cover each Mortgage Loan and Mortgage Backed Security included in the Mortgage Collateral (including any Mortgage Backed Security to be issued or guaranteed pursuant to an Agency Commitment by which Mortgage Loans included in the Collateral are covered). For purposes of this Agreement, a Mortgage Loan or Mortgage Backed Security shall be "covered" by an Agency Commitment or a Take-Out Commitment if and only if (i) such Mortgage Loan or Mortgage Backed Security is of a type, including as to amount, maturity and rate or yield, which satisfies the requirements of such Agency Commitment or Take-Out Commitment, (ii) the sum of the principal amount of such Mortgage Loan or Mortgage Backed Security and the principal amounts of the Mortgage Loans or Mortgage Backed Securities previously assigned to such Agency Commitment or Take-Out Commitment for purposes of determining coverage do not exceed the maximum amount thereof, (iii) with respect to Mortgage Loans, the documentation and underwriting of each such Mortgage Loan complies in all respects with the requirements of such Agency Commitment or Take-Out Commitment and (iv) with respect to Mortgage Loans covered by an Agency Commitment, any Mortgage Backed Security to be issued or guaranteed pursuant thereto is covered by a Take-Out Commitment.

Section 6.21 Maintenance of Backup Gestation Agreement. Throughout the term of this Agreement, Borrower shall at all times maintain in effect the Backup Gestation Agreement, or a substitute backup facility from a lender and on terms satisfactory to BOIA.

ARTICLE VII

NEGATIVE COVENANTS

The Borrower shall at all times comply with the covenants contained in this Article VII, from the date hereof and for so long as any Obligation is outstanding.

Section 7.1 No Merger. Borrower shall not merge or consolidate with or into any corporation, nor shall Borrower acquire by purchase or otherwise all or substantially all of the assets (except to the extent that such assets consist solely of Mortgage Notes and Mortgage Backed Securities or capital stock of any Person.

Section 7.2 Limitation on Indebtedness. Borrower shall not incur, create, contract, assume, have outstanding, guarantee or otherwise be or become, directly or indirectly, liable in respect of any Indebtedness except (a) Repurchase Agreements, (b) the Backup Gestation Agreement, (c) Permitted Intercompany Payables, (d) Indebtedness, including the Obligations, secured either by Permitted Liens or Warehouse Permitted Liens, and by no other Liens on the Property of Borrower, (e) liabilities in respect of unfunded vested benefits under a Plan as determined in accordance with ERISA, to the extent permitted under Section 7.16, (f) liabilities as lessee under leases which have been or, in accordance with GAAP, should be classified as capitalized leases in an aggregate amount not greater than \$1,000,000, (g) Indebtedness under the Warehouse Agreement, and (h) all other Indebtedness permitted under the Warehouse Agreement.

Section 7.3 Fiscal Year, Method of Accounting. Borrower shall not change its fiscal year or method of accounting.

Section 7.4 Business. Borrower shall not, directly or indirectly, engage in any business other than that currently engaged in by Borrower or any other business customarily engaged in by other Persons in the mortgage banking business.

Section 7.5 Liquidations, Consolidations and Dispositions of Substantial Assets. Borrower shall not dissolve or liquidate or sell, transfer, lease or otherwise dispose of any material portion of its property or assets or business; provided, however, that nothing in this Section 7.5 shall be construed to prohibit Borrower from selling Mortgage Notes or Mortgaged Backed Securities in the ordinary course of its business.

Section 7.6 Loans, Advances and Investments. Borrower shall not make

any loan (other than loans made in the ordinary course of its business as a mortgage company), advance, or capital contribution to, or investment in (including any investment in any Subsidiary, joint venture or partnership), or purchase or otherwise acquire any of the capital stock, securities, or evidences of indebtedness of, any Person (collectively, "Investment"), or otherwise

acquire any interest in, or control of, another Person, except for the following:

(a) Cash Equivalents;

(b) Any acquisition of securities or evidences of indebtedness of others when acquired by Borrower in settlement of accounts receivable or other debts arising in the ordinary course of its business, so long as the aggregate amount of any such securities or evidence of indebtedness is not material to the business or financial condition of Borrower;

(c) Mortgage Backed Securities and Mortgage Notes acquired in the ordinary course of Borrower's business;

(d) Loans and advances to (i) employees, officers and directors of Borrower or any Affiliate of Borrower or (ii) the Parent and other Affiliates of Borrower which are neither Subsidiaries nor Persons which would, if organized as a corporation and Borrower owned a sufficient interest therein, constitute a Subsidiary of Borrower, in an aggregate principal amount outstanding at any one time not to exceed \$250,000 (or such larger amount as BOIA may, in its sole discretion, approve in writing prior to the making thereof); and

(e) Capital contributions to Permitted Subsidiaries, and other Persons which would, if organized as a corporation and Borrower owned a sufficient interest therein, constitute a Permitted Subsidiary in an aggregate amount not greater than \$400,000.

Section 7.7 Use of Proceeds. Borrower shall not permit the proceeds of

the Advances to be used for any purpose other than those permitted by Section

6.12. Borrower shall not, directly or indirectly, use any of the proceeds of

the Advances for the purpose of engaging in any transaction which is subject to the Securities Credit Transaction Regulations.

Section 7.8 Actions with Respect to Collateral. Borrower shall not:

(a) Compromise, extend, release, or adjust payments on any Mortgage Loan included in the Collateral, accept a conveyance of mortgaged property in full or partial satisfaction of any such Mortgage Loan, or release any Mortgage securing any Mortgage Loan;

(b) Agree to the amendment or termination of any Take-Out Commitment included in the Collateral or to the substitution of any Pledged Take-Out Commitment for a Pledged Take-Out Commitment without the consent of BOIA;

(c) Transfer, sell, assign, or deliver any Collateral pledged to BOIA to any Person other than BOIA or the Agent, except in accordance with Article III; or

- - -

(d) Grant, create, incur, permit or suffer to exist any Lien upon any Mortgage Collateral except for Permitted Liens.

Section 7.9 Net Worth. The Net Worth of Borrower at any date shall not

be less than Eight Million Seven Hundred Fifty Thousand Dollars (\$8,750,000).

Section 7.10 Adjusted Current Ratio. The ratio of the current assets

(determined in accordance with GAAP) to the current liabilities (determined in accordance with GAAP except that the amount of any Permitted Subordinated Indebtedness shall be excluded from the determination thereof) of Borrower at any date shall not be less than 1.02 to 1.0 at any time.

Section 7.11 Liabilities to Net Worth Ratio. The ratio of (i) the Total

Liabilities (excluding (x) net deferred taxes, (y) Advances to the extent of the aggregate Collateral Value of all Eligible Mortgage Loans, and (z) obligations of Borrower in respect of Repurchase Agreements) of Borrower to (ii) the Net Worth of Borrower shall not be more than 12.0 to 1.0 at any time.

Section 7.12 [Intentionally Omitted]

Section 7.13 Restrictions on Dividends and Returns of Capital. Borrower

shall not directly or indirectly declare or make, or incur any liability to make, any Dividend or Return of Capital unless, prior thereto, Borrower shall have submitted to BOIA a certificate of its President or Chief Financial Officer certifying that no Default or Event of Default exists or would result therefrom and, in the case of any Return of Capital, demonstrating the amount and source of such return.

Section 7.14 Transactions with Affiliates.

(a) Borrower shall not enter into any transactions, including, without limitation, any purchase, sale, lease or exchange of property or services with or the incurring of Indebtedness to any Affiliate unless such transactions are otherwise permitted under this Agreement, are in the ordinary course of Borrower's business and are upon fair and reasonable terms no less favorable to Borrower than it would obtain in a comparable arm's length transaction with a Person not an Affiliate; and

(b) The aggregate amount paid or payable by Borrower to Affiliates of Borrower exclusive of Permitted Dividends, Permitted Tax Payments, payments in respect of

Permitted Intercompany Payables and Permitted Returns of Capital shall not exceed \$250,000 in the aggregate in any twelve month period.

Section 7.15 Liens. Borrower shall not grant, create, incur, assume, -----
permit or suffer to exist any Lien which, with respect to any Collateral, is not a Permitted Lien (except as permitted under Section 7.8(d)), and, with respect -----
to any of its other Property, is not a Warehouse Permitted Lien, in either case including any proceeds therefrom.

Section 7.16 Compliance with ERISA. Borrower shall not, and shall not -----
permit any Related Person to:

(a) (i) engage in any transaction in connection with which Borrower or any Related Person could be subject to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Code, (ii) fail to make full payment when due of all amounts which would be deductible by Borrower or any Related Person and which, under the provisions of any Plan, applicable law or applicable collective bargaining agreement, Borrower or any Related Person is required to pay as contributions thereto, or (iii) permit to exist any accumulated funding deficiency, whether or not waived, with respect to any Plan (other than a Multiemployer Plan or a "multiple employer Plan"), if, in the case of any of clause (i), (ii) or (iii) above such penalty or tax, or the failure to make such payment, or the existence of such deficiency, as the case may be, will likely have a material adverse effect on the financial position of Borrower;

(b) permit the amount of unfunded benefit liabilities (within the meaning of Section 4001(a)(18) of ERISA) under each Plan maintained, established or contributed to at such time by Borrower or any of its Related Persons (other than Multiemployer Plans or "multiple employer plans") to exceed \$2,000,000; or

(c) permit the aggregate complete or partial withdrawal liability under Title IV of ERISA with respect to all Plans which are "multiple employer plans" and all Multiemployer Plans incurred by Borrower or any Related Person to exceed \$50,000.

Section 7.17 Change of Principal Office. Borrower shall not (a) change -----
the location of its principal office, chief executive office and principal place of business from that specified in Section 5.12 or (b) change its name, identity -----
or corporate structure to such an extent that any financing statement filed by BOIA in connection with this Agreement would become seriously misleading, unless it shall have given BOIA at least 30 days prior written notice thereof and prior to effecting any such change and taken such steps as BOIA may deem necessary or desirable to continue the perfection and priority of the Liens in favor of BOIA granted in connection herewith.

Section 7.18 Tax Payments. Except in accordance with the Tax Allocation Agreement, Borrower shall not make any payments to or on behalf of the Parent or any Affiliate of Borrower in respect of taxes.

Section 7.19 Tax Allocation Agreement. Borrower shall not permit the amendment or modification of the Tax Allocation Agreement in any way which has an adverse effect on Borrower.

Section 7.20 Permitted Subordinated Indebtedness. Borrower shall not increase the outstanding amount of the Permitted Subordinated Indebtedness, modify or amend the Affiliate Note or make any payment in respect of the Affiliate Note; provided, that so long as no Default or Event of Default exists or would result therefrom, Borrower may borrow, repay and reborrow under the Affiliate Note.

ARTICLE VIII

EVENTS OF DEFAULT

Section 8.1 Nature of Event. An Event of Default shall exist if any one or more of the following occurs:

(a) The Borrower fails to make any payment of principal of or interest on the Note, or payment of any fee, expense or other amount due hereunder, under the Note or under any other Loan Document, on or before the date such payment is due;

(b) Borrower fails to observe or perform (i) any term, covenant or agreement set forth in Sections 2.4, 3.4, 6.13, 6.17, 6.20, 6.21 or Section 7 (other than Sections 7.9 through 7.11, inclusive, Section 7.18 and Section 7.16, which Section 7.16 is governed by Section 8.1(l)) or (ii) any term, covenant or agreement set forth in Sections 7.9 through 7.11 or Section 7.18 if such failure shall remain unremedied for 20 days, or (iii) any other term, covenant or agreement in this Agreement on its part to be performed or observed if the failure to perform or observe such other term, covenant or agreement shall remain unremedied for 20 days after written notice thereof shall have been given to Borrower by BOIA;

(c) the Borrower fails to observe or perform any of the covenants or agreements contained in any other Loan Document, and (unless such default otherwise constitutes a Default pursuant to other provisions of this Section 8.1) such default continues unremedied beyond the expiration of any applicable grace period which may be expressly allowed under such other Loan Document;

(d) any material statement, warranty or representation by or on behalf of the Borrower contained in this Agreement, the Note, the Security Agreement or any other Loan Document or any Borrowing Request, officer's certificate or other writing furnished in connection with this Agreement, proves to have been incorrect or misleading in any material respect as of the date made or deemed made; or

(e) Borrower fails to make when due or within any applicable grace period any payment on any Indebtedness with an unpaid balance of over \$500,000.00; or any event or condition occurs under any provision contained in any such obligation or any agreement securing or relating to such obligation (or any other breach or default under such obligation or agreement occurs) if the effect thereof is to cause or permit the holder or trustee of such obligation to cause such obligation to become due prior to its stated maturity; or any such obligation becomes due (other than by regularly scheduled payments) prior to its stated maturity; or any of the foregoing occurs with respect to any one or more items of Indebtedness of Borrower with unpaid principal balances exceeding, in the aggregate, \$500,000.00;

(f) Borrower shall generally not pay its debts as they become due or shall admit in writing its inability to pay its debts, or shall make a general assignment for the benefit of creditors;

(g) Borrower shall (i) apply for or consent to the appointment of a receiver, trustee, custodian, intervenor or liquidator of it or of all or a substantial part of its assets, (ii) file a voluntary petition in bankruptcy, (iii) file a petition or answer seeking reorganization or an arrangement with creditors or to take advantage of any Debtor Laws, (iv) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against it in any bankruptcy reorganization or insolvency proceeding, or (v) take corporate action for the purpose of effecting any of the foregoing;

(h) any involuntary petition or complaint shall be filed against Borrower seeking bankruptcy or reorganization of Borrower or the appointment of a receiver, custodian, trustee, intervenor or liquidator of Borrower, or all or substantially all of its assets, and such petition or complaint shall not have been dismissed within 60 days of the filing thereof; or an order, order for relief, judgment or decree shall be entered by any court of competent jurisdiction or other competent authority approving a petition or complaint seeking reorganization of Borrower or appointing a receiver, custodian, trustee, intervenor or liquidator of Borrower, or of all or substantially all of its assets;

(i) Borrower fails within 30 days to pay, bond or otherwise discharge any final judgment or order for payment of money in excess of \$250,000.00 or Borrower fails within 30 days to pay, bond or otherwise discharge final judgments or orders for payment of money which exceed in the aggregate \$250,000.00, or Borrower fails within 30 days to timely appeal or

pay, bond or otherwise discharge any judgments or orders for payment of money which exceed, in the aggregate, \$250,000.00 and which Borrower may appeal;

(j) any default or event of default occurs under any other Indebtedness of Borrower to BOIA;

(k) any Person levies on, seizes or attaches all or any material portion of the assets of Borrower and within 30 days thereafter Borrower shall not have dissolved such levy or attachment, as the case may be, and, if applicable, regained possession of such seized assets;

(l) an event or condition specified in Section 7.16 occurs or -----
exists and, as a result of such event or condition, together with all other such events or conditions, Borrower or any Related Person incurs or is reasonably likely to incur a liability to a Plan, a participant or the PBGC (or any combination of the foregoing) that is material in relation to the financial position of Borrower;

(m) any change in the senior management of Borrower shall occur;

(n) the Parent shall cease to own beneficially, of record and either directly or indirectly, 100% of the issued and outstanding shares of capital stock of Borrower, or any "person" or "group" (within the meaning of Sections 13(d) or 14(d)(2) of the Securities Exchange Act of 1934, as amended) shall become the "beneficial owner" (as defined in Rule 13d-3 under such act) of more than 50% of the total aggregate voting power of all classes of the voting stock of the Parent and/or warrants or options to acquire such stock, calculated on a fully diluted basis; or

(o) any provision of this Agreement, the Note, the Security Agreement or any other Loan Document shall for any reason cease to be in full force and effect, or be declared null and void or unenforceable in whole or in part; or the validity or enforceability of any such document shall be challenged or denied.

Section 8.2 Default Remedies. Upon the occurrence of an Event of -----

Default and provided that such Event of Default has not previously been cured by the Borrower, BOIA may (i) declare its commitment to make Advances hereunder to be terminated and/or declare the entire principal of and all interest accrued on the Note to be, and the Note, together with all other Obligations, shall thereupon become, forthwith due and payable, without any presentment, demand, protest, notice of protest and nonpayment, notice of acceleration or of intent to accelerate or other notice of any kind, all of which hereby are expressly waived, in which event Borrower shall immediately repay the entire principal amount of all outstanding Advances, together with all accrued but unpaid interest on the Note at the rate specified in Section 2.8(c), by borrowing such -----
amount from the Lender pursuant to the Backup Gestation Agreement, or from any other source, and (ii) exercise any other right or remedy available at

law or pursuant to any Loan Document. Notwithstanding the foregoing, if an Event of Default specified in Section 8.1(f), (g), (h) or (n) occurs, BOIA's

commitment to make Advances hereunder shall automatically and immediately terminate and the Note and all other Obligations shall become automatically and immediately due and payable, both as to principal and interest, without any action by BOIA and without presentment, demand, protest, notice of protest and nonpayment, notice of acceleration or of intent to accelerate, or any other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the Note to the contrary notwithstanding, and Borrower shall immediately repay the entire principal amount of all outstanding Advances, together with all accrued but unpaid interest on the Note at the rate specified in Section 2.8(c), by borrowing such amount from the Lender pursuant to the

Backup Gestation Agreement, or from any other source.

Section 8.3 Exercise of Default Remedies by BOIA Customers. Borrower

acknowledges and agrees that the customers of BOIA (for whom it is acting as agent hereunder) shall have the right, upon the occurrence of an Event of Default, to exercise directly all of the default remedies made available to BOIA pursuant to this Agreement, including without limitation those set forth in Section 8.2, subject to such customers' compliance with the conditions and

procedural requirements imposed under this Agreement.

ARTICLE IX

CONCERNING BOIA

Section 9.1 Indemnification.

(A) THE BORROWER WILL INDEMNIFY AND HOLD HARMLESS BOIA, BOIA'S DIRECTORS, OFFICERS, EMPLOYEES AND EACH PERSON, IF ANY, WHO IS DEEMED TO CONTROL BOIA (ANY AND ALL OF WHOM ARE REFERRED TO AS THE "INDEMNIFIED PARTY") FROM AND AGAINST ANY

AND ALL LOSSES, CLAIMS, DAMAGES AND LIABILITIES, JOINT OR SEVERAL (INCLUDING ALL LOSSES, CLAIMS, DAMAGES AND LIABILITIES RESULTING FROM THE NEGLIGENCE, BUT NOT THE GROSS NEGLIGENCE OF SUCH INDEMNIFIED PARTY IN CONNECTION WITH THE PREPARATION FOR OR DEFENSE OF ANY PENDING OR THREATENED CLAIM, ACTION OR PROCEEDING, WHETHER OR NOT RESULTING IN ANY LIABILITY), TO WHICH SUCH INDEMNIFIED PARTY MAY BECOME SUBJECT (WHETHER OR NOT SUCH INDEMNIFIED PARTY IS A PARTY THERETO) UNDER ANY APPLICABLE FEDERAL, STATE OR LOCAL LAW OR OTHERWISE CAUSED BY OR ARISING OUT OF, OR ALLEGEDLY CAUSED BY OR ARISING OUT OF, THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY, INCLUDING WITHOUT LIMITATION, ANY LIABILITY OR PENALTY ARISING OUT OF ANY FACT OR CIRCUMSTANCE WHICH CAUSES THE REPRESENTATIONS AND WARRANTIES SET FORTH IN SECTION 3.5 TO BE FALSE OR

INCORRECT, EXCEPTING ONLY LOSSES, CLAIMS, DAMAGES OR LIABILITIES RESULTING FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OR FRAUD OF SUCH INDEMNIFIED PARTY.

(b) Promptly after receipt by an Indemnified Party of notice of any claim, action or proceeding with respect to which an Indemnified Party is entitled to indemnity hereunder, such Indemnified Party will notify the Borrower of such claim or the commencement of such action or proceeding, provided that the

failure of an Indemnified Party to give notice as provided herein shall not relieve the Borrower of its obligations under this Section 9.1 with respect to

such Indemnified Party, except to the extent that the Borrower is actually prejudiced by such failure. The Borrower will assume the defense of such claim, action or proceeding and will employ counsel reasonably satisfactory to the Indemnified Party and will pay the reasonable fees and expenses of such counsel. Notwithstanding the preceding sentence, the Indemnified Party will be entitled, at the expense of the Borrower, to employ counsel separate from counsel for the Borrower and for any other party in such action if the Indemnified Party reasonably determines that a conflict of interest or other reasonable basis exists which makes representation by counsel chosen by the Borrower not advisable, provided, that BOIA shall have the right to review all pleadings that

include the name of any Indemnified Party, provided further that the Borrower

shall not be obligated to pay for the fees and expenses of more than one counsel for all Indemnified Parties in respect of a particular controversy. In the event an Indemnified Party appears as a witness in any action or proceeding brought against the Borrower or any of its Subsidiaries (or any of its officers, directors or employees) in which an Indemnified Party is not named as a defendant, the Borrower agrees to reimburse such Indemnified Party for all reasonable expenses incurred by it (including reasonable fees and expenses of counsel) in connection with its appearing as a witness.

SECTION 9.2 LIMITATION OF LIABILITY. NEITHER BOIA NOR THE DIRECTORS,

OFFICERS, AGENTS OR EMPLOYEES OF BOIA SHALL BE LIABLE FOR ANY ACTION TAKEN OR OMITTED TO BE TAKEN BY IT OR THEM UNDER OR IN CONNECTION WITH THIS AGREEMENT, EXCEPT FOR SUCH ACTIONS TAKEN OR OMITTED TO BE TAKEN AS CONSTITUTE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT ON THE PART OF BOIA OR ITS DIRECTORS, OFFICERS, AGENTS OR EMPLOYEES. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, BORROWER HEREBY WAIVES ANY RIGHT THAT IT MAY HAVE TO CLAIM OR RECOVER FROM BOIA OR ITS DIRECTORS, OFFICERS, AGENTS OR EMPLOYEES ANY CONSEQUENTIAL, EXEMPLARY OR PUNITIVE DAMAGES; PROVIDED, THAT THE BORROWER IS NOT HEREBY WAIVING ANY RIGHT THAT IT MAY HAVE TO CLAIM OR RECOVER ANY ACTUAL OR DIRECT DAMAGES FROM SUCH PARTIES.

ARTICLE X

MISCELLANEOUS

Section 10.1 Notices. Any notice of request required or permitted to be

given under or in connection with this Agreement, the Note, the Security Agreement or the other Loan Documents (except as may otherwise be expressly required therein) shall be in writing and shall be mailed by first class or express mail or overnight messenger, postage prepaid, or sent by telex, telegram, telecopy or other similar form of rapid transmission, confirmed by mailing

(by first class or express mail, postage prepaid) written confirmation at substantially the same time as such rapid transmission, or personally delivered to an officer of the receiving party. All such communications shall be mailed, sent or delivered to the parties hereto at their respective addresses as follows:

Borrower: NVR Mortgage Finance, Inc.
7601 Lewinsville Road; Suite 302
McLean, Virginia 22102
Attention: Mr. William J. Inman
Telecopy: (703) 761-2030

BOIA: Banc One Investment Advisors Corporation, acting as agent
on behalf of its customers and not individually
1111 Polaris Parkway
P.O. Box 710211
Columbus, Ohio 43240
Attention: Securities Lending Portfolio Manager
Telecopy: (614) 213-4056

Agent: Bank One, Texas, N.A.
1900 Pacific Avenue, Sixth Floor
Dallas, Texas 75201
Attention: Ms. Gloria Sadler
Telecopy: (214) 290-6069

or at such other addresses or to such individual's or department's attention as any party may have furnished the other party in writing. Any communication so addressed and mailed shall be deemed to be given when so mailed, sent or delivered, except that communications given pursuant to Sections 2.4 and 6.9,

Borrowing Requests and communications related thereto shall not be effective until actually received by BOIA or the Borrower, as the case may be, any communication mailed by first class mail shall be deemed to have been given on the third day following the day it is mailed, any communication sent by rapid transmission shall be deemed to be given when receipt of such transmission is confirmed, and any communication delivered in person shall be deemed to be given when receipted for, or actually received by, an officer of the Borrower or BOIA, as the case may be.

Section 10.2 Amendments, Etc.

(a) No amendment or waiver of any provision of this Agreement, the Note, the Security Agreement or any other Loan Document, nor consent to any departure by the Borrower or by BOIA therefrom, shall in any event be effective unless the same shall be in writing and signed by the party against whom enforcement of such amendment, waiver or consent is sought, and

any waiver or consent given shall be effective only in the specific instance and for the specific purpose for which it is given.

(b) Notwithstanding the terms of Section 10.2(a) to the contrary:

(i) BOIA may, at any time and from time to time, without the consent of Borrower but effective upon thirty (30) days' prior written notice to Borrower, amend Schedule 1.2 to delete any Person which, in the sole discretion of BOIA, is no longer acceptable as an Investor; provided, that (A) any Investor with respect to which any proceeding of the types described in Sections 8.1(g) and (h) has been commenced shall, immediately upon notice to Borrower from BOIA, be automatically deleted from Schedule 1.2 without the necessity for any other action (including prior written notice of any duration to Borrower) by BOIA and (B) upon any Investor being deleted from Schedule 1.2, Borrower shall not enter into any new Take-Out Commitments with such Investor;

(ii) at any time and from time to time at the request of Borrower and with the consent of BOIA, Schedule 1.2 may be supplemented to include any Person not then an Investor which, in the sole discretion of BOIA, is acceptable as an Investor; and

(iii) a schedule identical to Schedule 1.2 as attached to this Agreement from time to time, shall be attached to, and form a part of, the Backup Gestation Agreement at all times.

Section 10.3 Invalidity. In the event that any one or more of the provisions contained in this Agreement, the Note, the Security Agreement or any other Loan Document shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of such document.

Section 10.4 Survival of Agreements. All covenants and agreements herein and in any other Loan Document not fully performed before the date hereof or the date thereof, and all representations and warranties herein or therein, shall survive until payment in full of the Obligations.

Section 10.5 Renewal, Extension or Rearrangement. All provisions of this Agreement and of the other Loan Documents shall apply with equal force and effect to each and all promissory notes hereafter executed which in whole or in part represent a renewal, extension for any period, increase or rearrangement of any part of the Obligations originally represented by the Note or of any part of such other Obligations.

Section 10.6 Waivers. No course of dealing on the part of BOIA, or any of its officers, employees, consultants or agents, nor any failure or delay by BOIA with respect to exercising any right, power or privilege of BOIA under the Note, this Agreement, the Security Agreement

or any other Loan Document shall operate as a waiver thereof, except as otherwise provided in Section 10.2(a).

Section 10.7 Cumulative Rights. The rights and remedies of BOIA under

the Note, this Agreement, the Security Agreement and any other Loan Document shall be cumulative, and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

Section 10.8 Construction. THIS AGREEMENT, THE NOTE, THE SECURITY

AGREEMENT AND EACH OTHER LOAN DOCUMENT IS A CONTRACT MADE UNDER AND SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE UNITED STATES OF AMERICA AND THE STATE OF TEXAS, AS SUCH LAWS ARE NOW IN EFFECT, EXCEPT AS OTHERWISE SPECIFIED HEREIN OR THEREIN, AND, WITH RESPECT TO USURY LAWS, IF ANY, APPLICABLE TO BOIA AND TO THE EXTENT ALLOWED THEREBY, AS SUCH LAWS MAY HEREAFTER BE IN EFFECT WHICH ALLOW A HIGHER MAXIMUM NONUSURIOUS INTEREST RATE THAN SUCH LAWS NOW ALLOW. TEX. REV. CIV. STAT. ANN. ART. 5069, CH. 15 (WHICH REGULATES CERTAIN REVOLVING LOAN ACCOUNTS AND REVOLVING TRIPARTY ACCOUNTS) SHALL NOT APPLY TO THIS AGREEMENT OR THE NOTE.

Section 10.9 Interest. Any provisions herein, in the Note, or in any

other Loan Document, or any other document executed or delivered in connection herewith, or in any other agreement or commitment, whether written or oral, expressed or implied, to the contrary notwithstanding, BOIA shall not in any event be entitled to receive or collect, nor shall or may amounts received hereunder be credited, so that BOIA shall be paid, as interest, a sum greater than the maximum amount permitted by applicable law to be charged to the Person primarily obligated to pay the Note at the time in question. If any construction of this Agreement, the Note or any other Loan Document, or any and all other papers, agreements or commitments indicate a different right given to BOIA to ask for, demand or receive any larger sum as interest, such is a mistake in calculation or wording which this clause shall override and control, it being the intention of the parties that this Agreement, the Note, and all other Loan Documents or other documents executed or delivered in connection herewith shall in all things comply with applicable law and proper adjustments shall automatically be made accordingly. In the event that BOIA shall ever receive, collect or apply as interest, any sum in excess of the maximum nonusurious rate permitted by applicable law (the "Maximum Rate"), if any, such excess amount

shall be applied to the reduction of the unpaid principal balance of the Note, and if the same be paid in full, any remaining excess shall be paid to the Borrower. In determining whether or not the interest paid or payable, under any specific contingency, exceeds the Maximum Rate, if any, the Borrower and BOIA shall, to the maximum extent permitted under applicable law: (a) characterize any nonprincipal payment as an expense or fee rather than as interest, (b) exclude voluntary prepayments and the effects thereof, and (c) "spread" the total amount of interest throughout the entire term of the Note; provided that if

the Note is paid and performed in full prior to the end of the full contemplated term hereof, and if the interest received for the actual period of existence thereof exceeds the Maximum Rate, if any, the Person holding the Note shall refund to the Borrower the amount of such excess.

To the extent that TEX. REV. CIV. STAT. ANN. art 5069 1.04, as amended (the "Act"), is relevant to the holder of the Note for purposes of determining the

Maximum Rate, each such holder elects to determine such applicable legal rate under the Act pursuant to the "indicated rate ceiling," from time to time in effect, as referred to and defined in article 1.04(a)(1) of the Act; subject, however, to the limitations on such applicable ceiling referred to and defined in article 1.04(b)(2) of the Act, and further subject to any right such holder may have subsequently, under applicable law, to change the method of determining the Maximum Rate.

Section 10.10 Right of Offset. The Borrower hereby grants to the Agent

(as agent for, and for the benefit of, BOIA) and to any assignee of the Agent a right of offset, to secure the repayment of the Obligations, upon any and all monies, securities or other property of the Borrower, and the proceeds therefrom now or hereafter held or received by or in transit to such Person, from or for the account of the Borrower, whether for safekeeping, custody, pledge, transmission, collection or otherwise, and also upon any and all deposits (general or special, time or demand, provisional or final) and credits of the Borrower, and any and all claims of the Borrower against such Person at any time existing. Upon the occurrence of any Event of Default, such Person is hereby authorized at any time and from time to time, without notice to the Borrower, to offset, appropriate, and apply any and all items hereinabove referred to against the Obligations. Notwithstanding anything in this Section 10.10 or elsewhere in

this Agreement to the contrary, neither the Agent (as agent for, and for the benefit of, BOIA) nor any assignee of the Agent shall have any right to offset, appropriate or apply any accounts of the Borrower which consist of escrowed funds (except and to the extent of any beneficiary interest of the Borrower in such escrowed funds) on deposit in accounts which accounts have been identified on the books and records of the Person with whom such accounts are maintained as containing escrowed funds.

Section 10.11 Successors and Assigns; Confidentiality. All covenants and

agreements by or on behalf of the Borrower in this Agreement, the Note, the Security Agreement or any other Loan Documents shall bind the Borrower's successors and assigns and shall inure to the benefit of BOIA and its customers and their respective successors and assigns. The Borrower shall not, however, have the right to assign its rights under this Agreement or any interest herein, without the prior written consent of BOIA. BOIA may, in connection with any assignment or participation or proposed assignment or participation by BOIA, disclose to the actual or proposed assignee or participant any information relating to the Borrower furnished to BOIA by or on behalf of the Borrower; provided, that prior to any such disclosure, the actual or proposed assignee or

participant shall agree to preserve the confidentiality of any

information relating to the Borrower that has been identified in writing by the Borrower to be confidential.

Section 10.12 Consent to Jurisdiction. The Borrower hereby agrees that

any action or proceeding under this Agreement or any other Loan Document may be commenced against it in any court of competent jurisdiction within the State of Texas, by service of process upon the Borrower by first-class registered or certified mail, return receipt requested, addressed to the Borrower at its address last known to BOIA. The Borrower agrees that any such suit, action, or proceeding arising out of or relating to this Agreement or any other Loan Document may be instituted in the courts of the State of Texas, or in the United States District Court for the Northern District of Texas, at the option of BOIA; and the Borrower hereby waives any objection to the venue of any such suit, action, or proceeding. Nothing herein shall affect the right of BOIA to accomplish service of process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the Borrower in any other jurisdiction or court.

Section 10.13 Exhibits. The exhibits and schedules attached to this

Agreement are incorporated herein and shall be considered a part of this Agreement for the purposes stated herein, except that in the event of any conflict between any of the provisions of such exhibits and schedules and the provisions of this Agreement, the provisions of this Agreement shall prevail.

Section 10.14 Titles of Articles and Sections. All titles or headings to

articles, sections, or other divisions of this Agreement or the exhibits and schedules hereto are only for the convenience of the parties and shall not be construed to have any effect or meaning with respect to the other content of such articles, sections, subsections or other divisions, such other content being controlling as to the agreement between the parties hereto.

Section 10.15 Counterparts. This Agreement may be executed in

counterparts, and it shall not be necessary that the signatures of each of the parties hereto be contained on any one counterpart hereof; each counterpart shall be deemed an original, but all counterparts together shall constitute one and the same instrument.

Section 10.16 ENTIRE AGREEMENT. THE NOTE, THIS AGREEMENT, THE SECURITY

AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED AND DELIVERED AS OF EVEN DATE HERewith REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES HERETO AND THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

Section 10.17 BOIA Representation. BOIA represents and warrants that it

has the power and requisite authority to execute, deliver and perform this Agreement and the other Loan Documents to which it is a party, and is duly authorized to, and has taken all action necessary to authorize it to, execute, deliver and perform this Agreement and the other Loan Documents to which it is a party.

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

BORROWER: NVR MORTGAGE FINANCE, INC.
- - - - -

By: _____
Name: _____
Title: _____

BOIA: BANC ONE INVESTMENT ADVISORS CORPORATION,
- - - - -
ACTING AS AGENT FOR ITS CUSTOMERS AND NOT INDIVIDUALLY

By: _____
Name: _____
Title: _____

The undersigned is a party to this Agreement solely for the purpose of acknowledging and agreeing to its rights and responsibilities as set forth herein.

BANK ONE, TEXAS, NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

Attachments:

- Exhibit A Form of Note
- Exhibit B Form of Borrowing Request
- Exhibit C Form of Release of Lien
- Exhibit D Form of Request for Release of Security Interest
- Exhibit E Form of Backup Gestation Agreement
- Exhibit F Form of Mortgage Document Delivery Request (Correction)
- Exhibits G-1 and G-2 Form of Bailee Letter
- Exhibit H [Intentionally Omitted]
- Exhibit I Form of Custody Agreement
- Exhibit J Form of Security Agreement

Exhibit K	Form of Officer's Certificate
Exhibit L	Tax Allocation Agreement
Exhibit M	Affiliate Note
Exhibit N	Borrowing Base Report
Schedule 1.2	Investors
Schedule 5.10	Litigation
Schedule 5.22	Affiliate Agreements

STANDBY GESTATION FINANCING AGREEMENT

between

NVR MORTGAGE FINANCE, INC.,
as Borrower

and

BANK ONE, TEXAS, N.A.,
as Bank One

\$50,000,000

AUGUST 15, 1997

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EXHIBITS

Exhibit A..... Promissory Note
Exhibit B..... Borrowing Request
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Exhibit D..... Request for Release

STANDBY GESTATION FINANCING AGREEMENT

THIS AGREEMENT (as the same may be amended, modified, or supplemented from time to time, the "agreement") is entered into as of August 15, 1997, between NVR MORTGAGE FINANCE, INC., a Virginia corporation ("BORROWER"), and Bank One, Texas, N. A. ("BANK ONE").

Borrower and Bank One wish to set forth their agreement regarding requests from time to time by Borrower for certain credit and the terms and conditions relevant to such credit as Bank One may, in its sole discretion, extend pursuant to this agreement. The parties hereto hereby agree as follows:

GENERAL TERMS.

Loan Agreement Definitions. CAPITALIZED TERMS USED AND NOT OTHERWISE DEFINED

IN THIS AGREEMENT HAVE THE MEANINGS SPECIFIED IN THE LOAN AGREEMENT, TOGETHER WITH SUCH CHANGES THERETO AS TO WHICH BANK ONE MAY CONSENT.

Certain Definitions. AS USED IN THIS AGREEMENT, THE FOLLOWING TERMS HAVE THE MEANINGS SPECIFIED:

"ADJUSTED EURODOLLAR RATE" means, for any Eurodollar Borrowing Period, a rate per annum (rounded upward, if necessary, to the next higher 1/16 of 1%) equal to the rate obtained by dividing (a) the Eurodollar Rate for such Eurodollar Borrowing Period by (b) a percentage equal to 1 minus the average Reserve Requirement for such Eurodollar Borrowing Period, where the average Reserve Requirement means the sum of Reserve Requirements in effect for each day in such Eurodollar Borrowing Period divided by the number of days in such Eurodollar Borrowing Period.

"ADVANCE" means an advance by Bank One pursuant to SECTION 2.1.

"AGENCY" means FNMA, FHLMC, or GNMA.

"AGENCY COMMITMENT" means a binding and enforceable agreement on the part of (a) FNMA or FHLMC to issue Mortgage-Backed Securities in exchange for Mortgage Loans or (b) GNMA to guarantee Mortgage-Backed Securities to be issued by Borrower. Agency Commitment includes the FNMA Guide, the FHLMC Guide, or the GNMA Guide, as applicable, pursuant to which such Agency Commitment was issued.

"AGENCY CUSTODIAN" means Bank One, First Chicago National Processing Corporation, or such other Person as to whom Bank One may consent, in its capacity as document custodian on behalf of an Agency and bailee on behalf of that Agency.

"AGENCY FORMS" means forms promulgated by an Agency for use in connection with the delivery of Mortgage Loans and the issuance or guaranty of a Mortgage-Backed Security pursuant to an Agency Commitment.

"ALLOCATED" has the meaning specified in SECTION 3.2.

"AVERAGE ADVANCES" for a particular Computation Period means the amount equal to (a) the sum of the outstanding Advances of each Type for each day in such Computation Period divided by (b) the number of days in such Computation Period.

"AVERAGE BORROWING BASE" for a particular Computation Period means the amount equal to (a) the sum of the Borrowing Base for each day in such Computation Period divided by (b) the number of days in such Computation Period.

"AVERAGE EURODOLLAR RATE ADVANCES" means, for a particular Computation Period, the amount equal to (a) the sum of the outstanding Eurodollar Rate Advances for each day in such Computation Period divided by (b) the number of days in such Computation Period.

"AVERAGE FEDERAL FUNDS RATE" means, for a particular Computation Period, the per annum rate of interest equal to (a) the sum of the Federal Funds Rate for each day during such Computation Period divided by (b) the number of days in such Computation Period.

"AVERAGE MBS COLLATERAL VALUE" for a particular Computation Period means the amount equal to (a) the sum of the Collateral Value attributable to Eligible Mortgage-Backed Securities for each day in such Computation Period divided by (b) the number of days in such Computation Period.

"AVERAGE MBS RATE ADVANCES" means, for a particular Computation Period, the amount equal to (a) the sum of the outstanding MBS Rate Advances for each day in such Computation Period divided by (b) the number of days in such Computation Period.

"BANK ONE" has the meaning specified in the preamble of this agreement.

"BORROWER" has the meaning specified in the preamble of this agreement.

"BORROWING" means a borrowing consisting of an Advance by Bank One.

"BORROWING BASE" as of any time of determination means the aggregate Collateral Value of all Eligible Mortgage-Backed Securities.

"BORROWING REQUEST" means a request, in the form of EXHIBIT B, for a Borrowing pursuant to SECTION 2.

"BUSINESS DAY" means any day other than Saturdays, Sundays, and other day commercial banks are authorized or required by law to close in the State of Texas.

"COLLATERAL" means all right, title, and interest of Borrower in and to each of the following items or types of property, whether now owned or hereafter acquired, wherever located, however arising or created, and whether now existing or hereafter arising, existing, or created:

(a) Any Pledged Mortgage Loan; (b) any Instrument delivered by or on behalf of Borrower to Bank One or which Borrower has agreed to deliver or cause to be delivered to Bank One pursuant to this agreement, including the Mortgage Notes which evidence the Pledged Mortgage Loans; (c) as any of the following may relate to Pledged Mortgage Loans, all General Intangibles, Principal Mortgage Documents, and Other Documents (including, without limitation, any Required Mortgage Documents; (d) any Pledged Agency Commitment; (e) any Pledged Take-Out Commitment; (f) the Settlement Account and all sums on deposit therein; (g) all chattel paper, certificated securities, or uncertificated securities which constitute Proceeds of any item of Collateral, and the right to the payment of monies and non-cash distributions on account thereof; (h) as any of the following may relate to Pledged Mortgage Loans, any contract rights, accounts, rights to payment, claims and causes of action for breach; and (i) all Proceeds of any of the foregoing, including, without limitation, any Mortgage-Backed Security issued in exchange for or to represent an undivided interest in any Pledged Mortgage Loan.

"COLLATERAL VALUE" means (a) with respect to a pool of Eligible Mortgage Loans, an amount equal to 99% of the Take-Out Price for such pool of Eligible Mortgage Loans; and (b) with respect to an Eligible Mortgage-Backed Security, an amount equal to 99% of the Take-Out Price for such Eligible Mortgage-Backed Security. Any item of Collateral which ceases to be or is not an Eligible Mortgage Loan or an Eligible Mortgage-Backed Security shall have a Collateral Value of zero.

"COMPUTATION PERIOD" means a calendar month during the term of this agreement, or if applicable for the month which includes the date of actual execution and delivery of this agreement and the month which includes the Termination Date, the period during such month when one or more Advances is outstanding.

"DEFAULT" means any condition or event which, with the giving of notice or lapse of time or both and unless cured or waived, would constitute an Event of Default.

"ELIGIBLE MORTGAGE-BACKED SECURITY" means a Mortgage-Backed Security (a) in which Bank One has a perfected first priority security interest to secure the Obligations, (b) which constitutes Proceeds of Pledged Mortgage Loans and which satisfies all requirements for purchase under the Pledged Take-Out Commitment to which it has been Allocated, (c) which has not been owned by Borrower for more than five Business Days, (d) with respect to which the Investor under the Pledged Take-Out Commitment to which such Mortgage-Backed Security has been Allocated is not in default of its obligations under such Pledged Take-Out Commitment, and (e) with respect to which such Pledged Take-Out Commitment is not subject to any Lien other than a Permitted Lien.

"ELIGIBLE MORTGAGE LOAN" means a Pledged Mortgage Loan (a) in which Bank One has a perfected first priority security interest to secure the Obligations, (b) which has not been included in the Collateral for more than 30 days, (c) which satisfies all requirements for delivery under the Pledged Agency Commitment to which it has been Allocated; (d) which is a part of a pool with respect to which the Agency Custodian has notified Bank One that such pool has been certified (or initially certified) to the Agency

obligated under such Pledged Agency Commitment, and (e) with respect to which such Pledged Agency Commitment is not subject to any Lien other than a Permitted Lien.

"EURODOLLAR BORROWING PERIOD" means a period commencing, in the case of the first Eurodollar Borrowing Period applicable to a Eurodollar Rate Advance, on the date of the making of, or conversion into, such Advance, and, in the case of each subsequent, successive Eurodollar Borrowing Period applicable thereto, on the last day of the immediately preceding Eurodollar Borrowing Period, and ending, depending on the Type of Advance, on the same day in the first, second, or third calendar month thereafter, except that (a) any Eurodollar Borrowing Period that would otherwise end on a day that is not a Eurodollar Business Day shall be extended to the next succeeding Eurodollar Business Day unless such Eurodollar Business Day falls in another calendar month, in which case such Eurodollar Borrowing Period shall end on the next preceding Eurodollar Business Day and (b) any Eurodollar Borrowing Period that begins on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month in which such Eurodollar Borrowing Period ends) shall end on the last Eurodollar Business Day of a calendar month.

"EURODOLLAR BUSINESS DAY" means any Business Day on which dealings in Dollar deposits are carried on in the London interbank market and on which commercial banks are open for domestic and international business (including dealings in Dollar deposits) in London, England.

"EURODOLLAR LENDING OFFICE" with respect to a Lender means the office of such Lender set forth on SCHEDULE 1.1(A) of this agreement or such other office of such Lender as it may identify in writing to Agent and Borrower.

"EURODOLLAR RATE" means, for any Eurodollar Borrowing Period, the rate per annum (rounded upward, if necessary, to the next higher of 1/16 of 1%) determined by Bank One as the rate per annum reported by the Knight Ridder system, for London interbank market deposits in Dollars in amounts comparable to the aggregate amount of Eurodollar Rate Advances to which such Eurodollar Borrowing Period applies, for a period equal to such Eurodollar Borrowing Period, at 11:00 a.m. (London time) on the second Eurodollar Business Day before the first day of such Eurodollar Borrowing Period, or, if such rate is not so reported, such rate as reported by any other internationally recognized reporting service selected by Bank One or, if no such other service is available, such rate as determined by Bank One based on rate information furnished to it by two or more banks selected by it which participate in the market for such deposits.

"EURODOLLAR RATE ADVANCE" means any Advance the interest on which is, or is to be, as the context may require, computed on the basis of the Adjusted Eurodollar Rate.

"EVENT OF DEFAULT" has the meaning specified in SECTION 8.1.

"EXCESS ADVANCES" for a particular Computation Period means the amount equal to (a) the Average Advances for such Computation Period minus the MBS Advances for such Computation Period.

"FEDERAL FUNDS RATE" means, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York and distributed by the Knight Ridder system, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received from three Federal funds brokers of recognized standing selected by Bank One.

"GENERAL INTANGIBLE" has the meaning given to such term in Article 9 of the UCC.

"INSTRUMENT" has the meaning given to such term in Article 9 of the UCC.

"LOAN AGREEMENT" means the Second Amended and Restated Loan Agreement dated as of June 13, 1996, between Borrower, Bank One as Agent, and the Persons party thereto as Lenders, as in effect on August 15, 1997, and without regard to whether such agreement has terminated.

"LOAN AGREEMENT BAILEE LETTER" means a "bailee letter and trust receipt" under the Loan Agreement.

"LOAN AGREEMENT EVENT OF DEFAULT" means an "event of default" as defined in the Loan Agreement.

"LOAN DOCUMENT" means any and "LOAN DOCUMENTS" means the collective reference to each of this agreement, the Note, the Security Instruments, and any and all other agreements or instruments now or hereafter executed and delivered by or on behalf of Borrower in connection with, or as security for the payment or performance of any or all of the Obligations, as any of such documents may be renewed, amended or supplemented from time to time. Notwithstanding anything to the contrary in the Loan Agreement, the Loan Agreement is not a Loan Document.

"MATERIAL ADVERSE EFFECT" means any material adverse effect on (a) the validity or enforceability of this agreement, the Note or any other Loan Document, (b) the business, operations, total Property or financial condition of Borrower, (c) the collateral under any Security Instrument, (d) the enforceability or priority of the Lien in favor of Bank One on the collateral under any Security Management, or (e) the ability of Borrower timely to perform the Obligations.

"MAXIMUM CREDIT AMOUNT" means \$50,000,000.

"MAXIMUM RATE" has the meaning specified in SECTION 10.9.

"MBS" means Mortgage-Backed Security.

"MBS ADVANCES" for a particular Computation Period means the amount equal to (a) the product of the MBS Factor for such Computation Period times (b) the lesser of (i) the Average Advances for such Computation Period and (ii) the Average Borrowing Base for such Computation Period.

"MBS FACTOR" for a particular Computation Period means the amount equal to the ratio of (a) the Average MBS Collateral Value for such Computation Period to (b) Average Borrowing Base for such Computation Period.

"MBS RATE" for a particular Computation Period means the per annum rate of interest equal to the sum of (a) the Average Federal Funds Rate for such Computation Period and (b) 0.35%.

"MORTGAGE" means a mortgage or deed of trust which grants or purports to grant, as security for a Mortgage Loan, a Lien on real property.

"MORTGAGE LOAN" means a loan which is secured by a Mortgage.

"MORTGAGE NOTE" means a promissory note which evidences a Mortgage Loan.

"NOTE" means the Promissory Note delivered by Borrower to Bank One pursuant to SECTION 2.2 in the form attached hereto as EXHIBIT A and all renewals, extensions, modifications, and rearrangements thereof.

"OBLIGATIONS" means all present and future indebtedness, obligations, and liabilities of Borrower to Bank One, and all renewals, rearrangements and extensions thereof, or any part thereof, arising pursuant to this agreement or any other Loan Document, and all interest accrued thereon, and reasonable attorneys' fees and other reasonable costs incurred in the enforcement or collection thereof, regardless of whether such indebtedness, obligations, and liabilities are direct, indirect, fixed, contingent, joint, several, or joint and several.

"PERMITTED LIENS" means (a) Liens on the Collateral which secure payment of the Obligations, (b) tax and other Liens permitted under SECTION 6.2 of the Loan Agreement, (c) Liens to secure obligations of Borrower in respect of workers compensation and other labor laws, and (d) financing statements of record which name Bank One as the Agent under the Loan Agreement as "secured party."

"PLEDGED AGENCY COMMITMENT" means an Agency Commitment identified on a Borrowing Request as an Agency Commitment in which Borrower is granting Bank One a security interest to secure the Obligations.

"PLEDGED MORTGAGE LOAN" means a Mortgage Loan identified on a Borrowing Request as a Mortgage Loan in which Borrower is granting Bank One a security interest to secure the Obligations.

"PLEDGED TAKE-OUT COMMITMENT" means a Take-Out Commitment identified on a Borrowing Request as a Take-Out Commitment in which Borrower is granting Bank One a security interest to secure the Obligations.

"PROCEEDS" means all "proceeds" as such terms is defined in Section 9.306(a) of the UCC, and, in any event, shall include all interest or other income received by Borrower in respect of any item of Collateral.

"RELEASE OF LIEN" means a release of lien in the form of EXHIBIT C.

"REQUESTED BORROWING DATE" means the date on which an Advance in respect of a Borrowing is to be made, as identified by Borrower in the relevant Borrowing Request.

"REQUIRED MORTGAGE DOCUMENTS" means, with respect to a Pledged Mortgage Loan, any Mortgage Documents not then in the possession of Bank One which must be certified to the Agency under the Agency Commitment to which such Pledged Mortgage Loan has been Allocated.

"SCHEDULED TERMINATION DATE" means August 1, 1998.

"SECURITY INSTRUMENTS" means (a) this agreement and (b) such other executed documents as are or may be necessary to grant to Bank One a perfected first, prior and continuing security interest in and to the Collateral, and any and all other agreements or instruments now or hereafter executed and delivered by or on behalf of Borrower in connection with, or as security for the payment or performance of, all or any of the Obligations, including Borrower's obligations under the Note and this agreement, as such documents may be amended, modified, or supplemented from time to time.

"SETTLEMENT ACCOUNT" means the non-interest bearing demand deposit account (Account Number 0100139187) established by Borrower with Bank One to be used for (a) the deposit of the proceeds from the sale of Mortgage-Backed Securities, (b) disbursements on behalf of Borrower in accordance with SECTION 3.7, and (c) the payment of the Obligations.

"TAKE-OUT PRICE" means:

(a) With respect to a pool of Eligible Mortgage Loans which has been Allocated to an Agency Commitment, the Take-Out Price of the Mortgage-Backed Security to be issued or guaranteed pursuant to such Agency Commitment; and

(b) with respect to an Eligible Mortgage-Backed Security, the price for such Eligible Mortgage-Backed Security under the Take-Out Commitment to which such Eligible Mortgage-Backed Security has been Allocated.

"TERMINATION DATE" means the Scheduled Termination Date or the date, if any, on which the maturity of the Obligations is accelerated pursuant to SECTION 8.2.

Other Definitional Provisions.
- - - - -

UNLESS OTHERWISE SPECIFIED THEREIN, ALL TERMS DEFINED IN THIS AGREEMENT HAVE THE ABOVE-DEFINED MEANINGS WHEN USED IN THE NOTE OR ANY OTHER LOAN DOCUMENT, CERTIFICATE, REPORT, OR OTHER DOCUMENT MADE OR DELIVERED PURSUANT HERETO.

EACH TERM DEFINED IN THE SINGULAR FORM IN THE LOAN AGREEMENT OR Section 1.2 SHALL MEAN THE PLURAL THEREOF WHEN THE PLURAL FORM OF SUCH TERM IS USED IN THIS AGREEMENT, THE NOTE OR ANY OTHER LOAN DOCUMENT, CERTIFICATE, REPORT, OR OTHER DOCUMENT MADE OR DELIVERED PURSUANT HERETO, AND EACH TERM DEFINED IN THE PLURAL FORM IN THE LOAN AGREEMENT OR Section 1.2 SHALL MEAN THE SINGULAR THEREOF WHEN THE SINGULAR FORM OF SUCH TERM IS USED HEREIN OR THEREIN.

THE WORDS "HEREOF," "HEREIN," "HEREUNDER," AND SIMILAR TERMS WHEN USED IN THIS AGREEMENT SHALL REFER TO THIS AGREEMENT AS A WHOLE AND NOT TO ANY PARTICULAR PROVISION OF THIS AGREEMENT, AND SECTION, SCHEDULE AND EXHIBIT REFERENCES HEREIN ARE REFERENCES TO SECTIONS, SCHEDULES AND EXHIBITS TO THIS AGREEMENT UNLESS OTHERWISE SPECIFIED.

AS USED HEREIN, IN THE NOTE OR IN ANY OTHER LOAN DOCUMENT, CERTIFICATE, REPORT, OR OTHER DOCUMENT MADE OR DELIVERED PURSUANT HERETO, ACCOUNTING TERMS RELATING TO ANY PERSON AND NOT SPECIFICALLY DEFINED IN THIS AGREEMENT OR THEREIN SHALL HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM UNDER GAAP.

UNLESS OTHERWISE SPECIFIED HEREIN, ALL TIMES SET FORTH HEREIN ARE DALLAS, TEXAS TIME.

UNLESS OTHERWISE SPECIFIED HEREIN, ALL SECTION REFERENCES ARE TO SECTIONS IN THIS AGREEMENT.

AMOUNT AND TERMS OF CREDIT

Commitment. SUBJECT TO THE TERMS AND CONDITIONS CONTAINED IN THIS AGREEMENT,

BANK ONE AGREES TO MAKE ADVANCES TO OR FOR THE ACCOUNT OF BORROWER ON A REVOLVING CREDIT BASIS FROM TIME TO TIME ON ANY BUSINESS DAY FROM THE DATE OF THIS AGREEMENT THROUGH THE EARLIER TO OCCUR OF TERMINATION DATE AND THE BUSINESS DAY PRECEDING THE SCHEDULED TERMINATION DATE IN AN AMOUNT NOT TO EXCEED AT ANY ONE TIME OUTSTANDING THE MAXIMUM CREDIT AMOUNT. EACH BORROWING FUNDED SHALL BE IN AN AGGREGATE AMOUNT OF NOT LESS THAN \$100,000 AND SHALL CONSIST OF AN ADVANCE MADE ON THE REQUESTED BORROWING DATE BY BANK ONE; PROVIDED, THAT THE AGGREGATE AMOUNT OF ADVANCES AT ANY TIME OUTSTANDING SHALL NOT EXCEED THE LESSER OF (I) THE MAXIMUM CREDIT AMOUNT AND (II) THE BORROWING BASE. SUBJECT TO THE OTHER TERMS AND CONDITIONS HEREOF, BORROWER MAY BORROW, REPAY (WHETHER PURSUANT TO Section 2.4, Section 3.4, OR OTHERWISE), AND REBORROW UNDER THIS SECTION.

Note. THE ADVANCES MADE BY BANK ONE PURSUANT TO Section 2.1 SHALL BE EVIDENCED

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BY A NOTE PAYABLE TO BANK ONE IN THE PRINCIPAL AMOUNT OF THE MAXIMUM CREDIT AMOUNT. THE NOTE SHALL BE PAYABLE AND BEAR INTEREST AS SET FORTH IN Sections 2.4, 2.8, AND 10.9.

Manner of Requesting and Obtaining Borrowings. BORROWER SHALL REQUEST EACH

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BORROWING BY DELIVERING A BORROWING REQUEST TO BANK ONE IN ACCORDANCE WITH THE PROVISIONS OF Section 4.2. NOT LATER THAN 1:00 P.M. ON THE REQUESTED BORROWING DATE SPECIFIED IN THE BORROWING NOTICE, AND SUBJECT TO THE TERMS AND CONDITIONS OF THIS AGREEMENT, BANK ONE SHALL INITIATE THE ADVANCE IN RESPECT OF SUCH BORROWING IN ACCORDANCE WITH THE DEPOSIT OR WIRE INSTRUCTIONS OF BORROWER SET FORTH IN SUCH BORROWING REQUEST.

Mandatory Repayments. BORROWER SHALL REPAY ALL OUTSTANDING ADVANCES ON THE

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TERMINATION DATE. IF AT ANY TIME THE AGGREGATE AMOUNT OF ADVANCES OUTSTANDING EXCEEDS EITHER THE MAXIMUM CREDIT AMOUNT OR THE BORROWING BASE, BORROWER, UPON THE DEMAND OF BANK ONE, SHALL REPAY SO MUCH OF THE OUTSTANDING ADVANCES AS MAY BE NECESSARY TO ELIMINATE SUCH EXCESS.

Business Days. IF THE SCHEDULED DATE FOR ANY PAYMENT HEREUNDER FALLS ON A DAY

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WHICH IS NOT A BUSINESS DAY, THEN FOR ALL PURPOSES OF THE NOTE AND THIS AGREEMENT THE SAME SHALL BE DEEMED TO HAVE FALLEN ON THE NEXT FOLLOWING BUSINESS DAY, AND, EXCEPT FOR SUCH PAYMENTS AS TO WHICH INTEREST HAD CEASED TO ACCRUE PRIOR TO THE SCHEDULED DATE FOR PAYMENT, SUCH EXTENSION OF TIME SHALL BE INCLUDED IN THE COMPUTATION OF PAYMENTS OF INTEREST.

Payment Procedure. ALL PAYMENTS OF THE PRINCIPAL OF AND INTEREST UPON THE NOTE

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SHALL BE MADE BY BORROWER TO BANK ONE BEFORE 2:00 P.M. ON THE RESPECTIVE DATES WHEN DUE IN FEDERAL OR OTHER IMMEDIATELY AVAILABLE FUNDS AT BANK ONE'S ADDRESS SET FORTH IN Section 10.1. PAYMENTS RECEIVED ON ANY DAY WHICH IS NOT A BUSINESS DAY AND PAYMENTS RECEIVED AFTER 2:00 P.M. ON ANY BUSINESS DAY SHALL BE TREATED FOR ALL PURPOSES AS HAVING BEEN RECEIVED ON THE BUSINESS DAY NEXT FOLLOWING RECEIPT OF SUCH PAYMENT. IF NO EVENT OF DEFAULT EXISTS OR WOULD RESULT THEREFROM, PAYMENTS IN RESPECT OF THE OBLIGATIONS SHALL BE APPLIED TO SPECIFIC TYPES OF OBLIGATIONS (E.G., FEES, EXPENSES, PRINCIPAL AND INTEREST) AS BORROWER DIRECTS. AT ANY TIME WHEN AN EVENT OF DEFAULT EXISTS OR WOULD RESULT FROM FOLLOWING THE PAYMENT DIRECTIONS OF BORROWER, PAYMENTS IN RESPECT OF THE OBLIGATIONS SHALL BE APPLIED TO SPECIFIC TYPES OF OBLIGATIONS IN SUCH ORDER AS BANK ONE MAY ELECT.

Requirements of Law.

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IN THE EVENT THAT THE ADOPTION OF ANY NEW REQUIREMENT OF LAW OR ANY CHANGE IN ANY EXISTING REQUIREMENT OF LAW (OTHER THAN ANY CHANGE IN THE ARTICLES OF INCORPORATION, BYLAWS OR OTHER ORGANIZATIONAL OR GOVERNING DOCUMENTS OF BANK ONE) OR IN THE INTERPRETATION OR APPLICATION THEREOF OR COMPLIANCE BY BANK ONE WITH ANY REQUEST OR DIRECTIVE (WHETHER OR NOT HAVING THE FORCE OF LAW) FROM ANY CENTRAL BANK OR OTHER GOVERNMENTAL AUTHORITY ISSUED AFTER THE DATE OF THIS AGREEMENT:

Shall subject Bank One to any tax of any kind whatsoever with respect to this agreement, the Note or any Advance made by it, or change the basis of taxation of payments to Bank One of principal, facility fee, interest or any other amount payable hereunder (except for changes in the rate of tax on the overall net income of Bank One and changes in the computation of the overall net income of Bank One that do not specifically involve payments to Bank One under this agreement, the Note, or any Advance, even though such changes have the effect of increasing the effective rate of tax imposed on income of Bank One);

shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, or deposits or other liabilities in or for the account of, commitments, advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of Bank One which are not otherwise included in the determination of any interest rate under the Note; or

shall impose on Bank One any other condition;

and the result of any of the foregoing is to increase the cost to Bank One, by any amount which Bank One deems to be material, of making, renewing or maintaining this agreement or any Advances or to reduce any amount receivable hereunder, in each case, in respect of its Advances, then, Borrower shall promptly pay Bank One, upon its written demand setting forth the basis for such demand, any additional amounts necessary to compensate Bank One for such additional cost or reduced amount receivable. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Bank One to Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this agreement and payment of the Note.

IN THE EVENT THAT BANK ONE SHALL HAVE DETERMINED THAT THE ADOPTION OF ANY NEW LAW, RULE, REGULATION OR GUIDELINE REGARDING CAPITAL ADEQUACY, OR ANY CHANGE THEREIN OR IN THE INTERPRETATION OR APPLICATION THEREOF OR COMPLIANCE BY BANK ONE OR ANY CORPORATION CONTROLLING IT WITH ANY REQUEST OR DIRECTIVE REGARDING CAPITAL ADEQUACY (WHETHER OR NOT HAVING THE FORCE OF LAW) FROM ANY CENTRAL BANK OR GOVERNMENTAL AUTHORITY ISSUED AFTER MARCH 15, 1996, INCLUDING, WITHOUT LIMITATION, THE ISSUANCE OF ANY FINAL RULE, REGULATION OR GUIDELINE, DOES OR SHALL HAVE THE EFFECT OF REDUCING THE RATE OF RETURN ON BANK ONE'S OR SUCH CORPORATION'S CAPITAL AS A CONSEQUENCE OF ITS OBLIGATIONS HEREUNDER TO A LEVEL BELOW THAT WHICH BANK ONE OR SUCH CORPORATION COULD HAVE ACHIEVED BUT FOR SUCH ADOPTION, CHANGE OR COMPLIANCE (TAKING INTO CONSIDERATION BANK ONE'S OR SUCH CORPORATION'S POLICIES WITH RESPECT TO CAPITAL ADEQUACY) BY AN AMOUNT DEEMED BY BANK ONE TO BE MATERIAL, THEN BORROWER SHALL PROMPTLY PAY BANK ONE, UPON ITS WRITTEN DEMAND SETTING FORTH THE BASIS FOR SUCH DEMAND, ANY ADDITIONAL AMOUNTS NECESSARY TO COMPENSATE BANK ONE OR SUCH CORPORATION FOR SUCH REDUCED RATE OF RETURN. A CERTIFICATE AS TO ANY ADDITIONAL AMOUNTS PAYABLE PURSUANT TO THE FOREGOING SENTENCE SUBMITTED BY BANK ONE TO BORROWER SHALL BE CONCLUSIVE IN THE ABSENCE OF MANIFEST ERROR. THIS COVENANT SHALL SURVIVE THE TERMINATION OF THIS AGREEMENT AND PAYMENT OF THE NOTE.

Mandatory Suspensions and Conversions of Eurodollar Rate Advances.

BANK ONE'S OBLIGATIONS TO MAKE OR CONTINUE OR CONVERT ADVANCES INTO EURODOLLAR RATE ADVANCES OF ANY TYPE SHALL BE SUSPENDED, ALL BANK ONE'S OUTSTANDING ADVANCES OF THAT TYPE SHALL BE CONVERTED ON THE LAST DAY OF THEIR APPLICABLE EURODOLLAR BORROWING PERIODS (OR, IF EARLIER, IN THE CASE OF CLAUSE (III) BELOW, ON THE LAST DAY BANK ONE MAY LAWFULLY CONTINUE TO MAINTAIN ADVANCES OF THAT TYPE) INTO, AND ALL PENDING REQUESTS FOR THE MAKING OR CONTINUATION OF OR CONVERSION INTO ADVANCES OF SUCH TYPE BY BANK ONE SHALL BE DEEMED REQUESTS FOR, MBS RATE ADVANCES, IF:

on or prior to the determination of an interest rate for a Eurodollar Rate Advance of that Type for any Eurodollar Borrowing Period, Bank One determines that appropriate information is not available to it for purposes of determining the Adjusted Eurodollar Rate for such Eurodollar Borrowing Period;

on or prior to the first day of any Eurodollar Borrowing Period for a Eurodollar Rate Advance of that Type, Bank One determines that the Adjusted Eurodollar Rate as determined by Bank One for such Eurodollar Borrowing Period would not accurately reflect the cost to Bank One of making, continuing, or converting Advances into, a Eurodollar Rate Advance of such Type for such Eurodollar Borrowing Period; or

at any time Bank One determines that any new Requirement of Law or any change in any Requirement of Law existing on the Agreement Date (other than any change in the articles of incorporation, by-laws or other organizational or governing documents of Bank One) or in the interpretation or application thereof or compliance by Bank One with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority issued after the Agreement Date makes it unlawful or impossible for Bank One to make, continue, or convert an Advance into, any Type of Eurodollar Rate Advance, or to comply with its obligations hereunder in respect thereof.

If, as a result of this section, any Advance of Bank One that would otherwise be made or maintained as or converted into a Eurodollar Rate Advance of any Type for any Eurodollar Borrowing Period is instead made or maintained as or converted into a MBS Rate Advance, then, such Advance shall be treated as being a Eurodollar Rate Advance of such Type for such Eurodollar Borrowing Period for all purposes of this agreement except for the calculation of the interest rate borne by such Advance. Bank One shall promptly notify Borrower of the existence or occurrence of any condition or circumstance specified in clause (i), (ii), or (iii) above, applicable to Bank One's Advances, but the failure by Bank One to give any such notice shall not affect Bank One's rights hereunder.

Funding Losses. BORROWER SHALL PAY TO BANK ONE, UPON REQUEST, SUCH

AMOUNT OR AMOUNTS AS BANK ONE REASONABLY DETERMINES ARE NECESSARY TO COMPENSATE IT FOR ANY FUNDING LOSS, COST OR EXPENSE INCURRED BY IT AS A RESULT OF (I) ANY PAYMENT, PREPAYMENT OR CONVERSION OF A EURODOLLAR RATE ADVANCE ON A DATE OTHER THAN THE LAST DAY OF THE EURODOLLAR BORROWING PERIOD FOR SUCH EURODOLLAR RATE ADVANCE OR (II) A EURODOLLAR RATE ADVANCE FOR ANY REASON NOT BEING MADE OR CONVERTED, OR ANY PAYMENT OF PRINCIPAL THEREOF OR INTEREST THEREON NOT BEING MADE, ON

THE DATE THEREFOR DETERMINED IN ACCORDANCE WITH THE APPLICABLE PROVISIONS OF THIS AGREEMENT. AT THE ELECTION OF BANK ONE, AND WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, BUT WITHOUT DUPLICATION, SUCH COMPENSATION ON ACCOUNT OF LOSSES MAY INCLUDE AN AMOUNT EQUAL TO THE EXCESS OF (X) THE INTEREST THAT WOULD HAVE BEEN RECEIVED FROM BORROWER UNDER THIS AGREEMENT ON ANY AMOUNTS TO BE REEMPLOYED DURING AN EURODOLLAR BORROWING PERIOD OR ITS REMAINING PORTION OVER (Y) THE INTEREST COMPONENT OF THE RETURN THAT BANK ONE REASONABLY DETERMINES IT COULD HAVE OBTAINED HAD IT PLACED SUCH AMOUNT ON DEPOSIT IN THE INTERBANK DOLLAR MARKET SELECTED BY IT FOR A PERIOD EQUAL TO SUCH EURODOLLAR BORROWING PERIOD OR ITS REMAINING PORTION.

Payment of Additional Amounts. ANY ADDITIONAL AMOUNTS PAYABLE

PURSUANT TO THIS SECTION SHALL BE PAYABLE, IN THE CASE OF THOSE APPLICABLE TO PRIOR PERIODS, WITHIN 15 DAYS AFTER REQUEST BY BANK ONE FOR SUCH PAYMENT AND, IN THE CASE OF THOSE APPLICABLE TO FUTURE PERIODS, ON THE DATES SPECIFIED, OR DETERMINED IN ACCORDANCE WITH A METHOD SPECIFIED, BY BANK ONE.

Certain Determinations; Notice. IN MAKING THE DETERMINATIONS

CONTEMPLATED BY clauses (a), (b), (c), AND (d) ABOVE, BANK ONE MAY MAKE SUCH ESTIMATES, ASSUMPTIONS, ALLOCATIONS AND THE LIKE THAT BANK ONE IN GOOD FAITH DETERMINES TO BE APPROPRIATE, AND BANK ONE'S SELECTION THEREOF IN ACCORDANCE WITH THIS SECTION, AND THE DETERMINATIONS MADE BY BANK ONE ON THE BASIS THEREOF, SHALL BE FINAL, BINDING AND CONCLUSIVE UPON BORROWER, EXCEPT, IN THE CASE OF SUCH DETERMINATIONS, FOR MANIFEST ERRORS IN COMPUTATION OR TRANSMISSION. BANK ONE SHALL FURNISH TO BORROWER A CERTIFICATE OUTLINING IN REASONABLE DETAIL THE COMPUTATION OF ANY AMOUNTS CLAIMED BY IT UNDER clauses (a), (b), (c), AND (d) ABOVE AND THE ASSUMPTIONS UNDERLYING SUCH COMPUTATIONS. BANK ONE WILL PROMPTLY NOTIFY BORROWER OF ANY DETERMINATION MADE BY IT REFERRED TO IN clauses (a), (b), (c), AND (d) ABOVE, BUT THE FAILURE TO GIVE SUCH NOTICE SHALL NOT AFFECT BANK ONE'S RIGHT TO COMPENSATION.

Change of Eurodollar Lending Office, etc. IF AN EVENT OCCURS WITH

RESPECT TO BANK ONE THAT ENTITLES BANK ONE TO MAKE A CLAIM UNDER clause (a) OR (b), OR WHICH MAKES OPERABLE THE PROVISIONS OF clause (c)(iii), BANK ONE SHALL, IF REQUESTED BY BORROWER, USE REASONABLE EFFORTS TO TAKE ANY REASONABLE ACTION (INCLUDING THE DESIGNATION OF A NEW EURODOLLAR LENDING OFFICE) TO REDUCE THE AMOUNT BANK ONE IS SO ENTITLED TO CLAIM OR REDUCE SUCH OPERABILITY; PROVIDED, THAT NO BANK ONE SHALL BE OBLIGATED TO TAKE ANY ACTION UNDER THIS SECTION IF SUCH ACTION, IN THE SOLE AND ABSOLUTE JUDGMENT OF BANK ONE WOULD BE OTHERWISE THAN IMMATERIALLY DISADVANTAGEOUS TO BANK ONE OR IN ANY MANNER CONTRARY TO BANK ONE'S POLICIES. EXCEPT IN THE CASE OF A CHANGE IN EURODOLLAR LENDING OFFICE MADE AT THE REQUEST OF BORROWER, THE DESIGNATION OF A NEW EURODOLLAR LENDING OFFICE BY BANK ONE SHALL NOT OBLIGATE BORROWER TO PAY ANY AMOUNT TO BANK ONE UNDER clauses (a), (b), OR (c) IF SUCH CLAIM OR THE OPERABILITY OF SUCH CLAUSE RESULTS SOLELY FROM SUCH DESIGNATION AND NOT FROM A CHANGE IN ANY REQUIREMENT OF LAW AFTER THE DATE OF THIS AGREEMENT.

Interest.

In General. INTEREST ON THE ADVANCES FROM TIME TO TIME OUTSTANDING

SHALL ACCRUE DURING EACH COMPUTATION PERIOD AND SHALL BE PAYABLE ON THE EARLIER OF THE FIFTEENTH DAY OF THE FOLLOWING COMPUTATION PERIOD AND THE TERMINATION DATE. AS SOON AS PRACTICABLE AFTER THE END OF EACH COMPUTATION PERIOD, AND IN ANY EVENT NO LATER THAN FOURTEENTH DAY OF THE FOLLOWING COMPUTATION PERIOD, BANK ONE SHALL GIVE BORROWER WRITTEN NOTICE OF THE INTEREST DUE FOR SUCH COMPUTATION PERIOD.

MBS Advances. THE MBS ADVANCES FOR EACH COMPUTATION PERIOD SHALL BEAR

INTEREST AT THE PER ANNUM RATE OF INTEREST EQUAL TO THE LESSER OF (I) THE APPLICABLE MBS RATE FOR SUCH COMPUTATION PERIOD AND (II) THE MAXIMUM RATE.

Excess Advances; Overdue Amounts. THE EXCESS ADVANCES FOR EACH

COMPUTATION PERIOD SHALL BEAR INTEREST AT THE PER ANNUM RATE OF INTEREST EQUAL TO THE LESSER OF (I) THE SUM OF 4.00% AND THE BASE RATE AND (II) THE MAXIMUM RATE. OVERDUE PRINCIPAL, INTEREST AND OTHER AMOUNTS SHALL BEAR INTEREST FOR EACH DAY SUCH AMOUNTS ARE OVERDUE AT THE PER ANNUM RATE OF INTEREST EQUAL TO THE LESSER OF (I) THE SUM OF 4.00% AND THE BASE RATE AND (II) THE MAXIMUM RATE; ALL SUCH INTEREST SHALL BE PAYABLE UPON DEMAND.

360 Day Year; Maximum Rate. FOR PURPOSES OF CALCULATING ANY INTEREST

RATE WHICH IS BASED ON THE BASE RATE OR THE FEDERAL FUNDS RATE, INTEREST SHALL BE CALCULATED ON THE BASIS OF THE ACTUAL NUMBER OF DAYS ELAPSED OVER A 360-DAY YEAR. FOR PURPOSES OF CALCULATING INTEREST AT THE MAXIMUM RATE, INTEREST SHALL BE CALCULATED ON THE BASIS OF THE ACTUAL NUMBER OF DAYS ELAPSED OVER WHICHEVER OF A 365-DAY OR A 366-DAY YEAR IS APPLICABLE. REFERENCE IS MADE TO Section 10.9 FOR CERTAIN PROVISIONS LIMITING THE RATE OF INTEREST WHICH MAY BE CHARGED UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE PROVISIONS OF Section 10.9 SHALL BE CONTROLLING IN THE EVENT OF ANY CONFLICT BETWEEN SUCH PROVISIONS AND (I) THE PROVISIONS OF THIS SECTION, (II) ANY OTHER PROVISION OF THIS AGREEMENT, OR (III) ANY PROVISION OF ANY OTHER LOAN DOCUMENT.

Eurodollar Rate Advances. BORROWER SHALL PAY INTEREST ON EACH

EURODOLLAR RATE ADVANCE (I) ON THE LAST DAY OF THE APPLICABLE EURODOLLAR BORROWING PERIOD (AND, IF SUCH EURODOLLAR BORROWING PERIOD IS LONGER THAN ONE MONTH, AT INTERVALS OF ONE MONTH AFTER THE FIRST DAY OF SUCH EURODOLLAR BORROWING PERIOD), (II) ON ANY PREPAYMENT IN FULL OF ANY EURODOLLAR RATE ADVANCE AND (III) AT MATURITY (WHETHER BY ACCELERATION OR OTHERWISE). EACH EURODOLLAR RATE ADVANCE SHALL BEAR INTEREST AT THE LESSER OF (X) THE SUM OF (I) THE ADJUSTED EURODOLLAR RATE FOR THE EURODOLLAR BORROWING PERIOD RELEVANT THERETO AND (II) 1.50% PER ANNUM AND (Y) THE MAXIMUM RATE.

Conversion and Continuation; Funding as Eurodollar Rate Advances.

All or any part of the principal amount of Advances of any Type may, on any Business Day, be converted into any other Type or Types of Advances, except that (A) Advances that are Eurodollar Rate Advances may be converted only on the last day of the applicable Eurodollar Borrowing Period and (B) Advances that are MBS Rate Advances may be converted into Eurodollar Rate Advances only on a Eurodollar Business Day.

Advances that are MBS Rate Advances shall continue as MBS Rate Advances unless and until such Advances are converted into Advances of another Type. Advances that are Eurodollar Rate Advances of any Type shall continue as Advances of such Type until the end of the then current Eurodollar Borrowing Period therefor, at which time they shall be automatically converted into MBS Rate Advances unless Borrower shall have given Bank One notice in accordance with CLAUSE (IV) below requesting either that such Advances continue as Advances of such Type for another Eurodollar Borrowing Period or that such Advances be converted into Advances of another Type at the end of such Eurodollar Borrowing Period.

Notwithstanding anything to the contrary contained in SECTION 2.8(F)(I) or (II), during a Default, Bank One may notify Borrower that Advances may only be made, continued as or converted into MBS Rate Advances and, thereafter, until no Default shall continue to exist, Advances may not be made, continued as or converted into Eurodollar Rate Advances.

Borrower shall give Bank One notice (which shall be irrevocable) of each conversion of Advances or continuation of Advances that are Eurodollar Rate Advances no later than 11:00 a.m. on, in the case of a conversion into MBS Rate Advances, the Business Day, and, in the case of a conversion into or continuation of Eurodollar Rate Advances, the third Eurodollar Business Day, before the requested date of such conversion or continuation. Each notice of conversion or continuation shall be in the form set forth as EXHIBIT R to the Loan Agreement or such other form as to which Borrower and Bank One may agree (each a "NOTICE OF CONVERSION") and shall specify (A) the requested date of such conversion or continuation, (B) the amount and Type and, in the case of Advances that are Eurodollar Rate Advances, the last day of the applicable Eurodollar Borrowing Period of the Advances to be converted or continued and (C) the amount and Type or Types of Advances into which such Advances are to be continued.

COLLATERAL.

Granting Clause. TO SECURE THE PUNCTUAL PAYMENT AND PERFORMANCE OF THE OBLIGATIONS, BORROWER HEREBY GRANTS BANK ONE A SECURITY INTEREST IN THE COLLATERAL.

Borrowing Requests. EACH BORROWING REQUEST SHALL IDENTIFY THE AGENCY COMMITMENT

PURSUANT TO WHICH THE MORTGAGE-BACKED SECURITIES TO BE BACKED BY SUCH MORTGAGE LOANS ARE TO BE ISSUED BY FNMA OR FHLMC OR GUARANTEED BY GNMA (SUCH AGENCY COMMITMENT BEING THE AGENCY COMMITMENT TO WHICH SUCH MORTGAGE LOANS HAVE BEEN "Allocated") AND THE TAKE-OUT COMMITMENT PURSUANT TO WHICH SUCH MORTGAGE-BACKED SECURITIES ARE TO BE SOLD (SUCH TAKE-OUT COMMITMENT BEING THE TAKE-OUT COMMITMENT TO WHICH SUCH MORTGAGE-BACKED SECURITIES HAVE BEEN "Allocated") AND SHALL BE ACCOMPANIED BY:

ANY REQUIRED MORTGAGE DOCUMENTS WITH RESPECT TO SUCH MORTGAGE LOANS NOT THEN IN THE POSSESSION OF BANK ONE (WHETHER IN ITS CAPACITY AS AGENT UNDER THE LOAN AGREEMENT OR OTHERWISE);

A LOAN AGREEMENT BAILEE LETTER, DULY EXECUTED BY BORROWER AND THE AGENT, OR OTHER EVIDENCE SATISFACTORY TO BANK ONE THAT SUCH MORTGAGE LOANS ARE NOT, OR UPON FUNDING OF THE REQUESTED BORROWING WILL NOT BE, SUBJECT TO ANY LIEN OTHER THAN PERMITTED LIENS;

A RELEASE OF LIEN FOR SUCH AGENCY COMMITMENT AND SUCH TAKE-OUT COMMITMENT, DULY EXECUTED BY BORROWER AND THE AGENT; AND

THE RELEVANT AGENCY FORMS, DULY COMPLETED (BUT FOR CERTIFICATION BY THE AGENCY CUSTODIAN WHERE APPLICABLE) AND IN SUFFICIENT QUANTITY TO SATISFY APPLICABLE AGENCY REQUIREMENTS.

Borrower shall (x) hold in trust for Bank One, with respect to each such Mortgage Loan, the original recorded Mortgage relating to such Mortgage Loan, a mortgagee policy of title insurance (or binding and unexpired commitment to issue such insurance if the policy has not yet been delivered to Borrower) insuring Borrower's perfected, first-priority Lien created by the Mortgage securing such Mortgage Loan (subject only to exceptions permitted by the Agency obligated under the Agency Commitment to which such Mortgage Loan has been Allocated), any Appraisals and any insurance policies which relate to such Mortgage Loan, and all other original documents executed in connection with such Mortgage Loan and not delivered to Bank One and (y) upon request of Bank One, immediately deliver to Bank One such documents, together with an index specifically identifying each such document. Bank One in its reasonable discretion may reject as unsatisfactory any items so delivered by written notice to Borrower specifying the reasons therefor, whereupon Borrower agrees promptly to use all reasonable efforts to correct any defects therein identified by Bank One and whereupon any Pledged Mortgage Loan with respect to which any such defect may not be corrected and any Pledged Mortgage Loan with respect to which any such defect which may be corrected but for which such defect is not corrected within fifteen (15) days after the request for such correction by Bank One shall have a Collateral Value of zero. For so long as the Loan Agreement remains in effect, simultaneously with the delivery of any Borrowing Request, Borrower shall deliver to the Agent a Request for Release of Security Interest for processing in accordance with SECTION 3.12 of the Loan Agreement.

Power of Attorney. EFFECTIVE UPON THE OCCURRENCE OF AN EVENT OF DEFAULT,

BORROWER HEREBY IRREVOCABLY APPOINTS BANK ONE ITS ATTORNEY IN FACT, WITH FULL POWER OF SUBSTITUTION, FOR AND ON BEHALF AND IN THE NAME OF BORROWER, TO (I) INDORSE AND DELIVER TO ANY PERSON ANY CHECK, INSTRUMENT OR OTHER PAPER COMING INTO BANK ONE'S POSSESSION AND REPRESENTING PAYMENT MADE IN RESPECT OF ANY MORTGAGE NOTE OR MORTGAGE-BACKED SECURITY INCLUDED IN THE COLLATERAL OR IN RESPECT OF ANY OTHER COLLATERAL FOR THE OBLIGATIONS INCLUDING ANY AGENCY COMMITMENT AND ANY TAKE-OUT COMMITMENT; (II) PREPARE, COMPLETE, EXECUTE, DELIVER AND RECORD ANY ASSIGNMENT TO BANK ONE OR TO ANY OTHER PERSON OF ANY MORTGAGE RELATING TO ANY MORTGAGE NOTE INCLUDED IN THE COLLATERAL; (III) INDORSE AND DELIVER ANY MORTGAGE NOTE OR MORTGAGE-BACKED SECURITY INCLUDED IN THE COLLATERAL AND DO EVERY OTHER THING NECESSARY OR DESIRABLE TO EFFECT TRANSFER OF ALL OR ANY PART OF THE COLLATERAL TO BANK ONE OR TO ANY OTHER PERSON; (IV) TAKE ALL NECESSARY AND APPROPRIATE ACTION WITH RESPECT TO ALL OBLIGATIONS AND THE ITEMS OF COLLATERAL TO BE DELIVERED TO BANK ONE OR HELD BY BORROWER IN TRUST FOR BANK ONE INCLUDING, WITHOUT LIMITATION, INSTRUCT ANY TITLE COMPANY OR CLOSING AGENT TO DELIVER ANY MORTGAGE NOTE OR MORTGAGE DOCUMENT HELD BY IT DIRECTLY TO BANK ONE OR ITS AGENT; (V) COMMENCE, PROSECUTE, SETTLE, DISCONTINUE, DEFEND, OR OTHERWISE DISPOSE OF ANY CLAIM RELATING TO ANY AGENCY COMMITMENT OR ANY TAKE-OUT COMMITMENT OR ANY OTHER PART OF THE COLLATERAL; AND (VI) SIGN BORROWER'S NAME WHEREVER APPROPRIATE TO EFFECT THE PERFORMANCE OF THIS AGREEMENT. THIS SECTION SHALL BE LIBERALLY, NOT RESTRICTIVELY, CONSTRUED SO AS TO GIVE THE GREATEST LATITUDE TO BANK ONE'S POWER, AS BORROWER'S ATTORNEY IN FACT, TO COLLECT, SELL, AND DELIVER ANY OF THE COLLATERAL AND ALL OTHER DOCUMENTS RELATING THERETO. THE POWERS AND AUTHORITIES HEREIN CONFERRED ON BANK ONE MAY BE EXERCISED BY BANK ONE THROUGH ANY PERSON WHO, AT THE TIME OF THE EXECUTION OF A PARTICULAR INSTRUMENT, IS AN AUTHORIZED OFFICER OF BANK ONE. THE POWER OF ATTORNEY CONFERRED BY THIS SECTION SHALL BECOME EFFECTIVE UPON THE OCCURRENCE, AND REMAIN EFFECTIVE DURING THE CONTINUANCE, OF AN EVENT OF DEFAULT AND IS GRANTED FOR A VALUABLE CONSIDERATION AND IS COUPLED WITH AN INTEREST AND IRREVOCABLE SO LONG AS THE OBLIGATIONS, OR ANY PART THEREOF, SHALL REMAIN UNPAID. ALL PERSONS DEALING WITH BANK ONE, ANY OFFICER THEREOF, OR ANY SUBSTITUTE ATTORNEY, ACTING PURSUANT HERETO SHALL BE FULLY PROTECTED IN TREATING THE POWERS AND AUTHORITIES CONFERRED BY THIS SECTION AS EXISTING AND CONTINUING IN FULL FORCE AND EFFECT UNTIL ADVISED BY BANK ONE THAT THE OBLIGATIONS HAVE BEEN FULLY AND FINALLY PAID.

Disposition of Collateral.

Pursuant to Agency Commitments. SUBJECT TO THE PROVISIONS OF THIS

AGREEMENT AND COMPLIANCE WITH THE FNMA GUIDE, THE FHLMC GUIDE OR THE GNMA GUIDE, AS APPLICABLE, BANK ONE SHALL DELIVER THE MORTGAGE DOCUMENTS WHICH RELATE TO PLEDGED MORTGAGE LOANS ALLOCATED TO A PARTICULAR AGENCY COMMITMENT TO OR FOR THE ACCOUNT OF THE RELEVANT AGENCY AND SHALL RELEASE THE SECURITY INTEREST OF BANK ONE TO SECURE THE OBLIGATIONS THEREIN. BORROWER SHALL COMPLETE EACH AGENCY FORM SUCH THAT THE MORTGAGE-BACKED SECURITY TO BE ISSUED OR GUARANTEED PURSUANT TO A PLEDGED AGENCY COMMITMENT IS ISSUED IN THE NAME OF BANK ONE OR ITS DESIGNEE, OR, IF ISSUED IN THE NAME OF BORROWER, IS ISSUED TO AN ACCOUNT SUBJECT TO THE SOLE DOMINION AND CONTROL OF BANK ONE OR ITS DESIGNEE AND SHALL TAKE SUCH OTHER STEPS AS MAY BE REQUESTED BY BANK ONE TO CAUSE THE SECURITY INTEREST OF BANK ONE IN AND TO ANY MORTGAGE-BACKED SECURITY WHICH CONSTITUTES PROCEEDS OF ONE OR MORE PLEDGED MORTGAGE LOANS TO BE A PERFECTED, FIRST-PRIORITY, SECURITY INTEREST. WITHOUT LIMITING THE GENERALITY OF THE PRECEDING SENTENCE, UNLESS OTHERWISE

INSTRUCTED BY BANK ONE, BORROWER SHALL COMPLETE EACH GNMA FORM SCHEDULE OF SUBSCRIBERS SUCH THAT "MANUF/CUST/FAO/BANK ONE" APPEARS AS THE SUBSCRIBER/PTC PARTICIPANT; COMPLETE EACH FNMA FORM DELIVERY SCHEDULE SUCH THAT "BANK ONE, TEXAS/CUST" APPEARS AS THE DEPOSITORY INSTITUTION AND TELEGRAPHIC ABBREVIATION AND "111000614" APPEARS AS THE ABA NUMBER AND "NVR MORTGAGE FINANCE, INC. 310118" APPEARS AS THE OWNERS ACCOUNT NAME/ACCOUNT NUMBER; AND SHALL COMPLETE EACH FHLMC FORM WAREHOUSE LENDER RELEASE OF SECURITY INTERESTS AND FHLMC FORM GUARANTOR PROGRAM: SECURITY SETTLEMENT INFORMATION AND DELIVERY AUTHORIZATION SUCH THAT "BANK ONE, TEXAS/CUST/NVR MORTGAGE FINANCE, INC. 1310118" APPEARS AS THE DEPOSITORY INSTITUTION/TYPE OF ACCOUNT/BENEFICIARY/ACCOUNT NUMBER AND SUCH THAT "11100061411" APPEARS AS THE ABA NUMBER. UPON COMPLETION OF ITS REVIEW OF THE REQUIRED MORTGAGE DOCUMENTS AND THE AGENCY FORMS RELEVANT TO A PARTICULAR AGENCY COMMITMENT, BANK ONE SHALL DELIVER SUCH AGENCY FORMS TO THE APPLICABLE AGENCY AND SHALL DELIVER THE REQUIRED MORTGAGE DOCUMENTS TO OR FOR THE ACCOUNT OF SUCH AGENCY UNDER A BAILEE LETTER OR SUCH OTHER FORM OF TRANSMITTAL LETTER AS SUCH AGENCY MAY REQUIRE; PROVIDED, THAT THE RELEASE OF THE SECURITY INTEREST IN FAVOR OF BANK ONE IN SUCH REQUIRED MORTGAGE DOCUMENTS AND THE MORTGAGE LOANS EVIDENCED THEREBY SHALL BE CONDITIONED UPON RECEIPT BY BANK ONE OR ITS DESIGNEE OF MORTGAGE-BACKED SECURITIES IN THE AMOUNT SPECIFIED IN THE RELEVANT AGENCY COMMITMENT.

Pursuant to Take-Out Commitments. MORTGAGE-BACKED SECURITIES WHICH

CONSTITUTE PROCEEDS OF PLEDGED MORTGAGE LOANS SHALL BE SOLD PURSUANT TO THE TAKE-OUT COMMITMENTS TO WHICH SUCH MORTGAGE-BACKED SECURITIES HAVE BEEN ALLOCATED. BORROWER AGREES TO TAKE ALL STEPS NECESSARY TO SATISFY THE CONDITIONS TO THE SALE OF ANY MORTGAGE-BACKED SECURITY WHICH CONSTITUTES PROCEEDS OF PLEDGED MORTGAGE LOANS PURSUANT TO THE TAKE-OUT COMMITMENT TO WHICH IT HAS BEEN ALLOCATED. MORTGAGE-BACKED SECURITIES FROM TIME TO TIME INCLUDED IN THE COLLATERAL SHALL BE SOLD VERSUS PAYMENT (AND NOT "FREE"). IN CONNECTION WITH THE SALE OF ANY MORTGAGE-BACKED SECURITY INCLUDED IN THE COLLATERAL, BANK ONE SHALL NOT BE UNDER ANY DUTY AT ANY TIME TO CREDIT BORROWER FOR ANY AMOUNTS DUE FROM ANY PERSON IN RESPECT OF ANY PURCHASE UNTIL BANK ONE HAS ACTUALLY RECEIVED IMMEDIATELY AVAILABLE FUNDS. ANY FUNDS SO RECEIVED WILL BE TREATED AS PAYMENTS UNDER AND PROCESSED AND APPLIED IN ACCORDANCE WITH Section 2.6. BANK ONE SHALL NOT BE UNDER ANY DUTY AT ANY TIME TO COLLECT ANY AMOUNTS OR OTHERWISE ENFORCE ANY OBLIGATIONS DUE FROM ANY PERSON IN RESPECT OF ANY SUCH PURCHASE.

Mandatory Redemption. IN THE EVENT THAT THE ISSUANCE OF ANY MORTGAGE-

BACKED SECURITY PURSUANT TO AN AGENCY COMMITMENT HAS NOT OCCURRED WITHIN FIVE BUSINESS DAYS OF THE SCHEDULED DATE FOR SUCH ISSUANCE (AS SET FORTH ON THE RELEVANT BORROWING REQUEST), BORROWER AGREES TO MAKE A PREPAYMENT OF THE ADVANCES IN AN AGGREGATE AMOUNT EQUAL TO THE COLLATERAL VALUE (BUT FOR ANY EVENT OR CIRCUMSTANCE WHICH CAUSED SUCH FAILURE) OF THE MORTGAGE LOANS INTENDED TO BACK SUCH MORTGAGE-BACKED SECURITY. IN THE EVENT THE SALE OF A MORTGAGE-BACKED SECURITY PURSUANT TO A TAKE-OUT COMMITMENT HAS NOT SETTLED WITHIN FIVE BUSINESS DAYS OF THE SCHEDULED SETTLEMENT DATE FOR SUCH SALE (AS SET FORTH IN THE RELEVANT BORROWING REQUEST), BORROWER AGREES TO MAKE A PREPAYMENT OF THE ADVANCES IN AN AGGREGATE AMOUNT EQUAL TO THE COLLATERAL VALUE (BUT FOR ANY EVENT OR CIRCUMSTANCE WHICH CAUSED SUCH FAILURE) OF SUCH MORTGAGE-BACKED SECURITY.

Representations and Warranties Regarding Collateral. EACH BORROWING REQUEST

SHALL BE DEEMED TO CONSTITUTE A REPRESENTATION AND WARRANTY BY BORROWER ON THE REQUESTED BORROWING DATE SET FORTH THEREIN THAT THE AGENCY COMMITMENT AND THE TAKE-OUT COMMITMENT IDENTIFIED THEREON ARE BOTH IN FULL FORCE AND EFFECT AND THAT ALL REPRESENTATIONS AND WARRANTIES MADE OR DEEMED MADE BY BORROWER TO THE AGENCY OR INVESTOR THEREUNDER ARE TRUE AND CORRECT. UPON THE DELIVERY OF THE BORROWING REQUEST BY WHICH SUCH PLEDGED MORTGAGE LOAN IS IDENTIFIED, BORROWER REPRESENTS AND WARRANTS WITH RESPECT TO EACH PLEDGED MORTGAGE LOAN THAT:

BORROWER (AND, IF BORROWER DID NOT ORIGINATE SUCH PLEDGED MORTGAGE LOAN, THE ORIGINATOR OF SUCH PLEDGED MORTGAGE LOAN) COMPLIED, AND THE PRINCIPAL MORTGAGE DOCUMENTS AND OTHER MORTGAGE DOCUMENTS RELEVANT TO SUCH PLEDGED MORTGAGE LOAN COMPLY, IN ALL MATERIAL RESPECTS WITH ALL APPLICABLE REQUIREMENTS OF LAW, INCLUDING, WITHOUT LIMITATION, (I) ANY USURY LAWS, (II) THE REAL ESTATE SETTLEMENT PROCEDURES ACT OF 1974, AS AMENDED, (III) THE EQUAL CREDIT OPPORTUNITY ACT, AS AMENDED, (IV) THE FEDERAL TRUTH IN LENDING ACT, AS AMENDED, (V) REGULATION Z OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AS AMENDED, AND (VI) ANY CONSUMER PROTECTION LAWS;

THE FULL FACE AMOUNT OF SUCH PLEDGED MORTGAGE LOAN (LESS ANY DISCOUNT POINTS PAID BY OR ON BEHALF OF BORROWER UNDER SUCH PLEDGED MORTGAGE LOAN) WAS FUNDED TO BORROWER THEREUNDER;

SUCH PLEDGED MORTGAGE LOAN WAS UNDERWRITTEN IN COMPLIANCE WITH THE REQUIREMENTS OF THE AGENCY UNDER THE PLEDGED AGENCY COMMITMENT TO WHICH IT HAS BEEN ALLOCATED AND THE MORTGAGE-BACKED SECURITY TO BE ISSUED OR GUARANTEED PURSUANT TO SUCH AGENCY COMMITMENT SATISFIES (OR UPON ISSUANCE THEREOF WILL SATISFY) ALL REQUIREMENTS FOR PURCHASE UNDER THE PLEDGED TAKE-OUT COMMITMENT TO WHICH IT HAS BEEN ALLOCATED;

THE MORTGAGE RELATED TO SUCH PLEDGED MORTGAGE LOAN CREATES A PERFECTED FIRST-PRIORITY LIEN (SUBJECT ONLY TO EXCEPTIONS PERMITTED BY THE AGENCY OBLIGATED UNDER THE AGENCY COMMITMENT TO WHICH SUCH MORTGAGE LOAN HAS BEEN ALLOCATED) ON RESIDENTIAL REAL PROPERTY CONSISTING OF LAND AND A ONE-TO-FOUR FAMILY DWELLING THEREON WHICH IS COMPLETED AND READY FOR OCCUPANCY AND SUCH MORTGAGE, THE OTHER PRINCIPAL MORTGAGE DOCUMENTS, THE TITLE POLICY RELEVANT THERETO AND THE OTHER MORTGAGE DOCUMENTS RELEVANT THERETO COMPLY IN ALL RESPECTS WITH THE REQUIREMENTS OF THE AGENCY UNDER THE APPLICABLE AGENCY COMMITMENT;

SUCH PLEDGED MORTGAGE LOAN IS AN ELIGIBLE MORTGAGE LOAN; AND

BORROWER HAS ALL REQUISITE POWER AND AUTHORITY TO GRANT BANK ONE A SECURITY INTEREST TO SECURE THE OBLIGATIONS IN SUCH PLEDGED MORTGAGE LOAN.

Borrower Appointed Agent. BANK ONE HEREBY APPOINTS BORROWER (AND, IN THE

CASE OF ANY PLEDGED MORTGAGE LOAN ORIGINATED BY A PERSON OTHER THAN
BORROWER, ALSO APPOINTS SUCH OTHER PERSON) AS ITS AGENT AT THE SOLE COST
AND EXPENSE OF BORROWER FOR PURPOSES OF (A) OBTAINING APPRAISALS WITH
RESPECT TO THE PROPERTY COVERED BY THE MORTGAGES WHICH RELATE TO THE
PLEDGED MORTGAGE LOANS AND (B) OTHERWISE COMPLYING WITH APPRAISAL LAWS AND
REGULATIONS.

Settlement Account. BORROWER HEREBY EXPRESSLY ACKNOWLEDGES THAT THE

SETTLEMENT ACCOUNT IS SUBJECT IN ALL RESPECTS TO THE RIGHT OF OFFSET IN
FAVOR OF BANK ONE GRANTED UNDER Section 10.10. THE SETTLEMENT ACCOUNT SHALL
BE SUBJECT TO THE SOLE DOMINION AND CONTROL OF BANK ONE, PROVIDED, THAT SO
LONG AS NO DEFAULT OR EVENT OF DEFAULT EXISTS OR WOULD RESULT THEREFROM,
BANK ONE SHALL DISBURSE SUMS ON DEPOSIT IN THE SETTLEMENT ACCOUNT IN
ACCORDANCE WITH THE INSTRUCTIONS OF BORROWER.

CONDITIONS PRECEDENT. THE OBLIGATION OF BANK ONE TO CONSIDER BORROWING

REQUESTS HEREUNDER IS SUBJECT TO FULFILLMENT OF THE CONDITIONS PRECEDENT

STATED IN THIS SECTION.

Initial Borrowing Request. THE OBLIGATION OF BANK ONE TO CONSIDER THE

INITIAL BORROWING REQUEST HEREUNDER SHALL BE SUBJECT TO, IN ADDITION TO THE
CONDITIONS PRECEDENT SPECIFIED IN Section 4.2, DELIVERY TO BANK ONE OF THE
FOLLOWING (EACH OF THE FOLLOWING DOCUMENTS BEING DULY EXECUTED AND
DELIVERED BY BORROWER AND IN FORM AND SUBSTANCE SATISFACTORY TO BANK ONE
AND, WITH THE EXCEPTION OF THE NOTE, EACH IN A SUFFICIENT NUMBER OF
ORIGINALS THAT BORROWER AND BANK ONE MAY HAVE AN EXECUTED ORIGINAL OF EACH
DOCUMENT):

THIS AGREEMENT;

THE NOTE;

A CERTIFICATE OF THE SECRETARY OR ASSISTANT SECRETARY OF BORROWER,
DATED ON OR AFTER THE DATE OF THIS AGREEMENT AND CERTIFYING AS TO (I)
RESOLUTIONS OF THE BOARD OF DIRECTORS OF BORROWER WHICH AUTHORIZE THE
EXECUTION AND DELIVERY ON BEHALF OF BORROWER BY CERTAIN OFFICERS OF
BORROWER OF THIS AGREEMENT AND THE NOTE, (II) THE INCUMBENCY OF SUCH
OFFICERS, (III) THE VALIDITY OF SPECIMEN SIGNATURES OF SUCH OFFICERS, AND
(IV) THE ARTICLES OF INCORPORATION AND BYLAWS OF BORROWER AS IN EFFECT ON
THE DATE THEREOF; AND

SUCH OTHER DOCUMENTS AS BANK ONE MAY REASONABLY REQUEST AT ANY TIME AT
OR PRIOR TO THE REQUESTED BORROWING DATE OF THE INITIAL BORROWING REQUEST
HEREUNDER.

All Borrowing Requests. THE OBLIGATION OF BANK ONE TO CONSIDER ANY BORROWING

REQUEST PURSUANT TO THIS AGREEMENT IS SUBJECT TO THE FOLLOWING FURTHER
CONDITIONS PRECEDENT:

PRIOR TO 11:00 A.M. ON THE REQUESTED BORROWING DATE, BORROWER SHALL
DELIVER TO BANK ONE A DULY EXECUTED BORROWING REQUEST;

ALL PROPERTY IN WHICH BORROWER HAS GRANTED A LIEN TO BANK ONE TO SECURE THE OBLIGATIONS SHALL HAVE BEEN BASICALLY DELIVERED TO THE POSSESSION OF BANK ONE OR ANY BAILEE ACCEPTABLE TO BANK ONE TO THE EXTENT THAT SUCH POSSESSION IS NECESSARY OR APPROPRIATE FOR THE PURPOSE OF PERFECTING THE LIEN OF BANK ONE IN SUCH COLLATERAL;

THE REPRESENTATIONS AND WARRANTIES OF BORROWER CONTAINED IN THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE LOAN AGREEMENT (OTHER THAN THOSE REPRESENTATIONS AND WARRANTIES WHICH ARE BY THEIR TERMS LIMITED TO THE DATE OF THE AGREEMENT IN WHICH THEY ARE INITIALLY MADE) SHALL BE TRUE AND CORRECT IN ALL MATERIAL RESPECTS ON AND AS OF THE REQUESTED BORROWING DATE; AND

NO DEFAULT OR EVENT OF DEFAULT SHALL HAVE OCCURRED AND BE CONTINUING AND NO CHANGE OR EVENT WHICH CONSTITUTES A MATERIAL ADVERSE EFFECT SHALL HAVE OCCURRED AS OF THE REQUESTED BORROWING DATE SET FORTH THEREIN.

Each Borrowing Request shall be deemed to constitute a representation and warranty by Borrower on the Requested Borrowing Date set forth therein as to the facts specified in SECTIONS 4.2(C) and (D).

BORROWER REPRESENTATIONS AND WARRANTIES. BORROWER REPRESENTS AND

WARRANTS TO BANK ONE AS FOLLOWS:

Authorization and Power. BORROWER HAS THE CORPORATE POWER AND REQUISITE

AUTHORITY TO EXECUTE, DELIVER AND PERFORM THIS AGREEMENT, THE NOTE AND THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY; BORROWER IS DULY AUTHORIZED TO AND HAS TAKEN ALL CORPORATE ACTION NECESSARY TO AUTHORIZE IT TO, EXECUTE, DELIVER AND PERFORM THIS AGREEMENT, THE NOTE AND THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY AND IS AND WILL CONTINUE TO BE DULY AUTHORIZED TO PERFORM THIS AGREEMENT, THE NOTE AND SUCH OTHER LOAN DOCUMENTS.

No Conflicts or Consents. NEITHER THE EXECUTION AND DELIVERY BY BORROWER OF

THIS AGREEMENT, THE NOTE OR THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY, NOR THE CONSUMPTION OF ANY OF THE TRANSACTIONS HEREIN OR THEREIN CONTEMPLATED, NOR COMPLIANCE WITH THE TERMS AND PROVISIONS HEREOF OR WITH THE TERMS AND PROVISIONS THEREOF, WILL (A) MATERIALLY CONTRAVENE OR CONFLICT WITH ANY REQUIREMENT OF LAW TO WHICH BORROWER IS SUBJECT, OR ANY INDENTURE, MORTGAGE, DEED OF TRUST, OR OTHER AGREEMENT OR INSTRUMENT TO WHICH BORROWER IS A PARTY OR BY WHICH BORROWER MAY BE BOUND, OR TO WHICH THE PROPERTY OF BORROWER MAY BE SUBJECT, OR (B) RESULT IN THE CREATION OR IMPOSITION OF ANY LIEN, OTHER THAN THE LIENS GRANTED TO BANK ONE PURSUANT TO THIS AGREEMENT, ON THE PROPERTY OF BORROWER.

Enforceable Obligations. THIS AGREEMENT, THE NOTE AND THE OTHER LOAN DOCUMENTS

TO WHICH BORROWER IS A PARTY ARE THE LEGAL, VALID AND BINDING OBLIGATIONS OF BORROWER, ENFORCEABLE IN ACCORDANCE WITH THEIR RESPECTIVE TERMS, EXCEPT AS LIMITED BY DEBTOR LAWS.

Priority of Liens. UPON DELIVERY OF THE BORROWING REQUEST ON WHICH EACH SUCH

ITEM IS IDENTIFIED, BANK ONE SHALL HAVE A VALID, ENFORCEABLE, PERFECTED, FIRST-
PRIORITY LIEN AND SECURITY INTEREST IN (I) EACH PLEDGED MORTGAGE LOAN, (II) EACH
PLEDGED AGENCY COMMITMENT, AND (III) EACH PLEDGED TAKE-OUT COMMITMENT.

No Liens. BORROWER HAS GOOD AND INDEFEASIBLE TITLE TO THE COLLATERAL. ALL OF

THE COLLATERAL IS FREE AND CLEAR OF ALL LIENS AND OTHER ADVERSE CLAIMS OF ANY
NATURE, OTHER THAN PERMITTED LIENS.

Full Disclosure. THERE IS NO MATERIAL FACT THAT BORROWER HAS NOT DISCLOSED TO

BANK ONE WHICH COULD HAVE A MATERIAL ADVERSE EFFECT. NEITHER THE FINANCIAL
STATEMENTS REFERRED TO IN Section 5.7 OF THE LOAN AGREEMENT, NOR ANY BORROWING
REQUEST, OFFICER'S CERTIFICATE OR STATEMENT DELIVERED BY BORROWER TO BANK ONE
(INCLUDING, WITHOUT LIMITATION, ANY SUCH ITEM DELIVERED TO BANK ONE IN ITS
CAPACITY AS THE AGENT OR A LENDER UNDER THE LOAN AGREEMENT), CONTAINS ANY UNTRUE
STATEMENT OF MATERIAL FACT.

Securities Acts and Securities Credit Transaction Regulations. BORROWER HAS NOT

ISSUED ANY UNREGISTERED SECURITIES IN VIOLATION OF THE REGISTRATION REQUIREMENTS
OF THE SECURITIES ACT OF 1933, AS AMENDED, OR OF ANY OTHER REQUIREMENT OF LAW,
AND IS NOT VIOLATING ANY RULE, REGULATION, OR REQUIREMENT UNDER THE SECURITIES
ACT OF 1933, AS AMENDED, OR THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED.
BORROWER IS NOT REQUIRED TO QUALIFY AN INDENTURE UNDER THE TRUST INDENTURE ACT
OF 1939, AS AMENDED, IN CONNECTION WITH ITS EXECUTION AND DELIVERY OF THE NOTE.
BORROWER IS NOT A PARTY, WHETHER AS A CUSTOMER OR A CREDITOR, TO ANY TRANSACTION
THAT IS SUBJECT TO THE SECURITIES CREDIT TRANSACTION REGULATIONS.

No Approvals Required. OTHER THAN CONSENTS AND APPROVALS PREVIOUSLY OBTAINED

AND ACTIONS PREVIOUSLY TAKEN, NEITHER THE EXECUTION AND DELIVERY OF THIS
AGREEMENT, THE NOTE AND THE OTHER LOAN DOCUMENTS TO WHICH BORROWER IS A PARTY,
NOR THE CONSUMMATION OF ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY
REQUIRES THE CONSENT OR APPROVAL OF, THE GIVING OF NOTICE TO, OR THE
REGISTRATION, RECORDING OR FILING BY BORROWER OF ANY DOCUMENT WITH, OR THE
TAKING OF ANY OTHER ACTION IN RESPECT OF, ANY GOVERNMENTAL AUTHORITY WHICH HAS
JURISDICTION OVER BORROWER OR ANY OF ITS PROPERTY.

Loan Agreement Representations and Warranties. EACH OF THE REPRESENTATIONS AND

WARRANTIES OF BORROWER SET FORTH IN ARTICLE V OF THE LOAN AGREEMENT IS TRUE AND
CORRECT IN ALL MATERIAL RESPECTS.

Survival of Representations and Warranties. ALL REPRESENTATIONS AND WARRANTIES

BY BORROWER HEREIN SHALL SURVIVE DELIVERY OF THE NOTE AND THE MAKING OF THE
ADVANCES, AND ANY INVESTIGATION AT ANY TIME MADE BY OR ON BEHALF OF BANK ONE
SHALL NOT DIMINISH THE RIGHT OF BANK ONE TO RELY THEREON.

AFFIRMATIVE COVENANTS. BORROWER SHALL AT ALL TIMES COMPLY WITH THE

COVENANTS CONTAINED IN THIS SECTION, FROM THE DATE HEREOF AND FOR SO LONG AS ANY

OBLIGATION IS OUTSTANDING.

Financial Statements and Reports. BORROWER SHALL FURNISH TO BANK ONE (A) A COPY

OF ALL INFORMATION FURNISHED BY BORROWER UNDER Section 6.1 OF THE LOAN AGREEMENT
AND (B) SUCH OTHER INFORMATION CONCERNING THE BUSINESS, PROPERTIES OR FINANCIAL
CONDITION OF BORROWER, ANY AFFILIATE OR ANY INVESTOR AS BANK ONE MAY REQUEST.
FOR SO LONG AS THE LOAN AGREEMENT HAS NOT TERMINATED, TIMELY DELIVERY BY
BORROWER TO BANK ONE IN ITS CAPACITY AS A LENDER OR THE AGENT UNDER THE LOAN
AGREEMENT OF ANY ITEM REQUIRED TO BE DELIVERED UNDER Section 6.1 OF THE LOAN
AGREEMENT SHALL CONSTITUTE COMPLIANCE WITH CLAUSE (A) OF THE PRECEDING SENTENCE.
THEREAFTER DELIVERY BY BORROWER TO BANK ONE OF THE REQUISITE INFORMATION SHALL
BE CONSIDERED TIMELY IF IT IS WITHIN THE PERIOD CONTEMPLATED BY THE LOAN
AGREEMENT.

Further Assurances. BORROWER SHALL, WITHIN THREE (3) BUSINESS DAYS AFTER THE

REQUEST OF BANK ONE, CURE ANY DEFECTS IN THE EXECUTION AND DELIVERY OF THE NOTE,
THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND BORROWER SHALL, AT ITS EXPENSE,
PROMPTLY EXECUTE AND DELIVER TO BANK ONE UPON REQUEST ALL SUCH OTHER AND FURTHER
DOCUMENTS, AGREEMENTS AND INSTRUMENTS IN COMPLIANCE WITH OR ACCOMPLISHMENT OF
THE COVENANTS AND AGREEMENTS OF BORROWER IN THIS AGREEMENT AND IN THE OTHER LOAN
DOCUMENTS OR TO FURTHER EVIDENCE AND MORE FULLY DESCRIBE THE COLLATERAL INTENDED
AS SECURITY FOR THE OBLIGATIONS, OR TO CORRECT ANY OMISSIONS IN THIS AGREEMENT
OR THE OTHER LOAN DOCUMENTS, OR MORE FULLY TO STATE THE SECURITY FOR THE
OBLIGATIONS SET OUT HEREIN OR IN ANY OF THE OTHER LOAN DOCUMENTS, OR TO PERFECT,
PROTECT OR PRESERVE ANY LIENS CREATED (OR INTENDED TO BE CREATED) PURSUANT TO
ANY OF THE OTHER LOAN DOCUMENTS, OR TO MAKE ANY RECORDINGS, TO FILE ANY NOTICES,
OR OBTAIN ANY CONSENTS.

Reimbursement of Expenses. BORROWER SHALL, WITHIN TEN (10) BUSINESS DAYS OF

NOTICE OF THE AMOUNT THEREOF (WHICH NOTICE SHALL INCLUDE APPROPRIATE EVIDENCE OF
THE AMOUNT OF SUCH REIMBURSABLE ITEM) PAY (I) ALL REASONABLE LEGAL FEES INCURRED
BY BANK ONE IN CONNECTION WITH ANY AMENDMENTS, CONSENTS OR WAIVERS EXECUTED IN
CONNECTION WITH THE LOAN DOCUMENTS, (II) ALL FEES, CHARGES OR TAXES FOR THE
RECORDING OR FILING OF THE SECURITY AGREEMENTS, (III) ALL SHIPPING, POSTAGE AND
TRANSFER COSTS INCURRED BY BANK ONE IN CONNECTION WITH THE ADMINISTRATION OF
THIS AGREEMENT, THE NOTE AND THE OTHER LOAN DOCUMENTS, INCLUDING COURIER
EXPENSES INCURRED IN CONNECTION WITH THE COLLATERAL, AND (IV) ALL AMOUNTS
EXPENDED, ADVANCED OR INCURRED BY BANK ONE TO SATISFY ANY OBLIGATION OF BORROWER
UNDER THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO COLLECT THE NOTE,
OR TO ENFORCE THE RIGHTS OF BANK ONE UNDER THIS AGREEMENT OR ANY OF THE OTHER
LOAN DOCUMENTS, WHICH AMOUNTS SHALL INCLUDE ALL COURT COSTS, ATTORNEYS' FEES
(INCLUDING, WITHOUT LIMITATION, FOR TRIAL, APPEAL OR OTHER PROCEEDINGS), FEES OF
AUDITORS AND ACCOUNTANTS, AND INVESTIGATION EXPENSES, REASONABLY INCURRED BY
BANK ONE IN CONNECTION WITH ANY SUCH MATTERS, TOGETHER WITH INTEREST AT THE
POSTMATURITY RATE SPECIFIED IN Section 2.8 ON EACH ITEM SPECIFIED IN CLAUSES (I)
THROUGH (IV) FROM THIRTY (30) DAYS AFTER THE DATE OF WRITTEN DEMAND OR REQUEST
FOR REIMBURSEMENT UNTIL THE DATE OF REIMBURSEMENT.

Appraisals. BORROWER SHALL OBTAIN AND MAINTAIN A COPY OF AN APPRAISAL WITH

RESPECT TO THE UNDERLYING PROPERTY COVERED BY THE MORTGAGE WHICH RELATES TO EACH PLEDGED MORTGAGE LOAN, SHALL REQUIRE THAT ALL APPRAISALS DELIVERED TO IT IN CONNECTION WITH THE PLEDGED MORTGAGE LOANS (WHETHER ORIGINATED BY BORROWER OR PURCHASED BY IT) COMPLY IN ALL RESPECTS WITH THE APPRAISAL LAWS AND REGULATIONS, SHALL IMPLEMENT AND MAINTAIN ADMINISTRATIVE AND OPERATING PROCEDURES WHICH PERMIT BORROWER AND BANK ONE TO VERIFY SUCH COMPLIANCE, AND SHALL PERMIT AND SHALL USE ALL REASONABLE EFFORTS TO CAUSE EACH PERSON FROM WHOM IT PURCHASES MORTGAGE LOANS TO PERMIT ANY OFFICER, EMPLOYEE OR AGENT OF BANK ONE TO VISIT AND INSPECT THE PROPERTIES OF BORROWER AND SUCH PERSON RELEVANT TO SUCH COMPLIANCE, TO INSPECT THE RECORDS OF BORROWER AND SUCH PERSON RELEVANT TO SUCH COMPLIANCE, TO TAKE COPIES AND EXTRACTS THEREFROM, AND TO DISCUSS THE APPRAISALS RELEVANT TO THE PLEDGED MORTGAGE LOANS WITH THE RESPONSIBLE OFFICERS, EMPLOYEES AND AGENTS (INCLUDING ANY THIRD PARTY APPRAISERS) OF BORROWER AND SUCH PERSON, ALL AT SUCH REASONABLE TIMES (WHICH MAY INCLUDE UNANNOUNCED "SPOT" CHECKS) AND AS OFTEN AS BANK ONE MAY DESIRE.

Right of Inspection. BORROWER SHALL PERMIT ANY OFFICER, EMPLOYEE OR AGENT OF

BANK ONE TO VISIT AND INSPECT ANY OF THE PROPERTIES OF BORROWER, EXAMINE BORROWER'S SERVICING RECORDS AND BOOKS OF RECORD AND ACCOUNTS, TAKE COPIES AND EXTRACTS THEREFROM, AND DISCUSS THE AFFAIRS, FINANCES AND ACCOUNTS OF BORROWER WITH BORROWER'S OFFICERS, ACCOUNTANTS AND AUDITORS, ALL AT SUCH REASONABLE TIMES UPON REASONABLE NOTICE AND AS OFTEN AS BANK ONE MAY DESIRE.

Notice of Certain Events. BORROWER SHALL PROMPTLY NOTIFY BANK ONE UPON (I) THE

OCCURRENCE OF ANY CIRCUMSTANCE SET FORTH IN Section 6.10 OF THE LOAN AGREEMENT; (II) THE COMMENCEMENT OF, OR ANY DETERMINATION IN, ANY LEGAL, JUDICIAL OR REGULATORY PROCEEDINGS WHICH, IF ADVERSELY DETERMINED, COULD HAVE A MATERIAL ADVERSE EFFECT; (III) THE OCCURRENCE OF ANY DISPUTE BETWEEN BORROWER AND ANY GOVERNMENTAL AUTHORITY OR ANY OTHER PERSON WHICH, IF ADVERSELY DETERMINED, COULD HAVE A MATERIAL ADVERSE EFFECT; OR (IV) THE OCCURRENCE OF ANY EVENT OR CONDITION WHICH, IF ADVERSELY DETERMINED, WOULD HAVE A MATERIAL ADVERSE EFFECT. FOR SO LONG AS THE LOAN AGREEMENT HAS NOT TERMINATED, TIMELY DELIVERY BY BORROWER TO BANK ONE UNDER THE LOAN AGREEMENT OF NOTICE OF ANY OCCURRENCE OF ANY CIRCUMSTANCE SET FORTH IN Section 6.10 OF THE LOAN AGREEMENT SHALL CONSTITUTE COMPLIANCE WITH CLAUSE (I) OF THE PRECEDING SENTENCE. THEREAFTER DELIVERY BY BORROWER TO BANK ONE OF THE REQUISITE INFORMATION SHALL BE CONSIDERED TIMELY IF IT IS WITHIN THE PERIOD CONTEMPLATED BY THE LOAN AGREEMENT.

Performance of Certain Obligations. BORROWER SHALL PERFORM AND OBSERVE IN ALL

MATERIAL RESPECTS EACH OF THE PROVISIONS OF EACH PLEDGED AGENCY COMMITMENT AND EACH PLEDGED TAKE-OUT COMMITMENT ON ITS PART TO BE PERFORMED OR OBSERVED AND WILL CAUSE ALL THINGS TO BE DONE WHICH ARE NECESSARY TO HAVE EACH ITEM OF COLLATERAL ALLOCATED TO A PLEDGED AGENCY COMMITMENT OR A PLEDGED TAKE-OUT COMMITMENT COMPLY WITH THE REQUIREMENTS THEREOF.

Use of Proceeds; Margin Stock. THE PROCEEDS OF THE ADVANCES SHALL BE USED BY

BORROWER SOLELY FOR THE PURPOSE OF PAYING INDEBTEDNESS OUTSTANDING UNDER THE LOAN AGREEMENT AND FOR GENERAL CORPORATE PURPOSES OF BORROWER. NONE OF SUCH PROCEEDS SHALL BE USED FOR THE PURPOSE OF PURCHASING

OR CARRYING ANY "MARGIN STOCK" AS DEFINED IN REGULATION U OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, OR FOR THE PURPOSE OF REDUCING OR RETIRING ANY INDEBTEDNESS WHICH WAS ORIGINALLY INCURRED TO PURCHASE OR CARRY MARGIN STOCK OR FOR ANY OTHER PURPOSE WHICH MIGHT CONSTITUTE THIS TRANSACTION A "PURPOSE CREDIT" WITHIN THE MEANING OF SUCH REGULATION U. NEITHER BORROWER NOR ANY PERSON ACTING ON BEHALF OF BORROWER SHALL (I) TAKE ANY ACTION IN VIOLATION OF REGULATION U OR REGULATION X OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, (II) VIOLATE SECTION 7 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, OR ANY RULE OR REGULATION THEREUNDER, OR (III) ENGAGE IN ANY TRANSACTION WHICH IS SUBJECT TO THE SECURITIES CREDIT TRANSACTION REGULATIONS.

Notice of Default. BORROWER SHALL FURNISH TO BANK ONE IMMEDIATELY UPON BECOMING

AWARE OF THE EXISTENCE OF ANY DEFAULT OR EVENT OF DEFAULT, A WRITTEN NOTICE SPECIFYING THE NATURE AND PERIOD OF EXISTENCE THEREOF AND THE ACTION WHICH BORROWER IS TAKING OR PROPOSES TO TAKE WITH RESPECT THERETO.

Compliance with Loan Documents. BORROWER SHALL PROMPTLY COMPLY WITH ANY AND ALL

COVENANTS AND PROVISIONS OF THIS AGREEMENT, THE NOTE AND THE OTHER LOAN DOCUMENTS.

Compliance with Loan Agreement. WHETHER OR NOT THE LOAN AGREEMENT HAS

TERMINATED, BORROWER SHALL COMPLY IN ALL MATERIAL RESPECTS WITH EACH OF THE COVENANTS SET FORTH IN Sections 6 AND 7 OF THE LOAN AGREEMENT.

NEGATIVE COVENANTS. BORROWER SHALL AT ALL TIMES COMPLY WITH THE

COVENANTS CONTAINED IN THIS SECTION, FROM THE DATE HEREOF AND FOR SO LONG AS ANY OBLIGATION IS OUTSTANDING.

Use of Proceeds. BORROWER SHALL NOT PERMIT THE PROCEEDS OF THE ADVANCES TO BE

USED FOR ANY PURPOSE OTHER THAN THOSE PERMITTED BY Section 6.8. BORROWER SHALL NOT, DIRECTLY OR INDIRECTLY, USE ANY OF THE PROCEEDS OF THE ADVANCES FOR THE PURPOSE OF ENGAGING IN ANY TRANSACTION WHICH IS SUBJECT TO THE SECURITIES CREDIT TRANSACTION REGULATIONS.

Actions with Respect to Collateral. BORROWER SHALL NOT:

COMPROMISE, EXTEND, RELEASE, OR ADJUST PAYMENTS ON ANY MORTGAGE LOAN INCLUDED IN THE COLLATERAL, ACCEPT A CONVEYANCE OF MORTGAGED PROPERTY IN FULL OR PARTIAL SATISFACTION OF ANY SUCH MORTGAGE LOAN, OR RELEASE ANY MORTGAGE SECURING ANY SUCH MORTGAGE LOAN;

AGREE TO THE AMENDMENT OR TERMINATION OF ANY PLEDGED TAKE-OUT COMMITMENT OR TO THE SUBSTITUTION OF ANY TAKE-OUT COMMITMENT FOR A PLEDGED TAKE-OUT COMMITMENT WITHOUT THE CONSENT OF BANK ONE;

TRANSFER, SELL, ASSIGN, OR DELIVER ANY COLLATERAL PLEDGED TO BANK ONE TO ANY PERSON OTHER THAN BANK ONE, EXCEPT IN ACCORDANCE WITH Sections 6 OR 7.

GRANT, CREATE, INCUR, ASSUME, PERMIT OR SUFFER TO EXIST ANY LIEN UPON ANY COLLATERAL EXCEPT FOR (I) PERMITTED LIENS AND (II) SUCH NON-CONSENSUAL LIENS AS MAY BE DEEMED TO ARISE AS A MATTER OF LAW PURSUANT TO ANY PLEDGED AGENCY COMMITMENT OR ANY PLEDGED TAKE-OUT COMMITMENT.

Loan Agreement Covenants. WHETHER OR NOT THE LOAN AGREEMENT HAS TERMINATED,

BORROWER SHALL NOT FAIL TIMELY TO OBSERVE OR PERFORM ANY COVENANT OF BORROWER UNDER Sections 6 AND 7 OF THE LOAN AGREEMENT.

EVENTS OF DEFAULT.

Nature of Event. AN EVENT OF DEFAULT SHALL EXIST IF ANY ONE OR MORE OF THE

FOLLOWING OCCURS:

BORROWER FAILS TO MAKE ANY PAYMENT OF PRINCIPAL OF OR INTEREST ON THE NOTE, OR PAYMENT OF ANY FEE, EXPENSE OR OTHER AMOUNT DUE HEREUNDER, UNDER THE NOTE OR UNDER ANY OTHER LOAN DOCUMENT, ON OR BEFORE THE DATE SUCH PAYMENT IS DUE;

BORROWER FAILS TO OBSERVE OR PERFORM (I) ANY TERM, COVENANT OR AGREEMENT SET FORTH IN Sections 2.4. 3.4, 6.9. 7.1 OR 7.2 OR (II) ANY OTHER TERM, COVENANT OR AGREEMENT IN THIS AGREEMENT ON ITS PART TO BE PERFORMED OR OBSERVED IF THE FAILURE TO PERFORM OR OBSERVE SUCH OTHER TERM, COVENANT OR AGREEMENT SHALL REMAIN UNREMEDIED FOR TWENTY (20) DAYS AFTER WRITTEN NOTICE THEREOF SHALL HAVE BEEN GIVEN TO BORROWER BY BANK ONE;

BORROWER FAILS TO OBSERVE OR PERFORM ANY OF THE COVENANTS OR AGREEMENTS CONTAINED IN ANY OTHER LOAN DOCUMENT, AND (UNLESS SUCH DEFAULT OTHERWISE CONSTITUTES A DEFAULT PURSUANT TO OTHER PROVISIONS OF THIS SECTION) SUCH DEFAULT CONTINUES UNREMEDIED BEYOND THE EXPIRATION OF ANY APPLICABLE GRACE PERIOD WHICH MAY BE EXPRESSLY ALLOWED UNDER SUCH OTHER LOAN DOCUMENT;

ANY MATERIAL STATEMENT, WARRANTY OR REPRESENTATION BY OR ON BEHALF OF BORROWER CONTAINED IN THIS AGREEMENT, THE NOTE OR ANY OTHER LOAN DOCUMENT OR ANY BORROWING REQUEST, OFFICER'S CERTIFICATE OR OTHER WRITING FURNISHED IN CONNECTION WITH THIS AGREEMENT, PROVES TO HAVE BEEN INCORRECT OR MISLEADING IN ANY MATERIAL RESPECT AS OF THE DATE MADE OR DEEMED MADE; OR

(WHETHER OR NOT THE LOAN AGREEMENT HAS TERMINATED) ANY LOAN AGREEMENT EVENT OF DEFAULT OCCURS.

Default Remedies. UPON THE OCCURRENCE OF AN EVENT OF DEFAULT AND PROVIDED THAT

SUCH EVENT OF DEFAULT HAS NOT PREVIOUSLY BEEN CURED BY BORROWER, BANK ONE MAY DECLARE THE ENTIRE PRINCIPAL OF AND ALL INTEREST ACCRUED ON THE NOTE TO BE, AND THE NOTE, TOGETHER WITH ALL OTHER OBLIGATIONS, SHALL THEREUPON BECOME, FORTHWITH DUE AND PAYABLE, WITHOUT ANY PRESENTIMENT, DEMAND, PROTEST, NOTICE OF PROTEST AND NONPAYMENT, NOTICE OF ACCELERATION OR OF INTENT TO ACCELERATE OR OTHER NOTICE OF ANY KIND, ALL OF WHICH HEREBY ARE EXPRESSLY WAIVED. NOTWITHSTANDING THE FOREGOING AND WHETHER OR NOT THE LOAN AGREEMENT HAS TERMINATED, IF A LOAN AGREEMENT EVENT OF DEFAULT SPECIFIED IN Section 8.1(f), (i), (h) OR (p) OF THE LOAN AGREEMENT OCCURS, THE NOTE AND ALL OTHER OBLIGATIONS SHALL BECOME AUTOMATICALLY AND IMMEDIATELY DUE AND PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST, WITHOUT ANY ACTION BY BANK ONE AND WITHOUT PRESENTIMENT, DEMAND, PROTEST, NOTICE OF PROTEST AND NONPAYMENT, NOTICE OF ACCELERATION OR OF INTENT TO ACCELERATE, OR ANY OTHER NOTICE OF ANY KIND, ALL OF WHICH ARE HEREBY EXPRESSLY WAIVED, ANYTHING CONTAINED HEREIN OR IN THE NOTE TO THE CONTRARY NOTWITHSTANDING.

CONCERNING BANK ONE.

Indemnification.

Borrower will indemnify and hold harmless Bank One, Bank One's directors, officers, employees and each Person, if any, who is deemed to control Bank One (any and all of whom are referred to as the "Indemnified Party") from and against any and all losses, claims, damages and liabilities, joint or several (including all losses, claims, damages and liabilities resulting from the negligence, but not the gross negligence of such Indemnified Party, and including all legal fees or other expenses reasonably incurred by any Indemnified Party, and including all legal fees or other expenses reasonably incurred by any Indemnified Party in connection with the preparation for or defense of any pending or threatened claim, action or proceeding, whether or not resulting in any liability), to which such Indemnified Party may become subject (whether or not such Indemnified Party is a party thereto) under any applicable Federal, state or local law or otherwise caused by or arising out of, or allegedly caused by or arising out of, this agreement or any transaction contemplated hereby, including, without limitation, any liability or penalty arising out of any fact or circumstance which causes the representations and warranties set forth in Section 3.5 to be false or incorrect, excepting only losses, claims, damages or liabilities resulting from the gross negligence or willful misconduct or fraud of such Indemnified Party.

PROMPTLY AFTER RECEIPT BY AN INDEMNIFIED PARTY OF NOTICE OF ANY CLAIM, ACTION OR PROCEEDING WITH RESPECT TO WHICH AN INDEMNIFIED PARTY IS ENTITLED TO INDEMNITY HEREUNDER, SUCH INDEMNIFIED PARTY WILL NOTIFY BORROWER OF SUCH CLAIM OR THE COMMENCEMENT OF SUCH ACTION OR PROCEEDING, PROVIDED THAT THE FAILURE OF AN INDEMNIFIED PARTY TO GIVE NOTICE AS PROVIDED HEREIN SHALL NOT RELIEVE BORROWER OF ITS OBLIGATIONS UNDER THIS SECTION WITH RESPECT TO SUCH INDEMNIFIED PARTY, EXCEPT TO THE EXTENT THAT BORROWER IS ACTUALLY PREJUDICED BY SUCH FAILURE. BORROWER WILL

ASSUME THE DEFENSE OF SUCH CLAIM, ACTION OR PROCEEDING AND WILL EMPLOY COUNSEL REASONABLY SATISFACTORY TO THE INDEMNIFIED PARTY AND WILL PAY THE REASONABLE FEES AND EXPENSES OF SUCH COUNSEL. NOTWITHSTANDING THE PRECEDING SENTENCE, THE INDEMNIFIED PARTY WILL BE ENTITLED, AT THE EXPENSE OF BORROWER, TO EMPLOY COUNSEL SEPARATE FROM COUNSEL FOR BORROWER AND FOR ANY OTHER PARTY IN SUCH ACTION IF THE INDEMNIFIED PARTY REASONABLY DETERMINES THAT A CONFLICT OF INTEREST OR OTHER REASONABLE BASIS EXISTS WHICH MAKES REPRESENTATION BY COUNSEL CHOSEN BY BORROWER NOT ADVISABLE, PROVIDED THAT BORROWER SHALL NOT BE OBLIGATED TO PAY FOR THE FEES AND EXPENSES OF MORE THAN ONE COUNSEL FOR ALL INDEMNIFIED PARTIES IN RESPECT OF A PARTICULAR CONTROVERSY. IN THE EVENT AN INDEMNIFIED PARTY APPEARS AS A WITNESS IN ANY ACTION OR PROCEEDING BROUGHT AGAINST BORROWER OR ANY OF ITS SUBSIDIARIES (OR ANY OF ITS OFFICERS, DIRECTORS OR EMPLOYEES) IN WHICH AN INDEMNIFIED PARTY IS NOT NAMED AS A DEFENDANT, BORROWER AGREES TO REIMBURSE SUCH INDEMNIFIED PARTY FOR ALL REASONABLE EXPENSES INCURRED BY IT (INCLUDING REASONABLE FEES AND EXPENSES OF COUNSEL) IN CONNECTION WITH ITS APPEARING AS A WITNESS.

Limitation of Liability. Neither Bank One nor the directors, officers, agents

or employees of Bank One shall be liable for any action taken or omitted to be taken by it or them under or in connection with this agreement, except for such actions taken or omitted to be taken as co gross negligence or wilful misconduct on the part of Bank One or its directors, officers, agents or employees. Without limiting the generality of the foregoing, Borrower hereby waives any right that it may have to claim or recover from bank one or its directors, officers, agents or employees any consequential, exemplary or punitive damages; provided, that the borrower is not hereby waiving any right that it may have to claim or recover any actual or direct damages from such parties.

MISCELLANEOUS

Notices. ANY NOTICE OR REQUEST REQUIRED OR PERMITTED TO BE GIVEN UNDER OR IN

CONNECTION WITH THIS AGREEMENT, THE NOTE OR THE OTHER LOAN DOCUMENTS (EXCEPT AS MAY OTHERWISE BE EXPRESSLY REQUIRED THEREIN) SHALL BE IN WRITING AND SHALL BE MAILED BY FIRST CLASS OR EXPRESS MAIL OR OVERNIGHT MESSENGER, POSTAGE PREPAID, OR SENT BY TELEX, TELEGRAM, TELECOPY OR OTHER SIMILAR FORM OF RAPID TRANSMISSION, CONFIRMED BY MAILING (BY FIRST CLASS OR EXPRESS MAIL, POSTAGE PREPAID) WRITTEN CONFIRMATION AT SUBSTANTIALLY THE SAME TIME AS SUCH RAPID TRANSMISSION, OR PERSONALLY DELIVERED TO AN OFFICER OF THE RECEIVING PARTY. ALL SUCH COMMUNICATIONS SHALL BE MAILED, SENT OR DELIVERED TO THE PARTIES HERETO AT THEIR RESPECTIVE ADDRESSES AS FOLLOWS:

Borrower: NVR Mortgage Finance, Inc.
7601 Lewinsville Road; Suite 302
McLean, Virginia 22102
Attention: Mr. William J. Inman
Telecopy: (703) 7612030

Bank One: Bank One, Texas, National Association
1717 Main Street, 4th Floor
Dallas, Texas 75201
Attention: Mr. Paul J. Lazusky
Telecopy: (214) 290-2054

or at such other addresses or to such individuals or department's attention as any party may have furnished the other parties in writing. Any communication so addressed and mailed shall be deemed to be given when so mailed, sent or delivered, except that communications given pursuant to SECTIONS 2.4 and 6.9, Borrowing Requests and communications related thereto shall not be effective until actually received by Bank One or Borrower, as the case may be, any communication mailed by first class mail shall be deemed to have been given on the third day following the day it is mailed, any communication sent by rapid transmission shall be deemed to be given when receipt of such transmission is confirmed, and any communication delivered in person shall be deemed to be given when received for by, or actually received by, an officer of Borrower or Bank One, as the case may be.

Amendments, Etc. NO AMENDMENT OR WAIVER OF ANY PROVISION OF THIS AGREEMENT, THE

NOTE, OR ANY OTHER LOAN DOCUMENT, NOR CONSENT TO ANY DEPARTURE BY BORROWER OR BY BANK ONE THEREFROM, SHALL IN ANY EVENT BE EFFECTIVE UNLESS THE SAME SHALL BE IN WRITING AND SIGNED BY THE PARTY AGAINST WHOM ENFORCEMENT OF SUCH AMENDMENT, WAIVER OR CONSENT IS SOUGHT, AND ANY WAIVER OR CONSENT GIVEN SHALL BE EFFECTIVE ONLY IN THE SPECIFIC INSTANCE AND FOR THE SPECIFIC PURPOSE FOR WHICH IT IS GIVEN.

Invalidity. IN THE EVENT THAT ANY ONE OR MORE OF THE PROVISIONS CONTAINED IN

THE NOTE, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL, FOR ANY REASON, BE HELD INVALID, ILLEGAL OR UNENFORCEABLE IN ANY RESPECT, SUCH INVALIDITY, ILLEGALITY OR UNENFORCEABILITY SHALL NOT AFFECT ANY OTHER PROVISION OF SUCH DOCUMENT.

Survival of Agreements. ALL COVENANTS AND AGREEMENTS HEREIN AND IN ANY OTHER

LOAN DOCUMENT NOT FULLY PERFORMED BEFORE THE DATE HEREOF OR THE DATE THEREOF, AND ALL REPRESENTATIONS AND WARRANTIES HEREIN OR THEREIN, SHALL SURVIVE UNTIL PAYMENT IN FULL OF THE OBLIGATIONS.

Renewal, Extension, or Rearrangement. ALL PROVISIONS OF THIS AGREEMENT AND OF

THE OTHER LOAN DOCUMENTS SHALL APPLY WITH EQUAL FORCE AND EFFECT TO EACH AND ALL PROMISSORY NOTES HEREAFTER EXECUTED WHICH IN WHOLE OR IN PART REPRESENT A RENEWAL, EXTENSION FOR ANY PERIOD, INCREASE OR REARRANGEMENT OF ANY PART OF THE OBLIGATIONS ORIGINALLY REPRESENTED BY THE NOTE OR OF ANY PART OF SUCH OTHER OBLIGATIONS.

Waivers. NO COURSE OF DEALING ON THE PART OF BANK ONE, OR ANY OF ITS OFFICERS,

EMPLOYEES, CONSULTANTS OR AGENTS, NOR ANY FAILURE OR DELAY BY BANK ONE WITH RESPECT TO EXERCISING ANY RIGHT, POWER OR

PRIVILEGE OF BANK ONE UNDER THE NOTE, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL OPERATE AS A WAIVER THEREOF, EXCEPT AS OTHERWISE PROVIDED IN Section 10.2.

Cumulative Rights. THE RIGHTS AND REMEDIES OF BANK ONE UNDER THE NOTE, THIS
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AGREEMENT, AND ANY OTHER LOAN DOCUMENT SHALL BE CUMULATIVE, AND THE EXERCISE OR PARTIAL EXERCISE OF ANY SUCH RIGHT OR REMEDY SHALL NOT PRECLUDE THE EXERCISE OF ANY OTHER RIGHT OR REMEDY.

Construction. This agreement, the note and each other loan document is a
- - - - -
contract made under and shall be construed in accordance with and governed by the laws of the united states of America and the state of Texas, as such laws are now in effect, except as otherwise specified herein or therein, and, with respect to usury laws, of any, applicable to bank one and to the extent allowed thereby as such laws may be in effect which allow a higher maximum nonusurious interest rate than such laws now allow. Tex. Rev. Civ. Stat. Ann. Art. 5069, ch 15 (which regulates certain revolving loan accounts and revolving triparty accounts) shall not apply to this agreement or the note.

Interest. ANY PROVISIONS HEREIN, IN THE NOTE, OR IN ANY OTHER LOAN DOCUMENT, OR
- - - - -
ANY OTHER DOCUMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR IN ANY OTHER AGREEMENT OR COMMITMENT, WHETHER WRITTEN OR ORAL, EXPRESSED OR IMPLIED, TO THE CONTRARY NOTWITHSTANDING, BANK ONE SHALL NOT IN ANY EVENT BE ENTITLED TO RECEIVE OR COLLECT, NOR SHALL OR MAY AMOUNTS RECEIVED HEREUNDER BE CREDITED, SO THAT BANK ONE SHALL BE PAID, AS INTEREST, A SUM GREATER THAN THE MAXIMUM AMOUNT PERMITTED BY APPLICABLE LAW TO BE CHARGED TO THE PERSON PRIMARILY OBLIGATED TO PAY THE NOTE AT THE TIME IN QUESTION. IF ANY CONSTRUCTION OF THIS AGREEMENT, THE NOTE OR ANY OTHER LOAN DOCUMENT, OR ANY AND ALL OTHER PAPERS, AGREEMENTS OR COMMITMENTS INDICATE A DIFFERENT RIGHT GIVEN TO BANK ONE TO ASK FOR, DEMAND OR RECEIVE ANY LARGER SUM AS INTEREST, SUCH IS A MISTAKE IN CALCULATION OR WORDING WHICH THIS CLAUSE SHALL OVERRIDE AND CONTROL, IT BEING THE INTENTION OF THE PARTIES THAT THIS AGREEMENT, THE NOTE, AND ALL OTHER LOAN DOCUMENTS OR OTHER DOCUMENTS EXECUTED OR DELIVERED IN CONNECTION HERewith SHALL IN ALL THINGS COMPLY WITH APPLICABLE LAW AND PROPER ADJUSTMENTS SHALL AUTOMATICALLY BE MADE ACCORDINGLY. IN THE EVENT THAT BANK ONE SHALL EVER RECEIVE, COLLECT OR APPLY AS INTEREST, ANY SUM IN EXCESS OF THE MAXIMUM NONUSURIOUS RATE PERMITTED BY APPLICABLE LAW (THE "Maximum Rate"), IF ANY, SUCH EXCESS AMOUNT SHALL BE APPLIED TO THE REDUCTION OF THE UNPAID PRINCIPAL BALANCE OF THE NOTE, AND IF THE SAME BE PAID IN FULL, ANY REMAINING EXCESS SHALL BE PAID TO BORROWER. IN DETERMINING WHETHER OR NOT THE INTEREST PAID OR PAYABLE, UNDER ANY SPECIFIC CONTINGENCY, EXCEEDS THE MAXIMUM RATE, IF ANY, BORROWER AND BANK ONE SHALL, TO THE MAXIMUM EXTENT PERMITTED UNDER APPLICABLE LAW: (A) CHARACTERIZE ANY NONPRINCIPAL PAYMENT AS AN EXPENSE OR FEE RATHER THAN AS INTEREST, (B) EXCLUDE VOLUNTARY PREPAYMENTS AND THE EFFECTS THEREOF, AND (C) "SPREAD" THE TOTAL AMOUNT OF INTEREST THROUGHOUT THE ENTIRE TERM OF THE NOTE; PROVIDED THAT IF THE NOTE IS PAID AND PERFORMED IN FULL PRIOR TO THE END OF THE FULL CONTEMPLATED TERM HEREOF, AND IF THE INTEREST RECEIVED FOR THE ACTUAL PERIOD OF EXISTENCE THEREOF EXCEEDS THE MAXIMUM RATE, IF ANY, THE PERSON HOLDING THE NOTE SHALL REFUND TO BORROWER THE AMOUNT OF SUCH EXCESS.

To the extent that Tex. Rev. Civ. Stat. Ann. art 50691.04, as amended (the "ACT"), is relevant to the holder of the Note for purposes of determining the Maximum Rate, each such holder elects to determine such applicable legal rate under the Act pursuant to the "indicated rate ceiling", from time to time in effect, as referred to and defined in article 1.04(a)(1) of the Act; subject, however, to the limitations on such applicable ceiling referred to and defined in article 1.04(b)(2) of the Act, and further subject to any right such holder may have subsequently, under applicable law, to change the method of determining the Maximum Rate.

Right of Offset. BORROWER HEREBY GRANTS TO BANK ONE AND TO ANY ASSIGNEE OR

PARTICIPANT OF BANK ONE A RIGHT OF OFFSET, TO SECURE THE REPAYMENT OF THE OBLIGATIONS, UPON ANY AND ALL MONIES, SECURITIES OR OTHER PROPERTY OF BORROWER, AND THE PROCEEDS THEREFROM NOW OR HEREAFTER HELD OR RECEIVED BY OR IN TRANSIT TO SUCH PERSON, FROM OR FOR THE ACCOUNT OF BORROWER, WHETHER FOR SAFEKEEPING, CUSTODY, PLEDGE, TRANSMISSION, COLLECTION OR OTHERWISE, AND ALSO UPON ANY AND ALL DEPOSITS (GENERAL OR SPECIAL, TIME OR DEMAND, PROVISIONAL OR FINAL) AND CREDITS OF BORROWER, AND ANY AND ALL CLAIMS OF BORROWER AGAINST SUCH PERSON AT ANY TIME EXISTING. UPON THE OCCURRENCE OF ANY EVENT OF DEFAULT, SUCH PERSON IS HEREBY AUTHORIZED AT ANY TIME AND FROM TIME TO TIME, WITHOUT NOTICE TO BORROWER, TO OFFSET, APPROPRIATE, AND APPLY ANY AND ALL ITEMS HEREINABOVE REFERRED TO AGAINST THE OBLIGATIONS. NOTWITHSTANDING ANYTHING IN THIS SECTION OR ELSEWHERE IN THIS AGREEMENT TO THE CONTRARY, NEITHER BANK ONE NOR ANY ASSIGNEE OR PARTICIPANT OF BANK ONE SHALL HAVE ANY RIGHT TO OFFSET, APPROPRIATE OR APPLY ANY ACCOUNTS OF BORROWER WHICH CONSIST OF ESCROWED FUNDS (EXCEPT AND TO THE EXTENT OF ANY BENEFICIAL INTEREST OF BORROWER IN SUCH ESCROWED FUNDS) ON DEPOSIT IN ACCOUNTS WHICH ACCOUNTS HAVE BEEN IDENTIFIED ON THE BOOKS AND RECORDS OF THE PERSON WITH WHOM SUCH ACCOUNTS ARE MAINTAINED AS CONTAINING ESCROWED FUNDS.

Successors and Assigns; Confidentiality. ALL COVENANTS AND AGREEMENTS BY OR ON

BEHALF OF BORROWER IN THE NOTE, THIS AGREEMENT, OR ANY OTHER LOAN DOCUMENT SHALL BIND BORROWER'S SUCCESSORS AND ASSIGNS AND SHALL INURE TO THE BENEFIT OF BANK ONE AND ITS SUCCESSORS AND ASSIGNS. BORROWER SHALL NOT, HOWEVER, HAVE THE RIGHT TO ASSIGN ITS RIGHTS UNDER THIS AGREEMENT OR ANY INTEREST HEREIN, WITHOUT THE PRIOR WRITTEN CONSENT OF BANK ONE. BANK ONE MAY, IN CONNECTION WITH ANY ASSIGNMENT OR PARTICIPATION OR PROPOSED ASSIGNMENT OR PARTICIPATION BY BANK ONE, DISCLOSE TO THE ACTUAL OR PROPOSED ASSIGNEE OR PARTICIPANT ANY INFORMATION RELATING TO BORROWER FURNISHED TO BANK ONE BY OR ON BEHALF OF BORROWER; PROVIDED, THAT PRIOR TO ANY SUCH DISCLOSURE, THE ACTUAL OR PROPOSED ASSIGNEE OR PARTICIPANT SHALL AGREE TO PRESERVE THE CONFIDENTIALITY OF ANY INFORMATION RELATING TO BORROWER THAT HAS BEEN IDENTIFIED IN WRITING BY BORROWER TO BE CONFIDENTIAL.

Bank One Representations and Warranties. BANK ONE REPRESENTS AND WARRANTS THAT

IT:

IS A BANKING ASSOCIATION DULY ORGANIZED AND VALIDLY EXISTING UNDER THE LAWS OF THE UNITED STATES OF AMERICA;

HAS THE POWER AND AUTHORITY TO OWN ITS PROPERTIES AND ASSETS AND TO TRANSACT THE BUSINESS IN WHICH IT IS ENGAGED;

HAS THE POWER AND REQUISITE AUTHORITY TO EXECUTE, DELIVER AND PERFORM THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY, AND IS DULY AUTHORIZED TO, AND HAS TAKEN ALL ACTION NECESSARY TO AUTHORIZE IT TO, EXECUTE, DELIVER AND PERFORM THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY AND WILL CONTINUE TO BE AUTHORIZED TO SO PERFORM; AND

WILL CONTINUOUSLY MAINTAIN ALL COMPONENTS OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AS AN OFFICIAL RECORD OF BANK ONE.

Consent to Jurisdiction. BORROWER HEREBY AGREES THAT ANY ACTION OR PROCEEDING

UNDER THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE COMMENCED AGAINST IT IN ANY COURT OF COMPETENT JURISDICTION WITHIN THE STATE OF TEXAS, BY SERVICE OF PROCESS UPON BORROWER BY FIRST CLASS REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, ADDRESSED TO BORROWER AT ITS ADDRESS LAST KNOWN TO BANK ONE. BORROWER AGREES THAT ANY SUCH SUIT, ACTION, OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE INSTITUTED IN THE COURTS OF THE STATE OF TEXAS, OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, AT THE OPTION OF BANK ONE; AND BORROWER HEREBY WAIVES ANY OBJECTION TO THE VENUE OF ANY SUCH SUIT, ACTION, OR PROCEEDING. NOTHING HEREIN SHALL AFFECT THE RIGHT OF BANK ONE TO ACCOMPLISH SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST BORROWER IN ANY OTHER JURISDICTION OR COURT.

Exhibits. THE EXHIBITS ATTACHED TO THIS AGREEMENT ARE INCORPORATED HEREIN BE

CONSIDERED A PART OF THIS AGREEMENT FOR THE PURPOSES STATED HEREIN, EXCEPT THAT IN THE EVENT OF ANY CONFLICT BETWEEN ANY OF THE PROVISIONS OF SUCH EXHIBITS AND THE PROVISIONS OF THIS AGREEMENT, THE PROVISIONS OF THIS AGREEMENT SHALL PREVAIL.

Titles. ALL TITLES OR HEADINGS TO SECTIONS OR OTHER DIVISIONS OF THIS AGREEMENT

OR THE EXHIBITS HERETO ARE ONLY FOR THE CONVENIENCE OF THE PARTIES AND SHALL NOT BE CONSTRUED TO HAVE ANY EFFECT OR MEANING WITH RESPECT TO THE OTHER CONTENT OR SUCH ARTICLES, SECTIONS, SUBSECTIONS OR OTHER DIVISIONS, SUCH OTHER CONTENT BEING CONTROLLING AS TO THE AGREEMENT BETWEEN THE PARTIES HERETO.

Counterparts. THIS AGREEMENT MAY BE EXECUTED IN TWO COUNTERPARTS, AND IT SHALL

NOT BE NECESSARY THAT THE SIGNATURES OF EACH OF THE PARTIES HERETO BE CONTAINED ON ANY ONE COUNTERPART HEREOF; EACH COUNTERPART SHALL BE DEEMED AN ORIGINAL, BUT ALL COUNTERPARTS TOGETHER SHALL CONSTITUTE ONE AND THE SAME INSTRUMENT.

Entire Agreement. This note, this agreement, and the other loan documents

executed and delivered as of even date herewith represent the final agreement between the parties hereto and thereto and may not be contradicted by evidence of prior, contemporaneous

or subsequent oral agreements of the parties. There are no unwritten oral agreements among the parties.

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SIGNATURE PAGE FOLLOWS.

EXECUTED as of the first date stated above.

BANK ONE, TEXAS N.A.,
as Bank One

NVR MORTGAGE FINANCE, INC.,
as Borrower

By _____
Paul J. Lazusky, Vice President

By _____
William J. Inman, President

NVR, INC.
 Computation of Earnings Per Share
 (amounts in thousands, except per Share amounts)

	YEAR ENDED DECEMBER 31, 1997 -----	YEAR ENDED DECEMBER 31, 1996 -----	YEAR ENDED DECEMBER 31, 1995 -----
1. Net income	\$28,879 -----	\$25,781 -----	\$17,327 -----
2. Average number of Shares outstanding	11,839	14,621	15,334
3. Shares issuable upon exercise of dilutive options, warrants and subscriptions outstanding during period, based on average market price	1,406 -----	516 -----	71 -----
4. Average number of Shares and Share equivalents outstanding (2 + 3)	13,245 =====	15,137 =====	15,405 =====
5. Basic earnings per share (1/2)	\$ 2.44 =====	\$ 1.76 =====	\$ 1.13 =====
6. Diluted earnings per share (1/4)	\$ 2.18 =====	\$ 1.70 =====	\$ 1.12 =====

NVR, INC. SUBSIDIARIES

NAME OF SUBSIDIARY -----	STATE OF ----- INCORPORATION OR ----- ORGANIZATION -----
NVR Homes, Inc.	Virginia
NVR Financial Services, Inc.	Pennsylvania
NVR Mortgage Finance, Inc.	Virginia
NVR Settlement Services, Inc.	Pennsylvania
Ryan Mortgage Acceptance Corporation IV	Delaware
RVN, Inc.	Delaware
Fox Ridge Homes, Inc.	Tennessee

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
NVR, Inc.:

We consent to incorporation by reference in the registration statement (No.33-69754) on FormS-8 (for the NVR,Inc. Directors' Long-Term Incentive Plan), the registration statement (No.33-69756) on FormS-8 (for the NVR,Inc. Management Equity Incentive Plan), the registration statement (No.33-69758) on FormS-8 (for the NVR,Inc. Equity Purchase Plan), the registration statement (No. 33-87478) on Form S-8 (for the NVR, Inc. 1994 Management Equity Incentive Plan), the registration statement (No. 333-04975) on Form S-8 (for the NVR, Inc. Management Long-Term Stock Option Plan), the registration statement (No. 333-04989) on Form S-8 (for the NVR, Inc. Directors' Long-Term Stock Option Plan), the registration statement (No. 33-69436) on Form S-3, the registration statement (No. 333-44515) on Form S-3 (for a universal shelf registration for senior or subordinated debt in an amount up to \$400 million), and the amended registration statement (No. 333-44515) on Form S-3A (for a universal shelf registration for senior or subordinated debt in an amount up to \$400 million) of our reports included herein.

Our report for Fox Ridge Homes, Inc. included herein contains an explanatory paragraph as to the acquisition of certain assets and the assumption of certain liabilities of the Predecessor by Fox Ridge Homes, Inc. on October 31, 1997. Accordingly, Fox Ridge Homes, Inc. accounted for the transaction as a purchase pursuant to the requirements of Accounting Principles Board Opinion No. 16, "Business Combinations."

KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
March 9, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NVR INC.'S CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000906163
NVR, INC.
1,000
U.S. DOLLARS

12-MOS		
	DEC-31-1997	
	JAN-01-1997	
	DEC-31-1997	
	1	45,725
		0
	3,398	0
	224,041	0
		17,878
	0	0
	564,621	
	0	120,000
	0	0
		164,931
		(20,291)
564,621		1,154,022
	1,188,289	995,855
		1,106,722
		7,723
		0
	19,954	
	53,890	
	25,011	
28,879		0
		0
		0
		28,879
		2.44
		2.18

ITEM REPRESENTS THE NON-CASH AMORTIZATION OF EXCESS REORGANIZATION VALUE AND GOODWILL.