

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 (FEE REQUIRED)
For the fiscal year ended December 31, 1996

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 January 30, 1997 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 \$157.6 million. As of January 30, 1997 there were 12,886,996 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, 1996 ARE INCORPORATED BY REFERENCE INTO PART III OF THIS REPORT.

The Exhibit Index begins on page 15.

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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) financial services, including a mortgage banking operation. 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 approximately 72% of its 1996 homebuilding revenues. NVR's homebuilding operations construct and sell single-family detached homes, townhomes and condominium buildings in two distinct product lines, through two divisions: Ryan Homes and NVHomes. 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. In 1996 the average price of a unit settled by NVR was approximately \$182,700.

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 12 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 45% of the aggregate dollar amount of loans closed in 1996. In 1996, NVR's mortgage banking business closed approximately 10,400 loans with an aggregate principal amount of approximately \$1.2 billion. NVR's mortgage banking business sells all of the mortgage loans it closes into the secondary markets, but it retains the servicing rights associated with a portion of those loans. During 1996 NVR sold a significant portion of its servicing portfolio, resulting in a servicing portfolio balance at December 31, 1996 of approximately \$579 million. NVR's mortgage banking business generates revenues primarily from origination fees, servicing fees, gains on marketing of loans, title fees, and sales of servicing rights.

Segment information for NVR's homebuilding and financial services businesses is included in note 2 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 5,450 square feet, with two to five bedrooms, and are priced from approximately \$74,000 to \$660,000.

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,		
	1996	1995	1994	1996	1995	1994
Washington/Baltimore	3,834	3,375	3,337	3,751	3,842	3,037
Other (1)	1,861	1,482	1,378	1,939	1,764	1,320
Total	5,695	4,857	4,715	5,690	5,606	4,357

(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.

FINANCIAL SERVICES

MORTGAGE BANKING

NVR's financial services business is centered around residential mortgage lending. 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 \$579 million in principal amount of loans being serviced at the end of 1996, from \$1.4 billion at the end of 1995.

NVR SAVINGS BANK

NVR's financial statements reflect, as discontinued operations, the operating results of a federally chartered savings bank, NVR Savings Bank, F.S.B. ("NVRSB"). In March 1994, NVR completed the sale of the assets and liabilities of NVRSB to a financial institution. See Note 3 to the consolidated financial statements.

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 12 states and have 25 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, 1996, NVR employed 1,800 full-time persons, of whom 569 were officers and management personnel, 135 were technical and construction personnel, 338 were sales personnel, 362 were administrative personnel and 396 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
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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; 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 Darlington lease expires in 2005 and also contains various options for extension of the lease and for the purchase of the facility.

NVR also leases office space in 63 locations in 13 states for field offices, mortgage banking and title services branches and certain model homes under leases expiring at various times through 2000. 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
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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 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	55	Chairman of the Board, President and Chief Executive Officer of NVR
Michael J. Cannizzo	51	Senior Vice President-Administration of NVR Homes (NVR's homebuilding operations)
William J. Inman	49	President of NVR Finance (NVR's mortgage banking operations)
James M. Sack	46	Vice President, Secretary and General
Paul C. Saville	41	Senior Vice President Finance, Chief Financial Officer, and Treasurer of NVR
Dennis M. Seremet	41	Vice President and Controller of NVR and Vice President Finance, NVR Homes

Dwight C. Schar has been chairman of the board, president and chief executive officer of NVR, as well as chairman of the board of NVR Homes, Inc. ("Homes") and NVR Financial Services, Inc. ("NVRFS") since September 30, 1993. Until September 30, 1993, Mr. Schar had been the chief executive officer of NVR L.P. since April 1986, a director and the chairman of the NVC Companies, Inc. ("NVC") board of directors since September 1984 (NVC was the general partner of NVR L.P.'s managing general partner) and chairman of Ryan Homes, Inc.'s ("RHI") board of directors since December 1986. Mr. Schar also was a director of NVRSB from December 1988 through March 1994.

Michael J. Cannizzo has been senior vice president-administration of Homes since January, 1995. Mr. Cannizzo was president of Homes from September 30, 1993 through December 1994. Mr. Cannizzo was president and chief executive officer of RHI from February 1989 to September 1993 and president and chief executive officer of NVR L.P.'s homebuilding operations from September 1990 to September 30, 1993.

William J. Inman has been president of NVRFS since October 1988 and NVR Finance since January 1992. Mr. Inman had been president of NVR Mortgage L.P. from October 1988 to September 1993. From May 1992 through March 1994, Mr. Inman served as chairman of the board of directors of NVRSB.

James M. Sack has been vice president, secretary and general counsel of NVR since September 30, 1993. Mr. Sack was also vice president, secretary and general counsel of NVC for NVR L.P. from September 1989 through September 1993. Mr. Sack has been senior vice president of NVR Development L.P. since September 1989. Since July 1992, Mr. Sack has practiced law with Sack & Associates, P.C. in Vienna, Virginia.

Paul C. Saville has been senior vice president finance, chief financial officer and treasurer of NVR since September 30, 1993. Mr. Saville was senior vice president and treasurer of NVC for NVR L.P. and senior vice president of finance and treasurer of RHI from February 1990 through September 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, Homes, to which he was appointed on September 30, 1993. From June 1990 to September 1993, Mr. Seremet had been vice president finance of NVR L.P.'s homebuilding operations.

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 1996 and 1995 as reported by the AMEX.

	HIGH	LOW
	-----	-----
PRICES PER SHARE:		
1995:		
First Quarter	6-1/4	5-3/8
Second Quarter	8	5-7/8
Third Quarter	11-1/8	6-7/16
Fourth Quarter	10-5/8	9-3/8
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

As of the close of business on January 30, 1997, there were 1,245 shareholders of record.

NVR has not paid any cash dividends on its shares of common stock during the years 1996 or 1995. 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 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	YEAR ENDED
	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994	DECEMBER 31, 1993	SEPTEMBER 30, 1993(2)	DECEMBER 31, 1992(2)
STATEMENT OF OPERATIONS DATA:						
HOMEBUILDING DATA:						
Revenues	\$1,045,930	\$869,119	\$820,915	\$209,466	\$528,418	\$ 689,542
Gross profits (3)	139,675	118,084	104,827	19,083	62,064	79,625
FINANCIAL SERVICES GROUP:						
Mortgage banking fees (4)	24,029	26,297	25,118	4,354	26,573	34,455
Interest income	5,351	4,744	5,288	2,256	1,919	3,757
Interest expense	2,249	2,090	2,364	1,557	2,296	3,874
CONSOLIDATED DATA:						
Income (loss) before discontinued operations and extraordinary gains	\$ 25,781	\$ 16,400	\$ 9,018	\$ (7,010)	\$ (17,178)	\$ (9,235)
Income (loss) before discontinued operations and extraordinary gains per Share/Unit (5)	\$ 1.72	\$ 1.07	\$ 0.53	\$ (0.40)	\$ (0.56)	\$ (0.32)
						(PREDECESSOR) (1)
						(PRE-REORGANIZATION)
						DECEMBER 31,
						1996
						1995
						1994
						1993 (2)
						1992 (2)
CONSOLIDATED BALANCE SHEET DATA:						
Homebuilding inventory	\$ 171,693	\$ 154,713	\$ 109,538	\$ 116,389	\$ 115,647	\$ 115,647
Total assets (6)	501,165	513,598	446,942	558,091	423,009	423,009
Notes and loans payable (6)	201,592	221,295	184,414	297,208	154,604	154,604
Liabilities subject to compromise (7)	-	-	-	-	-	281,516
Equity (deficit) (8)	152,010	146,180	129,522	134,797	(122,002)	(122,002)

(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 financial services operations in NVR Financial Services, Inc. ("NVRFS"), NVR's wholly-owned financial services business 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, 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.

(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 amended SFAS No. 65, Accounting For Certain Mortgage Banking Activities, by requiring 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, 1996 and 1995 are not directly comparable to prior periods. For the years ended December 31, 1996 and 1995, application of SFAS No. 122 increased mortgage banking fees by \$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, 1996, 1995 and 1994, and for the three months ended December 31, 1993, income (loss) from continuing operations per share was computed based on 14,969,111, 15,373,285, 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 and 30,393,000 for the nine months ended September 30, 1993 and the year ended December 31, 1992, respectively.

(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) Effective April 6, 1992, pursuant to the requirements of SOP 90-7, pre-petition liabilities that management believed were subject to compromise were reflected in the aggregate on NVR's consolidated balance sheet for December 31, 1992. Liabilities subject to compromise included NVR's subordinated debt securities along with accrued and unpaid interest thereon, financing and mortgage obligations on certain office buildings and a manufacturing facility, and other pre-petition liabilities which were either unsecured or undersecured, and may have been impaired by the Plan. As a result of the confirmation of the Plan, these pre-petition liabilities were either settled or discharged in accordance with the provisions of the Plan.

(8) 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)

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

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

HOMEBUILDING SEGMENT

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. Homebuilding revenues for 1995 increased 5.9% to \$869,119 from \$820,915 in 1994. The increase in revenues was primarily due to a 3.0% increase in the number of homes settled from 4,715 during 1994 to 4,857 in 1995 and to a 2.7% increase in the average settlement price from \$173.0 in 1994 to \$177.7 in 1995. New orders for 1995 increased 28.7% to 5,606 compared with 4,357 in 1994. The increase in new orders was primarily a result of declining interest rates and to a lesser extent, new orders generated in markets entered into during 1994.

Gross profit margins decreased to 13.4% in 1996 compared to 13.6% in 1995. The decrease in gross profit margins from the prior year was primarily attributable to more competitive market conditions in certain of the Company's markets and, to a lesser extent, higher lumber costs. Gross profit margins increased to 13.6% in 1995 compared to 12.8% in 1994. The increase in gross profit margins from the prior year was primarily attributable to lower lumber costs and improved operating efficiencies. The higher costs associated with the severe winter weather conditions in 1994 were not incurred in 1995.

SG&A expenses for 1996 increased \$7,984 to \$71,184 from \$63,200 in 1995, and as a percentage of revenues decreased from 7.3% in 1995 to 6.8% in 1996. The dollar increase in SG&A expenses was primarily due to increased costs that correspond to the aforementioned increase in revenues. SG&A expenses for 1995 increased \$5,332 to \$63,200 from \$57,868 in 1994, and as a percentage of revenue increased from 7.0% in 1994 to 7.3% in 1995. The increase in SG&A expenses was primarily due to increased costs that correspond to the expansion into new markets during 1994 and an increase in the number of communities in existing markets.

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. Backlog units of 2,471 and dollars of \$442,268 at December 31, 1995 increased by 43.5% and 46.3%, respectively, compared to backlog units of 1,722 and dollars of \$302,219 at December 31, 1994. The increase in backlog units was primarily due to a 55.5% increase in new orders for the six months ended December 31, 1995 as compared to the same 1994 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,		
	1996	1995	1994
Operating income	\$62,755	\$49,413	\$42,461
Depreciation	2,863	2,211	1,820
Amortization of excess reorganization value	7,048	7,048	7,404
Other non-cash items	2,239	1,740	1,343
Homebuilding EBITDA	<u>\$74,905</u>	<u>\$60,412</u>	<u>\$53,028</u>
% of Homebuilding revenues	7.2%	7.0%	6.5%

Homebuilding EBITDA in 1996 was 24.0% higher than in 1995, and as a percentage of revenues increased from 7.0% to 7.2%. Homebuilding EBITDA in 1995 was 13.9% higher than 1994 and as a percentage of revenues increased from 6.5% to 7.0%.

FINANCIAL SERVICES SEGMENT

The Financial Services segment generated operating income of \$2,583 for the year ended December 31, 1996 compared to operating income of \$1,162 during the year ended December 31, 1995 and an operating loss of \$92 during the year ended December 31, 1994. Mortgage loan closings were \$1,243,945, \$1,092,676 and \$1,115,337 during the respective years ended December 31, 1996, 1995 and 1994. The increases in operating income and mortgage loan closings were achieved despite continued strong price competition and fewer operating branch offices during the current year as compared to the prior year periods.

Mortgage banking fees decreased \$2,268 when comparing 1996 and 1995 and increased \$1,179 when comparing 1995 and 1994. A summary of mortgage banking fees is noted below:

MORTGAGE BANKING FEES:	1996	1995	1994
Net gain (loss) on sale of loans	\$ 14,401	\$ 8,320	\$ (5,959)
Servicing	4,894	7,128	7,073
Title services	5,928	5,315	5,279
Gain (loss) on sale of servicing	(1,194)	5,534	18,725
	<u>\$ 24,029</u>	<u>\$ 26,297</u>	<u>\$ 25,118</u>

Effective as of January 1, 1995, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 122, Accounting for Mortgage Servicing Rights. SFAS No. 122 amended SFAS No. 65, Accounting for Certain Mortgage Banking Activities, by requiring 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 values. Retroactive application of SFAS No. 122 to periods prior to the fiscal year of adoption is prohibited. In addition, SFAS No. 122 requires that a mortgage banking enterprise assess its capitalized mortgage servicing rights for impairment based on the fair value of those rights. Such adoption caused Financial Services operating income to increase by \$610 and \$1,511, respectively, during the years ended December 31, 1996 and 1995.

Mortgage banking fees in 1996 were lower in comparison to 1995, which is 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 SFAS No. 122. Operating income was higher in 1996 in comparison to 1995 as a result of the cost cutting measures enacted by the financial services group during 1996 and the increase in mortgage loan closings noted above.

Mortgage banking fees in 1995 were comparable with 1994 despite a slightly lower volume of loan closings. Operating income was higher due to the aforementioned adoption of SFAS 122 and to second-half 1995 declining interest rates that had improved overall market conditions and contributed to stronger loan closing activity and marketing results in the last quarter of 1995. In response to market conditions, the financial services segment closed thirteen mortgage origination branches during the third quarter of 1995 and accrued approximately \$1,000 in office closure expenses.

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 financial services operations generate part of their business from NVR's homebuilding operations and from outside homebuilders affected by seasonality, to the extent that homebuilding is adversely affected by seasonality, financial services 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 1996, the Financial Accounting Standards Board ("FASB") issued SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 125 establishes accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 125 is effective for financial statements for fiscal years beginning after December 15, 1996. Upon adoption, the Company does not believe that SFAS No. 125 will have a material impact on its consolidated financial statements.

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 to fund its working capital needs, under which no amounts were outstanding at December 31, 1996.

NVR's financial services 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 \$105,000 mortgage warehouse facility to fund its mortgage origination activities, under which \$61,259 was outstanding at December 31, 1996. NVR Finance also has available two annually renewable, gestation mortgage-backed security repurchase agreements ("Repo Facility"), one of which is uncommitted, with a maximum of \$100,000 in borrowings available. There was an aggregate of \$6,204 outstanding under the Repo Facility at December 31, 1996.

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 \$253,435 as of December 31, 1996, that were so restricted.

As shown in NVR's consolidated statement of cash flows for the year ended December 31, 1996, NVR's operating activities provided cash of \$38,782 for this period. The cash was provided primarily by cash outflows of \$1,243,945 used to close or purchase mortgage loans held for sale offset by cash inflows of \$1,268,254 from the sale of such loans.

Net cash provided by investing activities was \$84,862 for the year ended December 31, 1996. 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 used for financing activities was \$104,431 for the year ended December 31, 1996. Cash was primarily used to repay borrowings under credit lines and for the redemption of bonds using cash provided by the related mortgage backed securities as discussed above. NVR also purchased approximately 3.3 million shares of its common stock for an aggregate purchase price of \$35,137 during the year ending December 31, 1996. 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. Additionally, NVR received approximately \$13,161 from the exercise of warrants during 1996.

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

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, 1997. 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, 1997.

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, 1997.

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, 1997.

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
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Notes to Consolidated Financial Statements

NVR HOMES, INC. - CONSOLIDATED FINANCIAL STATEMENTS

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

RVN, INC. - FINANCIAL STATEMENTS

Report of Independent Auditors
Balance Sheet
Statement of Income
Statement of Shareholder's Equity
Statement 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.
- 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).
- 4.3 Form of Warrant Agreement dated September 30, 1993 between NVR, Inc. and Chemical Bank, as warrant agent. Incorporated by reference to Exhibit 10.14 in NVR, Inc.'s 1993 Registration Statement.
- *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.
- 10.1 Employment Agreement between NVR, Inc. and Dwight C. Schar dated January 1, 1996.
- 10.2 Executive Employment Agreement between NVR, Inc. and Michael J. Cannizzo dated January 1, 1995.
- 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.
- 10.13 Master Repurchase Agreement dated as of July 7, 1993 between NVR Mortgage Finance, Inc. and Merrill Lynch Mortgage Capital, Inc. Incorporated by reference to Exhibit 10.16 in NVR, Inc.'s 1993 Registration Statement.
- 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.

- *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 12, 1997

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 12, 1997
/s/ C. Scott Bartlett, Jr. ----- C. Scott Bartlett, Jr.	Director	March 12, 1997
/s/ Manuel H. Johnson ----- Manuel H. Johnson	Director	March 12, 1997
/s/ William A. Moran ----- William A. Moran	Director	March 12, 1997
/s/ Richard H. Norair, Sr. ----- Richard H. Norair, Sr.	Director	March 12, 1997
/s/ David A. Preiser ----- David A. Preiser	Director	March 12, 1997

/s/ George E. Slye ----- George E. Slye	Director	March 12, 1997
/s/ John M. Touns ----- John M. Touns	Director	March 12, 1997
/s/ Frederick W. Zuckerman ----- Frederick W. Zuckerman	Director	March 12, 1997
/s/ Paul C. Saville ----- Paul C. Saville	Senior Vice President, Chief Financial Officer and Treasurer	March 12, 1997

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, 1996 and 1995 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, 1996. 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, 1996 and 1995 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, effective January 1, 1995, the Company adopted the provisions of Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights."

/s/ KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 30, 1997

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

DECEMBER 31,

	1996	1995
--	------	------

ASSETS

HOMEBUILDING:

Cash and cash equivalents	\$ 71,533	\$ 51,911	
Receivables	2,927	7,894	
Inventory:			
Lots and housing units, covered under sales agreements with customers	126,456	116,140	
Unsold lots and housing units	37,940	33,399	
Manufacturing materials and other	7,297	5,174	
	171,693	154,713	
Property, plant and equipment, net	17,916	16,882	
Reorganization value in excess of amounts allocable to identifiable assets, net	75,818	89,867	
Contract land deposits	36,383	31,315	
Other assets	21,008	15,993	
	397,278	368,575	

FINANCIAL SERVICES:

Cash and cash equivalents	3,247	3,656	
Mortgage loans held for sale, net	75,735	96,311	
Mortgage servicing rights, net	6,309	18,017	
Property and equipment, net	917	1,708	
Reorganization value in excess of amounts allocable to identifiable assets, net	12,788	13,877	
Other assets	4,891	11,454	
	103,887	145,023	

TOTAL ASSETS	\$501,165	\$513,598	
	=====	=====	

See notes to consolidated financial statements.

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

	DECEMBER 31,	
	1996	1995
LIABILITIES AND SHAREHOLDERS' EQUITY		
HOMEBUILDING:		
Accounts payable	\$ 54,894	\$ 49,679
Accrued expenses and other liabilities	85,260	88,943
Note payable	86	93
Other term debt	14,043	14,025
Senior notes	120,000	120,000
	-----	-----
	274,283	272,740
	-----	-----
FINANCIAL SERVICES:		
Accounts payable and other liabilities	7,409	7,501
Notes payable	67,463	87,177
	-----	-----
	74,872	94,678
	-----	-----
Total liabilities	349,155	367,418
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 19,881,515 and 18,384,083 shares issued for 1996 and 1995, respectively	199	184
Additional paid-in-capital	157,842	144,072
Retained earnings	47,098	21,626
Less treasury stock at cost - 6,307,108 and 3,170,721 shares at December 31, 1996 and 1995, respectively	(53,129)	(19,702)
	-----	-----
Total shareholders' equity	152,010	146,180
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$501,165	\$513,598
	=====	=====

See notes to consolidated financial statements.

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

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
HOMEBUILDING:			
Revenues	\$1,045,930	\$ 869,119	\$ 820,915
Other income	1,312	1,577	2,906
Cost of sales	(906,255)	(751,035)	(716,088)
Selling, general and administrative	(71,184)	(63,200)	(57,868)
Amortization of reorganization value in excess of amounts allocable to identifiable assets	(7,048)	(7,048)	(7,404)
	-----	-----	-----
Operating income	62,755	49,413	42,461
Interest expense	(16,611)	(17,166)	(20,208)
	-----	-----	-----
Homebuilding income	46,144	32,247	22,253
FINANCIAL SERVICES:			
Mortgage banking fees	24,029	26,297	25,118
Interest income	5,351	4,744	5,288
Other income	47	46	283
General and administrative	(23,507)	(26,747)	(27,327)
Amortization of reorganization value in excess of amounts allocable to identifiable assets	(1,088)	(1,088)	(1,090)
Interest expense	(2,249)	(2,090)	(2,364)
	-----	-----	-----
Operating income (loss)	2,583	1,162	(92)
TOTAL SEGMENT INCOME	48,727	33,409	22,161
Income tax expense	(22,946)	(17,009)	(13,143)
	-----	-----	-----
Income before discontinued operations and extraordinary gains	25,781	16,400	9,018
Discontinued operations	-	-	617
	-----	-----	-----
Income before extraordinary gains	25,781	16,400	9,635
Extraordinary gain-repurchase of debt (net of tax expense of \$645 and \$580 for the years ended December 31, 1995 and 1994, respectively)	-	927	834
	-----	-----	-----
NET INCOME	\$ 25,781	\$ 17,327	\$ 10,469
	=====	=====	=====
EARNINGS PER SHARE:			
Income before discontinued operations and extraordinary gain	\$ 1.72	\$ 1.07	\$ 0.53
Discontinued operations	-	-	0.04
Extraordinary gain	-	0.06	0.05
	-----	-----	-----
Earnings per share	\$ 1.72	\$ 1.13	\$ 0.62
	=====	=====	=====

See notes to consolidated financial statements.

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

	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	RETAINED EARNINGS (DEFICIT) -----	TREASURY STOCK -----
BALANCE, DECEMBER 31, 1993	\$ 179	\$140,788	\$(6,170)	\$ -
Net income	-	-	10,469	-
Purchase of common stock for treasury	-	-	-	(17,121)
Performance share activity	2	1,341	-	-
Option activity	-	34	-	-
	-----	-----	-----	-----
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)
	=====	=====	=====	=====

See notes to consolidated financial statements.

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

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 25,781	\$ 17,327	\$ 10,469
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Extraordinary gain - extinguishment of debt	-	(1,572)	(1,414)
Depreciation and amortization	15,417	14,814	13,817
Loss (gain) on sales of loans	(14,401)	(8,320)	5,959
Deferred tax provision	(322)	(3,596)	4,884
Interest accrued and added to bond principal	1,180	2,749	5,214
Mortgage loans closed	(1,243,945)	(1,092,676)	(1,115,337)
Proceeds from sales of mortgage loans	1,268,254	1,052,550	1,194,247
(Gain) loss on sales of mortgage servicing rights	1,194	(5,534)	(18,725)
Net change in assets and liabilities:			
Decrease (increase) in inventories	(16,980)	(45,175)	6,851
Decrease (increase) in receivables	5,084	(2,191)	(1,584)
Increase (decrease) in accounts payable and accrued expenses	(611)	20,720	(3,004)
Other, net	(1,869)	(7,184)	(7,071)
	-----	-----	-----
Net cash provided (used) by operating activities	38,782	(58,088)	94,306
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale/(purchase) of marketable securities	-	5,000	(5,000)
Proceeds from sales of mortgage-backed securities	45,835	1,069	2,417
Purchase of property, plant and equipment	(4,267)	(3,590)	(2,636)
Principal payments on mortgage-backed securities	15,511	16,932	51,466
Change in net assets of discontinued operations	-	-	(617)
Proceeds from sale of discontinued operations	-	-	40,319
Purchase of mortgage servicing rights	(193)	(10,664)	(1,830)
Proceeds from sales of mortgage servicing rights	23,518	16,050	15,525
Other, net	4,458	1,242	11,094
	-----	-----	-----
Net cash provided by investing activities	84,862	26,039	110,738
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net repayments of land acquisition and construction debt and other term debt	-	-	(1,746)
Redemption of bonds	(62,306)	(20,104)	(66,785)
Repurchase of senior notes	-	(12,962)	(22,760)
Purchases of treasury stock	(35,137)	(2,581)	(17,121)
Net borrowings (repayments) under credit lines	(19,935)	51,663	(86,238)
Payment of financing fees	-	(48)	(43)
Other, net	12,947	172	34
	-----	-----	-----
Net cash provided (used) by financing activities	(104,431)	16,140	(194,659)
	-----	-----	-----
Net increase (decrease) in cash	19,213	(15,909)	10,385
Cash, beginning of year	55,567	71,476	61,091
	-----	-----	-----
Cash, end of year	\$ 74,780	\$ 55,567	\$ 71,476
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid during the year	\$ 22,160	\$ 25,214	\$ 30,062
	=====	=====	=====
Income taxes paid during the year, net of refunds	\$ 26,492	\$ 16,745	\$ 5,716
	=====	=====	=====

See notes to consolidated financial statements.

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

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. NVR Savings Bank ("NVRSB") is accounted for on a discontinued operations basis through March 17, 1994 (see note 3). All significant intercompany transactions have been eliminated in consolidation. Certain information related to the 1995 and 1994 years have been reclassified to conform to the 1996 presentation.

USE OF ESTIMATES IN 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, 1996 and 1995 was \$26,948 and \$18,812, respectively. Determination of any impairment losses related to this intangible asset is based on consideration of projected undiscounted cash flows.

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

In prior years, 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. Beginning in the fourth quarter of 1996, 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 financial services 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 financial services segment.

EARNINGS PER SHARE

Earnings per share was computed based upon the weighted average number of shares and share equivalents outstanding of approximately 14,969,111, 15,373,285 and 17,097,172 for the years ending December 31, 1996, 1995 and 1994, respectively. Fully diluted earnings per share has not been presented because it is not significantly different than the primary earnings per share presented.

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

NVR adopted Statement of Financial Accounting Standards ("SFAS") No. 122, Accounting for Mortgage Servicing Rights effective January 1, 1995. SFAS No. 122 requires the allocation of the total cost of acquiring mortgage loans to the mortgage servicing rights and the

NVR, INC.
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loans (without the mortgage servicing rights) based on their relative fair values. Retroactive application of SFAS 122 to periods prior to the fiscal year of adoption is prohibited.

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. The adoption of SFAS No. 122 caused the financial services segment income and net income to increase by \$610 and \$366 (\$0.02 per share) for the year ended December 31, 1996 and by \$1,511 and \$891 (\$0.06 per share) for the year ended December 31, 1995.

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

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 5 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, 1996 and 1995 was \$127,044 and \$120,600, with a carrying value of \$120,000 at both respective dates. The estimated fair values are based on quoted market prices for these instruments.

IMPAIRMENT OF LONG-LIVED ASSETS

During 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such adoption did not have a material impact on the Company's financial condition or results of operations.

STOCK-BASED COMPENSATION

During 1996, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation. As provided for 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. Because NVR elected the disclosure-only method available under SFAS No. 123, the adoption of SFAS No. 123 did not have an impact on NVR's consolidated financial statements.

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

NVR is a holding company that operates in two business segments: homebuilding and financial services. 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 72% of its 1996 homebuilding revenues. NVR's homebuilding segment primarily constructs and sells single-family detached homes, townhomes and condominium buildings in two distinct product lines, through two divisions: Ryan Homes and NVHomes. 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.

The financial services 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, but it retains the servicing rights associated with a portion of those loans. 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 45% of the dollar amount of loans closed in 1996.

Because there are no significant holding company revenues, unallocable selling, general and administrative expense and assets other than its investment in the homebuilding and financial services 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:

NVR, INC.
Notes to Consolidated Financial Statements
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	YEAR ENDED DECEMBER 31, 1996 -----	YEAR ENDED DECEMBER 31, 1995 -----	YEAR ENDED DECEMBER 31, 1994 -----
REVENUES:			
Homebuilding	\$ 1,047,242	\$ 870,696	\$ 823,821
Financial Services	29,427	31,087	30,689
	-----	-----	-----
	\$ 1,076,669	\$ 901,783	\$ 854,510
	=====	=====	=====
	YEAR ENDED DECEMBER 31, 1996 -----	YEAR ENDED DECEMBER 31, 1995 -----	YEAR ENDED DECEMBER 31, 1994 -----
OPERATING INCOME:			
Homebuilding	\$ 62,755	\$ 49,413	\$ 42,461
Financial Services	1,804	1,005	(591)
Intersegment transactions*	779	157	499
	-----	-----	-----
	\$ 65,338	\$ 50,575	\$ 42,369
	=====	=====	=====
	DECEMBER 31, 1996 -----	DECEMBER 31, 1995 -----	
IDENTIFIABLE ASSETS:			
Homebuilding	\$ 397,278	\$ 368,575	
Financial Services	103,887	145,023	
	-----	-----	
	\$ 501,165	\$ 513,598	
	=====	=====	
	YEAR ENDED DECEMBER 31, 1996 -----	YEAR ENDED DECEMBER 31, 1995 -----	YEAR ENDED DECEMBER 31, 1994 -----
DEPRECIATION AND AMORTIZATION:			
Homebuilding	\$ 10,899	\$ 10,322	\$ 10,332
Financial Services	4,518	4,492	3,485
	-----	-----	-----
Total	\$ 15,417	\$ 14,814	\$ 13,817
	=====	=====	=====
	YEAR ENDED DECEMBER 31, 1996 -----	YEAR ENDED DECEMBER 31, 1995 -----	YEAR ENDED DECEMBER 31, 1994 -----
CAPITAL EXPENDITURES:			
Homebuilding	\$ 4,019	\$ 2,448	\$ 2,169
Financial Services	248	1,142	467
	-----	-----	-----
Total	\$ 4,267	\$ 3,590	\$ 2,636
	=====	=====	=====

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

3. DISCONTINUED OPERATIONS

On March 17, 1994, NVR closed the sale of the operations of NVRSB pursuant to the terms of an agreement dated as of November 8, 1993. The purchaser acquired approximately \$463,000 of NVRSB's assets and assumed approximately \$426,000 of NVRSB's liabilities. NVR received net cash proceeds from the sale of approximately \$40,300, representing the final book value of NVRSB at March 17, 1994, plus a premium of approximately \$6,800, reduced by certain adjustments including the withholding of certain assets not sold in the transaction. The sale did not result in any after-tax gain or loss. From the period January 1, 1994 to March 17, 1994, NVRSB's revenues, income before taxes and net income were \$6,963, \$781 and \$617, respectively.

NVR, INC.
Notes to Consolidated Financial Statements
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4. RELATED PARTY TRANSACTIONS

During 1996, 1995, and 1994, NVR purchased, at market prices, developed lots from a company that is controlled by a member of the board of directors. Those purchases totaled \$6,612, \$8,877 and \$8,738 during 1996, 1995 and 1994, respectively, and NVR expects to purchase the remaining lots under contract as of December 31, 1996 over the next 18 to 24 months for an aggregate purchase price of approximately \$26,000.

During the years ended December 31, 1996, 1995 and 1994, one of the executive officers of NVR was a partner in a law firm which billed NVR approximately \$344, \$324 and \$360, respectively, in fees and expenses for legal services.

During the years ended December 31, 1995 and 1994, NVR paid \$181 and \$228, respectively, 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.

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

At December 31, 1996 and 1995, NVRFS was servicing approximately 9,200 and 19,500 mortgage loans for various investors with aggregate balances of approximately \$579,000 and \$1,434,000, respectively.

At December 31, 1996, NVRFS had capitalized mortgage servicing rights of \$6,309 (including \$492 in capitalized excess servicing fees), which related to approximately \$514 million of the aggregate \$579 million in loans serviced. The mortgage servicing rights associated with the remaining \$65 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 (see Note 1). At December 31, 1995, NVRFS had capitalized purchased mortgage servicing rights of \$18,017.

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 \$7,563 and \$19,501 at December 31, 1996 and 1995, respectively. The fair value of the mortgage servicing rights not subject to capitalization due to the loans being originated or sold prior to the adoption of SFAS No. 122 was \$650 and \$528 at December 31, 1996 and 1995, respectively. Based on management's estimate of the fair value of the designated strata, no impairment valuation allowance is necessary.

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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, 1996 and 1995 was \$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 \$94,901 and \$54,358 outstanding at December 31, 1996 and 1995, respectively. There were open forward delivery contracts aggregating approximately \$130,891 and \$134,366 at December 31, 1996 and 1995, 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 and is managed by entering into forward contracts. 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.

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, 1996 there were no such positions. There were no counterparty default losses on forward contracts in 1996, 1995 or 1994. 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 commitments to customers 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.

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6. PROPERTY, PLANT AND EQUIPMENT, NET

	DECEMBER 31,	
	1996	1995
	-----	-----
HOMEBUILDING:		
Office facilities and other	\$ 7,460	\$ 8,020
Model home furniture and fixtures	4,255	2,410
Manufacturing facilities	7,964	7,620
Property under capital leases	14,177	14,177
	-----	-----
	33,856	32,227
Less accumulated depreciation and amortization	(15,940)	(15,345)
	-----	-----
	\$ 17,916	\$ 16,882
	=====	=====
FINANCIAL SERVICES:		
Office facilities and other	\$ 4,284	\$ 5,392
Less accumulated depreciation and amortization	(3,367)	(3,684)
	-----	-----
	\$ 917	\$ 1,708
	=====	=====

Included in Homebuilding are amounts for land totaling \$1,732 at December 31, 1996 and 1995.

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.

7. DEBT

	DECEMBER 31,	
	1996	1995
	-----	-----
HOMEBUILDING:		
Notes payable:		
Working capital revolving credit (a)	\$ -	\$ -
Other (b)	86	93
	-----	-----
	\$ 86	\$ 93
	=====	=====
Other term debt:		
Capital lease and financing obligations and mortgages due in monthly installments through 2014 (c)	\$ 14,043	\$ 14,025
	=====	=====
Senior notes (d)	\$120,000	\$120,000
	=====	=====
FINANCIAL SERVICES:		
Mortgage warehouse revolving credit (e)	\$ 61,259	\$ 87,177
Mortgage repurchase facility (f)	6,204	-
	-----	-----
	\$ 67,463	\$ 87,177
	=====	=====

(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 was amended and restated during December 1996 and currently provides for unsecured borrowings

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up to \$60,000, subject to certain borrowing base limitations, and is generally available to fund working capital needs of Homes and for overhead, taxes and certain interest 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 \$5,345 and \$5,360 were outstanding at December 31, 1996 and 1995, respectively. The Working Capital Revolving Credit is for a three year period ending May 31, 1999 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 rate for the amounts outstanding under the facility was 8.0% and 9.6% for 1996 and 1995, 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, 1996 and 1995 is comprised of a \$100 face value note. This note accrues interest at the rate of 8% per annum and is due in various amounts through September 30, 2001.

(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 \$12,181 and \$12,777 at December 31, 1996 and 1995, respectively.

The following schedule provides future minimum lease payments under all financing and capital leases together with the present value as of December 31, 1996:

YEARS ENDING DECEMBER 31:	

1997	\$ 1,824
1998	1,783
1999	1,844
2000	1,851
2001	1,870
Thereafter	36,677

	45,849
Amount representing interest	(31,806)

	\$ 14,043
	=====

(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, NVRFS and RVN, Inc. ("RVN") (Homes, NVRFS and RVN, collectively, the "Guarantors"). The Senior Notes also are guaranteed on a senior, unsecured basis by the Guarantors;

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provided, however, that the guarantee by Homes is subordinated to up to \$60,000 of Senior Bank Indebtedness. During the years ended 1995 and 1994, the Company purchased in the open market, \$15,000 and \$25,000, respectively, in principal amount of its Senior Notes. These transactions resulted in pre-tax gains of \$1,572 and \$1,414 for the years ended 1995 and 1994, respectively, and are included in the accompanying financial statements as extraordinary items, net of applicable taxes.

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 1.25% to 2.0% based on the collateral or (ii) 1.25% to the extent that NVR provides compensating balances. The weighted average interest rate for amounts outstanding under the Mortgage Warehouse Revolving Credit line was 3.6% and 2.8% during 1996 and 1995, respectively. The Mortgage Warehouse Revolving Credit is collateralized primarily by mortgage loans and NVR Finance's mortgage loan servicing portfolio. The Mortgage Warehouse Revolving Credit Agreement is an annually renewable facility and currently expires in June 1997.

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 servicing portfolio, a minimum net worth and a minimum tangible net worth.

(f) NVR Finance has two annually renewable mortgage-backed security repurchase agreements with a broker/dealer, (the "Repo Facility"), one of which is an uncommitted credit facility. The maximum amount available under the Repo Facility is \$100,000, and amounts outstanding thereunder accrue interest at various rates tied to the Federal funds rate. Borrowings outstanding under the Repo Facility are collateralized by gestation mortgage-backed securities. The Repo Facility requires 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 rate for amounts outstanding under the Repo Facility was 6.1% and 6.8% during 1996 and 1995, respectively.

Maturities with respect to the other notes payable, other term debt, and the Senior Notes as of December 31, 1996 are as follows:

YEARS ENDING DECEMBER 31:	

1997	\$ 240
1998	203
1999	235
2000	271
2001	295
Thereafter	136,401

The \$136,401 maturing after 2001 includes \$120,000 in Senior Notes which mature in April 2003.

NVR, INC.
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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 \$253,435 as of December 31, 1996 that were so restricted.

At December 31, 1996, the homebuilding and financial services segments had restricted cash of \$2,934 and \$2,103, 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 13,574,402 and 15,213,362 common shares outstanding at December 31, 1996 and 1995, respectively. During the three year period ending December 31, 1996, NVR purchased, at market prices, a cumulative total of 6,481,144 shares of its common stock for an aggregate purchase price of \$54,839. In February 1996, 174,036 common shares were issued from the treasury in satisfaction of an employee benefit liability accrued at December 31, 1995. The average cost basis for the shares reissued from the treasury was \$9.82/share.

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 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, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
CURRENT:			
Federal	\$19,070	\$16,383	\$ 6,618
State	4,198	4,222	1,641
DEFERRED:			
Federal	(539)	(3,071)	3,695
State	217	(525)	1,189
	-----	-----	-----
	\$22,946	\$17,009	\$13,143
	=====	=====	=====

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

	DECEMBER 31,	
	-----	-----
	1996	1995
	-----	-----
Total deferred tax assets	\$23,830	\$24,261
Less: valuation allowance	2,852	9,852
	-----	-----
	20,978	14,409
Less: deferred tax liabilities	10,056	10,809
	-----	-----
	\$10,922	\$ 3,600
	=====	=====

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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 \$59,323, \$43,454, and \$21,921 for the years ended December 31, 1996, 1995 and 1994.

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, 1996, 1995 and 1994, \$7,000, \$0 and \$4,890, respectively, of such benefits were realized. Unrecognized deferred tax assets which arose as of September 30, 1993 amounted to \$2,852 and \$9,852 as of December 31, 1996 and 1995, respectively.

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, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
Income taxes computed at the Federal statutory rate	\$17,054	\$11,693	\$ 7,756
State income taxes, net of Federal income tax benefit	2,870	2,403	1,893
Non-deductible amortization	2,848	2,848	2,972
Other, net	174	65	522
	\$22,946	\$17,009	\$13,143
	=====	=====	=====

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 combined retirement plan expense for the years ended December 31, 1996, 1995 and 1994 was \$4,627, \$3,993 and \$4,023, respectively.

During 1996 and 1995, the ESOP purchased in the open market 150,000 and 480,000 shares respectively of NVR common stock using cash contributions provided by NVR. As of December 31, 1996, all shares held by the ESOP have been allocated to participant accounts.

Management incentive plans provide several types of equity incentives to NVR's executives and managers. Participants in the management incentive plans ultimately received options to purchase a total of 1,117,949 NVR shares (the "1993 NVR Share Options"). Each 1993 NVR Share Option entitles the holder to buy a share of NVR common stock during a ten-year exercise period. All of the 1993 NVR Share Options have vested at December 31, 1996. These options expire in September 2003.

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Information with respect to the 1993 NVR Share Options is as follows:

1993 NVR SHARE OPTIONS		
	PRICE PER SHARE	NUMBER OF OPTIONS
Options outstanding at December 31, 1994	\$5.06 - 8.44	1,130,213
Granted to employees - 1995	\$5.29 - 9.11	24,528
Canceled - 1995	\$ 7.62	(46,965)
Exercised - 1995	\$ 7.62	(22,326)

Options outstanding at December 31, 1995	\$5.06 - 9.11	1,085,450
Granted to employees-1996	\$ 8.21	6,503
Canceled-1996	\$ 7.62	(800)
Exercised-1996	\$5.06 - 7.62	(14,729)

Exercisable at December 31, 1996	\$5.06 - 9.11	1,076,424
=====		

At December 31, 1996, there were no NVR Share Options available for future grants.

Certain participants in the Management Incentive Plan also received a total of 836,551 NVR shares subject to achievement of certain performance goals (the "1993 Performance Shares"). As of December 31, 1996, all of the 1993 Performance Shares have vested.

In addition, during 1994, the Board of Directors adopted the 1994 Incentive Plan (the "1994 Incentive Plan") under which executive officers and other key employees of the company will be 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. A total of 1,040,000 1994 Performance Shares have been granted to employees as of December 31, 1996. There have been no grants issued of 1994 NVR Share Options.

Each 1994 NVR Share Option entitles the holder to buy a share of NVR common stock during a ten year exercise period. Thirty-three and one third percent of the 1994 NVR Share Options vest on each of December 31, 1997 and 1998 and 33.4% vest on December 31, 1999 with vesting based upon continued employment. The 1994 NVR Share Options expire in November 2004. Up to 33.3% of the 1994 Performance Shares vest on each of December 31, 1997 and 1998 and up to 33.4% vest on December 31, 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.

Directors' Long Term Incentive Plan -- 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. The option exercise price for those options granted on the Effective Date was \$16.60 per share. There were 182,000 Directors' Options granted to existing directors during 1993, leaving 182,000 options available for future grants. None of the Directors' Options granted have been canceled or exercised since the grant date. The options became exercisable six

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

months after the date of grant and expire in September 2003. Pursuant to the plan, each outside director also is entitled to receive a cash payment of \$200 if certain performance goals are achieved during the five-year period following the Effective Date.

During 1996, the Company's Shareholders approved the Board of Directors' adoption of the Management Long-Term Stock Option Plan (the "Stock Option Plan") and the Directors' Long-Term Stock Option Plan (the "Directors' Plan").

Under the Stock Option Plan, awards of non-qualified stock options ("Options") to purchase 2,000,000 Shares of the Company's common stock ("Shares") may be granted to executive officers and other key management personnel. Each Option is granted for a period of ten (10) years from the date of grant. During 1996, 1,554,000 Options have been granted under the Stock Option Plan at exercise prices ranging from \$9.13 to \$10.63 per share, the prices of which were equal to the market price of the Company's Shares on the date of grant. The weighted average exercise price and the weighted average grant-date fair value of the options granted during the year were \$10.58 and \$6.14 per share, respectively. The fair value was calculated using the Black-Scholes option pricing model, under the following assumptions: i) the estimated option life is equal to ten years, ii) the risk free interest rate was 7.0% (based on the U.S. Treasury Strip quote on the date of grant, iii) the expected volatility equals 28.9%, and iv) the estimated dividend yield was 0%. The Options granted will vest as to thirty-three and one-third percent (33 1/3 %) of the underlying Shares on each of December 31, 2000, 2001, and 2002, with vesting based upon continued employment.

Also as of December 31, 1996, the 192,000 Options authorized under the Directors' Plan were granted to the Company's outside directors at an exercise price of \$10.25, which was equal to the fair market value of the Company's Shares on the date of grant. The Options were granted for a ten (10) year period beginning from the date of grant, and vest as to thirty three and one-third percent (33 1/3%) of the underlying Shares on each of December 31, 1999, 2000, and 2001. The weighted average grant-date fair value of the options granted during the year 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 is 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 equals 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 \$24,849 (\$1.66 per share) and \$17,327 (\$1.13 per share) for the years ended December 31, 1996 and 1995, respectively, if the Company had accounted for its stock based employee compensation arrangements using the fair value method. The 1996 effect of applying SFAS No. 123 for providing pro forma disclosures is 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)

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, 1996 are as follows:

YEARS ENDED DECEMBER 31,	
1997	\$ 3,405
1998	2,645
1999	1,498
2000	909
2001	700
Thereafter	3,089

	\$12,246
	=====

Total rent expense incurred under operating leases was approximately \$3,180, \$3,363 and \$4,063 for the years ended December 31, 1996, 1995 and 1994, respectively.

During the ordinary course of operating the financial services 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 \$14,166 of contingent obligations under such agreements as of December 31, 1996. 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 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 monthly, quarterly and semi-annual 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. Under certain circumstances, amounts of collateral no longer needed to make required payments of principal and interest on the Bonds of a series may be withdrawn. 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)

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,	
	1996	1995
ASSETS:		
Mortgage-backed securities, net	\$37,294	\$ 94,403
Funds held by trustee	557	2,534
Other assets	1,388	4,338
	-----	-----
TOTAL ASSETS	39,239	101,275
	-----	-----
LIABILITIES:		
Accrued expenses and other liabilities	771	1,724
Mortgage-backed bonds	39,211	100,337
Unamortized discounts	(747)	(1,788)
	-----	-----
TOTAL LIABILITIES	39,235	100,273
	-----	-----
Mortgage-backed securities, net of mortgage-backed bonds, and related assets and liabilities	\$ 4	\$ 1,002
	=====	=====

The weighted average portfolio yield on the MBS was 8.9% at December 31, 1996 and 1995. The Bonds mature through May 2017 and bear interest ranging from 8.0% to 9.4%.

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

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, 1996 and 1995.

	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	\$0.24	\$0.54	\$0.59	\$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

	YEAR ENDED DECEMBER 31, 1995			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Revenues-homebuilding operations	\$144,069	\$207,322	\$256,110	\$261,618
Gross profit - homebuilding operations	\$ 18,723	\$ 29,808	\$ 34,995	\$ 34,558
Mortgage banking fees	\$ 4,702	\$ 4,949	\$ 7,146	\$ 9,500
Income before discontinued operations and extraordinary gain	\$ 653	\$ 5,096	\$ 5,863	\$ 4,788
Earnings per share before discontinued operations and extraordinary gain	\$0.04	\$0.33	\$0.38	\$0.31
Contracts for sale, net of cancellations (homes)	1,137	1,807	1,144	1,518
Settlements (homes)	849	1,162	1,420	1,426
Backlog, end of period (homes)	2,010	2,655	2,379	2,471
Loans closed	\$146,765	\$253,571	\$359,756	\$332,584

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of NVR, Financial Services, Inc. and subsidiaries as of December 31, 1996 and 1995 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, 1996. 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, 1996 and 1995 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, effective January 1, 1995, the Company adopted the provisions of Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights."

/s/ KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 30, 1997

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

	DECEMBER 31,	
	1996	1995
ASSETS		
FINANCIAL SERVICES:		
Cash and cash equivalents	\$ 3,247	\$ 3,656
Receivables	3,596	7,897
Mortgage loans held for sale, net	75,735	96,311
Property and equipment, net	917	1,708
Real estate acquired through foreclosure	538	705
Mortgage servicing rights, net	6,309	18,017
Reorganization value in excess of amount allocable to identifiable assets, net	12,788	13,877
Other assets	753	1,850
	-----	-----
	103,883	144,021
LIMITED-PURPOSE FINANCING SUBSIDIARIES:		
Mortgage-backed securities, net	37,294	94,403
Funds held by trustee	557	2,534
Receivables	548	2,404
Other assets	840	1,934
	-----	-----
	39,239	101,275
	-----	-----
TOTAL ASSETS	\$143,122	\$245,296
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
FINANCIAL SERVICES:		
Accounts payable	\$ 3,480	\$ 2,612
Accrued expenses and other liabilities	4,286	5,435
Due to affiliates	1,173	124
Notes payable	67,463	87,177
	-----	-----
	76,402	95,348
LIMITED-PURPOSE FINANCING SUBSIDIARIES:		
Accrued expenses and other liabilities	771	1,724
Bonds payable, net	38,464	98,549
	-----	-----
	39,235	100,273
	-----	-----
TOTAL LIABILITIES	115,637	195,621
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Common stock, \$1 par value, 1,000 shares authorized; 100 shares issued and outstanding	-	-
Additional paid-in capital	28,711	51,504
Retained deficit	(1,226)	(1,829)
	-----	-----
Total shareholder's equity	27,485	49,675
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$143,122	\$245,296
	=====	=====

See notes to consolidated financial statements.

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

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
FINANCIAL SERVICES:			
Interest income	\$ 5,351	\$ 4,744	\$ 5,288
Gain (loss) on sales of mortgage loans	14,401	8,320	(5,959)
Servicing fees	4,894	7,128	7,073
Gain (loss) on sales of servicing	(1,194)	5,534	18,725
Title insurance fees	3,426	2,931	4,203
Other, net	2,530	2,384	1,230
	-----	-----	-----
Total revenues	29,408	31,041	30,560
	-----	-----	-----
Interest expense	(2,249)	(2,090)	(2,364)
Interest on advances from affiliates	(779)	(138)	(499)
General and administrative	(21,880)	(24,082)	(25,454)
Amortization of mortgage servicing rights	(1,627)	(2,665)	(1,873)
Amortization of reorganization value in excess of amounts allocable to identifiable assets	(1,088)	(1,088)	(1,090)
	-----	-----	-----
Total expenses	(27,623)	(30,063)	(31,280)
	-----	-----	-----
Operating income (loss)	1,785	978	(720)
LIMITED-PURPOSE FINANCING SUBSIDIARIES:			
Interest income	6,260	8,309	14,772
Interest expense	(6,398)	(8,143)	(14,319)
Other, net	157	(139)	(324)
	-----	-----	-----
Operating income	19	27	129
	-----	-----	-----
TOTAL OPERATING INCOME (LOSS)	1,804	1,005	(591)
Income tax expense	(1,201)	(859)	(20)
	-----	-----	-----
Income (loss) before discontinued operations	603	146	(611)
Discontinued operations	-	-	617
	-----	-----	-----
NET INCOME	\$ 603	\$ 146	\$ 6
	=====	=====	=====

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 DEFICIT	TOTAL EQUITY
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1993	\$ -	\$ 95,000	\$(1,981)	\$ 93,019
Return of capital	-	(40,496)	-	(40,496)
Net income	-	-	6	6
	-----	-----	-----	-----
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
	=====	=====	=====	=====

See notes to consolidated financial statements.

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

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 603	\$ 146	\$ 6
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Accretion of net discount on mortgage-backed securities	(237)	1,469	(2,513)
Amortization	4,083	2,320	5,107
Loss (gain) on sales of loans	(14,401)	(8,320)	5,959
Mortgage loans closed	(1,243,945)	(1,092,676)	(1,115,337)
Proceeds from sales of mortgage loans	1,268,254	1,052,550	1,194,247
(Gain) loss on sales of mortgage servicing rights	1,194	(5,534)	(18,725)
Interest accrued and added to bond principal	1,180	2,749	5,214
Deferred tax provision	278	(1,650)	(442)
Other, net	(2,380)	5,844	(4,572)
	-----	-----	-----
Net cash provided by (used in) operating activities	14,629	(43,102)	68,944
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in funds held by trustee	1,977	141	9,144
Principal payments on mortgage-backed securities	15,511	16,932	51,466
Proceeds from sales of mortgage-backed securities	45,835	1,069	2,417
Purchases of office facilities and equipment	(248)	(1,142)	(467)
Proceeds from sales of mortgage servicing rights	23,518	16,050	15,525
Discontinued operations	-	-	(617)
Proceeds from sale of discontinued operations	-	-	40,319
Purchases of mortgage servicing rights	(193)	(10,664)	(1,830)
Other, net	2,326	1,215	1,300
	-----	-----	-----
Net cash provided by investing activities	88,726	23,601	117,257
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in notes payable	(19,714)	51,936	(78,288)
Redemption of bonds	(62,306)	(20,104)	(66,785)
Return of capital/dividend to parent	(22,793)	(3,000)	(40,496)
Payment of financing fees	-	(48)	(43)
Change in due to affiliates	1,049	(10,483)	1,471
	-----	-----	-----
Net cash provided by (used in) financing activities	(103,764)	18,301	(184,141)
	-----	-----	-----
Net increase (decrease) in cash	(409)	(1,200)	2,060
Cash, beginning of year	3,656	4,856	2,796
	-----	-----	-----
Cash, end of year	\$ 3,247	\$ 3,656	\$ 4,856
	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid during the year	\$ 7,211	\$ 9,166	\$ 11,211
	=====	=====	=====

See notes to consolidated financial statements.

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

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"). NVR Savings Bank ("NVRSB") is accounted for on a discontinued operations basis through March 17, 1994 (see note 4). All significant intercompany transactions have been eliminated in consolidation.

USE OF ESTIMATES IN 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.

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 \$3,367 and \$3,684 at December 31, 1996 and 1995, respectively. Depreciation is based on the estimated useful lives of the assets using the straight-line method.

MORTGAGE SERVICING RIGHTS

NVRFS adopted Statement of Financial Accounting Standards ("SFAS") No. 122, Accounting for Mortgage Servicing Rights effective January 1, 1995. SFAS No. 122 requires the allocation of 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. Retroactive application to periods prior to the fiscal year of adoption is prohibited.

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

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. The adoption of SFAS No. 122 caused segment income and net income to increase by \$610 and \$366, respectively, for the year ended December 31, 1996 and by \$1,511 and \$891, respectively, for the year ended December 31, 1995.

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, 1996 and 1995 was \$3,570 and \$2,482, 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, 1996 and 1995 was \$6,859 and \$29,635, respectively. Servicing fees are recognized after cash payments are received.

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 present value of the estimated excess mortgage servicing fees to be received on 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.

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 notes 9 and 11 to the financial statements. As discussed in Note 5, NVRFS has guaranteed the 11% Senior Notes due

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

2003 of NVR. Management believes that it is not practical to estimate the fair value of such guarantee.

IMPAIRMENT OF LONG-LIVED ASSETS

During 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such adoption did not have a material impact on the Company's financial condition or results of operations.

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.

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, but it retains the servicing rights associated with a portion of those loans. 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 45% of the dollar amount of loans closed in 1996.

4. DISCONTINUED OPERATIONS

On March 17, 1994, NVRFS closed the sale of the operations of NVRSB pursuant to the terms of an agreement dated November 8, 1993. The purchaser acquired approximately \$463,000 of NVRSB's assets and assumed approximately \$426,000 of NVRSB's liabilities. NVRFS received net cash proceeds from sale of approximately \$40,300, representing the final book value of NVRSB at March 17, 1994, plus a premium of approximately \$6,800, reduced by certain adjustments including the withholding of certain assets not sold in the transaction. The sale did not result in any after-tax gain or loss. The net cash proceeds were forwarded to NVR by NVRFS in the form of a return of capital. From the period January 1, 1994 to March 17, 1994, NVRSB's revenues, income before taxes and net income were \$6,963, \$781 and \$617, respectively.

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

5. 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 \$558,629, \$453,929 and \$426,034, during the years ended December 31, 1996, 1995 and 1994, respectively.

Certain selling, general, and administrative expenses incurred by NVR were allocated to its subsidiaries, including NVRFS. NVRFS was allocated selling, general and administrative expenses of \$2,400 in each of the years ended December 31, 1996, 1995 and 1994.

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

6. CASH AND CASH EQUIVALENTS

As of December 31, 1996 and 1995, NVRFS had restricted cash of \$2,103 and \$3,066, respectively, which includes mortgagor tax, insurance, completion escrows and other amounts collected at closing which relate to mortgage loans held for sale.

7. 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,	
	1996	1995
Premiums received at closing	\$ 134	\$ 88
Deferred loan origination income	(171)	(363)
Valuation allowance	(102)	(406)
	\$ (139)	\$ (681)

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

8. NOTES PAYABLE

	DECEMBER 31,	
	1996	1995
Mortgage Warehouse Revolving Credit: (a)		
Outstanding	\$ 57,119	\$ 65,553
In-transit	4,140	21,624
Repo Facility (b)	6,204	-
Subordinated note to NVR (c)	-	-
	-----	-----
	\$ 67,463	\$ 87,177
	=====	=====

(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 1.25% or 2.0% based upon the collateral or (ii) 1.25%, to the extent that NVR Finance provides compensating balances. The weighted average interest rate for amounts outstanding under the facility was 3.6% and 2.8% during 1996 and 1995, respectively. The Mortgage Warehouse Revolving Credit is collateralized primarily by mortgage loans, gestation mortgage-backed securities and NVR Finance's mortgage loan servicing portfolio. The Mortgage Warehouse Revolving Credit is an annually renewable facility and currently expires in June 1997.

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 servicing portfolio, a minimum net worth and a minimum tangible 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.

(b) NVR Finance currently has two annually renewable mortgage-backed security repurchase agreements with broker/dealers (the "Repo Facility"), one of which is an uncommitted credit facility. The maximum amount available under the Repo Facility is \$100,000, and amounts outstanding thereunder accrue interest at various rates tied to the federal funds rate. Borrowings outstanding under the Repo Facility are collateralized by gestation mortgage-backed securities. The Repo Facility requires NVR Finance to, among other items, maintain a minimum net worth and limit its level of liabilities in relation to its net worth.

Information related to the Repo Facility during 1996 and 1995 is as follows:

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
	-----	-----
Average amount outstanding during the year	\$ 13,788	\$ 7,808
Maximum amount outstanding	\$ 64,957	\$ 37,890
Weighted average rate during the year	6.1%	6.8%
Weighted average rate at end of the year	5.9%	-

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

(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 \$30,000, and it accrues interest at the federal funds rate plus 1.25%.

9. 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:

ISSUER	BOND PRINCIPAL OUTSTANDING		RANGE OF RATES (%)	RANGE OF STATED MATURITY	MORTGAGE- BACKED SECURITIES	
	1996	1995			1996	1995
RYMAC IV	\$ 39,211	\$ 100,337	8.0% to 9.4%	9/01/07 to 5/01/17	\$ 38,845	\$ 97,644
Less discounts	(747)	(1,788)			(1,551)	(3,241)
	<u>\$ 38,464</u>	<u>\$ 98,549</u>			<u>\$ 37,294</u>	<u>\$ 94,403</u>

Principal and interest payments on the mortgage-backed securities are used to make the monthly, quarterly and semi-annual 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.

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, 1996 and 1995. The bonds payable are not guaranteed by NVRFS or any of its subsidiaries other than the issuing Limited-Purpose Financing Subsidiary.

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

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, 1996 and 1995 was \$40,044 and \$102,845, respectively. Gross unrealized holding gains related to the mortgage-backed securities were \$2,750 and \$8,442 at December 31, 1996 and 1995, 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. Under certain circumstances, amounts of collateral no longer needed to make required payments of principal and interest on the bonds of a series may be withdrawn by the Limited-Purpose Financing Subsidiary issuing the 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 8.9% at December 31, 1996 and 1995. The principal proceeds on sales of mortgage-backed securities during 1995 was \$1,069 and resulted in realized losses of \$25 in 1995. 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.

10. GAIN (LOSS) ON SALES OF MORTGAGE LOANS

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

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
Cash gain (loss) on sales	\$ 201	\$ (1,825)	\$ (2,316)
Servicing rights produced	16,916	13,418	-
Additions to excess servicing	1,903	2,284	22
Loan origination fees	11,156	10,568	11,636
Direct loan origination costs	(16,029)	(15,683)	(15,202)
Change in market valuation allowance	45	-	80
Effect of deferrals	209	(442)	(179)
	-----	-----	-----
	\$ 14,401	\$ 8,320	\$ (5,959)
	=====	=====	=====

11. MORTGAGE LOAN SERVICING PORTFOLIO

At December 31, 1996 and 1995, NVRFS was servicing approximately 9,200 and 19,500 mortgage loans for various investors with aggregate balances of approximately \$579,000 and \$1,434,000, respectively.

At December 31, 1996, NVRFS had capitalized mortgage servicing rights of \$6,309 (including \$492 in capitalized excess servicing fees), which related to approximately \$514 million of the aggregate \$579 million in loans serviced. The mortgage servicing rights associated with the remaining \$65 million in loans serviced are not subject to capitalization because the loans were originated and sold prior to

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

NVRFS's adoption of SFAS No. 122 on January 1, 1995 (see Note 1). At December 31, 1995, NVRFS had capitalized purchased mortgage servicing rights of \$18,017.

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 \$7,563 and \$19,501 at December 31, 1996 and 1995, respectively. The fair value of the mortgage servicing rights not subject to capitalization due to the loans being originated or sold prior to the adoption of SFAS No. 122 was \$650 and \$528 at December 31, 1996 and 1995, 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, 1996 and 1995 was \$1,627 and \$2,665, respectively.

As of December 31, 1996, NVRFS had aggregate fidelity bond and errors and omissions insurance coverage of \$2,100.

12. 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.

The provision for income taxes consists of the following:

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
CURRENT:			
Federal	\$ 708	\$ 2,122	\$ 316
State	215	387	146
DEFERRED:			
Federal	252	(1,409)	(812)
State	26	(241)	370
	-----	-----	-----
	\$ 1,201	\$ 859	\$ 20
	=====	=====	=====

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

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

	DECEMBER 31	
	1996	1995
Deferred tax assets	\$3,120	\$2,979
Deferred tax liabilities	2,615	2,196
Deferred tax assets, net	\$ 505	\$ 783

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, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
Income taxes computed at the Federal statutory rate	\$ 631	\$ 352	\$ (207)
State income taxes, net of Federal income tax benefit	157	95	388
Non-deductible amortization	381	381	381
Other, net	32	31	(542)
	\$ 1,201	\$ 859	\$ 20

13. 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, 1996, are as follows:

YEARS ENDED DECEMBER 31:	
1997	\$1,572
1998	1,135
1999	485
2000	145
2001	83
Thereafter	7
	\$3,427

Total rent expense incurred under operating leases was \$1,353, \$1,579 and \$2,247, for the years ended December 31, 1996, 1995 and 1994, respectively.

During the ordinary course of business, NVRFS is required to enter into letter of credit arrangements with purchasers of its servicing portfolio to collateralize its obligation under the sales contracts. NVRFS has approximately \$500 of contingent obligations under such agreements as of December 31, 1996. In addition, during 1996, NVRFS entered into a \$1,000 letter of credit arrangement with the purchaser of NVRSB to replace cash deposits returned to the Company pursuant to the November 8, 1993 sale agreement. NVRFS believes it will fulfill its obligation under the contracts noted above and does not anticipate any losses under these letters of credit.

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

14. 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,	
	1996	1995
FINANCIAL INSTRUMENTS WHOSE CONTRACT AMOUNTS REPRESENT CREDIT RISK:		
Commitments to extend credit	\$ 94,901	\$ 54,358
	=====	=====
FINANCIAL INSTRUMENTS WHOSE NOTIONAL OR CONTRACT AMOUNTS EXCEED THE AMOUNT OF CREDIT RISK:		
Forward contracts	\$130,891	\$ 134,366
	=====	=====

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

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, 1996, there were no such positions. There were no counterparty default losses on forward contracts in 1996, 1995, or 1994. 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 commitments to customers 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, 1996 and 1995 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, 1996. 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, 1996 and 1995 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 30, 1997

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

	DECEMBER 31,	
	1996	1995
ASSETS		
Cash and cash equivalents	\$ 71,471	\$ 51,911
Receivables	3,247	8,420
Inventory:		
Lots and housing units, covered under sales agreements with customers	126,456	116,140
Unsold lots and housing units	37,940	33,399
Manufacturing materials and other	7,297	5,174
	-----	-----
	171,693	154,713
Property, plant & equipment, net	10,272	8,853
Reorganization value in excess of amounts allocable to identifiable assets, net	75,818	89,867
Contract land deposits	36,383	31,315
Other assets	18,058	11,654
	-----	-----
TOTAL ASSETS	\$386,942	\$356,733
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable	\$ 54,325	\$ 48,781
Accrued expenses and other liabilities	75,451	72,769
Advances from affiliates, net	107,896	107,965
Other term debt	5,859	6,073
	-----	-----
TOTAL LIABILITIES	243,531	235,588
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	48,723	26,457
	-----	-----
Total shareholder's equity	143,411	121,145
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$386,942	\$356,733
	=====	=====

See notes to consolidated financial statements

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

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
REVENUES:			
Homebuilding revenues	\$1,045,930	\$869,119	\$820,915
Other income	1,311	1,499	2,005
	-----	-----	-----
Total revenues	1,047,241	870,618	822,920
EXPENSES:			
Cost of sales	906,451	751,035	716,088
Interest expense-external	1,729	1,992	1,836
Interest expense-affiliates	14,676	14,676	14,674
Selling, general and administrative	75,095	61,891	58,756
Amortization of reorganization value in excess of amounts allocable to identifiable assets	7,048	7,048	7,404
	-----	-----	-----
Total expenses	1,004,999	836,642	798,758
Income before income tax expense	42,242	33,976	24,162
Income tax expense	(19,976)	(16,805)	(13,647)
	-----	-----	-----
NET INCOME	\$ 22,266	\$ 17,171	\$ 10,515
	=====	=====	=====

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

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)
	-----	-----	-----
BALANCE, DECEMBER 31, 1993	\$ -	\$ 90,276	\$(1,229)
Net income	-	-	10,515
Capital contribution	-	22,020	-
Dividend to parent	-	(17,608)	-
	-----	-----	-----
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
	=====	=====	=====

See notes to consolidated financial statements.

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

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 22,266	\$ 17,171	\$ 10,515
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	9,586	9,011	9,056
Deferred tax provision	165	(2,020)	4,154
Net change in assets and liabilities:			
Decrease (increase) in inventories	(16,980)	(45,175)	6,851
Decrease (increase) in receivables	5,173	(3,331)	(2,031)
Increase in accounts payable and accrued liabilities	8,226	26,945	10,202
Other, net	(4,984)	(9,934)	(7,510)
	23,452	(7,333)	31,237
Net cash provided (used) by operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale/(purchase) of marketable securities	-	5,000	(5,000)
Purchase of property, plant & equipment	(3,764)	(2,129)	(1,471)
Proceeds from sale of property, plant & equipment	155	12	646
	(3,609)	2,883	(5,825)
Net cash provided (used) by investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in advances from affiliates	(69)	(10,059)	(11,315)
Principal repayments of term debt and land acquisition borrowings	(214)	(200)	(1,688)
Net borrowings (repayments) under credit lines and other notes payable	-	-	(1,950)
Dividend to parent	-	-	(17,608)
Capital contribution	-	-	22,020
	(283)	(10,259)	(10,541)
Net cash used by financing activities			
Net increase (decrease) in cash	19,560	(14,709)	14,871
Cash, beginning of the year	51,911	66,620	51,749
	\$ 71,471	\$ 51,911	\$ 66,620
Cash, end of year	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid during the year	\$ 16,210	\$ 16,253	\$ 16,181
	=====	=====	=====
Taxes paid during the year (net of refunds)	\$ 2,226	\$ 2,291	\$ 775
	=====	=====	=====

See notes to consolidated financial statements.

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

1. 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, 1996 and 1995 and for the years ended December 31, 1996, 1995 and 1994. Homes is a wholly-owned subsidiary of NVR, Inc. ("NVR"). All significant intercompany transactions have been eliminated in consolidation.

2. 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 72% of its 1996 homebuilding revenues. The Company primarily constructs and sells single-family detached homes, townhomes and condominium buildings in two distinct product lines, through two divisions: Ryan Homes and NVHomes. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

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

USE OF ESTIMATES IN 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.

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, 1996 and 1995 was \$23,378 and \$16,330, respectively. 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 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.

IMPAIRMENT OF LONG-LIVED ASSETS

During 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such adoption did not have a material impact on the Company's financial condition or results of operations.

ROYALTY FEES

Beginning in the fourth quarter of 1996, 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.

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

4. RELATED PARTY TRANSACTIONS

During 1996, 1995, and 1994, Homes purchased, at market prices, developed lots from a company that is controlled by a member of the board of directors. Those purchases totaled \$6,612, \$8,877 and \$8,738 during 1996, 1995 and 1994, respectively, and Homes expects to purchase the remaining lots under contract at December 31, 1996 over the next 18 to 24 months for an aggregate purchase price of \$26,000.

During 1996, Homes incurred \$4,711 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. At December 31, 1996, Homes had a \$1,441 royalty expense payable due to RVN.

As of December 31, 1996 and 1995, Homes had \$26,946 and \$25,546, 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, 1996 and 1995, Homes had \$(59) and \$51, 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 \$7,625, \$8,308 and \$9,485 in selling, general and administrative expenses during the years ended December 31, 1996, 1995 and 1994, respectively.

The Senior Notes, issued by NVR on September 30, 1993, are secured by a first priority pledge of the capital stock of Homes, NVR's mortgage banking subsidiary, NVR Financial Services, Inc. ("NVRFS"), and RVN. The Senior Notes are also guaranteed on a senior unsecured basis by Homes, 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,	
	1996	1995
Office facilities and other	\$ 3,176	\$ 3,866
Model home furniture and fixtures	4,255	2,410
Manufacturing facilities	7,964	7,620
Property under capital leases excluding manufacturing facilities	4,033	4,033
	19,428	17,929
Less accumulated depreciation and amortization	(9,156)	(9,076)
	\$ 10,272	\$ 8,853

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,	
	1996	1995
Notes payable:		
Working capital revolving credit (a)	\$ -	\$ -
	=====	=====
Other term debt:		
Capital lease and financing obligations and mortgages due in monthly installments through 2014 (b)	\$ 5,859	\$ 6,073
	=====	=====

(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 was amended and restated during December 1996 and 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 overhead, taxes and certain interest 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 \$5,345 and \$5,360 were issued at December 31, 1996 and 1995, respectively. The Working Capital Revolving Credit is for a three year period ending May 31, 1999 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 rate for amounts outstanding under the facility was 8.0% and 9.6% during 1996 and 1995, 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. During 1994, NVR made a \$22,020 capital contribution to Homes and received from Homes an allowable dividend of \$17,608. The agreement also prohibits NVR from paying dividends to shareholders.

(b) 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 \$5,470 and \$5,807 at December 31, 1996 and 1995, respectively.

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

The following schedule provides future minimum lease payments under all financing and capital leases together with the present value as of December 31, 1996:

YEARS ENDING DECEMBER 31:	

1997	\$ 886
1998	830
1999	846
2000	853
2001	853
Thereafter	9,055

	13,323
Amount representing interest	(7,464)

	\$ 5,859
	=====

Maturities with respect to notes payable and other term debt as of December 31, 1996 are as follows:

YEARS ENDING DECEMBER 31:	

1997	\$ 230
1998	193
1999	225
2000	261
2001	285
Thereafter	4,665

7. PROFIT SHARING AND INCENTIVE PLANS

Employees of Homes participate in various employee incentive and option plans of NVR, summarized as follows:

Profit Sharing Plans -- Employees of Homes participate in NVR's trustee administered profit sharing retirement plan (the "Profit Sharing Plan") and Employee Stock Ownership Plan ("ESOP"). The Profit Sharing Plan and ESOP provide for contributions in amounts as determined by the NVR board of directors. NVR's combined retirement plan expense (a portion of which has been recognized by Homes) for the years ended December 31, 1996, 1995 and 1994 was \$4,627, \$3,993 and \$4,023, respectively.

The Management Incentive Plan provides several types of equity incentives to NVR's and Homes' executives and managers. As of December 31, 1996, participants in the Management Incentive Plan hold options to purchase a total of 1,076,424 NVR shares (the "1993 NVR Share Options") with exercise prices ranging from \$5.06 to \$9.11 per share. Each 1993 NVR Share Option entitles the holder to buy a share of NVR common stock during a ten-year exercise period. All of the 1993 NVR Share Options have vested as of December 31, 1996. The options expire in September 2003.

Certain participants in the Management Incentive Plan also received a total of 836,551 NVR shares subject to achievement of certain performance goals (the "1993 Performance Shares"). As of December 31, 1996, all of the 1993 Performance Shares have vested.

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

In addition, during 1994, the Board of Directors adopted the 1994 Incentive Plan (the "1994 Incentive Plan") under which executive officers and other key employees of the Company will be 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. A total of 1,040,000 1994 Performance Shares have been granted to employees as of December 31, 1996. There have been no grants of 1994 Share Options.

Each 1994 NVR Share Option entitles the holder to buy a share of NVR common stock during a ten year exercise period. Thirty-three and one third percent of the 1994 NVR Share Options vest on each of December 31, 1997 and 1998 and 33.4% vest on December 31, 1999 with vesting based upon continued employment. The 1994 NVR Share Options expire in November 2004. Up to 33.3% of the 1994 Performance Shares vest on each of December 31, 1997 and 1998 and up to 33.4% vest on December 31, 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.

Under the Management Long-Term Stock Option Plan (the "Stock Option Plan"), awards of non-qualified stock options ("Options") to purchase 2,000,000 Shares of the Company's common stock ("Shares") may be granted to executive officers and other key management personnel. Each Option is granted for a period of ten (10) years from the date of grant. During 1996, 1,554,000 Options were granted under the Stock Option Plan at exercise prices ranging from \$9.13 to \$10.63 per share, the prices of which were equal to the market price of the Company's Shares on the date of grant. The weighted average exercise price and the weighted average grant-date fair value of the options granted during the year were \$10.58 and \$6.14 per share, respectively. The Options granted will vest as to thirty-three and one-third percent (33 1/3 %) of the underlying Shares on each of December 31, 2000, 2001, and 2002, with vesting based upon continued employment.

8. INCOME TAXES

The provision for income taxes consists of the following:

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
Current:			
Federal	\$ 15,978	\$ 14,832	\$ 7,963
State	3,833	3,993	1,530
Deferred:			
Federal	(149)	(1,725)	3,335
State	314	(295)	819
	-----	-----	-----
	\$ 19,976	\$ 16,805	\$ 13,647
	=====	=====	=====

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

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

	DECEMBER 31,	
	1996	1995
	-----	-----
Deferred tax assets	\$ 13,807	\$ 13,996
Less: valuation allowance	4,078	11,078
	-----	-----
	9,729	2,918
Less: deferred tax liabilities	2	26
	-----	-----
Deferred tax assets, net	\$ 9,727	\$ 2,892
	=====	=====

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 for financial reporting.

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 \$51,937, \$37,197, and \$24,009 for the years ended December 31, 1996, 1995 and 1994.

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, 1996, 1995 and 1994, \$7,000, \$0 and \$4,803, respectively, of such benefits were realized. Unrecognized deferred tax assets which arose as of September 30, 1993 amounted to \$4,078 and \$11,078 as of December 31, 1996 and 1995, respectively.

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, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
Income taxes computed at the Federal statutory rate	\$ 14,785	\$ 11,892	\$ 8,457
State income taxes, net of Federal income tax benefit	2,696	2,404	1,489
Non-deductible amortization	2,467	2,467	2,591
Other, net	28	42	1,110
	-----	-----	-----
	\$ 19,976	\$ 16,805	\$ 13,647
	=====	=====	=====

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

9. 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, 1996 are as follows:

YEARS ENDED DECEMBER 31:	

1997	\$ 1,532
1998	1,201
1999	696
2000	439
2001	285
Thereafter	1,942

	\$ 6,095
	=====

Total rent expense incurred under operating leases was approximately \$1,493, \$1,518 and \$1,541 for the years ended December 31, 1996, 1995 and 1994, 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 \$10,093 of contingent obligations under such agreements as of December 31, 1996. 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 of Homes.

At December 31, 1996, Homes has restricted cash of \$2,934, representing deposits on homes under sales contracts in certain markets where the Company operates.

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, 1996 and the related statements of income, shareholder's equity, and cash flows for the three months then ended. 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 audit.

We conducted our audit 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 audit provides 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, 1996 and the results of its operations and its cash flows for the three months then ended, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP
Pittsburgh, Pennsylvania
January 30, 1997

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

	DECEMBER 31, 1996

ASSETS	
Cash and cash equivalents	\$ 62
Royalty receivable	1,441

TOTAL ASSETS	\$ 1,503
	=====
LIABILITIES AND SHAREHOLDER'S EQUITY	
Accounts payable and accrued expenses	\$ 530
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDER'S EQUITY:	
Common stock, \$1 par value; 3,000 shares authorized; 1,000 shares issued and outstanding	1
Additional paid-in capital	64
Retained earnings	908

Total shareholder's equity	973

TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 1,503
	=====

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

	THREE MONTHS ENDED DECEMBER 31, 1996

REVENUES:	
Royalty Revenue	\$ 4,711
EXPENSES:	
Selling, general and administrative	(30)

Income before income tax expense	4,681
Income tax expense	(1,638)

NET INCOME	\$ 3,043
	=====

See notes to financial statements

RVN, INC.
Statement 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
	=====	=====	=====

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

	THREE MONTHS ENDED DECEMBER 31, 1996 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$ 3,043
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Net change in assets and liabilities:	
Increase in receivables	(1,441)
Increase in accounts payable and accrued liabilities	530

Net cash provided by operating activities	2,132

CASH FLOWS FROM FINANCING ACTIVITIES:	
Dividend to parent	(2,135)
Capital contribution	65

Net cash used by financing activities	(2,070)

Net increase in cash	62
Cash, beginning of the period	-

Cash, end of period	\$ 62
	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Interest paid during the period	\$ -
	=====
Taxes paid during the Period (net of refunds)	\$ -
	=====

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, 1996 and for 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

CASH AND CASH EQUIVALENTS

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

USE OF ESTIMATES IN 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.

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 1996, RVN earned \$4,711 in royalty fees for allowing Homes to use the Tradenames to market its homes. At December 31, 1996, RVN had a \$1,441 royalty receivable due from Homes.

The Senior Notes, issued by NVR on September 30, 1993, are secured by a first priority pledge of the capital stock of RVN, Homes and NVR Financial Services, Inc. ("NVRFS"). The Senior Notes are also guaranteed on a senior unsecured basis by RVN, Homes 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, 1996 -----
Current:	
Federal	\$ 1,638,000
State	-
Deferred:	
Federal	-
State	-

	\$ 1,638,000 =====

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
NVR, Inc.:

Under date of January 30, 1997, we reported on the consolidated balance sheets of NVR, Inc. and subsidiaries as of December 31, 1996 and 1995 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, 1996 which are included in the NVR, Inc. annual report on Form 10-K for the year 1996. 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.

The audit report on the consolidated financial statements of NVR, Inc. and subsidiaries referred to above contains an explanatory paragraph as to the adoption, effective January 1, 1995, of the provisions of Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights."

/s/ KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
January 30, 1997

SCHEDULE I

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

	DECEMBER 31,	
	1996	1995
	-----	-----
ASSETS		
Cash and cash equivalents	\$ -	\$ -
Property and equipment, net	7,644	8,029
Investment in and advances to homebuilding subsidiaries	250,897	229,059
Investment in and advances to financial services subsidiaries	28,599	49,850
Other assets	2,987	4,359
	-----	-----
TOTAL ASSETS	\$ 290,127	\$ 291,297
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued expenses	\$ 9,847	\$ 17,072
Note payable	86	93
Other term debt	8,184	7,952
Senior notes	120,000	120,000
	-----	-----
TOTAL LIABILITIES	138,117	145,117
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 19,881,515 and 18,384,083 shares issued for 1996 and 1995, respectively	199	184
Additional paid-in-capital	157,842	144,072
Retained earnings	47,098	21,626
Less treasury stock at cost- 6,307,108 and 3,170,721 shares at December 31, 1996 and 1995, respectively	(53,129)	(19,702)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	152,010	146,180
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 290,127	\$ 291,297
	=====	=====

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, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
	-----	-----	-----
REVENUES			
Interest and other income	\$ 197	\$ 78	\$ 901
Interest income-affiliates, net	15,461	14,837	15,155
	-----	-----	-----
Total revenues	15,658	14,915	16,056
EXPENSES			
Interest expense	(14,888)	(15,178)	(18,354)
General and administrative, net of allocations to subsidiaries	(770)	(1,309)	888
Equity in earnings of homebuilding subsidiaries	25,309	17,171	10,515
Equity in earnings of financial services subsidiaries	603	146	6
	-----	-----	-----
Total expenses	10,254	830	(6,945)
	-----	-----	-----
Income before income taxes and extraordinary gain	25,912	15,745	9,111
Income tax (expense) benefit	(131)	655	524
Extraordinary gain-repurchase of debt (net of tax expense of \$645 and \$580 for the years ended December 31, 1995 and 1994, respectively)	-	927	834
	-----	-----	-----
NET INCOME	\$ 25,781	\$ 17,327	\$ 10,469
	=====	=====	=====

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 (DEFICIT)	TREASURY STOCK
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1993	\$ 179	\$ 140,788	\$ (6,170)	\$ -
Net income	-	-	10,469	-
Purchase of common stock for Treasury	-	-	-	(17,121)
Performance share activity	2	1,341	-	-
Option activity	-	34	-	-
	-----	-----	-----	-----
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)
	=====	=====	=====	=====

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, 1996	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 25,781	\$ 17,327	\$ 10,469
Adjustments to reconcile net income to net cash used by operating activities:			
Depreciation and amortization	1,313	1,311	1,624
Extraordinary gain - extinguishment of debt	-	(1,572)	(1,414)
Equity in income of subsidiaries	(25,912)	(17,317)	(10,521)
Net change in assets and liabilities:			
Decrease in accounts payable and accrued expenses	(7,225)	(9,912)	(6,158)
Other	3,370	2,510	956
Net cash used by operating activities	(2,673)	(7,653)	(5,044)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(455)	(445)	(698)
Investments in and advances to/from homebuilding and financial services subsidiaries, net	25,325	23,542	39,101
Net cash provided by investing activities	24,870	23,097	38,403
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchase of senior debt	-	(12,962)	(22,760)
Purchase of treasury stock and warrants	(35,446)	(2,581)	(17,121)
Other, net	13,249	99	(24)
Net cash used by financing activities	(22,197)	(15,444)	(39,905)
Net decrease in cash	-	-	(6,546)
Cash, beginning of year	-	-	6,546
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,	
	1996	1995
Note payable	\$ 86	\$ 93
Other term debt	8,184	7,952
Senior notes (a)	120,000	120,000
	-----	-----
	\$128,270	\$128,045
	=====	=====

(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"), NVR Financial Services, Inc. ("NVRFS") and RVN, Inc. ("RVN"), (Homes, 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 years ended December 31, 1995 and 1994, NVR purchased in the open market \$15,000 and \$25,000 in principal amount, respectively, of its Senior Notes. These transactions resulted in pre-tax gains of \$1,572 and \$1,414 for the years ended December 31, 1995 and 1994, respectively, and are included in the accompanying financial statements as extraordinary items, net of the applicable taxes.

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 was amended and restated in December 1996 and 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 overhead, taxes and certain interest 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 \$5,345 and \$5,360 was outstanding at December 31, 1996 and 1995, respectively. The Working Capital Revolving Credit is for a three year period ending May 31, 1999 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 rate for amounts outstanding under the facility was 8.0% and 9.6% during 1996 and 1995, respectively. NVR's guarantee is a guarantee of collection only and is unsecured.

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

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.

Maturities with respect to the notes payable, other term debt and the Senior Notes as of December 31, 1996 are as follows:

YEARS ENDING DECEMBER 31:	

1997	\$ 10
1998	10
1999	10
2000	10
2001	10
Thereafter	131,736

The \$131,736 maturing after 2001 includes \$120,000 in Senior Notes which mature in April 2003.

2. DIVIDENDS PAID TO THE REGISTRANT

NVR received returns of capital of \$24,928 and \$3,000 from its consolidated subsidiaries during the years ended December 31, 1996 and 1995, respectively. During 1994, the Company received total dividends of \$17,608 and returns of capital of \$40,496 from its consolidated subsidiaries.

CERTIFICATE OF INCORPORATION

OF

RVN, INC.

FIRST: The name of the corporation is RVN, Inc.

SECOND: The registered office of the corporation in the State of Delaware is located at 1105 North Market Street, Suite 1300, City of Wilmington, County of New Castle, State of Delaware 19801. The registered agent of the corporation at that address is Delaware Corporate Management, Inc.

THIRD: The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware; provided that the corporation's activities shall be confined to the maintenance and management of its intangible investments and the collection and distribution of the income from such investments or from tangible property physically located outside Delaware, all as defined in, and in such manner to qualify for exemption from income taxation under, Section 1902(b)(8) of Title 30 of the Delaware Code, or under the corresponding provision of any subsequent law.

FOURTH: The corporation shall have authority to issue Three Thousand (3,000) shares of common stock, having a par value of one dollar (\$1.00) per share.

FIFTH: The corporation shall indemnify directors and officers of the Corporation to the fullest extent permitted by law.

SIXTH: The directors of the Corporation shall incur no personal liability to the corporation or its stockholders for monetary damages for any breach of fiduciary duty as a director; provided, however, that the directors of the corporation shall continue to be subject to liability (i) for any breach of their duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the directors derived an improper personal benefit. In discharging the duties of their respective positions, the board of directors, committees of the board, individual directors and individual officers may, in considering the best interest of the corporation, consider the effects of any action upon employees, suppliers and customers of the corporation, communities in which offices or other establishments of the corporation are located, and all other pertinent factors. In addition, the personal liability of directors shall further be limited or eliminated to the fullest extent permitted by any future amendments to Delaware law.

SEVENTH: The business and affairs of the corporation shall be managed by or under the direction of the board of directors, the number of members of which shall be set forth in the bylaws of the corporation. The directors need not be elected by ballot unless required by the bylaws of the corporation.

EIGHTH: The directors of the corporation shall have the power to make, alter or amend the bylaws.

NINTH: Meetings of the stockholders shall be held within the State of Delaware. The books of the corporation shall be kept in the State of Delaware at such place or places as shall be designated from time to time by the board of directors or specified in the bylaws of the corporation.

TENTH: The corporation shall have no power and may not be authorized by its stockholders or directors (i) to perform or omit to do any act that would prevent or inhibit the corporation from qualifying, or cause the corporation to lose its status, as a corporation exempt from the Delaware Corporation Income Tax under Section 1902(b)(8) of Title 30 of the Delaware Code, or under the corresponding provision of any subsequent law, or (ii) to conduct any activities outside of Delaware which could result in the corporation being subject to tax outside of Delaware.

ELEVENTH: The name and mailing address of the incorporator is Gordon W. Stewart, Esquire, 1201 Market Street, Suite 1700, Wilmington, Delaware 19801.

TWELFTH: The corporation reserves the right to amend or repeal any provision contained in this Certificate of Incorporation in the manner now or hereinafter prescribed by the laws of the State of Delaware. All rights herein conferred are granted subject to this reservation.

THIRTEENTH: The powers of the incorporator shall terminate upon the election of directors.

I, THE UNDERSIGNED, being the incorporator, for the purpose of forming a corporation under the laws of the State of Delaware do make, file and record this Certificate of Incorporation, and accordingly, have hereunto set my hand this 1st day of October, 1996.

/s/ Gordon W. Stewart

Gordon W. Stewart
Incorporator

BYLAWS

OF

RVN, INC.

ADOPTED NOVEMBER 14, 1996

ARTICLE I - STOCKHOLDERS

SECTION 1. ANNUAL MEETING.

An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place within Delaware, on such date, and at such time as the Board of Directors shall each year fix, which date shall be within thirteen months subsequent to, initially, the date of incorporation, and thereafter, the most recent annual meeting of stockholders.

SECTION 2. SPECIAL MEETINGS.

Special meetings of the stockholders, for any purpose or purposes prescribed in the notice of the meeting, may be called by the Board of Directors, the Chairperson or the President or as otherwise provided by law or the Certificate of Incorporation and shall be held at such place within Delaware, on such date, and at such time as they or he or she shall fix, and a majority of the stockholders may call a special meeting in accordance with Section 4 of Article II of these bylaws.

SECTION 3. NOTICE OF MEETINGS.

Written notice of the place, date and time of all meetings of the stockholders shall be given, not less than ten nor more than sixty days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the Delaware General Corporation Law or the Certificate of Incorporation of the Corporation).

When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date, and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

SECTION 4. QUORUM.

At any meeting of the stockholders, the holders of a majority of all of the shares of the stock entitled to vote at the meeting, present in person or by proxy, shall constitute a quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by law.

If a quorum shall fail to attend any meeting, the Chairperson of the meeting or the holders of a majority of the shares of the stock entitled to vote who are present, in person or by proxy, may adjourn the meeting to another place within Delaware, date, or time.

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, then except as otherwise required by law, those present at such adjourned meeting shall constitute a quorum, and all matters shall be determined by a majority of the votes cast at such meeting.

SECTION 5. ORGANIZATION.

The Chairperson of the Board or, in the absence of such Chairperson, the President of the Corporation or, in the President's absence, such person as may be chosen by the Board, or if not so chosen, as selected by holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as Chairperson of the meeting. In the absence of the Secretary of the Corporation, the Secretary of the meeting shall be such person as the Chairperson of the meeting appoints.

SECTION 6. CONDUCT OF BUSINESS.

The Chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him or her in order.

SECTION 7. PROXIES AND VOTING.

At any meeting of the stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing filed in accordance with the procedure established for the meeting.

Each stockholder shall have one vote for every share of stock entitled to vote which is registered in such stockholder's name on the record date for the meeting, except as otherwise provided herein or required by law.

All voting, including on the election of directors, but excepting where otherwise required by law, may be by a voice vote; provided, however, that upon demand therefor by a stockholder entitled to vote or such stockholder's proxy, a stock vote shall be taken. Every stock vote shall be taken by ballots, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. Every vote taken by ballots shall be counted by an inspector or inspectors appointed by the Chairperson of the meeting.

No proxy shall be voted on or after three (3) years from its date, unless the proxy provides for a longer period.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by law, all other matters shall be determined by a majority of the votes cast.

SECTION 8. STOCK LIST.

A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order for each class of stock and showing the address of each such stockholder and the number of shares registered in such stockholder's name, shall be open

to the examination of any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held.

The stock list shall also be kept at the place of the meeting during the whole time thereof and shall be open to the examination of any such stockholder who is present. This list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

SECTION 9. CONSENT OF STOCKHOLDERS IN LIEU OF MEETING.

Any action required to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

ARTICLE II - BOARD OF DIRECTORS

SECTION 1. NUMBER AND TERM OF OFFICE.

The number of directors who shall constitute the whole Board shall be such number as the Board of Directors shall at the time have designated, except that in the absence of any such designation, such number shall be five (5). Each director shall be elected for a term of one year and until such director's successor is elected and qualified, except as otherwise provided herein or required by law.

Whenever the authorized number of directors is increased between annual meetings of the stockholders, a majority of the directors then in office shall have the power to elect such new directors for the balance of a term and until their successors are elected and qualified. Any decrease in the authorized number of directors shall not become effective until the expiration of the term of the directors then in office unless, at the time of such decrease, there shall be vacancies on the Board which are being eliminated by the decrease.

SECTION 2. VACANCIES.

If the office of any director becomes vacant by reason of death, resignation, disqualification, removal or other cause, a majority of the directors remaining in office, although less than a quorum, may elect a successor for the unexpired term and until such director's successor is elected and qualified.

SECTION 3. REGULAR MEETINGS.

Regular meetings of the Board of Directors shall be held at such place or places within Delaware, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required.

SECTION 4. SPECIAL MEETINGS.

Special meetings of the Board of Directors may be called only by the Chairperson, the President, or their respective delegates, a majority of the directors or a majority of the stockholders and shall be held at such place within Delaware, on such date, and at such time as the authorized person(s) calling such meeting shall fix. Notice of the place, date, and time of each such special meeting shall be given each director by whom it is not waived by mailing written notice not less than five days before the meeting or by telegraphing, telecopying or sending by overnight courier the same not less than twenty-four hours before the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

SECTION 5. QUORUM.

At any meeting of the Board of Directors, a majority of the total number of the whole board shall constitute a quorum for all purposes. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to any place within Delaware, date or time, without further notice or waiver thereof.

SECTION 6. PARTICIPATION IN MEETINGS BY CONFERENCE TELEPHONE.

Notwithstanding any provision of these bylaws to the contrary, members of the Board of Directors, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in

person at such meeting; provided that a quorum is physically present in Delaware.

SECTION 7. CHAIRPERSON OF THE BOARD.

The Board of Directors shall elect, at its original meeting and each annual meeting, a Chairperson of the Board (the "Chairperson") who shall be a director and who shall hold office until the next annual meeting of the Board and until such Chairperson's successor is elected and qualified or until such Chairperson's earlier resignation or removal by act of the Board. The Chairperson shall preside at meetings of the stockholders and the Board. In the absence of the Chairperson, the President shall preside at meetings of the stockholders and the Board, or in the President's absence, such person as designated by the Board of Directors in accordance with these bylaws.

SECTION 8. CONDUCT OF BUSINESS.

At any meeting of the Board of Directors at which a quorum is present, business shall be transacted in such order and manner as the Board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law. Action may be taken by the Board of Directors without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

SECTION 9. COMPENSATION OF DIRECTORS.

Directors may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the Board of Directors.

SECTION 10. REMOVAL OF DIRECTORS.

Any director of the Corporation may be removed at any time, with or without cause, by a majority vote of the stockholders.

ARTICLE III - COMMITTEES

SECTION 1. COMMITTEES OF THE BOARD OF DIRECTORS.

The Board of Directors, by a vote of a majority of the whole Board, may from time to time designate committees of the Board, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board and shall, for those committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. Any committee so designated may exercise the power and authority of the Board of Directors to declare a dividend or to authorize the issuance of stock if the resolution which designates the committee or a supplemental resolution of the Board of Directors shall so provide. In the absence or disqualification of any member of any committee and any alternate member in such member's place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member. The Board of Directors may, from time to time, suspend, alter, continue or terminate any committee or the powers and functions thereof.

SECTION 2. OFFICERS' COMMITTEES.

Subject to the approval of the Board, the Chairperson may appoint, or may provide for the appointment of, committees consisting of officers or other persons, with chairpersonships, vice chairpersonships and secretaryships and such duties and powers as the Chairperson may, from time to time, designate and prescribe. The Board or the Chairperson may, from time to time, suspend, alter, continue or terminate any of such committees or the powers and functions thereof.

SECTION 3. CONDUCT OF BUSINESS.

Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; one-third of the members shall constitute a quorum unless the committee shall consist of one or two members, in which event one member shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of such committee.

ARTICLE IV - OFFICERS

SECTION 1. GENERALLY.

The officers of the Corporation shall consist of a President, a Secretary, a Treasurer and such other officers, including, for example, Vice Presidents, Assistant Treasurers and Assistant Secretaries, as may from time to time be appointed by the Board of Directors. Officers shall be elected by the Board of Directors which shall consider that subject at its first meeting after every annual meeting of stockholders. Each officer shall hold office until such officer's successor is elected and qualified or until such officer's earlier resignation or removal.

One person may hold more than one of the offices specified in this section and may have such other titles as the Board of Directors may determine.

SECTION 2. PRESIDENT.

The President shall be the chief executive officer of the Corporation. Subject to the provisions of these bylaws and to the direction of the Board of Directors, the President shall have the responsibility for the general management and control of the business and affairs of the Corporation and shall perform all duties and have all powers which are commonly incident to the office of chief executive or which are delegated to the President by the Board of Directors. The President shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized and shall have general supervision and direction of all of the other officers, employees and agents of the Corporation.

SECTION 3. VICE PRESIDENT.

There may be such number of Vice Presidents as the Board of Directors shall appoint. Any such Vice President shall have such powers and duties as may be delegated to the Vice President by the Board of Directors. A Vice President may be designated by the Board of Directors to perform the duties and exercise the powers of the President in the event of the President's absence or disability. In the absence of the Chairperson and the President, one Vice President so designated by the Board of Directors shall preside at meetings of the stockholders and the Board of Directors.

SECTION 4. TREASURER/ASSISTANT TREASURER.

The Treasurer shall have the responsibility for maintaining the financial records of the Corporation and shall have custody of all monies and securities of the Corporation. The Treasurer shall make such disbursements of the funds of the Corporation as are authorized and shall render from time to time an account of all such transactions and of the financial condition of the Corporation. The Treasurer shall also perform such other duties as the Board of Directors may from time to time prescribe. The Board of Directors may also elect an Assistant Treasurer, if deemed necessary or appropriate, who shall have such powers and duties of the Treasurer, as determined by the Board of Directors.

SECTION 5. SECRETARY/ASSISTANT SECRETARY.

The Secretary shall issue all authorized notices for, and shall keep minutes of, all meetings of the stockholders and the Board of Directors. The Secretary shall have charge of the corporate books and shall perform such other duties as the Board of Directors may from time to time prescribe. The Board of Directors may also elect an Assistant Secretary, if deemed necessary or appropriate, who shall have such powers and duties of the Secretary, as determined by the Board of Directors.

SECTION 6. DELEGATION OF AUTHORITY.

The Board of Directors may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

SECTION 7. REMOVAL.

Any officer of the Corporation may be removed at any time, with or without cause, by the Board of Directors.

SECTION 8. ACTION WITH RESPECT TO SECURITIES OF OTHER CORPORATIONS.

Unless otherwise directed by the Board of Directors, the President or any Vice President, or their respective delegates, shall have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stock holders of or with respect to any action of stockholders of any other corporation in which this Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation.

ARTICLE V - STOCK

SECTION 1. CERTIFICATES OF STOCK.

Each stockholder shall be entitled to a certificate signed by, or in the name of the Corporation by, the President and the Secretary, or such other officers as authorized by the Board, certifying the number of shares owned by such stockholder.

SECTION 2. TRANSFERS OF STOCK.

Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 4 of this Article V, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefor.

SECTION 3. RECORD DATE.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors.

In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

SECTION 4. LOST, STOLEN OR DESTROYED CERTIFICATES.

In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

SECTION 5. REGULATIONS.

The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

ARTICLE VI - PURPOSES AND POWERS

SECTION 1. PURPOSES AND POWERS.

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware; provided that the Corporation's activities shall be confined to the maintenance and management of its intangible investments and the collection and distribution of the income from such investments or from tangible property physically located outside Delaware, all as defined in, and in such manner to qualify for exemption from income taxation under, Section 1902(b)(8) of Title 30 of the Delaware Code, or under the corresponding provision of any subsequent law; provided further that the Corporation shall be empowered to conduct such other activities as permitted by said Section 1902(b)(8) or the corresponding provision of any subsequent law in such manner to qualify for exemption from income taxation under said Section 1902(b)(8) or the corresponding provision of any subsequent law. For purposes of this Section "intangible investments" shall include, without limitation, investments in stocks, bonds, notes and other debt obligations (including debt obligations of affiliated corporations), patents, patent applications, trademarks, trade names and similar types of intangible assets.

ARTICLE VII - INDEMNIFICATION AND INSURANCE

SECTION 1. SCOPE.

Except as prohibited by law, every person shall be entitled as of right to be indemnified by the Corporation against reasonable expense and any liability paid or incurred by such person in connection with any actual or threatened claim, action, suit or proceeding, civil, criminal, administrative, investigative or other, whether brought by or in the right of the Corporation or otherwise, by reason of such person being or having been a director or officer of the Corporation or by reason of the fact that such officer or director of the Corporation is or was serving at the request of the Corporation as a director, officer, employee, fiduciary or other representative of another corporation, partnership, joint venture, trust, employee benefit plan or other entity (such claim, action, suit or proceeding hereinafter being referred to as "action"). Such indemnification shall include the right to have expenses incurred by such person in connection with an action paid in advance by the Corporation prior to final disposition of such action, subject to subsequent determination of the right to be so indemnified. Persons who are not directors or officers of the Corporation may be similarly indemnified in respect of service to the Corporation or to another such entity at the request of the Corporation to the extent the Board of Directors at any time determines that such person is entitled to the benefits of this Article. As used herein, "expense" shall include fees and expenses of counsel selected by such person; and "liability" shall include amounts of judgments, excise taxes, fines and penalties, and amounts paid in settlement.

SECTION 2. MEANS OF INDEMNIFICATION.

The Corporation may purchase and maintain insurance to protect itself and any person eligible to be indemnified hereunder against any liability or expense asserted or incurred by such person in connection with any action, whether or not the Corporation would have the power to indemnify such person against such liability or expense by law or under this Article. The Corporation may create a trust fund, grant a security interest, cause a letter of credit to be issued or use other means (whether or not similar to the foregoing) to ensure the payment of such sums as may become necessary to effect indemnification as provided herein.

SECTION 3. AGREEMENT FOR INDEMNIFICATION.

The Corporation shall have the express authority to enter into such agreements as the Board of Directors deems appropriate for the indemnification, including advancement of expenses, of present or future directors and officers of the Corporation and other persons in connection with their service to, or status with, the Corporation or any other corporation, partnership, joint venture, trust, employee benefit plan or other entity with whom such director, officer or other person is serving at the request of the Corporation.

SECTION 4. NATURE OF RIGHT OF INDEMNIFICATION.

The right of indemnification provided for herein (i) shall not be deemed exclusive of any other rights to which those seeking indemnification hereunder may be entitled, (ii) shall be deemed to create contractual rights in favor of persons entitled to indemnification hereunder, (iii) shall continue as to persons who have ceased to have the status pursuant to which they were entitled or were determined to be entitled to indemnification hereunder and shall inure to the benefit of the heirs and legal representatives of persons entitled to indemnification hereunder and (iv) shall be applicable to actions, suits or proceedings commenced after the adoption hereof, whether arising from acts or omissions occurring before or after the adoption hereof. The rights of indemnification provided for herein may not be amended, modified or repealed so as to limit in any way the indemnification provided for herein with respect to any acts or omissions occurring prior to the effective date of any such amendment, modification or repeal.

SECTION 5. NON-PAYMENT BY CORPORATION.

In the event any indemnification or advance of expenses to which a person is entitled under this Article is not paid in full by the Corporation within 30 days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. The Corporation shall promptly reimburse the claimant for all costs and expenses, including attorneys' fees, incurred in bringing and pursuing such action, subject to the Corporation's right to recover the amount of such reimbursement in the event and to the extent that it is ultimately determined by the final judgment of a court of competent jurisdiction that the claimant is not entitled to indemnification under this Article.

ARTICLE VIII - NOTICES

SECTION 1. NOTICES.

Except as otherwise specifically provided herein or required by law, all notices required to be given to any stock holder, director, officer, employee or agent, shall be in writing and may in every instance be effectively given by hand delivery to the recipient thereof, by depositing such notice in the mails, postage paid, by sending such notice by Federal Express or similar overnight courier, by sending such notice by prepaid telegram or mailgram or by sending such notice by telecopy or similar facsimile transmission. Any such notice shall be addressed to such stockholder, director, officer, employee, or

agent at his or her last known address as the same appears on the books of the Corporation. The time when such notice is received, if hand delivered, or dispatched, if delivered through the mails, by overnight courier, by telegram or mailgram, or by telecopy or similar facsimile shall be the time of the giving of the notice.

SECTION 2. WAIVERS.

A written waiver of any notice, signed by a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director, officer, employee or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver.

ARTICLE IX - MISCELLANEOUS

SECTION 1. CORPORATE SEAL.

The Board of Directors may provide a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary. Duplicates of the seal may be kept and used by the Treasurer or Secretary or by an Assistant Secretary or Assistant Treasurer.

SECTION 2. RELIANCE UPON BOOKS, REPORTS AND RECORDS.

Each director, each member of any committee designated by the Board of Directors, and each officer of the Corporation shall, in the performance of his or her duties, be fully protected in relying in good faith upon the books of account or other records of the

Corporation, including reports made to the Corporation by any of its officers, by an independent certified public accountant, or by an appraiser selected with reasonable care.

SECTION 3. FISCAL YEAR.

The fiscal year of the Corporation shall be as fixed by the Board of Directors.

SECTION 4. TIME PERIODS.

In applying any provision of these bylaws which require that an act be done or not done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

ARTICLE X - AMENDMENTS

SECTION 1. AMENDMENTS.

These bylaws may be amended, suspended or repealed in a manner consistent with law at any regular or special meeting of the Board of Directors by vote of a majority of the entire Board or at any stockholders meeting called and maintained in accordance with Article I of these bylaws. Such amendment, suspension or repeal may be evidenced by resolution or as the Board may otherwise deem appropriate.

The Undersigned, Assistant Secretary of RVN, Inc. does hereby certify that the foregoing is a true copy of the bylaws of RVN, Inc. and that the same are in full force and effect as of the date indicated below.

/s/ Thomas A. Ruck

Assistant Secretary

[SEAL]

Dated: November 14, 1996

=====

NVR, INC.
AND
NVR HOMES, INC.,
NVR FINANCIAL SERVICES, INC.
AND
RVN, INC.
as Joint and Several Guarantors

\$160,000,000
11% SENIOR NOTES due 2003

FIRST SUPPLEMENTAL INDENTURE
Dated as of January 7, 1997

IBJ SCHRODER BANK & TRUST COMPANY

as Trustee

FIRST SUPPLEMENTAL INDENTURE dated as of January 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"), as joint and several guarantors, and IBJ 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 (the "Indenture") among NVR, and Homes and NVRFS, as joint and several guarantors, and the Trustee.

RECITALS

WHEREAS, NVR and Homes and NVRFS, 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, RVN has been organized as a Subsidiary of the Company and is the transferee of certain property or assets of the Company; and

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

WHEREAS, in accordance with the provisions of Section 11.05 of the Indenture, RVN 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, RVN, 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 Pledge Amendment dated January 7, 1997, providing for the pledge of 100% of the Capital Stock of RVN, 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 and NVRFS and RVN, 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, RVN, 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 RVN 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 RVN. 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 January 7, 1997

NVR, Inc.
By: /s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice-President

Attest:
/s/ Dennis Seremet (SEAL)

Dated as of January 7, 1997

NVR HOMES, INC., as Guarantor
By: /s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice-President Finance

Attest:
/s/ Dennis M. Seremet (SEAL)

Dated as of January 7, 1997

NVR FINANCIAL SERVICES, INC.,
as Guarantor
By: /s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice-President

Attest:
/s/ Peter F. Fitzsimmons (SEAL)

Dated as of January 7, 1997

RVN, INC., as Guarantor
By: /s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice President

Attest:
Dennis M. Seremet (SEAL)

Dated as of January 7, 1997

IBJ SCHRODER BANK & TRUST
COMPANY, as Trustee
By: /s/ Barbara McCluskey

Name: Barbara McCluskey
Title: Vice President

Attest:
/s/ Anthony Lieggi (SEAL)

PLEDGE AMENDMENT

This Pledge Amendment, dated January 7, 1997, is delivered pursuant to Section 6(h) of the Pledge Agreement referred to below. The undersigned hereby pledges to the Collateral Agent for its benefit and the ratable benefit of the Holders, and grants to the Collateral Agent for its benefit and the ratable benefit of the Holders, a continuing first priority security interest in all of its right, title and interest in the shares of stock listed below.

The undersigned hereby represents and warrants that each representation and warranty set forth in Section 4 of the Pledge Agreement is true and correct as of the date hereof.

The undersigned hereby agrees that this Pledge Amendment may be attached to the Pledge Agreement, dated as of September 30, 1993, between the undersigned and IBJ Schroder Bank & Trust Company, as Collateral Agent (the "Pledge Agreement"); capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Pledge Agreement; and the Collateral listed on this Pledge Amendment shall be deemed to be part of the Collateral, and shall become part of the Collateral and shall secure all Obligations.

NVR, INC.,
a Virginia corporation

By: /s/ Paul C.Saville

Name: Paul C. Saville
Title:Senior Vice-President

Pledged Shares

Issuer -----	Number of Pledged Shares -----	Share Certificate Number -----	Percentage of Outstanding Shares -----
RVN, Inc., a Delaware corporation	1,000	1	100%

SUBSIDIARY GUARANTEE

The Guarantor listed below (hereinafter referred to as the "Guarantor," which term includes any successor or assign under the Indenture (the "Indenture")), has irrevocably and unconditionally guaranteed (i) the due and punctual payment of the principal of, premium, if any, and interest on the 11% Senior Notes due 2003 (the "Securities") of NVR, Inc., a Virginia corporation (the "Company"), whether at stated maturity, by acceleration or otherwise, the due and punctual payment of interest on the overdue principal, and premium, if any, and (to the extent permitted law) interest on any interest, if any, on the Securities, and the due and punctual performance of all other obligations of the Company, to the Securityholders or the Trustee all in accordance with the terms set forth in Article 11 of the Indenture, (ii) in case of any extension of time of payment or renewal of any Securities or any such other obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise, and (iii) the payment of any and all costs and expenses (including reasonable attorneys' fees) incurred by the Trustee or any Securityholder in enforcing any rights under this Subsidiary Guarantee.

The obligations of the Guarantor to the Securityholder and to the Trustee pursuant to this Subsidiary Guarantee and the Indenture are expressly set forth in Article 11 of the Indenture and reference is hereby made to such Indenture for the precise terms of this Guarantee.

No stockholder, officer, director or incorporator, as such, past, present or future of the Guarantor shall have any liability under this Subsidiary Guarantee by reason of his or its status as such stockholder, officer, director or incorporator.

This is a continuing Guarantee and shall remain in full force and effect and shall be binding upon the Guarantor and its successors and assigns until full and final payment of all of the Company's obligations under the Securities and Indenture and shall inure to the benefit of the successors and assigns of the Trustee and the Securityholders and, in the event of any transfer or assignment of rights by any Securityholder or the Trustee, the rights and privileges herein conferred upon that party shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions hereof. This is a Guarantee of payment and not of collectibility.

This Subsidiary Guarantee shall not be valid or obligatory for any purpose until the certificate of authentication on the Security upon which this Subsidiary Guarantee is noted shall have been executed by the Trustee under the Indenture by the manual signature of one of its authorized officers.

The obligations of the Guarantor under its Subsidiary Guarantee shall be limited to the extent necessary to insure that it does not constitute a fraudulent conveyance under applicable law.

THE TERMS OF ARTICLE 11 AND ARTICLE 12 OF THE INDENTURE ARE INCORPORATED HEREIN BY REFERENCE.

Guarantor:

RVN, INC.

Dated: January 7, 1997

By: /s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice President

SECOND AMENDED AND RESTATED LOAN AGREEMENT

AMONG

NVR MORTGAGE FINANCE, INC.

A VIRGINIA CORPORATION,

BANK ONE, TEXAS, N.A.,

AS AGENT,

AND

THE LENDERS PARTY HERETO

JUNE 13, 1996

AS AMENDED THROUGH AUGUST 23, 1996

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SECOND AMENDED AND RESTATED LOAN AGREEMENT

THIS AGREEMENT is made and entered into as of June 13, 1996, between NVR MORTGAGE FINANCE, INC., a Virginia corporation (the "BORROWER"), the several Persons listed on the signature pages to this agreement as Lenders, whether as original signatories or pursuant to SECTION 11.11(C) hereto (collectively, the "LENDERS" and each individually a "LENDER"), and Bank One, Texas, N.A. ("AGENT"), as agent for Lenders hereunder.

A. Borrower, Agent and Lenders are parties to that certain Loan Agreement dated as of April 30, 1993 (the "ORIGINAL LOAN AGREEMENT") as modified and amended by various agreements and amended and restated by the Amended and Restated Loan Agreement dated as of November 1, 1993 (as modified and amended, the "EXISTING LOAN AGREEMENT").

B. Borrower, Agent, and Lenders wish to amend and restate the Existing Loan Agreement in its entirety.

Accordingly, for adequate and sufficient consideration, Borrower, Lenders, and Agent renew, extend, and entirely amend and restate the Existing Loan Agreement as follows:

SECTION 1. DEFINITIONS AND REFERENCES. Unless stated otherwise, the following provisions apply to each Loan Document and annexes, exhibits, and schedules to them and certificates, reports, and other writings delivered under them.

1.1 DEFINITIONS.

ADDITIONAL LENDER means any Person party to this agreement as a Lender which was not a Lender on the Agreement Date.

ADJUSTED CASH FLOW of Borrower for the twelve-month period ending on the date of determination means the amount equal to (a) the Cash Flow of Borrower for such period plus (b) the amount of any non-cash additions included in the Net Income of Borrower for such period which were subtracted from such Net Income in determining the Cash Flow of Borrower for such Period plus (c) 1% of the amount, if any, by which the aggregate outstanding principal balance of the Mortgage Loans included in the Servicing Portfolio of Borrower as of the last day of such period exceeds the aggregate outstanding principal balance of the Mortgage Loans included in the Servicing Portfolio of Borrower as of the last day of the twelve-month period ending on the date one year prior to such date of determination.

ADJUSTED CURRENT RATIO is the ratio referred to in SECTION 7.10.

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.

ADJUSTED TANGIBLE NET WORTH of Borrower means, as of any date of determination, the amount equal to (x) the sum of (i) the Net Worth of Borrower plus (ii) the amount equal to 1% of the amount equal to the aggregate outstanding principal balance of Mortgage Loans included in the Servicing Portfolio of Borrower minus (y) the Intangible Assets of Borrower, each determined as of such date.

ADVANCE means a Warehouse Advance or a Swing Advance.

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 10% or more of the securities having ordinary power for the election of directors of such Person.

AFFILIATE NOTE means that certain subordinated demand revolving credit note issued pursuant to the Existing Loan Agreement by Borrower payable on demand to the order of NVR Financial Services, Inc., dated as of the date indicated thereon from time to time, as amended, modified, or extended from time to time, a true and correct copy of which is attached as EXHIBIT P.

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, Texas, N.A. in its capacity as document custodian on behalf of an 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.

AGENCY SERVICING AGREEMENTS means Servicing Agreements between Borrower and FNMA, FHLMC, or GNMA pursuant to which Borrower undertakes to service Mortgage Loans or pools of Mortgage Loans owned, insured or guaranteed by FNMA, FHLMC or GNMA.

AGENCY SERVICING RECORDS means all Servicing Records which pertain to the Agency Servicing Agreements.

AGENCY SERVICING RIGHTS means all of Borrower's right, title and interest in and under the Agency Servicing Agreements, including, without limitation, the rights of Borrower to income and reimbursement thereunder.

AGENT means, at any time, Bank One, Texas, N.A. -- or its successor appointed under SECTION 9 -- acting as agent for Lenders under the Loan Documents. References to Agent in respect of Swing Advances mean that institution in its individual capacity. Agent is the representative of Lenders within the meaning of (S)9.105(a)(13) of the UCC for purposes of the Loan Documents and the UCC.

AGENT FEE LETTER means that certain letter from Agent to Borrower dated as of the date of this agreement, as agreed to by Borrower and amended, modified or supplemented from time to time.

AGREEMENT DATE means the date set forth as such on the counterpart signature page of Agent for this Second Amended and Restated Loan Agreement.

ALLOCATED has the meaning specified in SECTION 3.4(B).

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.

AVAILABLE AVERAGE EQUIVALENT AMOUNT means, for a particular Computation Period, so much of the Average Equivalent Amount for such Computation Period as has not been allocated to any other agreement to which Agent and Borrower are parties. For purposes of this definition, the Average Equivalent Amount shall be deemed to be allocated to an agreement to which Agent and Borrower are parties to the extent that such Average Equivalent

Amount is utilized to reduce the obligations payable by Borrower under such agreement or to create or increase an obligation on the part of Agent to pay on behalf of Borrower the obligations of Borrower under such agreement.

AVERAGE AGGREGATE DOMESTIC RATE ADVANCES means, for a particular Computation Period, the amount equal to (a) the sum of the aggregate outstanding Domestic Rate Advances of all Lenders for each day in such Computation Period divided by (b) the number of days in such Computation Period.

AVERAGE AGGREGATE GESTATION ADVANCES means, for a particular Computation Period, the least of (a) \$35,000,000, (b) the Average Aggregate Domestic Rate Advances for such Computation Period and (c) the product of (i) the fraction which is the reciprocal of 0.98 and (ii) the Average Collateral Value of Eligible Gestation Mortgage Loans for such Computation Period.

AVERAGE AVAILABLE DEPOSITS means, for a particular Deposit Holding Lender for a particular Computation Period, the average deposits in the name of Borrower which may be used to buy down the interest rate payable by Borrower for such Computation Period pursuant to the Other Writing between such Deposit Holding Lender and Borrower.

AVERAGE BASE RATE means, for a particular Computation Period, the per annum rate of interest equal to (a) the sum of the Base Rate for each day during such Computation Period divided by (b) the number of days in such Computation Period.

AVERAGE COLLATERAL VALUE OF ELIGIBLE GESTATION MORTGAGE LOANS means, for a particular Computation Period, the amount equal to (a) the sum of the Collateral Value of all Eligible Gestation Mortgage Loans for each day during such Computation Period divided by (b) the number of days in such Computation Period.

AVERAGE CONSTRUCTION ADVANCES means, for a particular Lender for a particular Computation Period, the amount equal to (a) the sum of the Collateral Value of all Construction Loans which are Eligible Mortgage Loans for each day during such Computation Period divided by (b) the number of days in such Computation Period.

AVERAGE DOMESTIC RATE ADVANCES means, for a particular Lender for a particular Computation Period, the amount equal to (a) the sum of the outstanding Domestic Rate Advances of such Lender for each day in such Computation Period divided by (b) the number of days in such Computation Period.

AVERAGE EQUIVALENT AMOUNT means, for a particular Computation Period, the amount equal to (a) the sum of the Equivalent Amount for each day during the 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 GESTATION ADVANCES means, for a particular Lender for a particular Computation Period, the pro-rata share of such Lender of the Average Aggregate Gestation Advances for such Computation Period, calculated on the basis of the Average Domestic Rate Advances of Lenders for such Computation Period.

AVERAGE REGULAR ADVANCES means, for a particular Lender for a particular Computation Period, the amount equal to (a) the Average Domestic Rate Advances of such Lender for such Computation Period minus (b) the Average Gestation Advances of such Lender for such Computation Period.

BAILEE LETTER AND TRUST RECEIPT means a bailee letter and trust receipt substantially in the form of EXHIBIT G or such other form, including any form required by an Agency and acceptable to Agent, as to which Borrower and Agent may agree.

BAILEE LETTER AND TRUST RECEIPT (SERVICING) means a bailee letter and trust receipt substantially in the form of EXHIBIT H or such other form as to which Borrower and Agent may agree.

BANK ADDITION AGREEMENT means a Bank Addition Agreement in the form attached hereto as EXHIBIT L, together with such changes as Agent and Lenders executing a particular Bank Addition Agreement may require. Bank Addition Agreement with respect to a particular Additional Lender means the Bank Addition Agreement by which such Additional Lender became a Lender.

BASE RATE means the per annum rate of interest established by Agent from time to time as its corporate base rate (which rate may not be the lowest rate of interest charged by Agent on loans similar to the loans contemplated by this agreement).

BORROWER has the meaning specified in the preamble of this agreement.

BORROWING means a borrowing consisting of (a) Advances (other than a Swing Advance) by Lenders in connection with a Borrowing Request, or (b) a Swing Advance by Agent in connection with a Borrowing Request.

BORROWING BASE as of any time of determination means the sum of:

- (a) The aggregate Collateral Value of all Eligible Gestation Mortgage Loans;
- (b) the aggregate Collateral Value of all Eligible Mortgage Loans;
- (c) the aggregate Collateral Value of all Eligible Wet Mortgage Loans; and
- (d) the aggregate Collateral Value of all Eligible Mortgage-Backed Securities;

provided, that for purposes of determining the Borrowing Base, the maximum Collateral Value at any time attributable to (u) Construction Loans shall be \$5,000,000, (v) Jumbo Loans and Super Jumbo Loans (without regard to Face Amount or whether such Jumbo Loans and Super Jumbo Loans are Eligible Mortgage Loans or Eligible Wet Mortgage Loans) shall be 20% of the then Total Commitment, (w) Super Jumbo Loans (without regard to Face Amount or whether such Super Jumbo Loans are Eligible Mortgage Loans or Eligible Wet Mortgage Loans) shall be \$5,000,000, (x) Wet Mortgage Loans shall be the then Special Borrowing Limit, (y) Section 107 Mortgage Loans shall be \$5,000,000, and (z) Investment Mortgage Loans shall be \$5,000,000, \$500,000 of which may be used to finance REO.

BORROWING BASE REPORT means a report substantially in the form of EXHIBIT I.

BORROWING DATE means the date on which the Advance or Advances in respect of a Borrowing are to be made, as identified by Borrower in the relevant Borrowing Request and by Agent in the relevant Borrowing Notice.

BORROWING NOTICE means a notice, substantially in the form of EXHIBIT C or such other form as to which Agent and Lenders may agree.

BORROWING REQUEST means a request, substantially in the form of EXHIBIT B (or such other form as to which Borrower and Agent may agree), for a Borrowing pursuant to SECTION 2.

BUILDER BORROWING means a Borrowing the proceeds of which are to be wired directly to the builder(s) from whom the mortgagor(s) under the related Mortgage Loan(s) purchased their residence(s).

BUILDER MORTGAGE LOAN means a Mortgage Loan financed with a Builder Borrowing.

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 one or more of the State of Texas and the states in which the offices of Lenders (as set forth in SCHEDULE 1.1(A), as amended from time to time) then party to this agreement are located.

CASH EQUIVALENTS means Eligible Deposits, Eligible Commercial Paper, and U.S. Government Securities.

CASH FLOW of Borrower for the twelve-month period ending on the date of determination means the amount equal to the Net Income of Borrower for such period plus all non-cash charges against income (such as deferred taxes, depreciation and amortization of goodwill and acquisition of servicing rights) and minus all non-cash additions to income included in the Net Income of Borrower for such period.

CODE means the Internal Revenue Code of 1986, as amended from time to time.

COLLATERAL has meaning specified in SECTION 3.1.

COLLATERAL PLEDGE CERTIFICATE means a Collateral Pledge Certificate (Dry) or a Collateral Pledge Certificate (Wet, Builder or Funding Draft).

COLLATERAL PLEDGE CERTIFICATE (DRY) means a certificate substantially in the form of EXHIBIT D-1 or such other form as to which Borrower and Agent may agree.

COLLATERAL PLEDGE CERTIFICATE (WET, BUILDER OR FUNDING DRAFT) means a certificate substantially in the form of EXHIBIT D-2 or such other form as to which Borrower and Agent may agree.

COLLATERAL VALUE means:

(a) With respect to a pool of Eligible Gestation Mortgage Loans, an amount equal to 99% of the Take-Out Price for such pool of Eligible Gestation Mortgage Loans; provided, that to the extent that the aggregate Collateral Value for all pools of Eligible Gestation Mortgage Loans is greater than \$35,000,000, such pools of Eligible Gestation Mortgage Loans in excess of \$35,000,000 Collateral Value shall be attributed Collateral Value as if they consisted of Eligible Mortgage Loans rather than Eligible Gestation Mortgage Loans;

(b) (I) with respect to an Eligible Mortgage Loan (other than Investment Mortgage Loans and Construction Loans), an amount equal to 98% of the least of (i) the Cost of such Eligible Mortgage Loan, (ii) the Weighted Average Take-Out Price of such Eligible Mortgage Loan, (iii) the Face Amount of such Eligible Mortgage Loan, and (iv) if Agent or the Required Lenders shall so require, the Market Value of such Eligible Mortgage Loan; (II) with respect to an Investment Mortgage Loan, an amount equal to 80% of the unpaid principal balance of such Investment Mortgage Loan, unless such Mortgage Loan has become REO, in which case, an amount equal to 75% of the lesser of the unpaid principal balance of the Investment Mortgage Loan or the Appraisal of the REO; and (III) with respect to a Construction Loan, an amount equal to 90% of the Face Amount of such Construction Loan to the extent that such amount does not exceed (i) 80% of the contract price of the subject property or (ii) 90% of hard cost;

(c) with respect to an Eligible Wet Mortgage Loan, an amount equal to 98% of the least of (i) the Cost of such Eligible Wet Mortgage Loan, (ii) the Weighted Average Take-Out Price of such Eligible Wet Mortgage Loan, (iii) the Face Amount of such Eligible Wet Mortgage Loan and (iv) if Agent or the Required Lenders shall so require, the Market Value of such Eligible Wet Mortgage Loan; and

(d) 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 Wet Mortgage Loan, an Eligible Mortgage Loan, an Eligible Gestation Mortgage Loan or an Eligible Mortgage-Backed Security shall have a Collateral Value of zero; provided, that any item of Collateral which ceases to be an Eligible Wet Mortgage Loan, an Eligible Mortgage Loan or an Eligible Gestation Mortgage Loan and becomes an Eligible Mortgage Loan, an Eligible Gestation Mortgage Loan or part of an Eligible Mortgage-Backed Security shall be valued as whichever of such items it has become.

COMMITMENT as to a Lender means the obligation of such Lender to make Advances to Borrower pursuant to SECTION 2.1 hereof in an aggregate amount not to exceed such Lender's Commitment Amount.

COMMITMENT AMOUNT as to a Lender means the amount set forth on SCHEDULE 1.1(A) as such Lender's Commitment Amount.

COMPANY CDS NUMBER means the number assigned by Borrower to facilitate the origination of a Mortgage Loan and the processing of such Mortgage Loan in cooperation with the branch of Borrower or other Person originating such Mortgage Loan.

COMPANY LOAN NUMBER means the number assigned by Borrower to a Mortgage Loan to facilitate the servicing of such Mortgage Loan by Borrower and the delivery, holding and transfer of Mortgage Documents relevant to such Mortgage Loan pursuant to this agreement.

COMPUTATION PERIOD means a calendar month during the term of this agreement, or if applicable for the first month during the term of this agreement and the month which includes the Termination Date, the period during such month when one or more of the Commitments is in effect.

CONFORMING LOAN means a loan, excluding FHA Loans and VA Loans, which complies with all applicable requirements for purchase under the FNMA or FHLMC standard form of conventional mortgage purchase contract then in effect.

CONSTRUCTION LOAN means a Mortgage Loan that is otherwise an Eligible Mortgage Loan but (i) which may be partially funded if fewer than four Advances have been made with respect to the promissory note for the subject property, (ii) which may be included in the Collateral for up to 360 days (not more than 180 days as a Construction Loan), and (iii) for which Borrower has delivered Construction Loan Documents.

CONSTRUCTION LOAN DOCUMENTS means, in addition to Principal Mortgage Documents and Other Mortgage Documents, (i) a copy of an Appraisal on the subject property, (ii) a copy of the contract for sale on the subject property, and (iii) a copy of the builder's draw request/non-start of construction affidavit.

CONTRIBUTED SERVICING RIGHTS means the rights to service the Mortgage Loans and pools of Mortgage Loans identified on SCHEDULE 1.1(D).

CORRECTION NOTE has the meaning specified in SECTION 3.5.

COST with respect to Mortgage Loan means, as applicable, the actual out-of-pocket cost to Borrower of such Mortgage Loan or, if such Mortgage Loan was originated by Borrower, the original principal amount of such Mortgage Loan minus any discount points paid to Borrower in respect of such Mortgage Loan.

CUSTODIAL FEE LETTER means that certain letter from Agent to Borrower dated as of the date of this agreement, as agreed to by Borrower and amended, modified, or supplemented from time to time.

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.

DELINQUENT with respect to any Mortgage Loan means that any payment in respect of such Mortgage Loan is more than 30 days past due.

DEPOSIT HOLDING LENDERS means Lenders other than Bank One, Texas, N.A. which both (a) hold deposits in accounts in the name of Borrower and (b) have entered into an Other Writing with Borrower.

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 Permitted Servicing Proceeds Distributions; 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.

DOCUMENT DELIVERY TIME has the meaning specified in SECTION 2.3(B)(III).

DOLLARS means lawful money of the United States of America.

DOMESTIC RATE ADVANCE means any Advance which bears interest in accordance with the provisions of SECTION 2.12(B) or 2.12(C).

DRAFT ACCOUNT means the non-interest bearing demand deposit account (Account Number 9300000040) established by Borrower with Agent to be used for (i) the deposit of money in accordance with SECTION 3.6(F) and the Funding Draft Procedures; (ii) disbursements on behalf of Borrower in accordance with the Funding Draft Procedures; and (iii) the payment of the Obligations.

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 & Poors and P-1 or the equivalent thereof by Moody's.

ELIGIBLE DEPOSITS means time deposits and certificates of deposit of any Lender or 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 & Poors 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 GESTATION MORTGAGE LOAN means a Mortgage Loan: (a) In which Agent has a perfected first-priority security interest for the benefit of Lenders to secure the Obligations; (b) which (i) has been Allocated to an Agency Commitment; (ii) is part of a pool which the Agency Custodian has certified (or initially certified) to the Agency obligated under such Agency Commitment; and (iii) together with the other Mortgage Loans which have been Allocated to such Agency Commitment, satisfies all requirements for delivery under such Agency Commitment; (c) with respect to which the Mortgage-Backed Security to be issued or guaranteed pursuant to such Agency Commitment will, upon the issuance thereof, constitute an Eligible Mortgage-Backed Security; and (d) with respect to which Borrower has elected pursuant to SECTION 3.4(B) to have the pool which includes such Mortgage Loan attributed Collateral Value as a pool of Eligible Gestation Mortgage Loans rather than as individual Eligible Mortgage Loans.

ELIGIBLE MORTGAGE-BACKED SECURITY means a Mortgage-Backed Security: (a) in which Agent has a perfected first-priority security interest for the benefit of Lenders to secure the Obligations; (b) which (i) evidences an undivided interest in a pool of Mortgage Loans which constituted Eligible Gestation Mortgage Loans or Eligible Mortgage Loans immediately prior to the issuance of such Mortgage-Backed Security; (ii) has been Allocated to a Take-Out Commitment; (iii) satisfies all requirements for delivery under such Take-Out Commitment and (iv) has not been owned by Borrower for more than five (5) Business Days; and (c) with respect to which the Investor under the Take-Out Commitment to which such Mortgage-Backed Security has been Allocated is not in default or in breach of its obligations under such Take-Out Commitment.

ELIGIBLE MORTGAGE LOAN means a Mortgage Loan (other than an Eligible Gestation Mortgage Loan): (a) in which Agent has been granted and continues to hold a perfected first-priority security interest for the benefit of Lenders; (b) which (i) has been fully funded except in the case of Construction Loans, (ii) is "covered" (within the meaning given to such term in SECTION 6.20) by a Take-Out Commitment, except in the case of Investment Mortgage Loans and Construction Loans, (iii) has not been included in the Collateral for more than 120 days, except in the case of Investment Mortgage Loans and Construction Loans, (iv) has not previously been sold to an Investor and repurchased by Borrower other than pursuant to a Section 107 Repurchase and (v) except in the case of Investment Mortgage Loans, is not Delinquent or, to Borrower's knowledge, otherwise in default; and (c) with respect to which (i) except in the case of Investment Mortgage Loans and Construction Loans, no more than 210 days have elapsed since the funding of such Mortgage Loan or, if such Mortgage Loan has been repurchased by Borrower pursuant to a Section 107 Repurchase, no more than 210 days have elapsed since the date of such Section 107 Repurchase, (ii) there is an Appraisal which complies with all applicable Appraisal Laws and Regulations and (iii) Agent holds the Principal Mortgage Documents or, if any of such Principal Mortgage Documents have been delivered to an Investor pursuant to SECTION 3.4(D) or the Mortgage Note has been delivered to Borrower pursuant to SECTION 3.5, no more

than 45 days have elapsed since the delivery of such Principal Mortgage Documents or no more than 15 days have elapsed since the delivery of such Mortgage Note. A Funding Draft Mortgage Loan shall not constitute an Eligible Mortgage Loan until such time, if any, as Final Payment of the related Funding Draft has occurred and each of the other requirements set forth in the preceding sentence is satisfied.

ELIGIBLE WET MORTGAGE LOAN means a Wet Mortgage Loan with respect to which the Document Delivery Time has not passed and which, but for the fact that the Principal Mortgage Documents have not been delivered to Agent (and if not already fully funded, upon the full funding thereof) would constitute an Eligible Mortgage Loan.

EQUIVALENT AMOUNT for any day means the amount equal to (a) the sum of the collected balances in the Qualified Accounts less (b) the sum of (i) amounts necessary to satisfy reserve and deposit insurance requirements, (ii) amounts required to compensate Agent for services rendered in accordance with Agent's system of charges for services to similar accounts, and (iii) amounts required to compensate Agent for other services or products provided by Agent to Borrower, in each case for such day.

ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.

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 Agent 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 Agent or, if no such other service is available, such rate as determined by Agent 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 DRY COLLATERAL VALUE at any time means the amount equal to (a) the aggregate Collateral Value of all Eligible Gestation Mortgage Loans, all Eligible Mortgage Loans and all Eligible Mortgage-Backed Securities at such time minus (b) the aggregate outstanding principal amount of all Borrowings (other than Special Borrowings with respect to which the Principal Mortgage Documents have not yet been delivered to Agent).

EXCESS SPECIAL BORROWING means circumstances in which the Special Borrowing Amount is greater than the Special Borrowing Limit.

EXISTING LOAN AGREEMENT has the meaning specified in the preamble.

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 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 Agent.

FEE AND INTEREST PAYMENT DATE in respect of a particular Computation Period or Quarterly Computation Period means the earlier to occur of (a) the Termination Date and (b) the 15th day of the subsequent Computation Period or Quarterly Computation Period, as applicable.

FHA means the Federal Housing Administration, or any successor thereto.

FHA LOAN means a loan, payment of which is partially or completely insured by the FHA or with respect to which there is a current, binding and enforceable commitment for such insurance issued by the FHA.

FHLMC means the Federal Home Loan Mortgage Corporation, or any successor thereto.

FHLMC ACKNOWLEDGMENT means the form of acknowledgment agreement required by FHLMC to be executed as a condition to the creation of a security interest in Agency Servicing Rights pertaining to FHLMC.

FHLMC GUIDE means the FHLMC Sellers' & Servicers' Guide as amended, modified, or supplemented from time to time.

FHLMC SECURITIES means participation certificates representing undivided interests in mortgage loans purchased by FHLMC pursuant to the Emergency Home Finance Act of 1970, as amended.

FINAL PAYMENT has the meaning given to such term in (S)4.213(a) of the UCC.

FNMA means the Federal National Mortgage Association, or any successor thereto.

FNMA ACKNOWLEDGMENT means the form of acknowledgment agreement required by FNMA to be executed as a condition to the creation of a security interest in Agency Servicing Rights pertaining to FNMA.

FNMA GUIDE means the FNMA Selling Guide and the FNMA Servicing Guide as amended, modified or supplemented from time to time.

FNMA SECURITIES means modified pass-through mortgage-backed certificates guaranteed by FNMA pursuant to the National Housing Act, as amended.

FUNDING ACCOUNT means the non-interest bearing demand deposit account (Account Number 0100131507) established by Borrower with Agent to be used for (i) the deposit of proceeds of Advances and proceeds from the sale of Mortgage Loans and Mortgage-Backed Securities, (ii) disbursements to or on behalf of Borrower in accordance with SECTION 3.6, and (iii) the payment of the Obligations.

FUNDING DRAFT means a payable through draft issued by Borrower against the Draft Account, which payable through draft was issued by Borrower in lieu of cash payment by or on behalf of Borrower or delivery of a certified check by or on behalf of Borrower in connection with the closing of a Mortgage Loan.

FUNDING DRAFT BORROWING means a Borrowing the proceeds of which are to be used by Agent to make Final Payment of a Funding Draft in accordance with the Funding Draft Procedures. A Funding Draft Borrowing with respect to which the corresponding Principal Mortgage Documents have not been delivered to Agent shall constitute a Special Borrowing as well as a Funding Draft Borrowing.

FUNDING DRAFT MORTGAGE LOAN means a Mortgage Loan with respect to which Borrower delivered a Funding Draft to cover amounts due from Borrower in respect of the closing of such Mortgage Loan.

FUNDING DRAFT PROCEDURES means such procedures regarding Funding Drafts as to which Borrower and Agent may from time to time agree. As between Borrower and Agent, this agreement and the other Loan Documents, the terms of the Funding Draft Procedures shall be controlling.

GAAP means generally accepted accounting principles in effect in the United States on the Agreement Date.

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 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 OBLIGATION 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 therefore;
- (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 Obligation shall not include (x) endorsements in the ordinary course of business of negotiable instruments or documents for deposit or collection, (y) obligations under the FNMA Guide, the FHLMC Guide, the GNMA Guide and the related Servicing Agreements 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, or (z) Ordinary Recourse Obligations. 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.

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 the United States of America.

INVESTMENT has the meaning specified in SECTION 7.6.

INVESTMENT LINE OF CREDIT INDEBTEDNESS means Indebtedness of Borrower which satisfies each of the following criteria:

- (i) the payee with respect thereto is a Lender;
- (ii) the proceeds thereof are used solely to purchase Cash Equivalents with a current maturity of 31 days or less;
- (iii) the repayment of such Indebtedness is secured by a Lien on the Cash Equivalents purchased with the proceeds thereof and by no other Lien on the Property of Borrower; and
- (iv) the aggregate principal amount of such Indebtedness at any one time outstanding to all Lenders does not exceed the amount equal to the Total Commitment at such time.

INVESTMENT MORTGAGE LOAN means a Mortgage Loan that is otherwise an Eligible Mortgage Loan but (i) for which there is no applicable Take-Out Commitment, (ii) which may be included in the Collateral for up to 364 days, (iii) which may be Delinquent; and (iv) in respect of which more than 210 days may have lapsed since the funding of such Mortgage Loan.

INVESTOR means each Person listed on SCHEDULE 1.1(B), as the same may be amended or supplemented from time to time pursuant to SECTION 11.2(B).

JUMBO LOAN means a Mortgage Loan, the original principal amount of which is greater than the Maximum Conforming Amount but no greater than \$500,000, which complies with all applicable requirements for purchase under either (a) the FNMA or FHLMC standard form of conventional mortgage purchase contract then in effect, except that the amount of such loan is greater than the maximum loan amount under such requirements, or (b) a Take-Out Commitment.

LENDER and LENDERS shall have the meanings specified in the preamble of this agreement.

LENDER GESTATION FINANCING AGREEMENT means an agreement between Borrower and any Lender pursuant to which Borrower finances Mortgage Loans which have been or are ready to be certified to back Mortgage-Backed Securities, including without limitation that certain Uncommitted Gestation Financing Agreement, dated as of March 15, 1996, between Borrower and Bank One, Texas, N.A.

LENDER GESTATION FINANCING AGREEMENT INDEBTEDNESS means Indebtedness under any Lender Gestation Financing Agreement.

LENDER GESTATION FINANCING AGREEMENT LIENS means Liens granted pursuant to a Lender Gestation Financing Agreement on Mortgage Loans (and the proceeds thereof) sold by Borrower thereunder and on no other property of Borrower.

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 uniform commercial code 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 Notes, 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 any Lender Gestation Financing Agreement, a Lender Gestation Financing Agreement is not a Loan Document.

MARKET VALUE means:

(a) With respect to any Mortgage Loan other than a Jumbo Loan or a Super Jumbo Loan, the market value of such Mortgage Loan as determined by Agent based upon the then most recent posted net yield for thirty-day mandatory future delivery furnished by FNMA and published and distributed by Telerate Mortgage Services or, if such posted net yield is not available from Telerate Mortgage Services, obtained from FNMA by Agent; and

(b) with respect to any Mortgage Loan (including any Jumbo Loan or any Super Jumbo Loan) for which the posted net yield for thirty-day mandatory future delivery is not furnished by FNMA, the bid price for thirty-day mandatory future delivery quoted by a broker of recognized standing selected by Agent.

MATERIAL ADVERSE EFFECT means any material adverse effect on (i) the validity or enforceability of this agreement, any Note or any other Loan Document, (ii) the business, operations, total Property or financial condition of Borrower, (iii) the collateral under any Security Instrument, (iv) the enforceability or priority of the Lien in favor of Agent for the benefit of Lenders on the collateral under any Security Instrument, or (v) the ability of Borrower timely to perform the Obligations.

MAXIMUM CONFORMING AMOUNT for a particular Mortgage Loan means the maximum principal amount for any Mortgage Loan which is eligible for purchase by whichever of FNMA or FHLMC has the higher maximum principal amount for Mortgage Loans secured by Mortgages on property located in the state or region where the property covered by the Mortgage related to the Mortgage Loan in question is located.

MAXIMUM CORRECTION AMOUNT means \$2,000,000.

MAXIMUM RATE has the meaning specified in SECTION 11.9.

MOODY'S means Moody's Investors Service, Inc.

MORTGAGE means a mortgage or deed of trust, on a standard form approved by VA, FHA, FNMA or FHLMC or other form approved in writing by the Required Lenders, which grants, as security for a Mortgage Loan, a perfected first-priority lien on residential real property consisting of land and a one-to-four family dwelling thereon which is completed and ready for occupancy.

MORTGAGE-BACKED SECURITIES means FNMA Securities, FHLMC Securities and GNMA Securities.

MORTGAGE COLLATERAL means, at any time, Mortgage Loans and Mortgage-Backed Securities then subject to a Lien in favor of Agent for the benefit of Lenders.

MORTGAGE DOCUMENT DELIVERY REQUEST (SERVICING) means a request substantially in the form of EXHIBIT F or such other form as to which Borrower and Agent may agree.

MORTGAGE DOCUMENTS means, for any Mortgage Loan, the Principal Mortgage Documents, the Other Mortgage Documents, and, if applicable, the Construction Loan Documents relevant thereto.

MORTGAGE FILE means the Mortgage File Summary and the Principal Mortgage Documents relevant to a Pledged Mortgage Loan.

MORTGAGE FILE SUMMARY means a summary setting forth the pertinent information for the Principal Mortgage Documents relevant to a Pledged Mortgage Loan.

MORTGAGE LOAN means an FHA Loan, VA Loan, Conforming Loan, Investment Mortgage Loan, Construction Loan, Jumbo Loan or Super Jumbo Loan (i) which is secured by a Mortgage and has a maximum term to maturity of thirty years and (ii) is not a commercial loan or -- except as otherwise permitted by this agreement -- a construction loan.

MORTGAGE LOAN DELIVERY REQUEST means a request substantially in the form of EXHIBIT E-2 or such other form as to which Borrower and Agent may agree.

MORTGAGE LOAN DELIVERY REQUEST AND ALLOCATION NOTICE means a request substantially in the form of EXHIBIT E-1 or such other form as to which Borrower and Agent may agree.

MORTGAGE NOTE means a promissory note, on a standard form approved by VA, FHA, FNMA or FHLMC or other form approved in writing by the Required Lenders, 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 INCOME of Borrower for any period means the net income (after taxes) which would appear on an income statement of Borrower for such period prepared in accordance with GAAP.

NET WORTH of Borrower means, as of any date of determination, the sum of (a) the total stockholder'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.

NEW WET MORTGAGE LOAN means a Mortgage Loan identified as a New Wet Mortgage Loan on a Collateral Pledge Certificate (Wet, Builder or Funding Draft).

NOTES means the Warehouse Promissory Notes and the Swing Promissory Note.

NOTICE OF CONVERSION has the meaning specified in SECTION 2.12(K)(IV).

OBLIGATIONS means all of the present and future indebtedness, obligations, and liabilities of Borrower to Agent and Lenders, 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 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.

OPERATING ACCOUNT means the non-interest bearing demand deposit account (Account Number 0100131515) established by Borrower with Agent, which account, subject to the provisions of SECTION 3.6, is subject to the sole dominion and control of Borrower.

ORDINARY RECOURSE OBLIGATION means an obligation of Borrower to purchase a Mortgage Loan serviced by Borrower pursuant to a Servicing Agreement in the event that:

(a) a material representation or warranty given by Borrower at the time of the sale of such Mortgage Loans proves to have been false or incorrect in any material respect when given;

(b) Borrower fails timely to perform its servicing obligations with respect thereto;

(c) such Mortgage Loan is being serviced on behalf of FNMA or FHLMC and the obligor on such Mortgage Loan fails timely to make any payment due in connection therewith in the four-month period commencing on the date of funding of such Mortgage Loan;

(d) such Mortgage Loan is an adjustable rate Mortgage Loan which is being serviced on behalf of FNMA and the obligor on such Mortgage Loan is exercising its right to convert the interest rate on such Mortgage Loan to a fixed rate; or

(e) such Mortgage Loan is being serviced on behalf of GNMA and the obligor on such Mortgage Loan fails timely to make any payment due in connection therewith in the four-month period commencing on the date of issuance of the GNMA Security backed by such Mortgage Loan.

ORIGINAL LOAN AGREEMENT has the meaning specified in the preamble.

OTHER MORTGAGE DOCUMENTS has the meaning specified in SECTION 3.2.

OTHER WRITING has the meaning specified in SECTION 2.12(G).

OVERLINE INDEBTEDNESS means Indebtedness of Borrower provided that (i) the payee with respect thereto is a Lender or Lenders; and (ii) the aggregate principal amount of such Overline Indebtedness to all Lenders does not exceed \$20,000,000.

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 Borrower means transactions with Affiliates of Borrower (a) which comply in all respects with SECTION 7.14 without regard to the proviso to such Section, 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 (including Liens granted on the Collateral pursuant to the Security Agreement in connection with the Original Loan Agreement or the Existing Loan Agreement);

(b) Liens on the Collateral permitted under SECTION 7.8(D) and Liens on Take-Out Commitments no longer included in the Collateral permitted under SECTIONS 3.12 and 7.8(C);

(c) rights of FNMA, FHLMC and GNMA in each case in the Agency Servicing Rights in connection with the Agency Servicing Agreements under which Borrower services Mortgage Loans on behalf of such Person, arising under the FNMA Guide, the FHLMC Guide or the GNMA Guide, as applicable, and rights of any Person counterpart to a Servicing Agreement other than an Agency Servicing Agreement in the Servicing Rights arising thereunder;

(d) tax and other Liens permitted under SECTION 6.2;

(e) Liens in respect of office equipment (including without limitation computers) leased or purchased by Borrower for an aggregate amount no greater than \$1,500,000;

(f) Liens in respect of claims regarding labor, materials, services and supplies provided in connection with REO;

(g) Liens on REO of the type permitted as exceptions under Part IV, Section 105.05 of the FNMA Guide (Selling) and Section 1704 of the FHLMC Guide;

(h) Liens to secure obligations of Borrower in respect of workers compensation and other labor laws;

(i) Liens in respect of appeal or performance bond reimbursement obligations of Borrower undertaken in the ordinary course of business;

(j) Repurchase Agreement Liens;

(k) Lender Gestation Financing Agreement Liens;

(l) Liens on Property not included in the Collateral which secure Investment Line of Credit Indebtedness incurred to finance the acquisition of such Property; and

(m) Liens to secure the Overline Indebtedness.

provided, that Liens described in clauses (f), (h) and (i) of this definition shall not constitute Permitted Liens to the extent that the failure of Borrower timely to perform the underlying obligations, individually or in the aggregate, would constitute a Material Adverse Effect.

PERMITTED RETURNS OF CAPITAL means Returns of Capital which are permitted under SECTION 7.13.

PERMITTED SERVICING PROCEEDS DISTRIBUTIONS means Servicing Proceeds Distributions 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.

PLEGGED MORTGAGE LOAN means a Mortgage Loan identified in a Collateral Pledge Certificate as a Mortgage Loan in which Borrower is granting Agent a security interest for the benefit of Lenders to secure the Obligations.

PRINCIPAL MORTGAGE DOCUMENTS has the meaning specified in SECTION 3.2.

PROPERTY means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

QUALIFIED ACCOUNTS means non-interest bearing accounts maintained in the name of Borrower with Agent with respect to which the sums on deposit from time to time therein do not constitute demand deposits, as such term is defined in Regulation Q of the Board of Governors of the Federal Reserve System.

QUARTERLY COMPUTATION PERIOD means (a) for the first Quarterly Computation Period hereunder, the period commencing on the Agreement Date and ending on the earlier to occur of (i) June 30, 1996 and (ii) the Termination Date, and (b) for any other Quarterly Computation Period, the period commencing on the day after the last day of the preceding Quarterly Computation Period and ending on the earlier to occur of (i) the last day of the third calendar month in such Quarterly Computation Period and (ii) the Termination Date.

REGULATION D means Regulation D of the Board of Governors of the Federal Reserve System.

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).

RELEASED NOTE has the meaning specified in SECTION 3.5.

REO means real estate owned by Borrower as the result of foreclosure or other process in lieu of foreclosure on a Mortgage which secured a Mortgage Loan.

REPURCHASE AGREEMENT means an agreement with an Investor pursuant to which Borrower sells and agrees to repurchase interests in Mortgage Loans.

REPURCHASE AGREEMENT LIENS means Liens granted pursuant to a Repurchase Agreement on Mortgage Loans (and the proceeds thereof) sold by Borrower thereunder and on no other property of Borrower.

REQUEST FOR RELEASE OF SECURITY INTEREST means a request for release of security interest substantially in the form of EXHIBIT 0 or such other form as to which Borrower and Agent may agree.

REQUIRED LENDERS means at any time Lenders whose Commitment Amounts represent at least 66 and 2/3% of the then Total Commitment; provided, that for purposes of determining Required Lenders when some but not all Commitments have terminated, any Lender with outstanding Advances whose Commitment has terminated shall be deemed to have a Commitment Amount equal to its outstanding Advances.

REQUIRED MORTGAGE DOCUMENTS means Mortgage Documents required to be reviewed by the Agency Custodian in connection with the issuance or guaranty of a Mortgage-Backed Security pursuant to an Agency Commitment.

REQUIREMENT OF LAW as to any Person means 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 occupational, 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.

RESERVE REQUIREMENT means, for any day, the rate at which reserves (including any marginal, supplemental or emergency reserve) are required to be maintained under Regulation D by Agent against "Eurocurrency liabilities," as that term is used in Regulation D, on such day.

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 Agreement Date.

SCHEDULED TERMINATION DATE means June 12, 1997.

SECTION 107 MORTGAGE LOAN means a Mortgage Loan which has been repurchased by Borrower pursuant to a Section 107 Repurchase.

SECTION 107 REPURCHASE means the repurchase by Borrower pursuant to the FNMA Guide (Servicing) Part III, Section 107 of an adjustable rate Mortgage Loan serviced by Borrower (which Mortgage Loan backs a FNMA Security) in connection with the conversion of the interest rate on such Mortgage Loan to a fixed rate.

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 April 30, 1993, as amended, between Borrower and Agent entered into pursuant to the Original Loan Agreement and confirmed by Borrower pursuant to SECTION 3.1, as amended through the Agreement Date and as the same may from time to time be further amended, modified or supplemented.

SECURITY INSTRUMENTS means (i) the Security Agreement and (ii) such other executed documents as are or may be necessary to grant to Agent a perfected first, prior and continuing security interest in and to the collateral described in the definition of "Collateral" set forth in the Security Agreement, 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 Notes and this agreement, as such documents may be amended, modified or supplemented from time to time.

SERVICING AGREEMENTS means all agreements between Borrower and Persons other than Borrower pursuant to which Borrower undertakes to service Mortgage Loans or pools of Mortgage Loans owned, insured or guaranteed by such Persons; "Servicing Agreements" does not include any subservicing agreements.

SERVICING PORTFOLIO of Borrower means at any time all Mortgage Loans with respect to which Borrower acts as servicer pursuant to Servicing Agreements.

SERVICING PROCEEDS DISTRIBUTIONS means any and all payments made by Borrower to NVR Financial Services, Inc. representing a distribution of cash proceeds (not included in Borrower's Net Income) received upon the sale of all or any part of the Contributed Servicing Rights. For purposes of determining the cash proceeds (not included in Borrower's Net Income) received upon the sale of all or any part of the Contributed Servicing Rights, the

book value of all such Contributed Servicing Rights shall be allocated among each part of the Contributed Servicing Rights in accordance with SCHEDULE 1.1(D).

SERVICING RECORDS means all contracts and other documents, books, records and other information (including without limitation, computer programs, tapes, discs, punch cards, data processing software and related property and rights) maintained with respect to the Servicing Agreements and the Servicing Portfolio.

SERVICING RIGHTS means all of Borrower's right, title and interest in and under the Servicing Agreements, including, without limitation, the rights of Borrower to income and reimbursement thereunder.

SPECIAL BORROWING has the meaning specified in SECTION 2.3(B).

SPECIAL BORROWING AMOUNT at any time means the greater of (i) zero and (ii) the amount equal to (a) the aggregate principal amount of all Special Borrowings outstanding with respect to which the Principal Mortgage Documents have not yet been delivered to Agent, after giving effect to any Special Borrowing in connection with which the Special Borrowing Amount is being calculated minus (b) the Excess Dry Collateral Value at such time.

SPECIAL BORROWING LIMIT means (a) during the period commencing on the third to last Business Day of any calendar month (e.g., September 27 for the month of September 1995) and running through and including the fourth business day of the following calendar month (e.g., October 5 for the month of October 1995), 30% of the then Total Commitment and (b) at any other time, 20% of the then Total Commitment.

STANDARD & POORS means Standard & Poor's Ratings Services.

SUBSIDIARY of any Person (the "first Person") means any Person which is properly treated as a subsidiary of the first Person under GAAP.

SUPER JUMBO LOAN means a Mortgage Loan, the original principal amount of which is greater than \$500,000 but no greater than \$750,000 (or such greater amount as Agent, in its sole discretion, may permit on a case-by-case basis), which complies with all applicable requirements for purchase under either (a) the FNMA or FHLMC standard form of conventional mortgage purchase contract then in effect, except that the amount of such loan is greater than the maximum loan amount under such requirements, or (b) a Take-Out Commitment.

SWING ADVANCE means an advance by Agent to Borrower pursuant to SECTION 2.1(C).

SWING ADVANCE LIMIT means \$25,000,000.

SWING PROMISSORY NOTE means the promissory note delivered by Borrower to Agent pursuant to the second sentence of SECTION 2.2 in the form attached hereto as EXHIBIT A-2 and all renewals, extensions, modifications and rearrangements thereof.

TAKE-OUT COMMITMENT means a current, valid, binding and enforceable written commitment by an Investor to purchase from Borrower Mortgage Loans or Mortgage-Backed Securities of specific characteristics within a specific period at a specific price or yield.

TAKE-OUT PRICE means:

(a) With respect to a pool of Eligible Gestation Mortgage Loans, the Take-Out Price of the Mortgage-Backed Security to be issued or guaranteed pursuant to the Agency Commitment to which such pool has been Allocated; 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.

TAKE-OUT REPORT means the report substantially in the form of EXHIBIT J hereto (or such other forms as to which Borrower and Agent may agree), delivered by Borrower pursuant to SECTION 6.1(F).

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 O.

TERMINATION DATE means the Scheduled Termination Date or the earlier date of termination in whole of the Commitments pursuant to SECTION 8.2.

TOTAL COMMITMENT at any time means the sum of the Commitment Amounts in effect at such time.

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.

TYPE means, with respect to Advances, any of the following, each of which shall be deemed to be a different "Type" of Advance: Domestic Rate Advances, Eurodollar Rate Advances having a one-month Eurodollar Borrowing Period, Eurodollar Rate Advances having a two-month Eurodollar Borrowing Period, and Eurodollar Rate Advances having a three-month Eurodollar Borrowing Period. Any Eurodollar Rate Advance having a Eurodollar Borrowing Period that differs from the duration specified for a Type of Eurodollar Rate Advance listed above solely as a result of the operation of clauses (a) and (b) of the definition of "Eurodollar Borrowing Period" shall be deemed to be an Advance of such above-listed Type notwithstanding such difference in duration of Eurodollar Borrowing Periods.

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. 1992), 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.

VA means the Department of Veterans Affairs, or any successor thereto.

VA LOAN means a Mortgage Loan the payment of which is partially or completely guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended, or Chapter 37 of Title 38 of the United States Code or with respect to which there is a current binding and enforceable commitment for such a guaranty issued by the VA.

VALUATION ELECTION NOTICE means a valuation election notice in the form of EXHIBIT E-3 or such other form as to which Borrower and Agent may agree.

WAREHOUSE ADVANCE means an advance by a Lender to Borrower pursuant to SECTION 2.1(B) or 2.1(D).

WAREHOUSE PROMISSORY NOTES means the promissory notes delivered by Borrower to Lenders pursuant to the first sentence of SECTION 2.2 each in the form attached hereto as EXHIBIT A-1 and all renewals, extensions, modifications and rearrangements thereof.

WEIGHTED AVERAGE TAKE-OUT PRICE means, with respect to a Mortgage Loan, the weighted average Take-Out Commitment price, expressed as a percentage, determined as set forth on SCHEDULE 1.1(C).

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.

WET MORTGAGE LOAN means a Mortgage Loan which was identified by Borrower as a New Wet Mortgage Loan at the time when Agent was first granted a security interest in such Mortgage Loan for the benefit of Lenders.

1.2 TIME REFERENCES. Time references (e.g., 9:30 a.m.) are to time in

Dallas, Texas. In calculating a period from one date to another, the word "from" means "from and including" and the word "to" or "until" means "to but excluding."

1.3 OTHER REFERENCES. Where appropriate, the singular includes the plural

and vice versa, and words of any gender include each other gender. Heading and caption references may not be construed in interpreting provisions. Monetary references are to currency of the United States of America. Section, paragraph, annex, schedule, exhibit, and similar references are to the particular Loan Document in which they are used. References to "teletype," "facsimile," "fax," or similar terms are to facsimile or teletype transmissions. References to any Person include that Person's heirs, personal representatives, successors, trustees, receivers, and permitted assigns. References to any Requirement of Law include every amendment or supplement to it, rule and regulation adopted under it, and successor or replacement for it. References to any Loan Document or other document include every renewal and extension of it, amendment and supplement to it, and replacement or substitution for it. 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.

SECTION 2. AMOUNT AND TERMS OF CREDITS

2.1 COMMITMENT.

(a) Advances in General. Subject to the terms and conditions

contained in this agreement, each Lender severally agrees to make Warehouse Advances (including Warehouse Advances to refinance Swing Advances) to or for the account of Borrower on a revolving credit basis from time to time on any Business Day from the Agreement Date through the earlier to occur of the Termination Date and the Business Day preceding the Scheduled Termination Date in an amount not to exceed at any one time outstanding the Commitment Amount of such Lender. Subject to the terms and conditions contained in this agreement, Agent may elect to fund Swing Advances on a revolving credit basis from time to time on any Business Day from the Agreement Date through the earlier to occur of the Termination Date and the Business Day preceding the Scheduled Termination Date in an amount not to exceed at any one time outstanding the Swing Advance Limit. Subject to SECTION 2.12(K), SECTION 2.13 and the other terms and conditions of this agreement, Warehouse Advances may, at the option of Borrower, be made as, and from time to time continued as or converted into, Domestic Rate Advances or Eurodollar Rate Advances of any permitted Type, or any combination thereof. Swing Advances may only be made as and continued as Domestic Rate Advances and no Swing Advance may be made or converted into a Eurodollar Rate Advance of any Type.

(b) Warehouse Advances. Each Borrowing under this SECTION 2.1(B)

shall be in an aggregate amount of not less than \$100,000 and shall consist of Warehouse Advances made on the Borrowing Date by Lenders ratably according to their respective Commitment Amounts, provided, that:

(i) the aggregate amount of Warehouse Advances at any time outstanding shall not exceed the amount equal to the Total Commitment minus the aggregate amount of Swing Advances then outstanding; and

(ii) the sum of the aggregate amount of Warehouse Advances outstanding and the aggregate amount of Swing Advances outstanding shall not at any time exceed the Borrowing Base.

Within the limits of each Lender's Commitment and subject to the other terms and conditions hereof, Borrower may borrow, repay (whether pursuant to SECTION 2.5 of this agreement or otherwise), and reborrow under this SECTION 2.1(B).

(c) Swing Advances. Each Borrowing under this SECTION 2.1(C) shall

be funded solely by Agent and shall consist of a Swing Advance by Agent on the Borrowing Date, PROVIDED, THAT NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, AGENT SHALL HAVE NO OBLIGATION, WHETHER TO BORROWER, ANY LENDER OR ANY OTHER PERSON, TO FUND ANY SWING ADVANCE, the funding of any Swing Advance being entirely in the discretion of Agent subject only to the limitations that Agent shall not fund any Swing Advance if:

(i) The aggregate amount of Swing Advances outstanding after giving effect to such Swing Advance would exceed the lesser of:

(A) The Swing Advance Limit; and

(B) the amount equal to the Total Commitment minus the aggregate amount of Warehouse Advances then outstanding;

(ii) the sum of the aggregate amount of Warehouse Advances outstanding and the aggregate amount of Swing Advances outstanding after giving effect to such Swing Advance would exceed the Borrowing Base;

(iii) Agent has not received a duly executed Borrowing Request;

(iv) Agent has received written notice from Borrower or any Lender that a Default, Event of Default or Excess Special Borrowing exists and such Default, Event of Default or Excess Special Borrowing has not been waived or cured in accordance with this agreement; or

(v) the employee of Agent authorizing such Swing Advance has actual knowledge that a Default, Event of Default or Excess Special Borrowing exists or would result from the funding thereof.

Notwithstanding the provisions of SECTION 4.2(A) regarding the timing of delivery of Borrowing Requests, Borrower may request a Swing Advance at any time on any Business Day by delivering a Borrowing Request at such time; provided, that Agent shall have no obligation to receive or consider any Borrowing Request which is delivered after 3:00 p.m. on the Borrowing Date stated therein. In the event that Agent receives a Borrowing Request which seeks a Swing Advance prior to 11:00 a.m. on the Borrowing Date stated therein and Agent elects not to make the requested Swing Advance, such Borrowing Request shall be deemed to constitute a request for Warehouse Advances on such Borrowing Date in an aggregate amount equal to the Swing Advance requested and Agent shall notify each Lender of such Borrowing Request no later than 12:00 noon on such Borrowing Date.

(d) Mandatory Refinancing or Purchase of Participations in Swing

Advances. Subject only to compliance by Agent with the provisions of

clauses (i) through (v) of SECTION 2.1(C) and the further proviso that no Lender shall be required to make Warehouse Advances to refinance Swing Advances if the sum of such Warehouse Advances and the outstanding Warehouse Advances of such Lender would exceed such Lender's Commitment Amount, and notwithstanding the termination of such Lender's Commitment pursuant to SECTION 8.2, the existence or imminence of any Default or Event of Default or any other fact or circumstance, upon the request of Agent (which request shall be given no less frequently than once in each calendar week) each Lender absolutely, irrevocably and unconditionally agrees to make Warehouse Advances ratably according to its share of the Total Commitment in an amount (assuming funding by each Lender of its ratable share) sufficient to repay any Swing Advances then outstanding. Borrower and each Lender hereby irrevocably authorize (i) Agent to request Warehouse Advances on behalf of Borrower for the purpose of refinancing Swing Advances as contemplated by this SECTION 2.1(D) and (ii) Agent to disburse the proceeds of any Warehouse Advances so requested and funded to Agent for payment of the Swing Advances then outstanding. Notwithstanding the foregoing provisions of this SECTION 2.1(D), if Agent shall request that each Lender purchase participations in the outstanding Swing Advances in lieu of making Warehouse Advances to refinance such Swing Advances, each Lender absolutely, irrevocably and unconditionally agrees to purchase from Agent such participations in the Swing Advances owing as shall be necessary to cause such purchasing Lender to share in the Swing Advances ratably (according to its share of the Total Commitment) with each of Lenders. Borrower agrees that any Lender so purchasing a participation from Agent pursuant to this SECTION 2.1(D) may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of Borrower in the amount of such participation.

2.2 NOTES. The Warehouse Advances made by each Lender pursuant to SECTION

2.1(B) and SECTION 2.1(D) shall be evidenced by a Warehouse Promissory Note payable to such Lender in the principal amount of the Commitment Amount of such Lender. Such Swing Advances as may be made by Agent in its sole discretion (subject only to the limitations on such discretion set forth in clauses (i) through (v) of SECTION 2.1(C)) shall be evidenced by the Swing Promissory Note payable to Agent in the principal amount of the Swing Advance Limit. Each Note shall be payable and bear interest as set forth in SECTIONS 2.5, 2.12 and 11.9.

2.3 NOTICE AND MANNER OF OBTAINING BORROWINGS; SPECIAL BORROWINGS.

(A) Borrowings Generally.

(I Borrower shall request each Borrowing by delivering a Borrowing Request to Agent in accordance with the provisions of SECTION 4.2. If such Borrowing Request is not for a Swing Advance (or if such Borrowing Request is for a Swing Advance but Agent has elected not to fund the requested Swing Advance), then not later than 12:00 noon following receipt by it of such Borrowing Request, Agent shall notify each Lender of the Warehouse Advance to be made by such Lender in connection with such Borrowing Request by telecopying a Borrowing Notice to such Lender. Not later than 1:00 p.m. on the Borrowing Date specified in the Borrowing Notice, and subject to the terms and conditions of this agreement, each Lender shall make available to Agent at the office of Agent set forth in SECTION 11.1, in immediately available funds, such Lender's Warehouse Advance by wire transfer of federal funds or deposit of other immediately available funds to the Funding Account.

(II Notwithstanding the foregoing, unless Agent shall have received notice from a Lender prior to 1:00 p.m. on the Borrowing Date that such Lender will not make available to Agent such Lender's Advance, Agent may assume that such Lender has made the full amount of its Advance available to Agent in accordance with this SECTION 2.3(A) and Agent may, in reliance upon such assumption, make available to Borrower at such time such amount in same day funds. If and to the extent that such Lender shall have not so made the requested Advance available to Agent and Agent, in reliance upon such assumption, has made available to Borrower the amount of such Advance, such Lender and Borrower severally agree to repay Agent forthwith on demand such amount together with interest thereon (provided, that Agent shall only be entitled to repayment of the amount so funded by it plus interest on such amount), for each day from the date such amount is made available to Borrower until the date such amount is repaid to Agent, at (i) for so much of such amount as is repaid by Borrower, the interest rate at the time applicable hereunder if such amount had been an additional Advance by Agent in its capacity as a Lender hereunder and (ii) for so much of such amount as is repaid by such Lender, the Federal Funds Rate. To the extent that such Lender repays Agent the amount of the requested Advance, such amount so repaid shall constitute such Lender's Advance as part of such Borrowing for purposes of this agreement and all interest on such Advance shall accrue to and be payable to such Lender.

(III The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on the Borrowing Date, but neither Agent nor any Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the Borrowing Date.

(IV If a Borrowing Request is for a Swing Advance and Agent elects to fund the Swing Advance so requested, Agent shall, as soon as practicable after such election, notify Borrower and deposit the Swing Advance in immediately available funds in the Funding Account.

(B Special Borrowings. Borrower may from time to time request that

certain Borrowings (to consist of Warehouse Advances, or, subject to the limitations on Agent's discretion to fund Swing Advances set forth in clauses (i), (ii) and (iii) of SECTION 2.1(C), Swing Advances) be funded prior to the delivery to Agent of the corresponding Principal Mortgage Documents (individually, a "SPECIAL BORROWING"; collectively, "SPECIAL BORROWINGS"). Lenders agree to make Warehouse Advances in respect of Special Borrowings in accordance with SECTION 2.3(A) (and agree that Agent may, subject to the provisions of SECTION 2.1(C), if it so elects make Swing Advances in respect of Special Borrowings) subject to the terms and conditions of this agreement, including, without limitation, the following terms and conditions:

(I No Special Borrowing shall be made if, after the making of such Special Borrowing, the Special Borrowing Amount would exceed the Special Borrowing Limit in effect on the Borrowing Date of such Special Borrowing;

(II Borrower shall grant to Agent, from the date of the Collateral Pledge Certificate (Wet, Builder or Funding Draft) on which each New Wet Mortgage Loan is identified, a perfected, first-priority security interest in the Mortgage Loans so identified and in all Principal Mortgage Documents and Other Mortgage Documents related thereto;

(III Borrower shall deliver to Agent, no later than 10:00 a.m. on the sixth Business Day after the date of the Collateral Pledge Certificate (Wet, Builder or Funding Draft) on which each New Wet

Mortgage Loan is identified (the "DOCUMENT DELIVERY TIME" for each such New Wet Mortgage Loan), the Principal Mortgage Documents relevant to each such New Wet Mortgage Loan so identified; and

(IV the Collateral Pledge Certificate (Wet, Builder or Funding Draft) delivered by Borrower to Agent, pursuant to which Borrower identifies each New Wet Mortgage Loan, shall describe the Mortgage Note or Mortgage Notes to be delivered to Agent in connection therewith by Company Loan Number, Company CDS Number, maker, interest rate, loan type, Face Amount, Cost, warehoused amount, date and whether or not such New Wet Mortgage Loan is a SECTION 107 Mortgage Loan, a Funding Draft Mortgage Loan or a Builder Mortgage Loan.

2.4 FEES.

(A Facility Fees. Borrower agrees to pay to Agent for the account

of each Lender a facility fee on such Lender's average Commitment Amount in an amount equal to .125% per annum of such average Commitment Amount, which fee shall be payable in arrears on the Fee and Interest Period Payment Dates for each Quarterly Computation Period.

(B Agency Fee. In consideration of Agent serving as Agent for

Lenders under this agreement and the other Loan Documents, Borrower agrees to pay Agent agency fees. Such fees shall be determined in accordance with and shall be due and payable as provided in the Agent Fee Letter.

(C Custodian Fee. In consideration of Agent serving as custodian

for the Collateral, Borrower agrees to pay Agent custodial fees. Such fees shall be determined in accordance with and shall be due and payable as provided in the Custodial Fee Letter.

(D Usage Fee. In connection with the Construction Loan sublimit,

Borrower agrees to pay a per annum amount equal to the product of .25% multiplied by the outstanding amount of Advances in connection with Construction Loans as indicated from time to time on the Borrowing Request. Such Fees shall be payable in arrears on the Fee and Interest Payment Dates.

2.5 MANDATORY REPAYMENTS. Borrower shall repay all outstanding Advances

on the Termination Date. If at any time the aggregate amount of Advances outstanding exceeds either the total Commitment or the Borrowing Base, Borrower, upon the demand of Agent or any Lender, shall repay so much of the outstanding Advances as may be necessary to eliminate such excess. If at any time an Excess Special Borrowing exists, Borrower, upon the demand of Agent or any Lender, shall repay so much of the outstanding Special Borrowings with respect to which the Principal Mortgage Documents have not yet been delivered to Agent as may be necessary to eliminate such Excess Special Borrowing.

2.6 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 Notes 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 times shall be included in the computation of payments of interest.

2.7 PAYMENT PROCEDURE.

(A In General. All payments of the principal of and interest and

fees upon the Notes shall be made by Borrower to Agent before 1:00 p.m. on the respective dates when due in federal or other immediately available funds at Agent's address set forth in SECTION 11.1. Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or fees ratably to Lenders according to their interests therein and like funds relating to the payment of any other amount payable to any Lender to such Lender, in each case to be applied in accordance with terms of this agreement. Funds received after 1:00 p.m. shall be treated for all purposes as having been received by Agent on the Business Day next following the date of receipt of such funds.

(B Order and Notice of Payments. Contemporaneously with the making

of any payments in respect of the Advances, Borrower shall give Agent telephonic notice of the amount being repaid. If no Event of Default exists and is continuing, Borrower shall repay any Domestic Rate Advances consisting of Swing Advances outstanding prior to repaying any Domestic Rate Advances consisting of Warehouse Advances then outstanding and, except to the extent of any Eurodollar Rate Advances as to which the applicable Eurodollar Borrowing Period ends on

the date of such payment (which Eurodollar Rate Advances shall, unless being continued as Eurodollar Rate Advances pursuant to SECTION 2.12(K), be repaid prior to the repayment of any Domestic Rate Advances on such date), Borrower shall repay Domestic Rate Advances outstanding prior to repaying any Eurodollar Rate Advances outstanding. Subject to the preceding sentence, if no Event of Default exists and is continuing, 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 and is continuing, all payments in respect of the Obligations shall (unless Agent and Lenders shall otherwise unanimously agree) be applied FIRST to all reasonable costs, expenses, fees and reasonable attorneys' fees incurred by, and agency or custodian fees due to, Agent arising out of or in connection with this agreement, the Notes or the other Loan Documents, including, without limitation, all reasonable costs, expenses, fees and reasonable attorneys' fees arising out of or in connection with the negotiation, preparation and enforcement of such documents; SECOND, to the payment of all expenses due and payable under SECTION 6.5 ratably among Lenders in accordance with such amounts; THIRD, to the payment of fees due and payable under SECTION 2.4(A) and 2.4(D), ratably in accordance with such amounts; FOURTH, to the payment of interest then due and payable under the Notes, ratably in accordance with the amount of interest owed to each Lender; and FIFTH, to the payment of principal of the Notes ratably in accordance with the outstanding Advances of each Lender; provided, that (x) payments due under the preceding clause FOURTH to any Lender which has failed to make any Advance or purchase any participation required to be made or purchased by such Lender under SECTION 2.1(D) shall be allocated first to the payment of interest then due and payable under the Swing Promissory Note and then to such Lender and (y) payments due under the preceding clause FIFTH to any Lender which has failed to make any Advance or purchase any participation required to be made or purchased by such Lender under SECTION 2.1(D) shall be allocated first to the payment of principal of the Swing Promissory Note and then to such Lender. Agent shall promptly notify Borrower and each of Lenders of the application of any payment to anything other than the principal of or interest on the Notes.

2.8 PAYMENTS NOT IN FULL. Unless Agent shall have received notice from

Borrower prior to the date on which any payment is to be made to Agent for the account of Lenders hereunder that Borrower will not make such payment in full, Agent may assume that Borrower has made such payment in full to Agent on such date and Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that Borrower shall have not so made such payment in full to Agent and Agent, in reliance on such assumption, has distributed such amounts to Lenders, each Lender shall repay to Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to Agent, at the Federal Funds Rate.

2.9 SHARING OF PAYMENTS, ETC. If any Lender shall obtain any payment

(whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances owing to it (other than pursuant to SECTIONS 2.1(D), 2.7, OR 2.10) in excess of its ratable portion of payments on account of the Advances obtained by all Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratable with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, each such purchase shall be rescinded, and each Lender from which such a purchase was made shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this SECTION 2.9 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of Borrower in the amount of such participation.

2.10 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 the relevant Lender) or in the interpretation or application thereof or compliance by any Lender 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:

(I shall subject any Lender to any tax of any kind whatsoever with respect to this agreement, any Note or any Advance made by it, or change the basis of taxation of payments to such Lender

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 such Lender and changes in the computation of the overall net income of such Lender that do not specifically involve payments to Lender under this agreement, any Note, or any Advance, even though such changes have the effect of increasing the effective rate of tax imposed on income of such Lender);

(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 such Lender which are not otherwise included in the determination of any interest rate under such Lender's note;

(III shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by any amount which such Lender deems to be material, of making, renewing or maintaining its Commitment or Advances or to reduce any amount receivable hereunder, in each case, in respect of its Advances, then, Borrower shall promptly pay such Lender, upon its written demand setting forth the basis for such demand, any additional amounts necessary to compensate such Lender for such additional cost or reduced amount receivable. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by such Lender, through Agent, to Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this agreement and payment of the Notes.

(B In the event that any Lender 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 any Lender or any corporation controlling such Lender 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 the Agreement Date, 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 such Lender's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then Borrower shall promptly pay such Lender, upon its written demand setting forth the basis for such demand, any additional amounts necessary to compensate such Lender or such corporation for such reduced rate of return. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by such Lender, through Agent, to Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this agreement and payment of the Notes.

(c) Mandatory Suspensions and Conversions of Eurodollar Rate

Advances. A Lender's obligations to make or continue or convert Warehouse

Advances into Eurodollar Rate Advances of any Type shall be suspended, all such Lender's outstanding Warehouse 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 such Lender may lawfully continue to maintain Warehouse Advances of that Type) into, and all pending requests for the making or continuation of or conversion into Warehouse Advances of such Type by such Lender shall be deemed requests for, Domestic Rate Advances, if:

(i) on or prior to the determination of an interest rate for a Eurodollar Rate Advance of that Type for any Eurodollar Borrowing Period, Agent determines that appropriate information is not available to it for purposes of determining the Adjusted Eurodollar Rate for such Eurodollar Borrowing Period;

(ii) on or prior to the first day of any Eurodollar Borrowing Period for a Eurodollar Rate Advance of that Type, such Lender determines that the Adjusted Eurodollar Rate as determined by Agent for such Eurodollar Borrowing Period would not accurately reflect the cost to such Lender of making, continuing, or converting Warehouse Advances into, a Eurodollar Rate Advance of such Type for such Eurodollar Borrowing Period; or

(iii) at any time such Lender 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 the relevant Lender) or in the interpretation or application thereof or compliance by any Lender 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 such Lender to make, continue, or convert a Warehouse 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 2.10(C), any Warehouse Advance of any Lender 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 Domestic Rate Advance, then, unless the corresponding Warehouse Advance of each of the other Lenders is also to be made or maintained as or converted into a Domestic Rate Advance, such Warehouse Advance shall be treated as being a Eurodollar Rate Advance of such Type for such Eurodollar Borrowing Period for all purposes of this agreement (including the timing, application and proration among Lenders of interest payments, conversions and prepayments) except for the calculation of the interest rate borne by such Warehouse Advance. Agent shall promptly notify Borrower and each Lender of the existence or occurrence of any condition or circumstance specified in clause (i) above, and each Lender shall promptly notify Borrower, through Agent, and Agent of the existence or occurrence of any condition or circumstance specified in clause (ii) or (iii) above applicable to such Lender's Warehouse Advances, but the failure by Agent or such Lender to give any such notice shall not affect such Lender's rights hereunder.

(d) Funding Losses. Borrower shall pay to each Lender, upon request,

such amount or amounts as such Lender 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 not being made, on the date therefor determined in accordance with the applicable provisions of this agreement. At the election of such Lender, 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 such Lender 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.

(e) Payment of Additional Amounts. Any additional amounts payable

pursuant to this SECTION 2.10 shall be payable, in the case of those applicable to prior periods, within 15 days after request by such Lender 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 such Lender.

(f) Certain Determinations; Notice. In making the determinations

contemplated by SECTIONS 2.10(A), (B), (C), and (D), each Lender may make such estimates, assumptions, allocations and the like that such Lender in good faith determines to be appropriate, and such Lender's selection thereof in accordance with this SECTION 2.10(F), and the determinations made by such Lender 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. Each Lender shall furnish to Borrower, through Agent, a certificate outlining in reasonable detail the computation of any amounts claimed by it under SECTION 2.10(A), (B), (C), and (D) and the assumptions underlying such computations. Each Lender will promptly notify Borrower, through Agent, of any determination made by it referred to in SECTION 2.10(A), (B), (C), and (D) above, but the failure to give such notice shall not affect such Lender's right to compensation.

(g) Change of Eurodollar Lending Office, etc. If an event occurs with

respect to any Lender that entitles such Lender to make a claim under SECTION 2.10(A) or (B), or which makes operable the provisions of SECTION 2.10(C)(III), such Lender 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 such Lender is so entitled to claim or reduce such operability; provided, that no Lender shall be obligated to take any action under this SECTION 2.10(G) if such action, in the sole and absolute judgment of such Lender would be otherwise than immaterially disadvantageous to such Lender or in any manner contrary to such Lender'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

any Lender shall not obligate Borrower to pay any amount to such Lender under SECTION 2.10(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 Second Amendment Agreement Date.

2.11 OVERLINE INDEBTEDNESS. Notwithstanding the provisions of SECTIONS

2.1, 2.7 and 2.9 or any other provision of the Loan Documents to the contrary, if an Overline Indebtedness exists and until such time as all outstanding Overline Indebtedness has been paid in full, all repayments of outstanding Advances shall be applied, FIRST, to repayment of any outstanding Overline Indebtedness, and SECOND, pro-rata to the outstanding Warehouse Advances.

2.12 INTEREST.

(a) In General. Borrower shall pay interest on the Domestic Rate

Advances for each Computation Period on the Fee and Interest Payment Date for such Computation Period.

(b) Average Gestation Advances. The Average Gestation Advances of

each Lender for each Computation Period shall bear interest at the lesser of (i) the per annum rate of interest equal to the sum of (A) the Average Federal Funds Rate for such Computation Period and (B) 0.85% per annum and (ii) the Maximum Rate.

(c) Average Regular Advances. The Average Regular Advances of each

Lender for each Computation Period shall bear interest at the lesser of (i) the sum of (a) the Average Federal Funds Rate for such Computation Period and (b) 1.25% per annum and (ii) the Maximum Rate.

(d) Average Construction Advances. The Average Construction

Advances of each Lender for each Computation Period shall bear interest at the lesser of (i) the sum of (a) the Average Federal Funds Rate for such Computation Period and (b) 2.0% per annum and (ii) the Maximum Rate.

(e) Overdue Amounts. Overdue principal, interest and other amounts

shall bear interest for each day that such amounts are overdue (after, as well as before, judgment) at the lesser of (i) the sum of 4.00% and the Base Rate and (ii) the Maximum Rate. Interest payable on overdue amounts shall be payable on demand.

(f) Notice of Amounts and Rates, etc. (i) As soon as practicable

after the end of each Computation Period, Agent shall notify Borrower and each Lender of Average Federal Funds Rate for such Computation Period and the Average Domestic Rate Advances, the Average Gestation Advances and the Average Regular Advances for such Lender for such Computation Period. (ii) As soon as practicable after the end of each Computation Period, and in any event no later than the eighty day of the following Computation Period, each Deposit Holding Lender shall give Agent and Borrower notice of any interest credits due Borrower on the Domestic Rate Advances of such Lender under the applicable Other Writing.

(g) Other Writings. If they so elect, Borrower and any Deposit

Holding Lender may enter into additional written agreements (each an OTHER WRITING) providing for alternative calculations of interest on the Domestic Rate Advance of such Deposit Holding Lender and the carry forward of credits for account balances; provided, that (i) in no event shall such alternative calculation result in more interest being due such Deposit Holding Lender for the period from the initial Advance by such Deposit Holding Lender through the date of determination than would be payable hereunder; (ii) nothing in such Other Writing shall modify the circumstances under which interest due such Deposit Holding Lender shall be paid to Agent for the account of such Deposit Holding Lender, as set forth in SECTION 2.7(A); (iii) upon the written request of Agent following the occurrence of any Event of Default, Borrower and each Deposit Holding Lender shall deliver to Agent a certified copy of such Deposit Holding Lender's Other Writing, and Borrower and each Lender which is not a Deposit Holding Lender shall certify to Agent the absence of any such Other Writing; and (iv) the provisions of this SECTION 2.12(G) shall be controlling in the event of any conflict between such provisions and any such Other Writing.

(h) 360 Day Year; Maximum Rate. For purposes of calculating any

interest rate that is either a fixed rate or a rate which is based on the Base Rate, any Eurodollar 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 any fees on a per annum basis, fees shall be calculated on the basis of the actual number of days elapsed over a 360-day year. Any fees or other sums contracted for or received which constitute interest under applicable law shall be included in any calculation of interest at the Maximum Rate. 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 366-day year is applicable. Reference is made to SECTION 11.9 for certain provisions limiting the rate of interest which may be charged under this agreement and the other Loan Documents. The provisions of SECTION 11.9 shall be controlling in the event of any conflict between such provisions and (i) the provisions of this SECTION 2.12, (ii) any provisions of SECTION 2.4, (iii) any other provision of this agreement, or (iv) any provision of any other Loan Document.

(i) Payment of Interest on behalf of Borrower. To the extent

permitted under applicable Requirements of Law from time to time in effect, Bank One, Texas, N.A. shall pay on behalf of Borrower and on the date specified in SECTION 2.12(A), interest due to Lenders pursuant to SECTIONS 2.12(B) and (C) in an amount, for each Computation Period, equal to the product of (i) the lesser of (A) the Average Federal Funds Rate and (B) the Maximum Rate and (ii) the lesser of (A) the Average Aggregate Domestic Rate Advances and (B) the Maximum Rate and (ii) the lesser of (A) the Average Aggregate Domestic Rate Advances and (B) the Available Average Equivalent Amount for such Computation Period.

(j) 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) 1.25% per annum and (y) the Maximum Rate.

(k) Conversion and Continuation; Funding as Eurodollar Rate Advances.

(i) All or any part of the principal amount of Warehouse Advances of any Type may, on any Business Day, be converted into any other Type or Types of Warehouse Advances, except that (A) Warehouse Advances that are Eurodollar Rate Advances may be converted only on the last day of the applicable Eurodollar Borrowing Period and (B) Warehouse Advances that are Domestic Rate Advances may be converted into Eurodollar Rate Advances only on a Eurodollar Business Day.

(ii) Warehouse Advances that are Domestic Rate Advances shall continue as Domestic Rate Advances unless and until such Advances are converted into Advances of another Type. Warehouse 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 Domestic Rate Advances unless Borrower shall have given Agent notice in accordance with SECTION 2.12(K)(IV) 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.

(iii) Notwithstanding anything to the contrary contained in SECTION 2.12(J)(I) or (II), during a Default, Agent may notify Borrower that Warehouse Advances may only be made, continued as or converted into Domestic Rate Advances and, thereafter, until no Default shall continue to exist, Warehouse Advances may not be made, continued as or converted into Eurodollar Rate Advances.

(iv) Borrower shall give Agent notice (which shall be irrevocable) of each conversion of Warehouse Advances or continuation of Warehouse Advances that are Eurodollar Rate Advances no later than 11:00 a.m. on, in the case of a conversion into Domestic 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 of EXHIBIT R or such other form as to which Borrower and Agent 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 Warehouse Advances that are Eurodollar Rate Advances, the last day of the applicable Eurodollar Borrowing Period of the Warehouse Advances to be converted or continued and (C) the amount and Type or Types of Warehouse Advances into which such Warehouse Advances are to be continued. Promptly upon receipt of any Notice of Conversion in which a conversion or continuation is requested and in any event no later than 2:00 p.m. on the date of such receipt, Agent shall notify each Lender of (x) the contents thereof, (y) the amount and Type and, in the case of Warehouse Advances that are Eurodollar Rate Advances, the last day of the applicable Eurodollar Borrowing Period of

each Warehouse Advance to be converted or continued by such Lender and (z) the amount and Type or Types of Warehouse Advances into which such Warehouse Advances are to be converted or as which such Warehouse Advances are to be continued.

(v) Borrower shall give Agent notice (which shall be irrevocable) of each election to have Warehouse Advances funded (as opposed to converted or continued) as Eurodollar Rate Advances no later than 11:00 a.m. on the third Eurodollar Business Day before the Borrowing Date for such Advances. Each notice of such funding shall be by Notice of Conversion with the blanks appropriately completed. Promptly upon receipt of any Notice of Conversion in which a funding is requested and in any event no later than 2:00 p.m. on the date of such receipt, Agent shall notify each Lender of (x) the contents thereof and (y) the amount and Type of Eurodollar Rate Advances to be funded by such Lender and the Borrowing Date therefor.

2.13 LIMITATION ON TYPES OF ADVANCES. Notwithstanding anything to the

contrary contained in this agreement, Borrower shall borrow, prepay, convert and continue Advances in a manner such that (a) the aggregate principal amount of its Eurodollar Rate Advances of the same Type and having the same Eurodollar Borrowing Period shall at all times be no less than \$2,000,000 and (b) there shall not be, at any one time, more than three Eurodollar Borrowing Periods in effect.

SECTION 3. COLLATERAL

3.1 COLLATERAL.

(A) In General. Pursuant to the Original Loan Agreement, the Existing Loan Agreement and the Security Agreement, and to secure the payment of the "Obligations," as such term is defined in the Original Loan Agreement, Borrower granted Agent a security interest for the benefit of Lenders in and to certain "Collateral," as such term is defined in the Security Agreement. Borrower hereby confirms such grant in all respects and acknowledges and agrees that:

(I) This agreement as amended, modified, restated, or extended constitutes the "Loan Agreement" as defined in the Security Agreement;

(II) the Obligations (as defined herein) constitute "Obligations" secured by the security interests granted under the Security Agreement; and

(III) each of the Lenders party to this agreement constitutes a "Lender" (as defined in the Security Agreement) for all purposes of the Security Agreement.

(B) Additional Collateral. From time to time Borrower may grant

Agent for the benefit of Lenders 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 Agent or the Required Lenders, to perfect the security interest of Agent for the benefit of Lenders in and to the collateral identified in the granting clause of the Security Agreement.

3.2 ELIGIBLE MORTGAGE LOANS. Each Collateral Pledge Certificate shall

include a schedule identifying the Mortgage Loans in which Agent is thereby granted a security interest for the benefit of Lenders as security for the Obligations. Each Collateral Pledge Certificate shall be accompanied by the following items (collectively, the "PRINCIPAL MORTGAGE DOCUMENTS") with respect to each Pledged Mortgage Loan (other than Pledged Mortgage Loans identified as New Wet Mortgage Loans) identified therein:

(A) the original Mortgage Note which evidences such Mortgage Loan, indorsed in blank;

(B) the original or a copy of the Mortgage which secures such Mortgage Loan (in either case bearing evidence of recordation or certification by Borrower that such Mortgage has been sent to the appropriate Governmental Authority for recordation);

(C) an original executed assignment in blank for such Mortgage Note and the Mortgage securing such Mortgage Note, in recordable form, and otherwise in form satisfactory to Agent; and

(D) if Borrower is not the named payee on the face of such Mortgage Note, copies (bearing evidence of recordation or certification by Borrower that such intervening assignment has been sent to the appropriate Governmental Authority for recordation) of all intervening assignments of such Mortgage Note and the related Mortgage.

Borrower shall (x) hold in trust for Agent and Lenders, with respect to each Pledged Mortgage Loan identified on a Collateral Pledge Certificate (other than Pledged Mortgage Loans identified as New Wet Mortgage Loans), 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 Part IV, Section 105.05 of the FNMA Guide [Selling] and Section 1704 of the FHLMC Guide), any Appraisals and any insurance policies which relate to such Mortgage Loan, and all other original documents, including any Take-Out Commitment, executed in connection with such Mortgage Loan and not delivered to Agent (all such undelivered documents are referred to collectively as the "OTHER MORTGAGE DOCUMENTS"), and (y) upon request of Agent or the Required Lenders, immediately deliver to Agent the Other Mortgage Documents together with an index specifically identifying each such item thereof. Agent 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 Agent 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 Agent shall have a Collateral Value of zero. Borrower shall hold in trust for Agent and Lenders, and shall deliver to Agent in accordance with SECTION 2.3(B) and this SECTION 3.2 all Principal Mortgage Documents, Construction Loan Documents, and all Other Mortgage Documents with respect to each New Wet Mortgage Loan identified on a Collateral Pledge Certificate (Wet, Builder or Funding Draft).

3.3 POWER OF ATTORNEY. Effective upon the occurrence of an Event of

Default, Borrower hereby irrevocably appoints Agent 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 Agent's or any Mortgage Note or Mortgage-Backed Security included in the Collateral or in respect of any other collateral for the Obligations including any Take-Out Commitment; (ii) prepare, complete, execute, deliver and record any assignment to Agent 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 Agent 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 Agent or held by Borrower in trust for Agent and Lenders including, without limitation, instruct any title company or closing agent to deliver any Mortgage Note or Mortgage Document held by it directly to Agent or its agent; (v) commence, prosecute, settle, discontinue, defend, or otherwise dispose of any claim relating to 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 Agent'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 Agent may be exercised by Agent through any Person who, at the time of the execution of a particular instrument, is an authorized officer of 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 or any Commitment is outstanding. All Persons dealing with 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 Agent that the Obligations have been fully and finally paid and satisfied and the Commitments have terminated.

3.4 DISPOSITION OF MORTGAGE COLLATERAL.

(a) Generally. If no Default, Event of Default or Excess Special

Borrowing exists or would result therefrom, Borrower may obtain the release of the security interest in favor of Agent for the benefit of Lenders in all

or any part of the Mortgage Collateral at any time, and from time to time, by (i) paying to Agent for distribution to Lenders, as a repayment hereunder, the Collateral Value of the Mortgage Collateral to be so released or (ii) delivering to Agent in the manner specified in SECTION 3.2 Mortgage Loans (other than Wet Mortgage Loans) with an aggregate Collateral Value no less than the Collateral Value of the Mortgage Collateral to be so released.

(b) Allocation of Mortgage Loans; Election as to Valuation. From time

to time Borrower may, and prior to the delivery of any Pledged Mortgage Loans into an Agency Commitment Borrower shall, by execution and delivery of a Mortgage Loan Delivery Request and Allocation Notice, allocate specific Pledged Mortgage Loans to specific Agency Commitments and allocate the Mortgage-Backed Securities to be issued or guaranteed pursuant to such Agency Commitments to specific Take-Out Commitments. Pledged Mortgage Loans so allocated to a specific Agency Commitment shall be deemed to have been "Allocated" to such Agency Commitment and Mortgage-Backed Securities so allocated to a specific Take-Out Commitment shall be deemed to have been "Allocated" to such Take-Out Commitment. Each Mortgage Loan Delivery Request and Allocation Notice shall be accompanied by any Required Mortgage Documents not then in Agent's possession 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 may, in its sole discretion, choose whether to have a pool of Eligible Mortgage Loans which has been Allocated pursuant to this SECTION 3.4(B) and which otherwise satisfies the requirements for Eligible Gestation Mortgage Loans attributed Collateral Value as a pool of Eligible Gestation Mortgage Loans or as a pool of Eligible Mortgage Loans. In the event that Borrower elects to have such a pool attributed Collateral Value as a pool of Eligible Gestation Mortgage Loans at the time it is Allocated, Borrower shall so indicate by checking the appropriate box on the Mortgage Loan Delivery Request and Allocation Notice by which such Allocation is made. In the event that Borrower does not elect to have such a pool of Mortgage Loans attributed Collateral Value as a pool of Eligible Gestation Mortgage Loans at the time such Allocation is made, Borrower may later choose to have such pool of Mortgage Loans attributed Collateral Value as a pool of Eligible Gestation Mortgage Loans by executing and delivering to Agent a duly completed Valuation Election Notice. Once Borrower has elected to have Collateral Value attributed to a pool of Mortgage Loans as Eligible Gestation Mortgage Loans Borrower may not elect to have Collateral Value attributed to such pool of Mortgage Loans as Eligible Mortgage Loans.

(c) Disposition 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, 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 release the security interest of Agent to secure the Obligations therein. Borrower shall complete each Agency Form such that the Mortgage-Backed Security to be issued or guaranteed pursuant to an Agency Commitment is issued in the name of Agent or its designee, or, if issued in the name of Borrower, is issued to an account subject to the sole dominion and control of Agent or its designee and shall take such other steps as may be requested by Agent to cause the security interest of Agent 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 Agent, Borrower shall complete each GNMA form Schedule of Subscribers such that "Manuf/Cust/FAO/Agent" 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 "111 000 614" appears as the ABA Number and "NVR Mortgage Finance, Inc./310435" 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./310435" appears as the Depository Institution/Type of Account/Beneficiary/Account Number and such that "111 000 614 " appears as the ABA Number. Upon completion by the Agency Custodian of its review of the Required Mortgage Documents and the Agency Forms relevant to a particular Agency Commitment, Agent and the Agency Custodian 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 Agent in such Required Mortgage Documents and the Mortgage Loans evidenced thereby shall be conditioned upon receipt by Agent or its designee of Mortgage-Backed Securities in the amount specified in the relevant Agency Commitment.

(d) Disposition of MBS Pursuant to Take-Out Commitments. Mortgage-

Backed Securities included in the Collateral 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 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").

(e) Disposition of Mortgage Loans Pursuant to Take-Out Commitments or Repurchase Agreements. Borrower may request that Lenders permit the sale or other disposition of Mortgage Collateral pursuant to a Take-Out Commitment or Repurchase Agreement by delivering a Mortgage Loan Delivery Request together with a completed (but for execution by Agent and the Investor) Bailee Letter and Trust Receipt. Upon the receipt by Agent of such Mortgage Loan Delivery Request and Bailee Letter and Trust Receipt from Borrower, and provided that no Default, Event of Default or Excess Special Borrowing exists or would result therefrom:

(i) Agent shall deliver to the Investor or its agent, under the Bailee Letter and Trust Receipt, so many of the Principal Mortgage Documents and so many of any Other Mortgage Documents relevant to the Mortgage Loans being sold as are held by Agent pursuant to SECTION 3.2 as may be required by the Investor; and

(ii) Borrower may, as agent for Agent and Lenders, deliver to such Investor or its agent such Other Mortgage Documents as are held by Borrower pursuant to SECTION 3.2 as may be required by the Investor:

provided, that (x) the release of the security interest in favor of Agent for the benefit of Lenders in any Mortgage Loans (and the Mortgage Notes relevant thereto) so delivered shall be conditioned upon payment to Agent of an amount no less than the Collateral Value of such Mortgage Loans within 45 days after the delivery by Agent to such Investor of the items of Collateral described in clause (i) above, (y) in the event that such payment or delivery is not made within the period set forth in the preceding clause (x) the Collateral Value of the Mortgage Loans and other items so delivered shall be zero, and (z) at no time shall more than \$10,000,000 of Collateral (or such larger amounts as Agent may from time to time in its sole discretion permit in writing for particular Investors) be delivered to any single Investor other than FNMA, FHLMC or GNMA unless Agent shall have first been paid the Collateral Value of such Collateral.

(f) Continuation of Lien. The security interest in favor of Agent for the benefit of Lenders in all Collateral transmitted pursuant to SECTION 3.4(E) shall continue in effect until such time as Agent shall have received payment in the amount specified in SECTION 3.4(E).

(g) Application of Proceeds; No Duty. Neither Agent nor Lenders shall be under any duty at any time to credit Borrower for any amounts due from any Investor in respect of any purchase of any Collateral contemplated under SECTIONS 3.4(D) and (E) above, until Agent has actually received immediately available funds. Any funds so received will be treated as payments under and processed and applied in accordance with SECTION 2.7. Neither Agent nor Lenders shall be under any duty at any time to collect any amounts or otherwise enforce any obligations due from any Investor in respect of any such purchase.

(h) Subsequent to an Event of Default. Reference is made to SECTIONS 3.3 and 8.2 and to the Security Agreement (collectively, the "OTHER PROVISIONS") for certain rights of Agent and Lenders to dispose of the Collateral upon the occurrence of an Event of Default. In the event of any conflict between the Other Provisions and the provisions of this SECTION 3.4, the Other Provisions shall be controlling.

3.5 CORRECTION OF MORTGAGE NOTES. Borrower may from time to time request that 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 delivering to Agent a Mortgage Document Delivery Request (Servicing) which identifies the Released Note. Upon receipt by Agent of such a request, and so long as no Default or Event of Default shall be in existence, Agent shall deliver to Borrower, under a Bailee Letter and Trust Receipt (Servicing) the Released Note to be corrected, with the release of the Lien in favor of Agent for the benefit of Lenders being conditioned upon the receipt by 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 the Maximum Correction Amount and (ii) unless the Correction Note is delivered to Agent indorsed in blank within fifteen (15) days of the release by Agent of the Released Note, the Collateral Value attributed to both the Released Note and the Correction Note shall be zero.

3.6 CONCERNING THE DRAFT ACCOUNT, THE FUNDING ACCOUNT AND THE OPERATING

ACCOUNT. Borrower hereby expressly acknowledges that each of the Draft Account,

the Funding Account and the Operating Account are subject in all respects to the
right of offset in favor of Agent granted under SECTION 11.10. Further, it is
expressly agreed that:

(A) The Funding Account shall be subject to the sole dominion and control of Agent who shall disburse amounts from time to time on deposit therein in accordance with the terms of this agreement and the Draft Account shall, subject to the Funding Draft Procedures, be subject to the sole dominion and control of Agent who shall disburse amounts from time to time on deposit therein in accordance with the Funding Draft Procedures;

(B) subject to the right of offset in favor of Agent, the Operating Account shall be subject to the sole dominion and control of Borrower;

(C) nothing other than proceeds of Advances and proceeds from the sale or other disposition of Collateral shall be deposited in the Funding Account;

(D) proceeds of Advances other than in respect of Special Borrowings and Builder Borrowings shall be disbursed by Agent from the Funding Account to the Operating Account for use by Borrower in accordance with the terms of this agreement;

(E) proceeds of Advances in respect of Special Borrowings other than Builder Borrowings and Funding Draft Borrowings shall be wired directly from the Funding Account to such title company or other closing agent as Borrower may identify;

(F) proceeds of Advances in respect of Builder Borrowings shall be wired directly to the account of the builder of the residences financed under the related Builder Mortgage Loans; and

(G) proceeds of Advances in respect of Special Borrowings which are Funding Draft Borrowings shall be transferred from the Funding Account (and in furtherance thereof Borrower hereby expressly authorizes Agent to transfer any such sums deposited in the Funding Account) to the Draft Account.

3.7 REPRESENTATIONS AND WARRANTIES REGARDING PLEDGED MORTGAGE LOANS OTHER

THAN NEW WET MORTGAGE LOANS, BUILDER MORTGAGE LOANS AND FUNDING DRAFT MORTGAGE

LOANS. Upon the delivery of the Collateral Pledge Certificate on which such

Pledged Mortgage Loan is identified, Borrower represents and warrants with respect to each Pledged Mortgage Loan (other than Pledged Mortgage Loans identified on such Collateral Pledge Certificate as New Wet Mortgage Loans, Builder Mortgage Loans (Dry) or Funding Draft Mortgage Loans (Dry)) that:

(A) 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;

(B) except in the case of Construction Loans, 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) has been fully funded to or for the account of the borrower thereunder;

(C) except in the case of Investment Mortgage Loans and Construction Loans, such Pledged Mortgage Loan is "covered," within the meaning of SECTION 6.20, by a Take-Out Commitment and was underwritten in compliance with the requirements of the Investor under such Take-Out Commitment;

(D) the Mortgage related to such Pledged Mortgage Loan creates a perfected first-priority lien (subject only to exceptions permitted by Part IV, Section 105.05 of the FNMA Guide [Selling] and Section 1704 of the FHLMC Guide) on residential real property consisting of land and, if applicable, 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 other than with respect to Construction Loans, and the Other Mortgage Documents

relevant thereto comply in all respects with the requirements of the Investor under the Take-Out Commitment by which such Pledged Mortgage Loan is "covered", if any;

(E) such Pledged Mortgage Loan is an Eligible Mortgage Loan; and

(F) Borrower has all requisite power and authority to grant Agent a security interest for the benefit of Lenders in such Pledged Mortgage Loan.

3.8 REPRESENTATIONS AND WARRANTIES REGARDING NEW WET MORTGAGE LOANS,

BUILDER MORTGAGE LOANS, AND FUNDING DRAFT MORTGAGE LOANS. Upon the delivery

of the Collateral Pledge Certificate (Wet, Builder or Funding Draft) on which such New Wet Mortgage Loan is identified, Borrower represents and warrants with respect to each New Wet Mortgage Loan which is not a Builder Mortgage Loan or a Funding Draft Mortgage Loan that:

(A) Borrower (and, if Borrower is not the originator of such New Wet Mortgage Loan, the originator of such Mortgage Loan) complied (or if such New Wet Mortgage Loan has not been funded upon such funding will have complied), and the Principal Mortgage Documents and Other Mortgage Documents relevant to such Mortgage Loan comply (or upon funding will 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 Mortgage Loan (less any discount points paid or to be paid by or on behalf of the borrower under such Mortgage Loan) has either already been fully funded to or for the account of the borrower thereunder or will be so funded on the date such Collateral Pledge Certificate is delivered to Agent;

(C) such Mortgage Loan is "covered," within the meaning of SECTION 6.20, by a Take-Out Commitment and was underwritten in compliance with the requirements of the Investor under such Take-Out Commitment;

(D) the Mortgage related to such Mortgage Loan creates a perfected first priority lien (subject only to exceptions permitted by Part IV, Section 105.05 of FNMA Guide [Selling] and Section 1704 of the FHLMC Guide) 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 Investor under the Take-Out Commitment by which such Mortgage Loan is "covered;"

(E) upon the acquisition or funding, as applicable, of any such New Wet Mortgage Loan, such New Wet Mortgage Loan will be an Eligible Wet Mortgage Loan; and

(F) Borrower has all requisite power and authority to grant Agent a security interest for the benefit of Lenders in such New Wet Mortgage Loan.

Upon the time, if any, at which Final Payment of the Funding Draft relevant to a Funding Draft Mortgage Loan identified on a Collateral Pledge Certificate or wire transfer to or for the account of the builder relevant to a Builder Mortgage Loan identified on a Collateral Pledge Certificate, as applicable, has occurred, Borrower represents and warrants with respect to such Mortgage Loan that:

(u) Borrower (and, in the case of a Funding Draft Mortgage Loan, if Borrower is not the originator of such Funding Draft Mortgage Loan, the originator of such Mortgage Loan) complied (or if any such Mortgage Loan has not been funded, upon such funding or Final Payment will have complied), and the Principal Mortgage Documents and Other Mortgage Documents relevant to such Mortgage Loan comply (or upon funding or Final Payment will 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;

(v) the full Face Amount of such Mortgage Loan (less any discount points paid or to be paid by or on behalf of the borrower under such Mortgage Loan) has been fully funded to or for the account of the borrower thereunder;

(w) such Mortgage Loan is "covered," within the meaning of SECTION 6.20, by a Take-Out Commitment and was underwritten in compliance with the requirements of the Investor under such Take-Out Commitment;

(x) the Mortgage related to such Mortgage Loan creates a perfected first priority lien (subject only to exceptions permitted by Part IV, Section 105.05 of FNMA Guide [Selling] and Section 1704 of the FHLMC Guide) 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 Investor under the Take-Out Commitment by which such Mortgage Loan is "covered;"

(y) such Funding Draft Mortgage Loan is an Eligible Mortgage Loan; and

(z) Borrower has all requisite power and authority to grant Agent a security interest for the benefit of Lenders in such Funding Draft Mortgage Loan.

3.9 BORROWER APPOINTED AGENT. Each Lender 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.

3.10 REVIEW OF MORTGAGE FILES; CALCULATION OF BORROWING BASE; AND DELIVERY OF BORROWING BASE REPORT.

(A) Review of Principal Mortgage Documents. Promptly upon receipt

of a Collateral Pledge Certificate, and in any event no later than 10:00 a.m. on the Business Day following receipt thereof (or as soon as practicable if more than 200 Mortgage Files are delivered on a single day), Agent shall examine the contents of the Mortgage Files received pursuant to such Collateral Pledge Certificate to determine whether such Mortgage Files contain the Principal Mortgage Documents for each Mortgage Loan identified on such Collateral Pledge Certificate and to determine if such Principal Mortgage Documents appear to be regular on their face. Agent shall not have any duty to examine any Other Mortgage Documents received by it.

(B) Calculations of Borrowing Base; Unexamined Mortgage Files.

Unless Agent (by notice to Borrower) or the Required Lenders (by notice to Agent and Borrower) shall otherwise require, for purposes of determining the Borrowing Base Agent shall assume that Mortgage Files received and not yet examined by Agent are in order and that the contents of such Mortgage Files are as represented and warranted by Borrower in the Collateral Pledge Certificate pursuant to which such Mortgage Files were delivered. Agent shall be fully protected in relying upon such assumption and such representations and warranties.

(C) Limitations on Agent's Review. Except as expressly provided in

this agreement, Agent shall not be responsible for the form or substance or the validity, genuineness, effectiveness, legality, enforceability or priority of any Mortgage Documents delivered to Agent. Without limiting the scope of the preceding sentence, Agent shall not be responsible for ascertaining that the signature on any document is authentic, that the person signing any document had the legal capacity or authority to do so, that the form of any document complies with the requirements of this agreement or of FHMA, FHLMC, GNMA, FHA, VA or any other Governmental Authority or that any document is the current form of FNMA, FHLMC, GNMA, FHA, VA or any other Governmental Authority, that any document has been properly recorded with the appropriate Governmental Authority, or that any Mortgage creates a Lien of any priority.

(D) Borrowing Base Reports. No later than 11:00 a.m. on the first

Business Day of each calendar week Agent shall (a) complete the Borrowing Base Report as of the close of business on the preceding Business Day and (b) deliver a copy of such Borrowing Base Report by telecopy to Borrower and to each Lender.

3.11 SERVICING RIGHTS. At any time and from time to time, and provided

that no Default or Event of Default exists or would result therefrom, Borrower may obtain the release of the security interest in favor of Agent for the benefit of Lenders in any Servicing Rights in connection with the sale thereof upon written request to Agent (which shall be in the form of a Request for Release of Security Interest) setting forth the Servicing Rights to be so sold, demonstrating compliance with SECTION 7.12 and certifying that no Default or Event of Default exists or would result from the requested release. In connection with any such release, Agent shall, at Borrower's request and expense, execute such form UCC-3 amendments and/or terminations as may be reasonably necessary (in light of maintaining the perfection and priority of any continuing security interests) to release the security interest of Agent for the benefit of Lenders in the relevant Servicing Rights.

3.12 TAKE-OUT COMMITMENTS. At any time and from time to time, and

provided that no Default or Event of Default exists or would result therefrom, Borrower may obtain the release of the security interest in favor of Agent for the benefit of Lenders 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 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, Agent shall, at Borrower's request and expense, execute such form UCC-3 amendments and/or terminations as may be reasonably necessary (in light of maintaining the perfection and priority of any continuing security interests) to release the security interest of Agent for the benefit of Lenders in the relevant Take-Out Commitments.

SECTION 4. CONDITIONS PRECEDENT

The obligation of each Lender to make Advances hereunder is subject to fulfillment of the conditions precedent stated in this SECTION 4.

4.1 INITIAL BORROWING. The obligation of each Lender to make its initial

Advance hereunder shall be subject to, in addition to the conditions precedent specified in SECTION 4.2 hereof, delivery to Agent of the following (each of the following documents being duly executed and delivered by each of the parties thereto (except for the Third Amendment to FNMA Acknowledgment Agreement which, subject to SECTION 6.21, need not be executed by FNMA) and in form and substance satisfactory to Agent and Lenders, and, with the exception of the Notes, each in a sufficient number of originals that each Lender may have an executed original of each document):

(A) this agreement;

(B) the Notes;

(C) a copy of the articles of incorporation of Borrower as amended through the Agreement Date and as certified by the Secretary of State of the Commonwealth of Virginia as of a date no earlier than June 1, 1996;

(D) a certificate of the Secretary or Assistant Secretary of Borrower, dated as of the Agreement Date 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 Notes, (ii) the incumbency of such officers, (iii) the validity of specimen signatures of such officers, (iv) the absence of any amendments to or rescission of the articles of incorporation of Borrower since June 1, 1996, and since the date of the copy thereof certified by the Secretary of State of the Commonwealth of Virginia, and (v) the completeness and validity of the copy of the by-laws of Borrower (as amended through the Agreement Date) attached as an exhibit to such certificate;

(E) a certificate from the Secretary of State of the Commonwealth of Virginia as to (i) the good standing of Borrower of a date no earlier than June 1, 1996, and (ii) the existence of Borrower as of a date no earlier than June 1, 1996;

(F) a certificate from the Secretary of the Commonwealth of Pennsylvania as to (i) the good standing of Borrower of a date no earlier than June 1, 1996, and (ii) the authority of Borrower to do business in Pennsylvania as of a date no earlier than June 1, 1996; and

(G) such other documents Agent or any Lender may reasonably request at any time at or prior to the Borrowing Date of the initial Borrowing hereunder.

4.2 ALL BORROWINGS. The obligation of each Lender to make any Advance

and to fund any Borrowing pursuant to this agreement is subject to the following further conditions precedent:

(A) prior to 11:00 a.m. on the Borrowing Date, Borrower shall deliver to Agent a duly executed Borrowing Request (and, to the extent that such Borrowing is to consist of Warehouse Advances funded as Eurodollar Rate Advances, prior to 11:00 a.m. on the third Eurodollar Business Day preceding the Borrowing Date, Borrower shall have notified Agent in writing of the amounts and Types of Warehouse Advance to constitute such Borrowing);

(B) subject to the provisions of SECTION 2.3(B), all Property in which Borrower has granted a Lien to Agent for the benefit of Lenders shall have been physically delivered to the possession of Agent or any bailee acceptable to Agent to the extent that such possession is necessary or appropriate for the purpose of perfecting the Lien of Agent for the benefit of Lenders in such collateral;

(C) the representations and warranties of Borrower contained in this agreement or 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 Borrowing Date;

(D) no Default, Event of Default or Excess Special Borrowing shall have occurred and be continuing and no change or event which constitutes a Material Adverse Effect shall have occurred as of the Borrowing Date; and

(E) the Draft Account, the Funding Account and the Operating Account shall be established and in existence.

Each Borrowing Request shall be deemed to constitute a representation and warranty by Borrower on the Borrowing Date set forth therein as to the facts specified in SECTIONS 4.2(C) and (D).

SECTION 5. BORROWER REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

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 in 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.

5.2 AUTHORIZATION AND POWER. Borrower has the corporate power and

requisite authority to execute, deliver and perform this agreement, the Notes 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 Notes 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 Notes and such other Loan Documents.

5.3 NO CONFLICTS OR CONSENTS. Neither the execution and delivery by

Borrower of this agreement, the Notes 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 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 Agent for the benefit of Lenders pursuant to the Security Agreement and this agreement, on the Property of Borrower.

5.4 ENFORCEABLE OBLIGATIONS. This agreement, the Notes 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.

5.5 PRIORITY OF LIENS. Agent has a valid, enforceable, perfected, first

priority Lien and security interest for the benefit of Lenders in (i) each Mortgage Loan heretofore identified on a Collateral Pledge Certificate delivered to Agent and not subsequently released by Agent pursuant to the Original Loan Agreement or the Existing Loan Agreement, or this agreement, (ii) the Agency Servicing Rights of Borrower and the Servicing Rights of Borrower other than Agency Servicing Rights heretofore granted by Borrower to Agent pursuant to the Security Agreement and not subsequently released by Agent pursuant to the Original Loan Agreement, or the Existing Loan Agreement, or this agreement, and (iii) each Take-Out Commitment of Borrower. Upon delivery to Agent of a Collateral Pledge Certificate identifying a New Wet Mortgage Loan and the funding by Lenders of the Warehouse Advances (or by Agent of the Swing Advance) requested in connection therewith, Agent will have valid, enforceable, perfected, first priority Liens and security interests for the benefit of Lenders in such New Wet Mortgage Loan and in all Mortgage Documents related thereto. Upon delivery to Agent of each Collateral Pledge Certificate and the Mortgage Notes which evidence the Mortgage Loans (other than New Wet Mortgage Loans) identified therein, Agent will have valid, enforceable, perfected, first priority Liens and security interests for the benefit of Lenders in such Mortgage Loans and in all Mortgage Documents related thereto. Upon the creation of any Agency Servicing Rights relevant to FNMA on or after the Agreement Date, Agent will have a valid, enforceable, perfected first priority Lien and security interest in such Agency Servicing Rights, subject only to the rights of FNMA under the applicable Agency Servicing Agreements (including the FNMA Guide). Upon the creation of any Agency Servicing Rights relevant to FHLMC on or after the Agreement Date, Agent will have a valid, enforceable, perfected, first priority Lien and security interest in such Agency Servicing Rights, subject only to the rights of FHLMC under the applicable Agency Servicing Agreements (including the FHLMC Guide). Upon the creation of any Servicing Rights other than Servicing Rights relevant to FNMA or FHLMC on or after the Agreement Date, Agent will have a valid, enforceable, perfected, first priority Lien and security interest in all such Servicing Rights other than Servicing Rights relevant to FNMA or FHLMC, subject only to the rights of Persons counterparty under the applicable Servicing Agreements (including, if applicable, the GNMA Guide).

5.6 NO LIENS. Borrower has good and indefeasible title to the Collateral

other than the Servicing Agreements, Servicing Records and Servicing Rights and has good title, subject only to the rights of FHMA, FHLMC, GNMA and other Persons counter parties to the Servicing Agreements, to all Servicing Agreements, Servicing Records and Servicing Rights. All of the Collateral is free and clear of all Liens and other adverse claims of any nature, other than Liens of the type set forth in CLAUSES (A), (B), (C), (D) and (K) of the definition of Permitted Liens.

5.7 FINANCIAL CONDITION. Borrower has delivered to Agent and Lenders

copies of the balance sheet of Borrower as of December 31, 1995, 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 Agent and Lenders, 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. Borrower has also delivered to Agent and Lenders copies of the balance sheet of Borrower dated as of March 31, 1996 and the related statements of income, and 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 Agent and Lenders 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.

5.8 FULL DISCLOSURE. There is no material fact that Borrower has not

disclosed to Agent and Lenders which could have a Material Adverse Effect. Neither the financial statements referred to in SECTION 5.7 hereof, nor any Borrowing Request, officer's certificate or statement delivered by Borrower to Agent or any Lender in connection with this agreement, contains any untrue statement of material fact.

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.

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.

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.

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.

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 hereof.

(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 4980B or Part 6 of Title I of ERISA exists or has occurred with respect to any Welfare Plan.

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.

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.

5.16 INDEBTEDNESS. Borrower has no Indebtedness outstanding other than

the Obligations and the other Indebtedness permitted by SECTION 7.2.

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.

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. (S)11301(b)(1) is applicable.

5.19 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 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.

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.

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 Notes 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.

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.

5.23 TAXPAYER IDENTIFICATION. The Federal tax employer identification

number of Borrower is 25-1664458.

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. (S)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 such terms are defined in 12 U.S.C. (S)375(b)(9) and the regulations promulgated pursuant thereto) of any Lender, of any bank holding company of which any Lender is a Subsidiary, or of any Subsidiary of any bank holding company of which any Lender is a Subsidiary.

5.25 SURVIVAL OF REPRESENTATIONS. All representations and warranties by

Borrower herein shall survive delivery of the Notes and the making of the Advances, and any investigation at any time made by or on behalf of Agent or any Lender shall not diminish the right of Agent or any Lender to rely thereon.

SECTION 6. AFFIRMATIVE COVENANTS

Borrower shall at all times comply with the covenants contained in this SECTION 6, from the date hereof and for so long as any part of the Obligations or any Commitment is outstanding.

6.1 FINANCIAL STATEMENTS AND REPORTS. Borrower shall furnish to each

Lender the following, all in form and detail reasonably satisfactory to Lenders:

(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 the Required Lenders 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 accompanied by audited financials (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 Required Lenders;

(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 hereto, 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 any 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 Agent 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, mortgage servicing/delinquency and production;

(F) No later than 11:00 a.m. on each Business Day, a Take-Out Report, properly completed by an officer of Borrower, setting forth, as of the close of business on the preceding Business Day, the Weighted Average Take-Out Price; and

(G) Such other information concerning the business, Properties or financial condition of Borrower, any Affiliate or any Investor as Agent or any Lender may request.

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.

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, betterments and improvements to its Properties as are needful and proper so that the business carried on in connection therewith may be conducted properly and efficiently at all times.

6.4 FURTHER ASSURANCES. Borrower shall, within 3 Business Days (or, in

the case of Mortgage Notes, such longer period as provided under SECTION 3.5 of this agreement) after the request of Agent or any Lender, cure any defects in the execution and delivery of any Note, this agreement or any other Loan Document and Borrower shall, at its expense, promptly execute and deliver to Agent and Lenders 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 Notes, 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.

6.5 REIMBURSEMENT OF EXPENSES. Borrower shall, within 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 Agent in connection with the preparation, negotiation or execution of this agreement, the Notes and the other Loan Documents and any amendments, consents or waivers executed in connection therewith, (ii) all fees, charges or taxes for the recording or filing of the Security Instruments, (iii) all shipping, postage and transfer costs incurred by Agent in connection with the administration of this agreement, the Notes and the other Loan Documents, including courier expenses incurred in connection with the Collateral as provided in the Custodial Fee Letter, and (iv) all amounts expended, advanced or incurred by Agent or any Lender to satisfy any obligation of Borrower under this agreement or any of the other Loan Documents or to collect any Note, or to enforce the rights of Agent or any Lender 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 Agent or any Lender in connection with any such matters, together with interest at the post-maturity rate specified in each Note on each item specified in clauses (i) through (iv) from 30 days after the date of written demand or request for reimbursement until the date of reimbursement.

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 Agent or any Lender, Borrower shall furnish or cause to be furnished to Agent from time to time a summary of the insurance coverage of Borrower in form satisfactory to the Person requesting such summary and if requested shall furnish Agent copies of the applicable policies. Agent shall promptly distribute copies of any summaries and policies received by it under this SECTION 6.6 to any Lender which so requests.

6.7 ACCOUNTS AND RECORDS; SERVICING 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. Borrower shall implement and maintain administrative and operating procedures (including without limitation, an ability to recreate all material records pertaining to the performance of Borrower's obligations under the Servicing Agreements

in the event of the destruction of the originals of such records) and keep and maintain all documents, books, records, computer tapes and other information reasonably necessary or advisable for the performance by Borrower of its obligations under the Servicing Agreements.

6.8 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, Agent and Lenders 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 Agent or any Lender 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 Mortgage Loans from time to time pledged to Agent for the benefit of Lenders with the responsible officers, employees and agents (including any third party appraisers) of Borrower and such Person, at all such reasonable times (which may include unannounced "spot" checks) and as often as Agent or any Lender may desire.

6.9 RIGHT OF INSPECTION. Borrower shall permit any officer, employee or

agent of Agent or any Lender 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 Agent or any Lender may desire.

6.10 NOTICE OF CERTAIN EVENTS. Borrower shall promptly notify Agent and

each Lender (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.

6.11 PERFORMANCE OF CERTAIN OBLIGATIONS. Borrower shall perform and

observe in all material respects each of the provisions of each Agency Commitment, each Take-Out Commitment and each of the Servicing Agreements 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.

6.12 USE OF PROCEEDS; MARGIN STOCK. The proceeds of the Advances shall be

used by Borrower solely for the funding and acquisition of Mortgage Loans in the ordinary course of Borrower's business, including the refinancing of Eligible Mortgage Loans funded or acquired by Borrower in the ordinary course of business with its own funds. 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.

6.13 NOTICE OF DEFAULT. Borrower shall furnish to Agent and to each

Lender 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.

6.14 COMPLIANCE WITH LOAN DOCUMENTS. Borrower shall promptly comply with

any and all covenants and provisions of this agreement, the Notes and the other Loan Documents.

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.

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.

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 Agent 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 of 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.

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.

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 Agent and to each Lender 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.

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 (except Investment Mortgage Loans and

Construction Loans) 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. For purposes of SECTIONS 3.7 and 3.8 and the Collateral Pledge Certificates, a Mortgage Loan shall be "covered" by a Take-Out Commitment only if it is either (x) saleable directly into a Take-Out Commitment as a Mortgage Loan rather than as part of a Mortgage-Backed Security or (y) covered by both an Agency Commitment and a Take-Out Commitment.

6.21 FNMA ACKNOWLEDGMENT AGREEMENT. On or before the 45th day following

the Agreement Date, Borrower shall deliver to Agent a counterpart original Third Amendment to FNMA Acknowledgment duly executed by FNMA.

6.22 FAILURE TO CLOSE A WET MORTGAGE LOAN. Borrower shall make a

mandatory repayment in an amount equal to the Collateral Value (determined as if such Wet Mortgage Loan had closed) of any Wet Mortgage Loan listed in a Collateral Pledge Certificate (Wet, Builder or Funding Draft) within one (1) Business Day of the date such Mortgage Loan was to have closed, if (i) such Wet Mortgage Loan shall not have closed before the close of business on the Business Day after the date of delivery of such Collateral Pledge Certificate (Wet, Builder or Funding Draft) and (ii) Borrower shall have received Advances to fund the payment of the proceeds of such Mortgage Loan. Borrower shall give Agent notice of each repayment pursuant to this SECTION 6.22, which notice shall identify the Wet Mortgage Loan which has not closed, contemporaneously with the making of such repayment.

SECTION 7. NEGATIVE COVENANTS

Borrower shall at times comply with the covenants contained in this SECTION 7, from the date hereof and for so long as any part of the Obligations or any Commitment is outstanding.

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, Mortgage-Backed Securities and rights to service Mortgage Loans) or capital stock of any Person.

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) Lender Gestation Financing Agreements, (c) Permitted Intercompany Payables, (d) Indebtedness, including the Obligations, secured by 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) Investment Line of Credit Indebtedness, (h) Overline Indebtedness, only if the Warehouse Advances equal the Total Commitments, and (i) other Indebtedness in an aggregate amount at any time outstanding not greater than \$250,000.

7.3 FISCAL YEAR, METHOD OF ACCOUNTING. Borrower shall not change its

fiscal year or method of accounting.

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.

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 subject to SECTION 3.4(B) hereof nothing in this SECTION 7.5 shall be construed to prohibit Borrower from selling Servicing Rights, Mortgage Notes or Mortgage-Backed Securities in the ordinary course of its business.

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 Agent 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.

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.

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) other than pursuant to pair-offs in the ordinary course of business, agree to the amendment or termination of any Take-Out Commitment included in the Collateral or to the substitution of any Take-Out Commitment for such a Take-Out Commitment without the consent of Agent;

(C) transfer, sell, assign, or deliver any Collateral pledged to Agent to any Person other than Agent, except in accordance with SECTION 3; or

(D) grant, create, incur, permit or suffer to exist any Lien upon any Mortgage Collateral except for (i) Liens granted to Agent for the benefit of lenders to secure the Obligations, (ii) such non-consensual Liens may be deemed to arise as a matter of law pursuant to any Take-Out Commitment, (iii) Liens permitted under SECTION 6.2 to the extent that such Liens constitute Permitted Liens, (iv) Liens which constitute Permitted Liens under clauses (f) and (g) of the definition of Permitted Liens.

7.9 NET WORTH. The Net Worth of Borrower at any date shall not be less

than \$10,000,000.

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.

7.11 LIABILITIES TO NET WORTH RATIOS.11LIABILITIES TO NET WORTH RATIOS.

(A) 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 Gestation Mortgage Loans, and (z) obligations of Borrower in respect of Repurchase Agreements) of Borrower to (ii) the greater of (A) the Adjusted Tangible Net Worth of Borrower and (B) the Net Worth of Borrower shall not be more than 10.0 to 1.0 at any time.

(B) The ratio of (i) the Total Liabilities (including all obligations of Borrower under Repurchase Agreements, whether or not such obligations constitute liabilities under GAAP, and excluding only (x) net deferred taxes and (y) Advances to the extent of the aggregate Collateral Value of all Eligible Gestation Mortgage Loans) of Borrower to (ii) the greater of (A) the Adjusted Tangible Net Worth of Borrower and (B) the Net Worth of Borrower shall not be more than 12.0 to 1.0 at any time.

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7.12 MINIMUM SERVICING PORTFOLIO. THE AGGREGATE OUTSTANDING PRINCIPAL

BALANCE OF THE MORTGAGE LOANS INCLUDED IN THE SERVICING PORTFOLIO OF BORROWER SHALL NOT BE LESS THAN \$350,000,000 AT ANY TIME.

7.13 RESTRICTIONS ON DIVIDENDS, RETURNS OF CAPITAL AND SERVICING PROCEEDS

DISTRIBUTIONS. Borrower shall not directly or indirectly declare or make, or

incur any liability to make, any Dividend, Return of Capital or Servicing Proceeds Distribution unless, prior thereto, Borrower shall have submitted to Agent 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 or any Servicing Proceeds Distribution, demonstrating the amount and source of such return or distribution.

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, Permitted Returns of Capital, and Permitted Servicing Proceeds Distributions shall not exceed \$250,000 in the aggregate in any twelve month period.

7.15 LIENS. Borrower shall not grant, create, incur, assume, permit or

suffer to exist any Lien which is not a Permitted Lien upon any of its Property, including without limitation any and all of Borrower's Mortgage Loans, Mortgage-Backed Securities (except as permitted under SECTION 7.8(D)) and Servicing Rights and the proceeds from any thereof.

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.

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 Agent in connection with this agreement would become seriously misleading, unless it shall have given Agent at least 30 days prior written notice thereof and prior to effecting any such change, taken such steps as Agent or the Required Lenders may deem necessary or desirable to continue the perfection and priority of the Liens in favor of Agent for the benefit of Lenders granted in connection herewith.

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.

7.19 TAX ALLOCATION AGREEMENT. Borrower shall not permit the amendment or

modification of the Tax Sharing Agreement in any way which has an adverse effect on Borrower.

7.20 PERMITTED SUBORDINATED INDEBTEDNESS. Borrower shall not increase the

outstanding amount of the Permitted Subordinated Indebtedness, modify or amend the Affiliate Note without providing a copy of the Affiliate Note, as modified, to Agent within 20 days after execution of 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.

SECTION 8. EVENTS OF DEFAULT SECTION 8. EVENTS OF DEFAULT

8.1 NATURE OF EVENT. An Event of Default shall exist if any one or more

of the following occurs:

(A) Borrower fails to make any payment of principal of or interest on any Note, or payment of any fee, expense or other amount due hereunder, under any of the Notes 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 2.3(B)(III), 2.5, 6.13, 6.17, 6.20, 6.21 or 6.22 or SECTION 7 (other than SECTIONS 7.9 through 7.12, 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 7.12 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 Agent or the Required Lenders;

(C) 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 Borrower contained in this agreement, the Notes 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;

(E) Borrower fails to make when due or within any applicable grace period any payment on any Indebtedness with an unpaid principal 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) an 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 any Lender;

(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) Borrower shall cease to be an eligible seller or servicer under the FNMA Guide or the FHLMC Guide, or FNMA or FHLMC shall impose any sanctions upon or take any action to terminate or revoke any servicing of Borrower, or FNMA or FHLMC shall take any action to initiate the transfer of any servicing from Borrower to another Person (including, without limitation, the giving of notice to Borrower that it intends to terminate or transfer any servicing) or FNMA or FHLMC shall seek any judicial relief with respect to Borrower;

(O) GNMA shall revoke or terminate any servicing of Borrower, or GNMA shall issue a letter of extinguishment under any GNMA guaranty agreement or GNMA shall notify Borrower that it intends to revoke or terminate any servicing of Borrower or issue a letter of extinguishment, or GNMA shall seek any judicial relief with respect to Borrower;

(P) 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

(Q) any provision of this agreement, the Notes 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.

8.2 DEFAULT REMEDIES. Upon the occurrence of an Event of Default, Agent,

at the request of the Required Lenders, provided such Event of Default has not been previously cured by Borrower, may (i) declare each of the Commitments to be terminated and/or declare the entire principal of and all interest accrued on the Notes to be, and the Notes, together with all Obligations, shall thereupon become, forthwith due and payable, without 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 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 (P) above occurs, the Commitment of each Lender shall automatically and immediately terminate and the Notes and all other Obligations shall become automatically and immediately due and payable, both as to principal and interest, without any action by Agent or any Lender 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 any Note to the contrary notwithstanding.

SECTION 9. AGENT

9.1 AUTHORIZATION AND ACTION. Each Lender hereby appoints Bank One,

Texas, N.A., as Agent under this agreement and the other Loan Documents and authorizes Agent to take such action on its behalf and to exercise such powers and perform such duties as are expressly delegated to Agent by the terms of this agreement and such other Loan Documents, together with such powers as are reasonably incidental thereto. As to any matter not expressly provided for by this agreement (including, without limitation, enforcement or collection of the Notes), Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of the Notes; provided, however, that Agent shall not be required to take any action which exposes Agent to personal liability or which is contrary to this agreement or applicable law. Agent agrees to give to each Lender prompt notice of each notice given to it by Borrower pursuant to the terms of this agreement.

9.2 AGENT'S RELIANCE, ETC.. Notwithstanding anything to the contrary in

this agreement or any other Loan Document, neither Agent nor any of its directors, officers, agents, employees, attorneys-in-fact or Affiliates shall be liable for any action taken or omitted to be taken by it or them under or in connection with this agreement or the other Loan Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, Agent: (a) may treat the payee of any Note as the holder thereof; (b) may consult with legal counsel (including counsel for Borrower), independent public accountants and other experts selected by it or Borrower and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this agreement; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this agreement on the part of Borrower or to inspect the property (including the books and records) of Borrower, except receipt of delivery of the items required under SECTIONS 3.2, 4.1, 4.2, and 6.1; (e) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this agreement or any other instrument or document furnished pursuant hereto; and (f) shall incur no liability under or in respect of this agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopy) believed by it to be genuine and signed or sent by the proper party or parties.

9.3 AGENT AND AFFILIATES. With respect to its Commitment, the Advances

made by it and the Notes issued to it, Agent shall have the same rights and powers under this agreement and the other Loan Documents as any other Lender and may exercise the same as though it were not Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Agent in its individual capacity. Agent and the Affiliates of Agent may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, Borrower, any of its Affiliates and any Person who may do business with or own securities of Borrower or any of its Affiliates, all as if Agent were not Agent and without any duty to account therefor to Lenders.

9.4 LENDER CREDIT DECISION. Each Lender acknowledges that it has,

independently and without reliance upon Agent or any other Lender and based on the financial statements referred to in SECTIONS 5.7 and 6.1 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter this agreement. Each Lender also acknowledges that it will, independently and without reliance upon Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, to make its own credit decisions in taking or not taking action under this agreement.

9.5 INDEMNIFICATION. Lenders agree to indemnify Agent (to the extent not

reimbursed by Borrower), ratably according to their respective Commitments, from and against any and all liabilities, obligations, losses, damages, penalties, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of this agreement or any action taken or omitted by Agent under this agreement (including any of same which may result from the negligence, but not gross negligence, of Agent), provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this agreement, to the extent that Agent is not reimbursed for such expenses by Borrower.

9.6 SUCCESSOR AGENT. Agent may resign at any time by giving written

notice thereof to Lenders and Borrower and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of Lenders, appoint a successor Agent, which shall be a commercial bank or savings bank organized under the laws of the United States of America or of any State thereof which has a combined capital and surplus of at least \$200,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from any further duties and obligations under this agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this SECTION 9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this agreement. The appointment of a Successor Agent shall not release the retiring Agent from any liability it may have for any actions taken or omitted to be taken by it while it was Agent under this agreement.

9.7 RIGHT OF INSPECTION. Agent shall permit any officer, employee or

agent of Borrower or any Lender which may so request to visit and inspect the premises on which the custodial duties of Agent hereunder are performed, examine the books and records of Agent which pertain to such custodial duties, take copies and extracts therefrom, and discuss the performance of such custodial duties with the officers, accountants and auditors of Agent that are responsible therefor, all at such reasonable times and as often as Borrower or any Lender may desire.

SECTION 10. INDEMNIFICATION OF LENDERS

10.1 INDEMNIFICATION.

(A) Borrower will indemnify and hold harmless each Lender, each Lender's directors, officers, employees and each Person, if any, who is deemed to control any Lender (any and all 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 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 or warranties set forth in Section 3.7 or 3.8 to be false or incorrect, excepting only losses, claims, damages or liabilities arising 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 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 10.1 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 representations 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.

10.2 Limitation of Liability. Neither any Lender nor the directors,

officers, agents or employees of any Lender 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 such Lender or its directors, officers, agents or employees.

SECTION 11. MISCELLANEOUS

11.1 NOTICES. Any notice or request required or permitted to be given

under or in connection with this agreement, the Notes 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

Agent: Bank One, Texas, National Association
1717 Main Street, Fourth Floor
Dallas, Texas 75201
Attention: Mr. Mark L. Freeman
Telecopy: (214) 290-2275

Lenders: The address listed for each Lender
on SCHEDULE 1.1(A)

or at such other addresses or to such individual's or department's attention as any party may have furnished the other parties in writing. Any communications so addressed and mailed shall be deemed to be given when so mailed, sent or delivered, except that communications given pursuant to SECTIONS 2.5 and 6.13, Borrowing Requests and Collateral Pledge Certificates and communications related thereto shall not be effective until actually received by Agent, a Lender or Borrower, as the case may be, any communication mailed by first class 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 by, or actually received by, an officer of Borrower, Agent or a Lender, as the case may be.

11.2 AMENDMENTS, ETC.

(A) In General. Neither this agreement, any Note or any other Loan

Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this SECTION 11.2. With the written consent of the Required Lenders, Agent and Borrower may, from time to time, enter into written amendments, supplements or modifications hereto for the purpose of adding any provisions to this agreement, the Notes, or the other Loan Documents to which Borrower is a party or changing in any manner the rights of Lenders or

of Borrower hereunder or thereunder or waiving, on such terms and conditions as Agent may specify in such instrument, any of the requirements of this agreement or the Notes or the other Loan Documents to which Borrower is a party or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (i)(A) waive any condition set forth in SECTION 4, (B) extend the maturity of any Note or any installment thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof, (C) reduce any fee payable to any Lender under this agreement, (D) change any Lender's Commitment Amount, (E) amend, modify or waive any provision of this SECTION 11.2, (F) consent to the assignment or transfer by Borrower of any of its rights and obligations under this agreement, (G) waive any Event of Default specified in SECTION 8.1 (F), (G), (H) or (P), (H) amend, supplement or modify the definition of Borrowing, Borrowing Base, Collateral Value, Eligible Gestation Mortgage Loan, Eligible Mortgage Loan, Eligible Wet Mortgage Loan, Jumbo Loan, Super Jumbo Loan or Required Lenders or of any component of any thereof, or any provision of SECTION 2.1 or SECTION 6.12, (I) change the several nature of Lenders' obligations under this agreement, (J) release any Collateral except as expressly permitted by the Loan Documents, or (K) change any release provision in any Loan Document, in each of the foregoing cases without the written consent of all Lenders, (ii) amend, modify or waive any provision pertaining to Swing Advances without the written consent of Agent, or (iii) amend, modify or waive any provision of SECTION 4 without the written consent of all Persons then serving or having served as Agent; and provided, further, Borrower and Agent may, without the approval of the Required Lenders, add Additional Lenders pursuant to SECTION 11.11(C); provided, that such addition does not result in the Total Commitment exceeding \$200,000,000. Any such waiver and any such amendment, supplement or modification shall apply equally to each of Lenders and shall be binding upon Borrower, Lenders, Agent and all future holders of the Notes. In the case of the waiver of any Default or Event of Default, Borrower, Lenders and Agent shall be restored to their former position and rights hereunder and under the outstanding Notes, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

(B) Regarding Investors. Notwithstanding anything in SECTION

11.2(A) to the contrary:

(I) The Required Lenders may, at any time and from time to time, without the consent of Borrower but effective upon thirty (30) days' prior written notice by Agent to Borrower, amend SCHEDULE 1.1(B) to delete any Person which, in the sole discretion of the Required Lenders, is no longer acceptable as an Investor; provided, that (A) any Investor with respect to which any proceeding of the types described in SECTIONS 9.1(G) and (H) has been commenced shall, immediately upon notice to Borrower from Agent or any Lender (with a copy to Agent) be automatically deleted from SCHEDULE 1.1(B) without the necessity for any other action (including prior written notice of any duration to Borrower) by Agent or any lender and (B) upon any Investor being deleted from SCHEDULE 1.1(B), Borrower shall not enter into any new Take-Out Commitments or Repurchase Agreements with such Investor; and

(II) At any time and from time to time at the request of Borrower and with the consent of Agent and notice to each Lender, SCHEDULE 1.1(B) may be supplemented to include any Person not then an Investor which, in the sole discretion of Agent, is acceptable as an Investor.

(C) Commitment Amount. Notwithstanding anything in SECTION

11.2(A) to the contrary, Borrower, Agent and any Lender (the "INCREASING LENDER") may, at any time and from time to time, without the consent of any other Lender or Lenders but by written agreement with notice to each Lender, increase the Commitment Amount of such Increasing Lender for up to one hundred and twenty days; provided, that after giving effect to such increase, the Total Commitment at such time does not exceed the Total Commitment on the Agreement Date by more than \$50,000,000.

11.3 INVALIDITY. In the event that any one or more of the provisions

contained in any 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.

11.4 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 and termination of all of the Commitments.

11.5 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 Notes or any part of such other Obligations.

11.6 WAIVERS. No course of dealing on the part of Agent or any Lender, or

any of their officers, employees, consultants or agents, nor any failure or delay by Agent or any Lender with respect to exercising any right, power or privilege of Agent or any Lender under the Notes, this agreement or any other Loan Document shall operate as a waiver thereof, except as otherwise provided in SECTION 11.2.

11.7 CUMULATIVE RIGHTS. The rights and remedies of Lenders and Agent

under the Notes, this 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.

11.8 CONSTRUCTION. THIS AGREEMENT, EACH 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, IF ANY, APPLICABLE TO LENDERS 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 ANY NOTE.

11.9 INTEREST. Any provisions herein, in any 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, no Lender shall in any event be entitled to receive or collect, nor shall or may amounts received hereunder be credited, so that such Lender 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 such Note at the time in question. If any construction of this agreement, any Note or any other Loan Document, or any and all other papers, agreements or commitments indicate a different right given to any Lender 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, each 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 any Lender 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 or Notes held by such Lender, 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 each Lender shall, to the maximum extent permitted under the 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 such Lender's Note or Notes; provided that if a 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 Lender holding such Note shall refund to 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 a 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.

11.10 RIGHT OF OFFSET. Borrower hereby grants to Agent, to each Lender

and to any assignee or participation of any Lender a right of offset, to secure the repayment of 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 11.10 or elsewhere in this agreement to the contrary, Agent, Lenders and any assignee or participant of any Lender shall not 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.

11.11 ASSIGNMENTS, ADDITIONAL LENDERS, ETC.

(A) Assignments and Participations. All covenants and agreements by

or on behalf of Borrower in the Notes, this agreement, or any other Loan Document shall bind Borrower's successors and assigns and shall inure to the benefit of Agent and Lenders and their successors and assigns. Borrower shall not, however, have the right to assign its rights or obligation under this agreement or any interest herein, without the prior written consent of Agent and each Lender. Each Lender may assign to one or more Persons all or any part of, and may grant Participations to one or more Persons in all or any part of, its rights and obligations under this agreement (including without limitation, its Commitment, the Advances owing to it and the Note or Notes held by it); provided, however, that (i) such Lender's obligations under this agreement (including without limitation, its Commitment to Borrower hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) whether or not such Lender shall remain the holder of any such Note, such Lender shall retain all voting rights with respect to such Note, the Advances thereunder and the Commitment relevant thereto and Borrower, Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this agreement and in connection with any rights or obligation of the holder of any such Note.

(B) Confidentiality. Any Lender may, in connection with any

assignment or participation or proposed assignment or participation pursuant to this SECTION 11.11, disclose to the actual or proposed assignee or participant any information relating to Borrower furnished to such Lender 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.

(C) Additional Lenders. From time to time additional lenders may be

added hereto upon (i) the request of Borrower and the consent of Agent and (ii) execution by Borrower, Agent and such additional lenders of a Bank Addition Agreement. Each Lender hereby agrees to execute each Bank Addition Agreement for purposes of acknowledging the terms and provisions thereof.

(D) NBD Assignment to First Chicago. Borrower, Agent, each Lender,

and NBD Bank ("NBD") acknowledge and agree that on and as of the Agreement Date, NBD shall sell and assign to The First National Bank of Chicago ("FNBC"), and FNBC shall purchase and take from NBD, all Obligations held by and owed to NBD under this agreement. On and after the Agreement Date (i) FNBC shall have the rights and obligations of a Lender under this Agreement and the other Loan Documents, (ii) FNBC shall assume 100% of the Commitment held by NBD, and (iii) NBD shall cease to be a Lender under this agreement and shall have no rights or corresponding obligations (other than in respect of indemnity obligations as they may exist or arise under the Original or Existing Loan Agreement in respect of matters before Agreement Date) under this agreement and the other Loan Documents.

11.12 LENDER COVENANTS, REPRESENTATIONS AND WARRANTIES. Each Lender

severally covenants to return its Note or Notes to Borrower upon receipt of its replacement Notes. Each Lender severally represents and warrants that it:

(A) is either a banking association duly organized and validly existing under the laws of the United States of America or a State therein, or is a Federal savings bank duly organized and validly existing under the laws of the United States of America;

(B) has the power and authority to own its properties and assets and to transact the business in which it is engaged;

(C) 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

(D) will continuously maintain all components of this agreement and the other Loan Documents as an official record of such Lender.

11.13 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 Agent. 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 any Lender; and Borrower hereby waives any objection to the venue of any such suit, action, or proceeding. Nothing herein shall affect the right of each Lender 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.

11.14 EXHIBITS. The exhibits 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 the provisions of this agreement, the provisions of this agreement shall prevail.

11.15 TITLES OF ARTICLES AND SECTIONS. All titles or headings to

articles, 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 of such articles, sections, subsections or other divisions, such other content being controlling as to the agreement between the parties hereto.

11.16 COUNTERPARTS. This agreement may be executed in two or more

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.

11.17 RIGHTS OF INDIVIDUAL LENDERS TO TAKE ACTION. Notwithstanding any

provision in the Loan Documents to the contrary, no Lender shall have any right by virtue of (or by availing itself of) any provision of this agreement or any other Loan Document to institute any action or proceedings at law or in equity or otherwise (excluding any actions in bankruptcy and the exercise of any rights of offset) upon or under or with respect to this agreement or any other Loan Document or for the appointment of a receiver or for any other remedy unless after an Event of Default has occurred and before Agent has declared in writing that it has been cured or waived, (a) the Required Lenders have (i) made a written request that Agent institute such action or proceeding in its own name as agent under this agreement and (ii) offered to Agent such reasonable indemnity as it may require against any costs, expenses and liabilities to be incurred therein or thereby, and (b) Agent, for 30 days after its receipt of such request and offer of indemnity, shall have failed to institute any such action or proceedings and no direction inconsistent with such request shall have been given to Agent by the Required Lenders. Lenders intend and mutually covenant that no one or more of Lenders or other holders of the Notes shall have any right in any manner whatever to affect, disturb or prejudice the rights of any other Lender or to obtain or seek to obtain priority over or preference to any other Lender, or to enforce any right under this agreement or any other Loan Document, except in the manner provided in this agreement and for the ratable benefit of all Lenders. For the protection and enforcement of this SECTION 11.17, Agent and each Lender shall be entitled to such relief as can be given either at law or in equity.

11.18 ENTIRE AGREEMENT. THE NOTES, THIS AGREEMENT, AND THE OTHER LOAN

DOCUMENTS EXECUTED AND DELIVERED AS OF EVEN DATE HERewith REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES 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.

11.19 AGREEMENT REGARDING EFFECTIVE DATE. Notwithstanding the date of

this agreement or any other Loan Document, this agreement and the other Loan Documents dated as of November 1, 1993 are being executed and delivered on the Agreement Date and each of the terms and provisions of this agreement and of each of the other Loan Documents shall become effective on the Agreement Date and not prior thereto.

[REMAINDER OF PAGE INTENTIONALLY BLANK
SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed as of the Agreement Date below.

Agreement Date: June 13, 1996

BORROWER: NVR MORTGAGE FINANCE, INC.

By /s/ William J. Inman

William J. Inman, President

AGENT AND LENDER: BANK ONE, TEXAS, N.A.

By: /s/ Mark L. Freeman

Mark L. Freeman, Vice President

LENDERS: FIRST BANK NATIONAL ASSOCIATION

By: /s/ Kathlyn K. Slater

Kathlyn K. Slater, Vice President

THE FIRST NATIONAL BANK OF CHICAGO, N.A.

By: /s/ Ann H. Chudacoff

Ann H. Chudacoff, Vice President

THE BANK OF NEW YORK

By: /s/ Patricia M. Dominus

Patricia M. Dominus, Vice President

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Paul Chmielinski

Paul Chmielinski, Vice President

This signature page is to be executed for the purpose of Assignment to the First National Bank of Chicago pursuant to Section 11.11.

By /s/ Ann H. Chudacoff

Ann H. Chudacoff, Vice President

SECOND MODIFICATION OF
AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT

This Second Modification of Amended and Restated Credit and Security Agreement ("Agreement") is made this 14th day of May, 1996, among (i) NVR HOMES, INC. (the "Borrower"), a corporation organized and existing under the laws of Virginia having its principal place of business at 7601 Lewinsville Road, McLean, Virginia 22102, (ii) NVR, INC., a corporation organized and existing under the laws of Virginia having its principal place of business at 7601 Lewinsville Road, McLean, Virginia 22102 (sometimes hereinafter referred to as the "Guarantor"), (iii) THE FIRST NATIONAL BANK OF BOSTON ("FNBB"), a national banking association having its principal place of business at 100 Federal Street, Boston, Massachusetts 02110, (iv) certain other lending institutions which are signatories hereto (FNBB and such lending institutions are individually each a "Bank" and, collectively the "Banks"), and (v) THE FIRST NATIONAL BANK OF BOSTON, as agent (in its capacity as agent, the "Agent") for itself and the Banks.

W I T N E S S E T H

IN CONSIDERATION OF TEN AND NO/100 DOLLARS (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned Borrower, Guarantor, FNBB, the Banks and the Agent hereby covenant and agree and follows:

1. Recitals. The following Recitals are true and correct as of the date

of this Agreement:

A. The Borrower, Guarantor, FNBB, the Banks and the Agent entered into an Amended and Restated Credit and Security Agreement, dated as of May 5, 1995 ("Credit Agreement").

B. The parties to the Credit Agreement amended and modified the Credit Agreement in order to increase the credit facility from \$50,000,000.00 to \$60,000,000.00 by that certain First Modification of Amended and Restated Credit and Security Agreement (the "First Modification"), dated as of January 16, 1996 (the Credit Agreement, as amended, is hereinafter referred to as the "Credit Agreement").

C. The parties to the Credit Agreement wish to further amend and modify the Credit Agreement as described herein.

D. All terms not otherwise defined herein shall have the same meaning as in the Credit Agreement.

2. The Credit Agreement is hereby modified as follows:

A. Article 1:

(1) By deleting the following language from the definition of Business Day: "LIBOR" and by substituting in lieu thereof "Eurodollar" and by

deleting "London, England and";

(2) By adding the following language to the second line of the definition of Eurodollar Advance Period after the word "period" "or such other

period which is a minimum of seven days and a maximum of twenty-nine days,";

(3) By deleting the following language from the definition of Eurodollar Rate starting on the second line of the definition on page 10 "London

interbank market as reported on Telerate Screen page 3750 at approximately 11.00 a.m. (Boston time)" and by substituting in lieu thereof the following: " New York interbank eurodollar market"; by deleting the following language from the last sentence of this definition: "If such rate is not so reported, then"; by capitalizing the word "such" immediately following the deleted language; and by deleting the word "other" in the sixth to the last line of this definition.

B. Section 2.1.1: By deleting the reference to "May 31, 1998" in the fifth, nineteenth and twenty-sixth lines of Section 2.1.1 on pages 19 and 20, and by substituting in lieu thereof "May 31, 1999."

C. Section 2.1.5

b. (ii): By deleting the words " at least three (3)" and by

substituting in lieu thereof "two (2)";

c. (i): By deleting the words and number "at least three (3)" from the

third line of this Section and by inserting in lieu thereof: "two (2)" and by inserting after the word telecopy on the fifth line of this section the following: "provided such notice must be given between the hours of 9:00 a.m. and 12:00 a.m. Boston time on such second Business Day prior to the proposed funding,"; and by deleting the penultimate sentence of this section;

c. (ii): By deleting the words "At least three (3)" from the first line

of this
section and substituting in lieu thereof "Upon two (2)";

D. Section 2.1.6: (i) By deleting the last sentence in Section

2.1.6(a), and by substituting in lieu thereof the following:

"Interest shall accrue and be payable on each Base Rate Advance made with respect to the revolving Credit Loans at the simple per annum interest rate equal to the Base Rate."

(ii) By deleting the reference to "two and one-half percent (2.50%)" in the last line of Section 2.1.6(b), and by substituting in lieu thereof "two percent (2.0%), except for Eurodollar Advances with Eurodollar Advance Periods of less than thirty (30) days which shall be two and one-tenth percent (2.1%)."

E. Section 2.2.1: By deleting the reference to "\$24,000,000" in

the seventh line of page 28 (as amended by the First Modification), and by substituting in lieu thereof "the lesser of \$24,000,000 or the amount of the Commitment of the Agent."

F. Section 4.2: By deleting the reference to "one and one-half

percent (1.50%)" in the fourth and fifth lines of this Section on page 30, and by substituting in lieu thereof "one and one-quarter percent (1.25%)" and by deleting the reference to "one and one-quarter percent (1.25%)" in the eighteenth and nineteenth line of this Section and by substituting in lieu thereof "one percent (1.0%)."

G. Section 4.3: By deleting this Section in its entirety and

substituting in lieu thereof the following:

"(S) 4.3 Facility Fee. Borrower shall pay to the Agent, for the pro

rata benefit of the Banks, a one time facility fee in the amount of one-quarter percent (.25%) of the Scheduled Commitment Amount (the "Facility Fee") on the date of the Second Modification of Amended and Restated Credit and Security Agreement."

H. Section 10.8: By deleting this Section in its entirety and

substituting in lieu thereof the following:

"(S) 10.8 Maximum Consolidated Leverage Ratio. As of the date of the

Second Modification of Amended and Restated Credit and Security Agreement, NVR, Inc. and its Subsidiaries' Maximum Consolidated Leverage Ratio will be 4.0:1. Thereafter, at all times tested on a quarterly basis, the Maximum Consolidated Leverage Ratio shall not be less than 4.0:1 for each quarter of the fiscal year ending December 31, 1996 and 3.0:1 for each quarter of the fiscal year ending December 31, 1997 and thereafter. As used herein, Maximum Consolidated Leverage Ratio will be tested quarterly and will be determined by measuring the sum of the outstanding amounts owed on the Senior Notes, plus the Revolving Credit Loans, plus any other Indebtedness allowed by (S) 10.5 which is reported on the consolidated balance sheet of NVR, Inc., all divided by Consolidated Tangible Net Worth as determined by (S) 10.6."

I. Section 10.14: By adding the following at the end of the

Section:

"The Borrower is a party to a tax sharing agreement which has been reviewed and approved by the Agent and the Banks."

J. Section 10.19

(i): By deleting this Section in its entirety and substituting in lieu thereof the following:

"(i) The Borrower may make Distributions to NVR, Inc. in amounts sufficient to pay (i) the income tax liabilities of the Guarantor, and the Borrower and its Subsidiaries as if the, Borrower and its Subsidiaries were not the members of a consolidated group for tax purposes, and"; and

(iv): By deleting this Section in its entirety and substituting in lieu thereof the following:

"(iv) NVR, Inc. may make Distributions for the purchase, from time to time, of its common stock, par value \$.01 per share and its warrants to purchase common stock (the common stock together with the warrants, the "Shares"), or the Senior Notes, to the extent provided for in (S)10.20. The Borrower may make Distributions to NVR, Inc. to enable NVR, Inc. to make the Distributions described in this clause (iv)."

K. Section 10.20: by adding the following provision as (S) 10.20

"(p) Shares to the extent of the net proceeds received by NVR, Inc. in connection with the exercise of warrants to purchase Shares issued in connection with the plan of reorganization of NVR L.P. The provisions of this subsection shall be in addition to the Shares permitted to be purchased in the last two paragraphs of Section 10.20."

3. The undersigned hereby acknowledge and consent to the transfer and assignment of NVR Bank's portion of the Scheduled Commitment Amount to First National Bank of Chicago.

4. Except as modified hereby, the undersigned hereby ratify and reaffirm the terms and conditions of the Credit Agreement.

[SIGNATURES BEGIN ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the undersigned have caused each of their corporate seals to be affixed hereto and this Agreement be signed, acknowledged and delivered in each of their names and on their behalf by each of their respective duly authorized officers as of the day and year first above written.

NVR HOMES, INC.

By: /s/ Paul C. Saville

Name: Paul C. Saville

Title: Senior Vice President - Finance
Chief Financial Officer and Treasurer

[Corporate Seal]

THE FIRST NATIONAL BANK OF BOSTON
Agent

By: /s/ William F. Hipp

Name: William F. Hipp

Title: Vice President

[Corporate Seal]

NVR, INC.

By: /s/ Paul C. Saville

Name: Paul C. Saville

Title: Senior Vice President-Finance,
Chief Financial Officer & Treasurer

[Corporate Seal]

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Banks:

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ William F. Hipp

Name: William F. Hipp
Title: Vice President

BANK ONE

By: /s/ Dan H. Easley

Name: Dan H. Easley
Title: Vice President

THE FIRST NATIONAL BANK OF CHICAGO

By: /s/ James D. Benko

Name: James D. Benko
Title: Assistant Vice President

FIRST BANK, N.A.

By: /s/ George L. Pratt

Name: George L. Pratt
Title: Vice President

IN CONSIDERATION OF TEN AND NO/100 DOLLARS (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned Guarantor hereby ratifies and reaffirms the terms and conditions of that certain amended and Restated Guaranty of Collection dated May 5, 1995 by Guarantor in favor of The First National Bank of Boston.

NVR, INC.

By: /s/ Paul C. Saville

Name: Paul C. Saville
Title: Senior Vice President-Finance,
Chief Financial Officer & Treasurer

[Corporate Seal]

THIRD MODIFICATION OF
AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT

This Third Modification of Amended and Restated Credit and Security Agreement ("Agreement") is made as of the 31st day of December, 1996, among (I) NVR HOMES, INC. (the "Borrower"), a corporation organized and existing under the laws of Virginia having its principal place of business at 7601 Lewinsville Road, McLean, Virginia 22102, (ii) NVR, INC., a corporation organized and existing under the laws of Virginia having its principal place of business at 7601 Lewinsville, McLean, Virginia 22102 (sometimes hereinafter referred to as the "Guarantor"), (iii) THE FIRST NATIONAL BANK OF BOSTON ("FNBB"), a national banking association having its principal place of business at 100 Federal Street, Boston, Massachusetts 02110, (iv) certain other lending institutions which are signatories hereto (FNBB and such lending institutions are individually each a "Bank" and, collectively the "Banks"), and (v) THE FIRST NATIONAL BANK OF BOSTON, as agent (in its capacity as agent, the "Agent") for itself and the Banks.

WITNESSETH

IN CONSIDERATION OF TEN AND NO/100 DOLLARS (10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned Borrower, Guarantor, FNBB, the Banks and the Agent hereby covenant and agree and follows:

1. Recitals. The following Recitals are true and correct as of the date of this Agreement:

A. The Borrower, Guarantor, FNBB, the Banks and the Agent entered into an Amended and Restated Credit and Security Agreement, dated as of May 5, 1995.

B. The foregoing Credit and Security Agreement was amended and modified by that certain First Modification of Amended and Restated Credit and Security Agreement, dated as of January 16, 1996, and by that certain Second Modification of Amended and Restated Credit and Security Agreement, dated May 16, 1996 (the Amended and Restated Credit and Security Agreement, as amended, is hereinafter referred to as the "Credit Agreement").

C. The parties to the Credit Agreement wish to further amend and modify the Credit Agreement as described herein.

D. All terms not otherwise defined herein shall have the same meaning as in the Credit Agreement.

2. The Credit Agreement is hereby modified as follows:

A. Section 1: By adding the following additional definitions at the appropriate alphabetized location in the definition listing in this Section:

Additional Security Agreements. See Section 6.1.

Collateral Reinstatement Election. The election by a unanimous vote of the Banks to reinstate the requirements of this Agreement suspended in accordance with (S)6.5.

Excess Reorganization Value. The Excess Reorganization Value of Guarantor and its Subsidiaries as such term is described and defined in the registration statement filed under the Securities Act of 1933 relating to the Senior Notes.

NVR Delaware. NVR, Inc., a Delaware corporation.

Patents and Trademarks. See Section 6.1(d)

Patents and Trademarks License. The Service Mark License and Royalty Agreement dated as of October 1, 1996 between NVR Delaware as Licensor and Borrower as Licensee.

Reinstatement Date. The date which the Banks make the Collateral Reinstatement Election or the collateral obligations hereunder are otherwise reinstated pursuant to (S)6.5.

Suspension Period. The period from and after the Third Modification Date to and through the Reinstatement Date.

Third Modification Date. The date of the Third Modification of the Amended and Restated Credit and Security Agreement.

By substituting "Excess Reorganization Value" for the existing text of clause (ii) of the definition of Tangible Net Worth.

By suspending from the definition of "Qualified Sold Inventory" the phrase ", and as to which a mortgage has been prepared."

B. (S)5: By adding the letter A. prior to the existing text in (S)5.1

and by inserting the following as an additional subsection B. after (S)5.1 A:

"B. Notwithstanding anything to the contrary contained herein, during the pendency of the Suspension Period, all amounts otherwise required to be deposited in the Cash Collateral Account as set forth in (S)5.1 A: shall be deposited in such accounts as the Borrower may determine and the Borrower shall not have the obligation to pay such amounts or cause such amounts to be deposited into the Cash Collateral Account."

By adding "at any time other than during the Suspension Period" after the following language in (S)5.2: "as provided in 5.1 above".

C. (S)6: By adding the following at the end of Section 6.1 on page 35 of

the Credit Agreement:

"Agent hereby acknowledges and recognizes that NVR, Inc. is the owner of all of the Patents and Trademarks, and as of October 1, 1996 has transferred its rights in certain of the Patents and Trademarks to NVR Delaware. NVR Delaware has licensed such Patents and Trademarks to Borrower pursuant to the Patents and Trademarks License. Borrower hereby agrees to cause the following agreements to be entered into between the parties indicated below in favor of the Agent, on the Reinstatement Date:

(a) Collateral Assignment and Security Agreement by Borrower affecting the Patents and Trademarks License creating a first in priority security interest in and to Borrower's rights under the Patents and Trademarks License; and

(b) Collateral Assignment and Security Agreement by NVR, Inc. affecting the Patents and Trademarks owned by it (other than "NVR Mortgage" and the Patents and Trademarks that are the subject to the Patents and Trademarks License) on the Third Modification Date creating a first in priority security interest therein.

The foregoing documents are referred to collectively herein as the "Additional Security Instruments". Borrower shall cause the Additional Security Instruments to be in full force and effect during the term of this Agreement at any time other than during the Suspension Period."

D. By adding the following as an additional section to (S)6:

(S)6.5 Suspension of Collateral under Certain Circumstances. During the

Suspension Period, the following provisions of this Agreement shall remain in full force and effect but the enforcement thereof shall be suspended: By suspending from the definition of "Qualified Sold Inventory" the phrase ", and as to which a mortgage has been prepared." (S)2.1.4 (as to amounts due with respect to Collateral); (S)2.2.2 (as to drawings under Letters of Credit being secured under the Security Documents); (S)5.1 (A); (S)6.1; (S)6.2; (S)6.3 (ii), (iii), and (iv); (S)7.3 (as to the term "Agent's rights in the Collateral" or variations thereof); (S)7.5 (b); (S)7.11 (as to the warranty as to the Agent's rights in the Collateral); (S)7.13; (S)8.10 (as to the Borrower's obligations to pay fees due and owing under the Collateral Servicing Agreement and the Mortgage Agency Agreement for the period during the Suspension Period); (S)8.12; (S)8.14 (as to insurance required under the Mortgages and the Security Deposits); (S)9.4 (last sentence); (S)10.14 (by adding, "from and after the Reinstatement Date," after the word "discretion" in the third to the last sentence of this section); (S)10.23 (except for the obligations with respect to the change of corporate name or executive offices); (S)10.25 (for all provisions following the word "Agent" in the first sentence of this section); (S)10.27 (b) (except for the provisions of the second and third sentences), (f) (as to information pertaining to Collateral and the vesting of rights in the Agent with respect to Collateral); (S)10.31; (S)10.32; (S)10.33; (S)10.37; (S)11.1 (b) (as to payment of fees to the Collateral Servicing Agent and the Mortgage Agent; it being understood that neither the Borrower nor NVR, Inc. shall be responsible for the payment of any such fees, and no such fees shall accrue during the Suspension Period), (l), (n), (o), and (p) (as to (n), (o) and (p) as to defaults in Security Documents including deeds of trust and other occurrences under Security Documents) and (s); (S)11.3 (last sentence); (S)13.11 (as to the exercise of rights under the Security Documents or the sale or exercise of rights against the Collateral); (S)15(f); and (S)26 (as to the release of Collateral).

The intent of this section is to suspend the enforcement of requirements for Collateral and Security Documents under this Agreement during the Suspension Period both for purposes of mandatory Collateral requirements including in connection with the Borrowing Base. The provisions of this section shall not operate to waive or terminate these provisions but, rather, shall operate as a suspension of enforcement until the termination of the Suspension Period as

set forth below. Agent shall, however, during the pendency of the Suspension Period, deliver to the Borrower such releases as the Borrower may request evidencing the cancellation of any interest that the Agent has in any property that formerly constituted Collateral hereunder.

The Suspension Period shall terminate upon the occurrence of any of the following: (I) the Collateral Reinstatement Election; (ii) the acceleration of the Maturity Date pursuant to (S)11.1; (iii) the termination of the Commitments of the Banks pursuant to (S)11.1; or (iv) the occurrence of an Event of Default as set forth in (S)11.1 (j), (q), or (r). The Suspension Period shall automatically terminate, without election or notification, upon the occurrence of the events set forth in (ii), (iii) or (iv) in the preceding sentence."

E (S)10.

(1) By adding "to and through December 1, 1996" after the words "quarterly basis" in the fourth line of Section 10.6 and by adding the following after the penultimate sentence of this Section:

"NVR, Inc. and its Subsidiaries shall have a Consolidated Tangible Net Worth of at least \$45,000,000 on December 31, 1996. Thereafter, on a quarterly basis, NVR, Inc. and its Subsidiaries shall have a Consolidated Tangible Net Worth of at least \$45,000,000 plus fifty percent (50%) of cumulative Net Income beginning January 1, 1997, plus one hundred percent (100%) of cumulative amortized Excess Reorganization Value beginning January 1, 1997, plus (I) all additions to its capital accounts that were made since January 1, 1997 by virtue of the issuance of capital stock or other capital contributions of any kind minus, without duplication, (ii) all reductions to its capital accounts that were made since January 1, 1997 by virtue of its repurchase of any class of its capital stock, but only if and to the extent that such repurchase is expressly permitted by (S)10.20."

(2) By adding the following at the end of Section 10.7; "From and after the Third Modification Date, the foregoing ratio of 1.5:1 shall be and is hereby changed to 1.75:1.

(3) By adding a new subsection 10.20 (q):

"10.20 (q) The creation of NVR Delaware and the transfer of the Patents and Trademarks and cash in the amount of \$64,000 to NVR Delaware."

(4) By making the following modifications in (S)10.20:

a. In the third to last paragraph of (S)10.20: (I) By deleting the existing subsection (ii) and by substituting in lieu thereof: (ii) the Consolidated Tangible Net Worth calculated in accordance with (S)10.6 shall be at least \$40,000,000 after taking into account the acquisition of the stock to be purchased."

(ii) By substituting \$60,000,000 for \$50,000,000 in clause (iii); and

b. By deleting the penultimate paragraph of this section.

(5) By adding the following at the end of (S)10.29:

"The Borrower may, however, enter into and perform its obligations under the Patents and Trademarks License and NVR, Inc. may transfer certain of its Patents and Trademarks to NVR Delaware."

(6) By adding the following at the end of Section 10.30:

"The Agent hereby agrees that the payment of license fees under the Patents and Trademarks License shall not constitute a material adverse change."

(7) By adding the following as an additional Section 10.39:

"(S)10.39 Patents and Trademarks License. The Borrower shall not

terminate the Patents and Trademarks License without the prior consent of the Agent."

F. (S)11.

(1) By adding the following after the reference to 10.38 in Section 11.1(c) "or (S)10.39".

(2) By adding the work "or" after the semicolon in Section 11.1(r) and by adding the following as a new subsection 11.1(s):

"(s) if there shall occur a termination, breach or default under the Additional Security Instruments;"

(3) Except as modified hereby, the undersigned hereby ratify and reaffirm the terms and conditions of the Credit Agreement.

IN WITNESS WHEREOF, the undersigned have caused each of their corporate seals to be affixed hereto and this Agreement be signed, acknowledged and delivered in each of their names and on their behalf by each of their respective duly authorized officers as of the day and year first above written.

NVR HOMES, INC.

By: /s/ Paul C. Saville

Senior Vice President Finance,
Chief Financial Officer & Treasurer

THE FIRST NATIONAL BANK OF BOSTON
Agent

By: /s/ Linda J. Carter

Vice President

NVR, INC.

By: /s/ Paul C. Saville

Senior Vice President Finance,
Chief Financial Officer & Treasurer

Banks:

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Linda J. Carter

Vice President

BANK ONE, TEXAS N.A.

By: /s/ Dale W. Renner

Vice President

THE FIRST NATIONAL BANK OF CHICAGO

By: /s/ Patricia Leung

Managing Director

FIRST BANK NATIONAL ASSOCIATION

By: /s/ James P. Hoopes

Assistant Vice President

IN CONSIDERATION OF TEN AND NO/100 DOLLARS (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned Guarantor hereby ratifies and reaffirms the terms and conditions of that certain Amended and Restated Guaranty of Collection dated May 5, 1995 by Guarantor in favor of The First National Bank of Boston, and agrees to be bound by the terms and conditions as to the Additional Security Instruments and covenants with respect thereto set forth in this Third Modification of Amended and Restated Credit and Security Agreement.

NVR, INC.

By: /s/ Paul C. Saville

Senior Vice President Finance,
Chief Financial Officer & Treasurer

NVR, INC.

HIGH PERFORMANCE COMPENSATION PLAN

(EFFECTIVE JANUARY 1, 1996)

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I. GENERAL

1.1. PURPOSE. The purposes of the Plan are to retain officers and other key employees, to support the achievement of the Company's strategic business objectives, and to provide officers and other key employees competitive long-term incentive opportunities that are linked to the profitability of the Company's business, growth in earnings per share and the creation of long term shareholder value.

1.2. EFFECTIVE DATE. The Plan shall become effective as of January 1, 1996.

II. DEFINITIONS

2.1. "Beneficiary" means the person or persons so designated by a Participant pursuant to Section 5.8.

2.2. "Board of Directors" means the Board of Directors of the Company.

2.3 "Cause" means (i) conviction of a felony or other crime involving moral turpitude; (ii) gross misconduct in connection with the performance of such Participant's duties including a breach of such Participant's fiduciary duty of loyalty; (iii) a willful violation of any criminal law involving a felony, including federal or state securities laws; or (iv) a material breach (following notice and an opportunity to cure) of any covenant by the Participant contained in any written agreement between the Participant and the Company or any of its affiliates.

2.4. "Change in Control" means the dissolution or liquidation of the Company, or a merger, consolidation, reorganization or other business combination of the Company with one or more other entities in which the Company is not the surviving entity, or a sale of substantially all of the assets of the Company to another entity, or any transaction (including, without limitation, a merger or reorganization in which the Company is the surviving entity) which results in any person or entity (or persons or entities acting as a group or otherwise in concert) owning 20 percent or more of the common stock of the Company, or any person commencing a tender or exchange offer or entering into an agreement or receiving an option to acquire beneficial ownership of 20 percent or more of the total number of voting shares of the Company (unless the Board has made a determination that such action does not constitute and will not constitute a change in the persons in control of the Company).

2.5 "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

2.6. "Committee" means the committee referred to in Section 6.1.

2.7. "Common Stock" means common stock, par value \$.01 per share, of the Company.

2.8. "Company" means NVR, Inc., a Virginia corporation.

2.9. "Deferred Compensation Account" means the account maintained for a Participant by the Company, in accordance with Section 5.2(b)(i), with respect to the Compensation for which the Participant has made a deferral election.

2.10. "Disability" shall have the same meaning as under the Company-sponsored long-term disability plan under which the applicable Participant is then eligible to participate.

2.11. "Eligibility Period" means a period, as determined by the Committee pursuant to Section 4.1.

2.12. "Fair Market Value" means as of any given date the closing price on such date of Common Stock on the American Stock Exchange Composite Tape or, if not listed on such exchange, on any other national securities exchange on which such Common Stock is listed or on NASDAQ. If there is no regular public trading market for such Common Stock, the Fair Market Value of such Common Stock shall be determined by the Committee in good faith.

2.13. "Hardship" means the immediate and heavy financial need of a Participant as determined by the Committee in accordance with uniform standards established by the Committee.

2.14. "Normal Retirement" means termination of employment after attainment of age 65. However, the Committee, within its discretion, may determine that a Participant who terminates employment prior to age 65 has terminated by virtue of Normal Retirement.

2.15. "Participant" means a person who is designated, pursuant to Article III, to be eligible to receive benefits under the Plan.

2.16. "Performance Award" means a determination by the Committee of the maximum Performance Compensation that may be awarded to a Participant for an Eligibility Period and the basis for such award.

2.17 "Performance Goals" means the performance standards established by the Committee pursuant to Section 4.4.

2.18. "Performance Period" means a period of service, as determined pursuant to Section 4.2, over which the achievement of established Performance Goals will be measured.

2.19. "Plan" means this NVR, Inc. High Performance Compensation Plan, as amended from time to time.

2.20. "Pro-rated" or "Pro-rata" means, for purposes of determining the amount of Performance Compensation payable to a Participant pursuant to Sections 4.4(c) or 7.3 the percentage to be applied to the Performance Compensation that would have been payable at the end of the Performance Period based on the number of months (rounded to the nearest whole month) of the Eligibility Period during which the Participant participated in the Plan prior to the event described in Sections 4.4(c) or 7.3, divided by the number of months (rounded to the nearest whole month) in such Eligibility Period. "Pro-rated" or "Pro-rata" means, for purposes of determining the amount of Performance Compensation payable to a Participant whose eligibility to participate in the Plan with respect to an Eligibility Period ceases prior to the end of such Eligibility Period for any of the reasons described in subsection (a), (b), (c) or (d) of Section 5.3, the percentage to be applied to the Performance Compensation that would have been payable at the end of the Performance Period to such Participant if he had been eligible to participate for the entire Eligibility Period based on the number of months (rounded to the nearest whole month) of the Eligibility Period during which the Participant was designated by the Committee as eligible to participate in the Plan divided by the number of months (rounded to the nearest whole month) in such Eligibility Period. A Participant who, pursuant to Section 3.2 but subject to the limitations of Section 4.3, is designated as eligible to participate in the Plan after the applicable Eligibility Period has commenced, shall, for purposes of this Section 2.20, be deemed to have been eligible as of the beginning of such Eligibility Period; provided, however, that the Committee shall, in accordance with its authority under Section 4.5, have the discretion to reduce the Performance Compensation award that is otherwise payable to such Participant to account for such late commencement of participation.

III. ELIGIBILITY AND PARTICIPATION

3.1. ELIGIBILITY. Participation in the Plan shall be limited to officers and other key employees of the Company or any of its subsidiaries or other affiliates who are designated to be eligible by the Committee. The number of Participants and each Participant's share of any Performance Award may be changed at any time by the Committee.

3.2. PARTICIPATION IN PERFORMANCE AWARDS. The Committee will determine the persons who will participate for each Eligibility Period under the Plan. Subject to Section 4.3, after an Eligibility Period has commenced, persons may be designated as eligible to participate in the Plan with respect to such Eligibility Period. A Performance Award with respect to a Performance Period contained in any Eligibility Period does not guarantee participation in subsequent Eligibility Periods.

IV. PLAN DESIGN

4.1. ELIGIBILITY PERIOD. An Eligibility Period is a certain period of time, as determined by the Committee, over which eligibility to receive benefits under the Plan shall be measured. Subsequent Eligibility Periods under the Plans shall commence and terminate as determined by the Committee in its sole discretion. The Committee may establish a separate Eligibility Period for persons determined to be eligible for participation after the commencement of any Eligibility Period.

4.2. PERFORMANCE PERIOD. Each Eligibility Period under the Plan shall include a Performance Period which shall be a specified period of service over which the achievement of applicable Performance Goals will be measured. The initial Performance Period under the Plan shall begin on January 1, 1996 and terminate on December 31, 1998. Subsequent Performance Periods shall commence and terminate as determined by the Committee; provided that each such Performance Period shall commence coincident with or after the commencement of the corresponding Eligibility Period and shall terminate coincident with or prior to the termination of the corresponding Eligibility Period. The Committee may also establish a separate Performance Period for persons determined to be eligible for participation after the commencement of any Performance Period with equivalent goals.

4.3. PERFORMANCE AWARDS. On or about the commencement of each Eligibility Period under the Plan, the Committee shall establish the maximum Performance Compensation that may be awarded to Participants in the Plan for such Eligibility Period and the basis for such awards. The Committee may also award Performance Compensation to persons determined to be eligible for participation after the commencement of any Eligibility Period.

4.4. PERFORMANCE GOALS.

(a) The Performance Goals with respect to each Performance Period shall be established by the Committee. The Committee may in its discretion adjust the terms of such Performance Goals.

(b) The Performance Goals set by the Committee shall be based on growth in earnings per share. The Committee shall specify the manner in which such Performance Goals shall be calculated.

(c) In the event of a Change of Control, the Committee shall terminate the Performance Period making appropriate adjustments to the Performance Goals so that they are substantially equivalent to the Performance Goals prior to the Change of Control, taking into account the shortened Performance Period. The Participants will be eligible for a Pro-rated portion of the Performance Compensation that would have otherwise been payable to them after the end of the applicable Performance Period if the Change of Control had not occurred.

4.5. COMMITTEE DISCRETION TO ADJUST AWARDS. At any time prior to the time the Committee determines, pursuant to Section 5.1, the amount to be paid to any Participant in satisfaction of a Performance Compensation award hereunder, the Committee shall have the authority to modify, amend, or adjust the terms and conditions of such Performance Compensation award, the terms and conditions of the corresponding Performance Goals, and/or the amount of Performance Compensation payable, provided, however, such authority to modify, amend or adjust the terms and conditions of such Performance Compensation award shall be exercised to reduce an award only in unusual circumstances not anticipated in the original design of the Plan.

V. PAYMENT

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5.1. COMMITTEE DETERMINATION OF PERFORMANCE COMPENSATION PAYABLE. After a Performance Period has ended, each Participant who has been awarded Performance Compensation and satisfied the Performance Goals with respect to such Performance Period shall be entitled to receive a specified amount of Performance Compensation as determined by the Committee. The Committee shall determine the extent to which the Performance Goals set pursuant to Section 4.4 have been met, (as Pro-rated in accordance with Sections 2.20, 4.4(c), 5.3 and/or 7.3, if applicable).

5.2. TIMING AND FORM OF PAYMENT. Payments to Participants pursuant to Section 5.1 shall be distributed as follows:

(a) Subject to Sections 5.2(b) and 5.2(e) below, Performance Compensation for a Performance Period shall be distributable in cash in three installments:

(i) Fifty percent (50%) shall payable within 30 days after the first meeting of the Committee after financial statements for the final year of the Performance Period have been prepared but no later than March 15;

(ii) Twenty five percent (25%) shall be payable by March 15th of each of the next two fiscal years.

(b) Prior to the end of the Performance Period, Participants may elect to defer, subject to a minimum deferral of \$25,000, Performance Compensation for a specified period of years (minimum two (2) years) and/or until termination of employment, if sooner. A deferral election made pursuant to this Section 5.2(b) shall be irrevocable, except that the Committee in its discretion may at any time reduce, or waive the remainder of, the amount to be deferred under the deferral election upon determining that the Participant has suffered a Hardship and the Participant may request an additional deferral period pursuant to Section 5.2(c).

(i) The Company shall maintain, for recordkeeping purposes only, a Deferred Compensation Account for each Participant who files a deferral election. The Performance Compensation deferred pursuant to a deferral election shall be credited to the Participant's Deferred Compensation Account as it otherwise would become payable to the Participant.

(ii) Each Participant's Deferred Compensation Account shall be credited with interest quarterly based upon the balance of the Participant's Deferred Compensation Account. The rate of interest to be credited during a Plan Year shall be based on total shareholder return (appreciation in value plus dividends) as if an amount of cash equal to the amount that would have been payable to the Participant, but for the Participant's deferral election, had been invested in Company common stock on the distribution dates determined pursuant to Section 5.2(a).

(c) On or before December 15 of the year immediately prior to the year in which the Participant's Deferred Compensation Account would be distributable in accordance with the provisions of the Participant's deferral election, the Participant may submit a new deferral election request to extend for a minimum of two (2) full years the date on which the Participant's Deferred Compensation Account in the Plan would be distributed. The Company may, in its sole discretion,

approve or deny the requested extension. Only one request for an extension of the commencement of distributions may be granted by the Company for a Participant.

(d) The Company shall have the right to deduct from cash distributions hereunder any federal, state, or local taxes required by law to be withheld with respect to such distributions.

5.3. DISTRIBUTION UPON TERMINATION OF EMPLOYMENT.

(a) Death. If a Participant in the Plan dies before the end of an Eligibility Period for which Performance Compensation has been granted to him, such Participant's Beneficiary will be eligible for a Pro-rated portion of the Performance Compensation that would have otherwise been payable to the Participant after the end of the applicable Performance Period. This distribution, if any is payable, will be made to the Beneficiary in the same form and at the same time that all other Participants under the Plan receive their distributions with respect to that Performance Period.

(b) Disability. If a Participant in the Plan, upon becoming Disabled, terminates employment with the Company before the end of an Eligibility Period for which Performance Compensation has been granted to him, the Participant will be eligible for a Pro-rated portion of the Performance Compensation that would have otherwise been payable to him after the end of the applicable Performance Period. This distribution, if any is payable, will be made to the Participant in the same form and at the same time that all other Participants under the Plan receive their distributions with respect to that Performance Period.

(c) Normal Retirement. If a Participant in the Plan terminates employment upon attaining Normal Retirement before the end of an Eligibility Period for which Performance Compensation has been granted to him, the Participant will be eligible for a Pro-rated portion of the Performance Compensation that would have otherwise been payable to him after the end of the applicable Performance Period. This distribution, if any is payable, will be made to the Participant in the same form and at the same time that all other Participants under the Plan receive their distributions with respect to that Performance Period.

(d) Termination of Employment Without Cause After a Change of Control. If, after a Change of Control (i) the Company terminates a Participant's employment other than for Cause or (ii) the Participant terminates the Participant's employment at the request of the Company, before the end of an Eligibility Period for which Performance Compensation has been granted to him, the Participant will be eligible for a Pro-rated portion of the Performance Compensation that would have otherwise been payable to him after the end of the applicable Performance Period. This distribution, if any is payable, will be made to the Participant in the same form and at the same time that all other Participants under the Plan receive their distributions with respect to that Performance Period.

(e) Other Termination of Employment. If, before the end of an Eligibility Period for which Performance Compensation has been granted to him, a Participant in the Plan incurs a termination of employment for any reason other than those specified in subsections (a)-(d) of this Section 5.3, whether voluntary or involuntary and a Change of Control has not occurred, he shall forfeit all rights to receive any payment of Performance Compensation with respect to such Eligibility Period.

5.4. PAYMENT OF DEFERRED BENEFITS. A Participant shall be entitled to receive an amount equal to the balance of his Deferred Compensation Account, payable as provided in Section 5.6 at the end of the deferral period elected pursuant to Section 5.2(b), 5.2(c) or on termination of employment, if earlier.

5.5. HARDSHIP DISTRIBUTIONS. The Committee may, in its sole discretion, make distributions to a Participant from his Deferred Compensation Account prior to the date that amounts would otherwise become payable if the Committee determines that the Participant has suffered a Hardship. The amount of any such distribution shall be limited to the amount reasonably necessary to meet the Participant's needs created by the Hardship.

5.6. FORM OF PAYMENT.

(a) Except as provided in paragraph (c), the amount which a Participant or Beneficiary becomes entitled to receive pursuant to Section 5.4 shall be paid either (i) as a lump sum or (ii) in annual installments payable over a period of time not to exceed 5 years, with each installment computed by dividing the Participant's Deferred Compensation Account by the number of years remaining in the distribution period.

(b) The Participant shall elect, at the time and in the manner prescribed by the Committee, the form specified in paragraph (a) in which payment shall be made. If the Participant fails to elect the form of payment,

payment shall be made in accordance with paragraph (a)(ii) over a period of 5 years, provided that in the case of such a participant's death, the Participant's Beneficiary shall receive a single lump sum payment of the amount credited to the Participant's Deferred Compensation Account.

(c) Notwithstanding any other provision of this Plan or the Participant's deferral election, the amount which a beneficiary becomes entitled to receive on account of the death of a Participant shall be paid in a lump sum.

5.7. COMMENCEMENT OF PAYMENTS. Payment which a Participant or Beneficiary becomes entitled to receive in the event of the Participant's termination of employment pursuant to Section 5.4 shall commence or be made, as the case may be, as soon as practicable after the occurrence of such event. The Committee retains the right in its sole discretion to accelerate the payment of Deferred Compensation Accounts after termination of employment or other separation from service.

5.8. BENEFICIARY DESIGNATION. A Participant may designate a Beneficiary who is to receive, upon his death, the distributions that otherwise would have been paid to him. All designations shall be in writing and shall be effective only if and when delivered to the Vice President--Human Resources of the Company during the lifetime of the Participant. If a Participant designates a Beneficiary without providing in the designation that the Beneficiary must be living at the time of each distribution, the designation shall vest in all of the distribution whether payable before or after the Beneficiary's death, and any distributions remaining upon the Beneficiary's death shall be made to the Beneficiary's estate.

A Participant may from time to time during his lifetime change his Beneficiary by a written instrument delivered to the Vice President--Human Resources of the Company. In the event a Participant shall not designate a Beneficiary as aforesaid, or if for any reasons such designation shall be ineffective, in whole or in part, the distribution that otherwise would have been paid to such Participant shall be paid to his estate, and in such event the term "Beneficiary" shall include his estate.

VI. ADMINISTRATION

6.1. COMMITTEE. The Plan shall be administered by the Compensation Committee of the Board of Directors, or such other Committee of the Board of Directors. The Committee may designate person(s) who are Company employees to oversee the day to day administration of the Plan.

6.2. GENERAL RIGHTS, POWERS, AND DUTIES OF COMMITTEE. The Committee shall be responsible for the management, operation, and administration of the Plan. Subject to the limitations contained in Section 4.5 and to the remaining terms of the Plan, the Committee shall, in addition to those provided elsewhere in the Plan, have the following powers, rights, and duties:

(a) To maintain records concerning the Plan sufficient to prepare reports, returns and other information required by the Plan or by law;

(b) To direct the payment of benefits under the Plan, and to give such other directions and instructions as may be necessary for the proper administration of the Plan; and

(c) To be responsible for the preparation, filing and disclosure on behalf of the Plan of such documents and reports as are required by any applicable federal or state law.

The Committee shall also have the authority to adopt, alter, and repeal such administrative rules, guidelines, and practices governing the Plan as it shall, from time to time, deem advisable, to interpret the terms and provisions of the Plan and any award issued under the Plan (and any Notice of Award or other agreement relating thereto), and to otherwise supervise the administration of the Plan.

Any determination made by the Committee pursuant to the provisions of the Plan with respect to any grants, payments, or other transactions under the Plan shall be made in the sole discretion of the Committee at the time of the grant, payment, or other transaction or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and Plan Participants.

6.3. INFORMATION TO BE FURNISHED TO COMMITTEE. Participants and their Beneficiaries shall furnish to the Committee such evidence, data, or information and execute such documents as the Committee requests.

6.4. RESPONSIBILITY AND INDEMNIFICATION. No member of the Committee or of the Board of Directors or any person who is designated to oversee the day to day administration of the Plan (as provided in Section 6.1) shall be liable to any person for any action taken or omitted in connection with the administration of this Plan unless attributable to his own fraud or willful misconduct; nor shall the Company be liable to any person for any such action unless attributable to fraud or willful misconduct on the part of a director, officer, or employee of the Company within the scope of his Company duties. Each officer, employee, director or member of the Committee shall be indemnified and held harmless by the Company for any liability arising out of the administration of the Plan, to the maximum extent permitted by law.

VII. MODIFICATION, AMENDMENT AND TERMINATION

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7.1. MODIFICATION The Committee, with the consent of 50% of the Participants who are actively employed, may elect to modify the Plan at any time.

7.2. AMENDMENT. The Plan may be amended in whole or in part by the Company, by action of the Board of Directors, at any time. The Committee reserves the unilateral right to change any rule under the Plan if it deems such a change necessary to avoid the application of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), to the Plan.

7.3. COMPANY'S RIGHT TO TERMINATE'. The Company reserves the sole right to terminate the Plan, by action of the Board of Directors, at any time provided that if such termination is before the end of a Performance Period for which Performance Compensation has been granted, the Participants will be eligible for a Pro-rated portion of the Performance Compensation that would have otherwise been payable to them after the end of the applicable Performance Period. This distribution, if any is payable, will be made to the Participants in the same form and at the same time that the Participants under the Plan would otherwise receive their distributions with respect to that Performance Period. Furthermore such termination shall not impair any rights of the Participants in the Participants' Deferred Compensation Accounts at the time of termination.

VIII. MISCELLANEOUS

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8.1. NO IMPLIED RIGHTS; RIGHTS ON TERMINATION OF SERVICE. Neither the establishment of the Plan nor any amendment thereof shall be construed as giving any Participant, Beneficiary, or any other person any legal or equitable right unless such right shall be specifically provided for in the Plan or conferred by specific action of the Committee in accordance with the terms and provisions of the Plan. Except as expressly provided in this Plan, the Company shall not be required or be liable to make any payment under the Plan.

8.2. NO RIGHT TO COMPANY ASSETS. Neither the Participant nor any other person shall acquire, by reason of the Plan, any right in or title to any assets, funds or property of the Company whatsoever including, without limiting the generality of the foregoing, any specific funds, assets, or other property which the Company, in its sole discretion, may set aside in anticipation of a liability hereunder. Any benefits which become payable hereunder shall be paid from the general assets of the Company. The Participant shall have only a contractual right to the amounts, if any, payable hereunder unsecured by any asset of the Company. Nothing contained in the Plan constitutes a guarantee by the Company that the assets of the Company shall be sufficient to pay any benefit to any person.

8.3. NO EMPLOYMENT RIGHTS. Nothing herein shall constitute a contract of employment or of continuing service or in any manner obligate the Company to continue the services of the Participant, shall obligate the Participant to continue in the service of the Company, or shall serve as a limitation of the right of the Company to discharge any of its employees, with or without cause. Nothing herein shall be construed as fixing or regulating the compensation payable to the Participant.

8.4. OFFSET. If, at the time payments are to be made hereunder, the Participant or the Beneficiary or both are indebted or obligated to the Company, then the payments under the Plan remaining to be made to the Participant or the Beneficiary or both may, at the discretion of the Company, be reduced by the amount of such indebtedness or obligation, provided, however, that an election by the Company not to reduce any such payment or payments shall not constitute a waiver of its claim for such indebtedness or obligation.

8.5. NON-ASSIGNABILITY. Neither the Participant nor any other person shall have any voluntary or involuntary right to commute, sell, assign, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate, or convey in advance of actual receipt the amounts, if any payable hereunder or any part thereof, which are expressly declared to be unassignable and non-transferable. No part of the amounts payable prior to actual payment shall be subject to seizure or sequestration for the payment of any debts, judgments, alimony, or separate maintenance owed by the Participant or any other person, or be transferable by operation of law in the event of the Participant's or any other person's bankruptcy or insolvency.

8.6. NOTICE. Any notice required or permitted to be given under the Plan shall be sufficient if in writing and hand delivered, sent by registered or certified mail, or sent by facsimile to the Company at its principal office, directed to the attention of the Committee c/o the Vice President--Human Resources of the Company. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail or facsimile, as of the date shown on the postmark, facsimile, or the receipt for registration or certification.

8.7. GOVERNING LAWS. The Plan and all awards made and actions taken under the Plan shall be governed and construed according to the laws of the State of Virginia.

8.8. GENDER AND NUMBER. Where appropriate, references in this Plan to the masculine shall include the feminine, and references to the singular shall include the plural.

8.9. SEVERABILITY. In the event any provision of the Plan shall be held legally invalid for any reasons, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

UNCOMMITTED GESTATION FINANCING AGREEMENT

between

NVR MORTGAGE FINANCE, INC.
a Virginia corporation

and

BANK ONE, TEXAS, NATIONAL ASSOCIATION

March 15, 1996

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UNCOMMITTED GESTATION FINANCING AGREEMENT

THIS UNCOMMITTED GESTATION FINANCING AGREEMENT is made and entered into as of March 15, 1996, between NVR Mortgage Finance, Inc., a Virginia corporation (the "Borrower") and Bank One, Texas, National Association ("Bank One").

PRELIMINARY MATTERS

The Borrower and Bank One wish to set forth their agreement regarding requests from time to time by the 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.

AGREEMENT

The parties hereto hereby agree as follows:

Article I

GENERAL TERMS

Section 1.1 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.

Section 1.2 Certain Definitions. As used in this Agreement, the following terms have the meanings specified:

"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 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 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 the Agent.

"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.

"Agreement" means this Uncommitted Gestation Financing Agreement, as amended, modified or supplemented from time to time.

"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 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.

"Average ML Collateral Value" for a particular Computation Period

means the amount equal to (a) the sum of the Collateral Value attributable to Eligible Mortgage Loans 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 sum of:

(a) The aggregate Collateral Value of all pools of Eligible Mortgage Loans; and

(b) 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 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.

"Collateral" means all right, title and interest of the 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 the Borrower to Bank One or which the 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) all General Intangibles, Principal Mortgage Documents and Other Mortgage Documents (including, without limitation, any Required Mortgage Documents) which relate to the Pledged Mortgage Loans;

(d) any Pledged Agency Commitment;

(e) any Pledged Take-Out Commitment;

(f) the Settlement Account and all sums on deposit therein; and

(g) 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 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 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 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

Bank One 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 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 (d) with respect to which such Pledged Agency Commitment is not subject to any Lien other than a Permitted Lien.

"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 (b) the sum of (i) the MBS Advances for such Computation Period and (ii) the ML Advances for such Computation Period.

"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 that certain Amended and Restated Loan Agreement dated as of November 1, 1993, among the Borrower, Bank One as agent and the Persons party thereto as Lenders, as in effect on March 15, 1996 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 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. 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 (i) the

validity or enforceability of this Agreement, the Note 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 Bank One 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) 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) thirty-five one-hundredths of one percent (0.35%).

"ML Advances" for a particular Computation Period means the amount

equal to (a) the product of the ML 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.

"ML Factor" for a particular Computation Period means the amount equal

to the ratio of (a) the Average ML Collateral Value for such Computation Period to (b) Average Borrowing Base for such Computation Period.

"ML 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) seven-tenths of one percent (0.70%).

"Note" means the Uncommitted Gestation Financing Promissory Note

delivered by the 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 the 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 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.

"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 the Borrower in respect of workers compensation and other labor laws; and
- (d) financing statements of record which name the Agent as "secured party."

"Pledged Agency Commitment" means an Agency Commitment identified on a

Borrowing Request as an Agency Commitment in which the 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 the 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 the 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 the 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 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 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 March 13, 1997.

"Security Instruments" means (i) this Agreement and (ii) 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 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 (Account Number 0100139187) established by the Borrower with Bank
One to 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.

"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.

Section 1.3 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 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.

(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 No Commitment. Notwithstanding anything in this Agreement

or in any other Loan Document to the contrary, (i) until such time, if any, as Bank One shall make an Advance (or notify the Borrower that it will make an Advance) in respect of a particular Borrowing Request under this Agreement, Bank One shall have no obligation to make an Advance in respect of such Borrowing Request, and (ii) the making of one or more Advances in respect of one or more particular Borrowing Requests shall not create any obligation on the part of Bank One to make an Advance in respect of any other Borrowing Request. The parties intend and the Borrower agrees and acknowledges that nothing in this Agreement shall constitute any commitment on the part of Bank One to make Advances. Subject to the foregoing provisions of this Section 2.1, and subject

to the other terms and conditions contained in this Agreement, Bank One may, if it so elects, make Advances to or for the account of the 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 the 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 \$500,000 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, 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 Bank One pursuant to Section 2.1

shall be evidenced 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.

Section 2.3 Manner of Requesting and Obtaining Borrowings. The Borrower

shall request each 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 either (a) notify the Borrower that such Borrowing Request is being denied and that no Advance is to be made in respect thereof or (b) 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 all outstanding

Advances on 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, upon the demand of Bank One, shall repay so much of the outstanding Advances as may be necessary to eliminate such excess.

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, 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.

Section 2.6 Payment Procedure. All payments of the principal of and

interest upon the Note shall be made by the 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 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 Bank One 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 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 March 15, 1996:

(i) 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);

(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 Bank One which are not otherwise included in the determination of any interest rate under the Note; or

(iii) 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, the 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 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 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 the 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 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 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 the Borrower written notice of the interest due for such Computation Period.

(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) ML Advances. The ML Advances for each Computation Period shall bear

interest at the per annum rate of interest equal to the lesser of (i) the applicable ML Rate for such Computation Period and (ii) the Maximum Rate.

(d) 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.

(e) 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. To secure the punctual payment and

performance of the Obligations, the Borrower hereby grants Bank One a security interest in the Collateral.

Section 3.2 Borrowing Requests. Each Borrowing Request shall identify

the Mortgage Loans which are to provide the Collateral Value necessary to support the requested Borrowing, 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 Bank One (whether in its capacity as Agent under the Loan Agreement or otherwise);

(b) a Loan Agreement Bailee Letter, duly executed by the 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;

(c) a Release of Lien for such Agency Commitment and such Take-Out Commitment, duly executed by the Borrower and the Agent; and

(d) the relevant Agency Forms, duly completed (but for certification by the Agency Custodian where applicable) and in sufficient quantity to satisfy applicable Agency requirements.

The 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 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 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 the Borrower specifying the reasons therefor, whereupon the 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, the 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.

Section 3.3 Power of Attorney. Effective upon the occurrence of

an Event of Default, the Borrower hereby irrevocably appoints Bank One 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 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 the 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 the 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 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 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

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 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

3.3 as existing and continuing in full force and effect until advised by Bank

One 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, 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. 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 Bank One 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 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, the 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 "1110-0061-4" 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./310118" appears as the Depository Institution/Type of Account/Beneficiary/Account Number and such that "1110-0061-4" 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.

(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

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 the 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.

(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.

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 Bank One a security interest to secure the Obligations in such Pledged Mortgage Loan.

Section 3.6 Borrower Appointed Agent. Bank One 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 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 the Borrower.

Article IV

CONDITIONS PRECEDENT

The obligation of Bank One to consider Borrowing Requests hereunder is subject to fulfillment of the conditions precedent stated in this Article IV.

Section 4.1 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 the 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 the Borrower and Bank One may have an executed original of each document):

(a) This Agreement;

(b) the Note;

(c) a certificate of the Secretary or Assistant Secretary of the Borrower, dated on or after 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 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 by-laws of the Borrower as in effect on the date thereof; and

(d) 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.

Section 4.2 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:

(a) prior to 11:00 a.m. on the third Business Day preceding the Requested Borrowing Date, the Borrower shall deliver to Bank One a duly executed Borrowing Request;

(b) all Property in which the Borrower has granted a Lien to Bank One to secure the Obligations shall have been physically 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;

(c) the representations and warranties of the 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

(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 Authorization and Power. The 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; 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 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.

Section 5.2 No Conflicts or Consents. Neither the execution and

delivery by the Borrower of this Agreement, the Note 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 Bank One pursuant to this Agreement, on the Property of the Borrower.

Section 5.3 Enforceable Obligations. This Agreement, the Note 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, except as limited by Debtor Laws.

Section 5.4 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.

Section 5.5 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 5.6 Full Disclosure. There is no material fact that the

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 the 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.

Section 5.7 Securities Acts and Securities Credit Transaction

Regulations. The 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. The 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. The 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 5.8 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 the 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 the Borrower of any document with, or the taking of any other action in respect of, any Governmental Authority which has jurisdiction over the Borrower or any of its Property.

Section 5.9 Loan Agreement Representations and Warranties. Each

of the representations and warranties of the Borrower set forth in Article V of the Loan Agreement is true and correct in all material respects.

Section 5.10 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 Bank One shall not diminish the right of Bank One 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. The Borrower shall

furnish to Bank One (a) a copy of all information furnished by the Borrower under Section 6.1 of the Loan Agreement and (b) such other information concerning the business, Properties or financial condition of the Borrower, any Affiliate or any Investor as Bank One may request. For so long as the Loan Agreement has not terminated, timely delivery by the 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 the Borrower to Bank One of the requisite information shall be considered timely if it is within the period contemplated by the Loan Agreement.

Section 6.2 Further Assurances. The 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 the 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 the 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.

Section 6.3 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 Bank One in connection with the preparation, negotiation or execution of this Agreement, the Note and the other Loan Documents and any amendments, consents or waivers executed in connection therewith, (ii) all fees, charges or taxes for the recording or filing of the Security Instruments, (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 the 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 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 6.4 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 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 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 Bank One may desire.

Section 6.5 Right of Inspection. The Borrower shall permit any

officer, employee or agent of Bank One to visit and inspect any of the Properties of the Borrower, examine the Borrower's Servicing Records and 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 Bank One may desire.

Section 6.6 Notice of Certain Events. The 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 the 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 the 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 the Borrower to Bank One of the requisite information shall be considered timely if it is within the period contemplated by the Loan Agreement.

Section 6.7 Performance of Certain Obligations. The 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.

Section 6.8 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 the Loan 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 6.9 Notice of Default. The 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 the Borrower is taking or proposes to take with respect thereto.

Section 6.10 Compliance with Loan Documents. The Borrower shall

promptly comply with any and all covenants and provisions of this Agreement, the Note and the other Loan Documents.

Section 6.11 Compliance with Loan Agreement. Whether or not the

Loan Agreement has terminated, the Borrower shall comply in all material respects with each of the covenants set forth in Articles VI and VII of the Loan Agreement.

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 Use of Proceeds. The Borrower shall not permit the proceeds of the Advances to be used for any purpose other than those permitted by Section 6.8. The 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 7.2 Actions with Respect to Collateral. The 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 such Mortgage Loan;

(b) 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;

(c) transfer, sell, assign, or deliver any Collateral pledged to Bank One to any Person other than Bank One, except in accordance with Article III; or

(d) 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.

Section 7.3 Loan Agreement Covenants. Whether or not the Loan Agreement has terminated, the Borrower shall not fail timely to observe or perform any covenant of the Borrower under Articles VI and VII of the Loan Agreement.

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) the 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 the Borrower by Bank One;

(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 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) (whether or not the Loan Agreement has terminated) any Loan Agreement Event of Default occurs.

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, 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 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. 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), (g), (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 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.

Article IX

CONCERNING BANK ONE

Section 9.1 Indemnification.

(a) The 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 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 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 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 constitute gross negligence or wilful misconduct on the part of Bank One or its directors, officers, agents or employees.

Article X

MISCELLANEOUS

Section 10.1 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) 761-2030

Bank One: Bank One, Texas, National Association
1717 Main Street, Third Floor
Dallas, Texas 75201
Attention: Ms. Pamela E. Skinner
Telecopy: (214) 290-2275

or at such other addresses or to such individual's 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 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 by, or actually received by, an officer of the Borrower or Bank One, as the case may be.

Section 10.2 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 the 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.

Section 10.3 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.

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 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.

Section 10.7 Cumulative Rights. The rights and remedies of Bank

One under the Note, this 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 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 BANK ONE 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, 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 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 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 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 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 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 Bank One nor any

assignee or participant of Bank One 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 beneficial 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 the Note, this Agreement, or any other Loan Document shall bind the Borrower's successors and assigns and shall inure to the benefit of Bank One and its 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 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 the Borrower furnished to Bank One 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 Bank One Representations and Warranties. Bank One

represents and warrants that it:

(a) Is a banking association duly organized and validly existing under the laws of the United States of America;

(b) has the power and authority to own its properties and assets and to transact the business in which it is engaged;

(c) 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

(d) will continuously maintain all components of this Agreement and the other Loan Documents as an official record of Bank One.

Section 10.13 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 Bank One. 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 Bank One; and the 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 the Borrower in any other jurisdiction or court.

Section 10.14 Exhibits. The exhibits 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 the provisions of this Agreement, the provisions of this Agreement shall prevail.

Section 10.15 Titles of Articles and Sections. All titles or

headings to articles, 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 of such articles, sections, subsections or other divisions, such other content being controlling as to the agreement between the parties hereto.

Section 10.16 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.

Section 10.17 ENTIRE AGREEMENT. THE 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.

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: /s/ William J. Inman

Name: William J. Inman
Title: President

BANK ONE: BANK ONE, TEXAS, NATIONAL
- - - - -
ASSOCIATION

By: /s/ Pamela E. Skinner

Pamela E. Skinner
Vice President

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 11

NVR, INC.
 Computation of Earnings Per Share
 (amounts in thousands, except per Share amounts)

	YEAR ENDED DECEMBER 31, 1996 -----	YEAR ENDED DECEMBER 31, 1995 -----	YEAR ENDED DECEMBER 31, 1994 -----
1. Net income	\$ 25,781	\$ 17,327	\$ 10,469
2. Average number of Shares outstanding	14,621	15,334	17,007
3. Shares issuable upon exercise of dilutive options, warrants and subscriptions outstanding during period, based on average market price	348	39	90
*4. Shares issuable upon exercise of dilutive options, warrants and subscriptions outstanding during period, based on higher of average or end of period market price	738	458	90
5. Average number of Shares and Share equivalents outstanding (2 + 3)	14,969	15,373	17,097
*6. Average number of Shares outstanding assuming full dilution (2 + 4)	15,359	15,792	17,097
7. Net income per Share and Share equivalents (1/5)	\$ 1.72	\$ 1.13	\$ 0.62
*8. Net income per Share/Unit, assuming full dilution (1/6)	\$ 1.68	\$ 1.10	\$ 0.62

* The calculation for fully diluted earnings per share is submitted in accordance with Regulation S-K, Item 601 (11) although it is not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3% for the periods presented.

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

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
NVR, Inc.:

We consent to incorporation by reference in the registration statement (No. 33-69754) on Form S-8 (for the NVR, Inc. Directors' Long-Term Incentive Plan), the registration statement (No. 33-69756) on Form S-8 (for the NVR, Inc. Management Equity Incentive Plan), the registration statement (No. 33-69758) on Form S-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), and the registration statement (No. 33-69436) on Form S-3 of our reports included herein.

Each of our reports for NVR, Inc. and NVR Financial Services, Inc. included herein contains an explanatory paragraph as to the adoption, effective January 1, 1995, of the provisions of Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights."

/s/ KPMG Peat Marwick LLP

Pittsburgh, Pennsylvania
March 12, 1997

NVR, INC.'s consolidated financial statements included in Form 10-K for the year ended December 31, 1996 and is justified in its entirety by reference to such financial statements.

0000906163
 NRV, INC.
 1000
 U.S. DOLLARS

12-MOS		
	DEC-31-1996	
	JAN-01-1996	
	DEC-31-1996	
	1	74,780
		0
	2,927	
		0
	171,693	
		0
		18,833
		0
	501,165	
	0	0
	0	
		0
		158,041
		(6,031)
501,165		
		1,045,930
	1,076,669	
		906,255
	1,000,946	
	8,136	
		0
	18,860	
	48,727	
		22,946
	25,781	
		0
		0
		0
		25,781
		1.72
		1.68

Item represents the non-cash Amortization of excess reorganization value.