

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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the transition period from ____ to ____

Commission file number 1-12378

NVR, Inc.

(Exact name of registrant as specified in its charter)

Virginia

54-1394360

(State or other jurisdiction of incorporation or organization)

(IRS employer identification number)

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

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

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

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

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

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

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

As of February 15, 2000 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 for the Common Stock of NVR, Inc. on such date was approximately \$368.9 million. As of February 15, 2000 there were 9,521,856 total shares of common stock outstanding.

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, 2000 are incorporated by reference into Part III of this report.

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PART I

Item 1. Business

General

NVR, Inc. ("NVR") was formed in 1980 as NVHomes, Inc. NVR operates in two business segments: 1) the construction and marketing of homes and 2) mortgage banking. The Company conducts its homebuilding activities both directly and through its wholly owned subsidiary, Fox Ridge Homes, Inc. The Company conducts its mortgage banking operations primarily through another wholly owned subsidiary, NVR Mortgage Finance, Inc. ("NVR Finance"), and First Republic Mortgage Corporation ("First Republic"), a wholly owned subsidiary of NVR Finance acquired during the first quarter of 1999. Unless the context otherwise requires, references to "NVR" include its subsidiaries.

NVR is one of the largest homebuilders in the United States and in the Washington, D.C. and Baltimore, Maryland metropolitan areas, where NVR derived an aggregate of approximately 62% and 63% of its 1999 and 1998 homebuilding revenues, respectively. NVR's homebuilding operations construct and sell single-family detached homes, townhomes and condominium buildings under three tradenames: Ryan Homes, NVHomes and Fox Ridge Homes. The Ryan Homes product is built in sixteen metropolitan areas located in Maryland, Virginia, Pennsylvania, New York, North Carolina, South Carolina, Ohio, New Jersey, Delaware and Tennessee. The Fox Ridge Homes product is built only in the Nashville, Tennessee metropolitan area. The Ryan Homes' and Fox Ridge Homes' products are moderately priced and marketed primarily towards first-time buyers. The NVHomes product is built largely in the Washington, D.C. metropolitan area, and is marketed primarily to move-up buyers. In 1999, the average price of a unit settled by NVR was approximately \$208,000.

NVR obtains land for homebuilding by acquiring control over finished building lots through option contracts with land developers that require forfeitable deposits. This lot acquisition strategy reduces 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. NVR's mortgage banking business generates revenues primarily from origination fees, gains on marketing of loans, title fees, and sales of servicing rights. Although NVR's mortgage banking operations provide financing to a substantial portion of NVR's homebuilding customers, NVR's homebuilding customers accounted for only 39% of the aggregate dollar amount of loans closed in 1999. In 1999, NVR's mortgage banking business closed approximately 21,900 loans with an aggregate principal amount of approximately \$2.9 billion. NVR's mortgage banking business sells all of the mortgage loans it closes into the secondary markets. The total servicing portfolio balance at December 31, 1999 was approximately \$220 million in principal amounts of loans serviced.

Segment information for NVR's homebuilding and mortgage banking 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 approximately 985 to 5,400 square feet, with two to five bedrooms, and are priced from approximately \$80,000 to \$890,000.

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,		
	1999	1998	1997	1999	1998	1997
-----	-----	-----	-----	-----	-----	-----
Washington/Baltimore	5,073	4,358	3,774	5,215	5,165	4,084
Other (1)	4,243	3,264	2,333	4,463	3,835	2,602
-----	-----	-----	-----	-----	-----	-----
Total	9,316	7,622	6,107	9,678	9,000	6,686
	=====	=====	=====	=====	=====	=====

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

Construction

Independent subcontractors under fixed-price contracts perform construction work on NVR's homes. The subcontractors' work 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 predominantly on a commission basis.

Regulation

NVR and its subcontractors must comply with various federal, state and local zoning, building, 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 the 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, Market Factors and Seasonality

The housing industry is highly competitive. NVR competes with numerous homebuilders of varying size, ranging from local to national in scope. 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.

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.

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

Mortgage Banking

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

NVR's mortgage banking business sells all of the mortgage loans it closes to investors in the secondary markets, rather than holding them for investment. NVR's wholly owned subsidiary, NVR Finance, is an approved seller/servicer for FNMA, GNMA, FHLMC, VA and FHA mortgage loans. NVR's mortgage banking operations sell all originated mortgage servicing rights on a flow basis. The size of its servicing portfolio was approximately \$220 million in principal amount of loans being serviced at the end of 1999 compared to approximately \$261 million at December 31, 1998.

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. There have been no bonds issued since 1988. Only one series of bonds issued remains outstanding. The remaining series has an early call feature that will allow NVR to retire the bonds at NVR's option in October, 2001.

Competition and Market Factors

NVR's mortgage banking operations operate through 31 offices in 12 states. 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 is an approved seller/servicer of FNMA, GNMA, FHLMC, FHA and VA mortgage loans, and is subject to all of those agencies' rules and regulations. These rules and regulations 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, 1999, NVR employed 3,459 full-time persons, of whom 1,010 were officers and management personnel, 185 were technical and construction personnel, 950 were sales personnel, 534 were administrative personnel and 780 were engaged in various other service and labor activities. None of the Company's employees are subject to a collective bargaining agreement and the Company has never experienced a work stoppage. Management believes that its employee relations are good.

Item 2. Properties

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

NVR's manufacturing facilities are located in Thurmont, Maryland; Farmington, New York; Clover, South Carolina; Darlington, Pennsylvania; and Portland, Tennessee. NVR has leased the Thurmont and Farmington manufacturing facilities for a term expiring in 2014 with various options for extension of the leases and for the purchase of the facilities. The Clover, Darlington and Portland leases expire in 2002, 2005 and 2004, respectively, and also contain various options for extensions of the leases and for the purchase of the facilities.

NVR also leases office space in 71 locations in 14 states for field offices, mortgage banking and title services branches under leases expiring at various times through 2009. 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

During April 1999, NVR was served with a lawsuit filed in the United States District Court in Baltimore by a group of homeowners who purchased homes in a community in Howard County, Maryland. The suit alleges violation of certain Federal environmental laws, as well as State consumer protection and nuisance statutes relating to the alleged failure of NVR to disclose to its purchasers that their homes were built on a site formerly used as an unlicensed landfill. The developer of the property and another homebuilder are also named as defendants in the action. The plaintiffs are seeking injunctive relief and damages of approximately \$75,000,000. The Company believes that it has valid defenses to the plaintiffs' claims and intends to vigorously defend the case. No assurances can be given, however, regarding the risk or range of possible loss to the Company, if any.

Except as otherwise noted, NVR is not involved in any legal proceedings that are likely to have a material adverse effect on its financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

During the quarter ended December 31, 1999, no matters were submitted to a vote of security holders.

Executive Officers of the Registrant

Name ----	Age ---	Positions -----
Dwight C. Schar	58	Chairman of the Board, President and Chief Executive Officer of NVR
William J. Inman	52	President of NVR Mortgage Finance, Inc.
James M. Sack	49	Vice President, Secretary and General Counsel of NVR
Paul C. Saville	44	Senior Vice President Finance and Chief Financial Officer of NVR
Dennis M. Seremet	44	Vice President and Controller of NVR

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

William J. Inman has been president of NVR Mortgage Finance, Inc. since January 1992.

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

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

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

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters.

NVR's shares of common stock are listed and principally traded on the American Stock Exchange ("AMEX"). The following table sets forth for the periods indicated the high and low closing sales prices per share for the years 1999 and 1998 as reported by the AMEX.

	HIGH -----	LOW -----
Prices per Share:		
1998:		
First Quarter	33-3/4	22-5/16
Second Quarter	41-1/4	31-3/16
Third Quarter	46	32-3/8
Fourth Quarter	47-11/16	24-7/8
1999:		
First Quarter	47	41
Second Quarter	52-3/16	41-15/16
Third Quarter	57-13/16	50-4/8
Fourth Quarter	50-7/8	38

As of the close of business on February 15, 2000, there were 904 shareholders of record.

NVR has not paid any cash dividends on its shares of common stock during the years 1999 or 1998. NVR's bank indebtedness and the indenture governing NVR's 8% Senior Notes due 2005 contain restrictions on the ability of NVR to pay dividends on its common stock. See note 6 to the financial statements for a detailed description of the Senior Note restrictions.

Item 6. Selected Financial Data (dollars in thousands, except per share amounts)

The following tables set forth selected consolidated financial information for NVR. The selected income statement 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.

	Year Ended December 31				
	1999	1998	1997	1996	1995
	----	----	----	----	-----
Consolidated Income Statement Data:					
Homebuilding data:					
Revenues	\$1,942,660	\$1,504,744	\$1,154,022	\$1,045,930	\$ 869,119
Gross profit	331,933	230,929	158,167	139,675	118,084
Mortgage Banking data:					
Mortgage banking fees	48,122	42,703	25,946	24,029	26,297
Interest income	13,556	9,861	6,415	5,351	4,744
Interest expense	7,504	6,120	3,544	2,249	2,090
Consolidated data:					
Income before extraordinary loss	\$ 108,881	\$ 66,107	\$ 28,879	\$ 25,781	\$ 16,400
Income before extraordinary loss per diluted share (1)	\$ 9.01	\$ 4.97	\$ 2.18	\$ 1.70	\$ 1.06
	December 31				
	1999	1998	1997	1996	1995
	----	----	----	----	-----
Consolidated Balance Sheet Data:					
Homebuilding inventory	\$ 323,455	\$ 288,638	\$ 224,041	\$ 171,693	\$ 154,713
Total assets	767,281	724,359	564,621	501,165	513,598
Notes and loans payable	278,133	320,337	248,138	201,592	221,295
Equity	200,640	165,719	144,640	152,010	146,180
Cash dividends per share	-	-	-	-	-

(1) For the years ended December 31, 1999, 1998, 1997, 1996 and 1995, income from continuing operations per diluted share was computed based on 12,088,388, 13,300,064, 13,244,677, 15,137,009 and 15,405,263 shares, respectively, which represents the weighted average number of shares and share equivalents outstanding at each relevant date. The weighted average number of shares and share equivalents were calculated based upon the requirements of SFAS No. 128, Earnings per Share, for all periods presented and represent the shares and share equivalents used to calculate diluted earnings per share before extraordinary losses.

Item 7. Management's Discussion and Analysis of Financial Condition and Results

of Operations (dollars in thousands except per share data)

A Cautionary Note Regarding Forward-Looking Statements

Some of the statements in this Form 10-K, as well as statements made by the Company in periodic press releases or other public communications, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology, such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereof or comparable terminology, or by discussion of strategies, each of which involves risks and uncertainties. All statements other than of historical facts included herein, including those regarding market trends, the Company's financial position, business strategy, projected plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risk factors include, but are not limited to, general economic and business conditions (on both a national and regional level), interest rate changes, access to suitable financing, competition, the availability and cost of land and other raw materials used by the Company in its homebuilding operations, shortages of labor, weather related slow downs, building moratoria, governmental regulation, the ability of the Company to integrate any acquired business, certain conditions in financial markets and other factors over which the Company has little or no control.

Results of Operations for the Years Ended December 31, 1999, 1998 and 1997

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

Effective September 30, 1998, NVR merged each of NVR Homes, Inc., NVR's wholly owned homebuilding subsidiary, and NVR Financial Services, Inc., NVR's wholly owned mortgage banking holding company, into the Company. The Company now conducts its homebuilding activities both directly and through its wholly owned subsidiary, Fox Ridge Homes, Inc ("Fox Ridge"). The Company conducts its mortgage banking operations primarily through another wholly owned subsidiary, NVR Mortgage Finance, Inc. ("NVR Finance"), and First Republic Mortgage Corporation ("First Republic"), a wholly owned subsidiary of NVR Finance.

Homebuilding Segment

Homebuilding revenues for 1999 increased 29% to \$1,942,660 compared to revenues of \$1,504,744 in 1998. The increase in revenues was primarily due to a 22% increase in the number of homes settled to 9,316 in 1999 from 7,622 in 1998, and to a 6% increase in the average settlement price to \$207.7 in 1999 from \$196.4 in 1998. The increase in settlements is a direct result of the substantially higher backlog at the beginning of the 1999 period as compared to the beginning of the same 1998 period. The increase in the average settlement price is attributable to single family detached units representing a larger percentage of the total units settled in the current period as compared to the prior year period, and to price increases in certain of the Company's markets. New orders for 1999 increased by 8% to 9,678 units compared with 9,000 units for 1998. The increase in new orders was predominantly the result of increased sales in markets outside the Baltimore/Washington area.

Homebuilding revenues for 1998 increased 30% to \$1,504,744 from \$1,154,022 in 1997. The increase in revenues was primarily due to a 25% increase in the number of homes settled to 7,622 units in 1998 from 6,107 units in 1997 and to a 5% increase in the average settlement price to \$196.4 in 1998 from \$187.7 in

1997. New orders for 1998 increased 35% to 9,000 units compared with 6,686 units in 1997. The increase in new orders was the result of continuing favorable market conditions in most of the markets in which the Company operates as compared to the prior year, and to a lesser extent, new orders generated by Fox Ridge, acquired by the Company during the fourth quarter of 1997.

Gross profit margins for 1999 increased to 17.1% compared to 15.3% for 1998. The increase in gross profit margins was due to favorable market conditions that existed in the first half of 1999, which provided the Company the opportunity to increase selling prices in certain of its markets during that time, and to the Company's continued emphasis on controlling construction costs. In addition, the Company increased the sales and settlement pace per community, which resulted in a better leverage of fixed costs. Gross profit margins increased to 15.3% in 1998 compared to 13.7% in 1997. The increase in gross profit margins from that experienced in 1997 was primarily attributable to the continuing favorable market conditions, improved margins in the Company's expansion markets and the Company's continued emphasis on controlling construction costs.

SG&A expenses for 1999 increased \$27,433 as compared to 1998, but as a percentage of revenues decreased to 7.2% from 7.5%. Approximately \$15,000 of the increase in SG&A expenses is due to a net period to period increase for compensation cost attributable to management incentive plans (see below). The increase in SG&A dollars is also attributable to the aforementioned increase in revenues. SG&A expenses for 1998 increased \$26,098 to \$113,329 from \$87,231 in 1997, but as a percentage of revenues fell to 7.5% in 1998 from 7.6% in 1997. The increase in SG&A dollars was due primarily to the aforementioned increase in revenues, a net year to year increase for certain management incentive plans and to increased costs incurred in the Company's expansion markets.

The final 394,000 shares granted under the 1994 Management Incentive Plan (the "Plan"), a variable stock award plan adopted by the Board of Directors pursuant to the Company's 1993 Plan of Reorganization, vested during 1999. The non-cash, compensation cost recognized in SG&A relative to the Plan totaled \$18,670, \$9,081 and \$7,986 for the years ended December 31, 1999, 1998 and 1997, respectively. Also, in the current year the Company accrued approximately \$7,900 in compensation cost related to the 1998 High Performance Plan ("High Performance Plan"), a long-term, cash based incentive plan in which certain members of the Company's senior management participate. Benefits earned under the High Performance Plan, if any, are based on a variable calculation of the growth in earnings per share for a three-year measurement period ending on December 31, 2001 over a base year earnings per share. Amounts earned, if any, under the High Performance Plan will be paid to participants in three installments in 2003, 2004 and 2005, based upon their continued employment. Because of the variability of the benefit calculation, compensation cost relative to the High Performance Plan could be materially different in future years than that recognized in 1999.

Backlog units and dollars were 4,935 and \$1,137,332, respectively, at December 31, 1999 compared to backlog units of 4,573 and dollars of \$958,757 at December 31, 1998. The increase in backlog dollars and units was due to a 2% increase in new orders for the six-month period ended December 31, 1999 compared to the same 1998 period, and to a slower backlog turn. The dollar increase is also due to an 8% increase in the average selling price comparing the same six-month periods. Backlog units and dollars were 4,573 and \$958,757, respectively, at December 31, 1998 compared to backlog units of 3,195 and dollars of \$623,705 at December 31, 1997. The increase in backlog dollars and units was primarily due to a 31% increase in new orders for the six months ended December 31, 1998 as compared to the six months ended December 31, 1997.

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 non-cash compensation cost related to the Plan. 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. EBITDA as presented may not be comparable to other similarly titled measures used by other companies.

Calculation of Homebuilding EBITDA:

	Year Ended December 31,		
	1999	1998	1997
Operating income	\$185,629	\$111,927	\$65,533
Depreciation	3,387	3,490	3,588
Amortization of excess reorganization value/goodwill	7,254	7,547	6,635
Non-cash Plan compensation cost	18,670	9,081	7,986
Homebuilding EBITDA	\$214,940	\$132,045	\$83,742
% of Homebuilding revenues	11.1%	8.8%	7.3%

Homebuilding EBITDA in 1999 was 62.8% higher than in 1998, and as a percentage of revenues increased to 11.1% in 1999 from 8.8% in 1998. Homebuilding EBITDA in 1998 was 58% higher than in 1997, and as a percentage of revenues increased to 8.8% in 1998 from 7.3% in 1999.

Mortgage Banking Segment

Excluding the results of First Republic Mortgage Corporation, the mortgage banking segment generated operating income of \$16,045 for the year ended December 31, 1999 compared to operating income of \$17,056 and \$5,855 during the same periods in 1998 and 1997. Total loan closings were \$2,911,865, \$2,717,456 and \$1,485,763 during the respective periods of 1999, 1998 and 1997. Approximately \$450,178 of the increased loan closing production was the result of loans originated by First Republic, which was acquired by the Company in March 1999 (see below for additional information regarding the acquisition). Excluding the origination activity of First Republic, loan origination activity for 1999 decreased 9% compared to 1998, and increased 66% when compared to 1997. Including the results of First Republic, operating income for 1999 was \$14,752.

Mortgage banking fees in 1999 were \$48,122 compared to \$42,703 in 1998, representing an increase of \$5,419, or 13%, from the overall 7% increase in loan closing volume. An increase in builder related and other retail loan origination activity offset the sharp reduction in wholesale refinance activity experienced by the Company during the second half of 1999. This shift in product mix had a favorable impact on mortgage banking fees. However, due to increased price competition, the Company realized lower margins on the sale of loans. The increased revenues were offset by higher general and administrative expenses primarily due to ongoing incremental overhead of First Republic and, to a lesser extent, costs incurred for the implementation of the Company's new loan origination system. In response to declining market conditions, the Company commenced a plan to close four of its mortgage origination branches and to exit the wholesale origination business. As a result of the plan, the Company accrued approximately \$650 in office closure expenses during the fourth quarter of 1999.

Mortgage banking fees in 1998 were \$42,703 compared to \$25,946 in 1997. The increase is primarily due to the increased mortgage loan closings and higher title services revenues. Partially offsetting this increase in mortgage banking fees were volume-related increases in SG&A 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. Because NVR's mortgage banking operations generate part of their business from NVR's homebuilding operations and from other homebuilders affected by seasonality, to the extent that homebuilding is affected by seasonality, mortgage banking operations may also be affected. The existence of mortgage banking and title services offices outside of the Middle Atlantic region and the existence of third-party business tend to reduce the effects of seasonality on the results of NVR's operations.

Effective Tax Rate

The merger of NVR Homes, Inc and NVR Financial Services, Inc. into the Company on September 30, 1998 allowed the Company to utilize a separate return limitation year net operating loss ("SRLY NOL") generated by the Company's previously owned savings and loan institution, NVR Savings Bank. As a result, the Company realized a \$3,300 tax benefit during 1998. The use of the SRLY NOL, coupled with higher

taxable income relative to fixed permanent differences, reduced the Company's 1998 effective tax rate to 40.1% from 46.4% in 1997. The 1999 effective tax rate of 41.2% remained low as compared to the 1997 effective tax rate of 46.4% due to higher taxable income relative to NVR's permanent differences, primarily the amortization of reorganization value in excess of amounts allocable to identifiable assets and non-deductible compensation.

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires all derivatives to be recognized as either assets or liabilities on the balance sheet and be measured at fair value. Depending on the hedge designation, changes in such fair value will be recognized in either other comprehensive income or current earnings on the income statement. During June 1999, the FASB issued SFAS No. 137, which amended SFAS No. 133. SFAS No. 133, as amended, is now effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. At the present time, the Company cannot determine the impact that SFAS No. 133, as amended, will have on its financial statements upon adoption on January 1, 2001, as such impact will be determined based on loans held in inventory and forward mortgage delivery contracts outstanding at the date of adoption.

Year 2000 Issue

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

With the assistance of a consulting firm, NVR completed its assessment of exposure to Year 2000 Issues and successfully remediated areas of exposure in both its homebuilding and mortgage banking segments prior to December 31, 1999. Total expenditures for Year 2000 Issue costs equaled approximately \$5,500. To the date of this report, NVR has not encountered any business interruptions or adverse financial consequences related to the Year 2000 Issue. However, there can be no assurances that the Company will not encounter material business interruptions or adverse financial consequences subsequent to the date of this report.

Liquidity and Capital Resources

NVR's homebuilding segment generally provides for its working capital cash requirements using cash generated from operations and a short-term credit facility. In September 1998, NVR, as borrower, succeeded to the obligations of NVR Homes, Inc. under the unsecured working capital revolving credit facility as amended and restated (the "Facility"). The Facility expires on May 31, 2002, and bears interest at the election of the Company at i) the base rate of interest announced by the Facility agent, or ii) 1.35% above the Eurodollar rate. The Facility provides for borrowings of up to \$100,000 of which \$60,000 is currently committed. Up to approximately \$24,000 of the Facility is currently available for issuance in the form of letters of credit of which \$12,542 was outstanding at December 31, 1999. There were no direct borrowings outstanding under the Facility as of December 31, 1999.

NVR's mortgage banking segment provides for its mortgage origination and other operating activities using cash generated from operations as well as various short-term credit facilities. NVR Finance has available a \$225,000 mortgage warehouse facility, of which \$200,000 is committed, to fund its mortgage origination activities, under which \$107,588 was outstanding at December 31, 1999. The interest rate under the Mortgage Warehouse Revolving Credit agreement is either: (i) the London Interbank Offering Rate ("Libor") plus either 1.25% or 1.75% depending on the type of collateral, or (ii) 1.25% or 1.75% to the extent that NVR Finance provides compensating balances and depending on the type of collateral. The weighted average interest rate for amounts outstanding under the Mortgage Warehouse Revolving Credit line was 5.8% during 1999. NVR Finance from time to time enters into various gestation and repurchase agreements. NVR Finance currently has available an aggregate of \$175,000 of borrowing capacity in such uncommitted facilities. Amounts outstanding thereunder accrue interest at various rates tied to the Libor rate and are

collateralized by gestation mortgage-backed securities and whole loans. The weighted average interest rate for amounts outstanding under these uncommitted facilities was 5.5% during 1999. There was an aggregate of \$17,363 outstanding under such gestation and repurchase agreements at December 31, 1999.

On January 20, 1998, the Company filed a shelf registration statement with the Securities and Exchange Commission for the issuance of up to \$400,000 of the Company's debt securities. The shelf registration statement was declared effective on February 27, 1998 and provides that securities may be offered from time to time in one or more series, and in the form of senior or subordinated debt. As of December 31, 1999, an aggregate principal balance of \$225,000 was available for issuance under the shelf registration statement.

On April 14, 1998, the Company completed an offering under the shelf registration statement for \$145,000 of senior notes due 2005 (the "New Notes"), resulting in aggregate net proceeds to the Company of approximately \$142,800 after fees and expenses. The New Notes mature on June 1, 2005 and bear interest at 8%, payable semi-annually on June 1 and December 1 of each year, commencing June 1, 1998. The New Notes are senior unsecured obligations of the Company, ranking equally in right of payment with the Company's other existing and future unsecured indebtedness. An additional \$30,000 in principal is available for issuance under the New Note offering. The net proceeds of the New Notes were used to extinguish other indebtedness of the Company, as described below.

Through a tender offer commenced on April 21, 1998 and completed on May 18, 1998, various open market purchases throughout 1998 and a contractual call exercised on December 1, 1998, the Company repurchased all of the \$120,000 in aggregate principal outstanding under the Company's 11% Senior Notes due 2003 ("Senior Notes"). The Senior Notes were retired upon purchase. The amount of funds expended to complete the Senior Note repurchase totaled \$129,345, excluding accrued interest, and resulted in the recognition of an extraordinary loss of \$7,126, net of a \$4,461 tax benefit, (\$0.54 per diluted share) in the accompanying 1998 consolidated income statements.

During December 1998, the Company exercised its option to purchase two office buildings currently utilized by NVR for certain administrative functions of both its homebuilding and mortgage banking segments, thereby extinguishing the Company's obligations under the capital lease pertaining to these buildings. The Company expended funds of \$12,295, excluding accrued interest, to extinguish the capital lease obligation and recognized an additional extraordinary loss of \$2,275, net of a \$1,424 tax benefit, (\$0.17 per diluted share) in the accompanying 1998 consolidated income statements. During 1999, the Company sold both buildings to an unrelated third party and leased back one of the buildings under an operating lease for a five-year term expiring in 2004. There was no resultant material gain or loss on the sale transaction.

NVR Finance's mortgage warehouse facility limits the ability of NVR Finance to transfer funds to NVR in the form of dividends, loans or advances. NVR Finance had net assets of \$11,500 as of December 31, 1999, that were so restricted.

As shown in NVR's consolidated statement of cash flows for the year ended December 31, 1999, NVR's operating activities provided cash of \$215,353 for this period. The cash was provided primarily by homebuilding operations and by the excess of loan sale proceeds over cash expended to close mortgage loans with customers.

Net cash provided by investing activities was \$26,095 for the year ended December 31, 1999. The primary source of cash was the proceeds from the sale of mortgage servicing rights. Cash of \$3,697 (net of cash acquired) was also used to acquire First Republic in March of 1999 (see below).

Net cash used for financing activities was \$220,826 for the year ended December 31, 1999. Cash was primarily used for NVR's purchase of approximately 2.0 million shares of its common stock for an aggregate purchase price of \$101,765 during the year ended December 31, 1999. The Company may, from time to time, repurchase additional shares of its common stock, pursuant to repurchase authorizations by the Board of Directors and subject to the restrictions contained within the Company's debt agreements. NVR also had net repayments under the mortgage banking credit lines of \$116,136.

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

Business Acquisition

On March 4, 1999, NVR Mortgage Acquisition, Inc. ("NVRMA"), a wholly owned subsidiary of NVR Finance, NVR's wholly owned mortgage banking subsidiary, purchased all of the outstanding capital stock of First Republic Mortgage Corporation for approximately \$5,300 in cash. First Republic, based in Rockville, Maryland, is a leading mortgage lender in the Baltimore and Washington Metropolitan area. NVRMA accounted for this acquisition using the purchase method, and the operations of the acquired business have been included in NVR's consolidated financial statements for 1999 beginning on the date of the acquisition. Goodwill of approximately \$3,300 that was generated pursuant to the purchase transaction is being amortized using the straight-line method over 5 years.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

Market risk is the risk of loss arising from adverse changes in market prices and interest rates. Though the Company faces and manages other types of risk, such as credit and liquidity risks, the Company's market risk arises from interest rate risk inherent in its financial instruments. Interest rate risk is the possibility that changes in interest rates will cause unfavorable changes in net income or in the value of interest rate-sensitive assets, liabilities and commitments. In addition, lower interest rates tend to increase demand for mortgage loans for home purchasers, as well as for the demand for refinancing of existing mortgages. Higher interest rates make it more difficult for potential borrowers to purchase residential properties and to qualify for mortgage loans and reduce demand for refinance loans. The Company has no market rate sensitive instruments held for speculative or trading purposes.

The Company's mortgage banking segment is exposed to interest rate risk as it relates to its lending activities. The mortgage banking segment originates mortgage loans, which are generally sold through optional and mandatory forward delivery contracts into the secondary markets. All of the mortgage banking segment's loan portfolio is held for sale.

Profitability of the mortgage banking segment may be directly affected by the levels of and fluctuations in interest rates, which affect the mortgage banking segment's ability to earn a spread between interest received on its mortgage loans held for sale and the costs of borrowings under the Company's variable-rate warehouse line of credit and uncommitted repurchase and gestation facilities. The profitability of the mortgage banking segment is likely to be adversely affected during any period of unexpected or rapid changes in interest rates. For example, a substantial or sustained increase in interest rates could adversely affect the ability of the Company to originate mortgage loans and would reduce the value of mortgage loans held for sale. A substantial decline in interest rates could also impair the value of any capitalized mortgage servicing rights. The Company's current risk management strategy involves selling all originated mortgage servicing rights on a flow basis. The Company has \$3,384 of capitalized mortgage servicing rights as of December 31, 1999, with a fair value at December 31, 1999 of \$3,828.

In an environment of stable interest rates, the Company's gains on the sale of mortgage loans would generally be limited to those gains resulting from the yield differential between mortgage loan interest rates and rates required by secondary market purchasers. A loss from the sale of loans may occur if interest rates increase between the time that the Company establishes the interest rate on a loan and the time that the loan is sold. Fluctuating interest rates also may affect the net interest income earned by the Company, resulting from the difference between the yield to the Company on loans held for sale and the interest paid by the Company for funds borrowed to finance the origination of mortgage loans. Because of the uncertainty of future loan origination volume and the future level of interest rates, there can be no assurance that the Company will realize gains on the sale of financial assets in the future.

In the normal course of business, the Company also 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 market rate risk in excess of the amounts recognized in the balance sheet. NVR 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. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date to a broker/dealer. This market risk is managed by entering into forward contracts as discussed below.

There were mortgage loan commitments aggregating approximately \$120,716 outstanding at December 31, 1999, with a fair value at December 31, 1999 of \$120,914. 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.

The Company enters into optional and mandatory forward delivery contracts to sell mortgage-backed securities and whole loans at specific prices and dates to broker/dealers and secondary market investors. The Company has established policies governing which broker/dealers can be used to conduct these activities. Market risk with respect to forward contracts arises from changes in the value of contractual positions due to fluctuations in interest rates. The Company limits its exposure to market risk by monitoring differences between the total of commitments to customers and loans held for sale and forward contracts with investors and broker/dealers. In the event that the Company has forward delivery contract commitments in excess of available mortgage-backed securities, the Company 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. NVR has no market risk associated with optional delivery contracts because NVR has the right but not the obligation to deliver mortgage backed securities and whole loans to investors and broker/dealers under these contracts. There were open forward delivery contracts to sell loans to third party investors aggregating approximately \$198,131 at December 31, 1999, with a fair value at December 31, 1999 of \$198,181.

The Company's homebuilding segment generates operating liquidity and acquisitions of capital assets through fixed-rate and variable-rate debt. The homebuilding segment's primary variable-rate debt is a Working Capital Credit facility that currently provides for unsecured borrowings up to \$100,000 (of which \$60,000 is committed), subject to certain borrowing base limitations. The working capital credit facility expires May 31, 2002 and outstanding amounts bear interest at the election of the Company, at (i) the base rate of interest announced by the Working Capital Credit facility agent or (ii) 1.35% above the Eurodollar Rate. The weighted average interest rates for the amounts outstanding under the Facility was 6.5% for the year ended 1999. There were no amounts outstanding under the Working Capital Credit facility at December 31, 1999.

The following table represents contractual balances of the Company's on balance sheet financial instruments in dollars at the expected maturity dates, as well as the fair values of those on balance sheet financial instruments, at December 31, 1999. The expected maturity categories take into consideration historical and anticipated prepayment speeds, as well as actual amortization of principal and does not take into consideration the reinvestment of cash or the refinancing of existing indebtedness. Because the Company sells all of the mortgage loans it originates into the secondary markets, the Company has made the assumption that the portfolio of mortgage loans held for sale will mature in the first year. Consequently, outstanding warehouse borrowings and repurchase facilities are also assumed to mature in the first year.

Maturities (000's)

	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value
	----	----	----	----	----	-----	-----	-----
Mortgage banking segment								
- - - - -								
Interest rate sensitive assets:								
Mortgage loans held for sale	136,311	-	-	-	-	-	136,311	137,209
Average interest rate	8.8%	-	-	-	-	-	8.8%	
Interest rate sensitive liabilities:								
Variable rate warehouse line of credit	107,588	-	-	-	-	-	107,588	107,588
Average interest rate (a)	5.8%	-	-	-	-	-	5.8%	
Variable rate repurchase agreements	17,363	-	-	-	-	-	17,363	17,363
Average interest rate	5.5%	-	-	-	-	-	5.5%	
Fixed rate capital lease obligations	448	201	106	93	-	-	848	848
Average interest rate	9.4%	7.9%	6.4%	6.4%	-	-	8.4%	
Homebuilding segment								
- - - - -								
Interest rate sensitive assets:								
Interest-bearing deposits	45,000	-	-	-	-	-	45,000	45,000
Average interest rate	4.0%	-	-	-	-	-	4.0%	
Interest rate sensitive liabilities:								
Variable rate working capital line of credit	-	-	-	-	-	-	-	-
Average interest rate	-	-	-	-	-	-	-	-
Variable rate notes payable	2,070	-	-	-	-	-	2,070	2,070
Average interest rate	6.9%	-	-	-	-	-	6.9%	
Fixed rate obligations (b)	271	333	313	331	372	148,644	150,264	141,927
Average interest rate	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	

(a) Average interest rate is net of credits received for compensating cash balances.

(b) The \$148,644 maturing after 2004 includes \$145,000 of the Company's 8% Senior Notes due June 2005.

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 expected to be filed with the Securities and Exchange Commission on or prior to April 30, 2000. 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 expected to be filed with the Securities and Exchange Commission on or prior to April 30, 2000.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Item 12 is hereby incorporated by reference to NVR's Proxy Statement expected to be filed with the Securities and Exchange Commission on or prior to April 30, 2000.

Item 13. Certain Relationships and Related Transactions.

Item 13 is hereby incorporated by reference to NVR's Proxy Statement expected to be filed with the Securities and Exchange Commission on or prior to April 30, 2000.

PART IV

Item 14. Exhibits 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

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.
4.1	Form of Trust Indenture between NVR, Inc., as issuer and the Bank of New York as trustee. Incorporated by reference to Exhibit 4.3 in NVR, Inc.'s Current Report on Form 8-K filed April 23, 1998.
4.2	Form of Note (included in Indenture filed as Exhibit 4.1).
4.4	Form of Supplemental Trust Indenture between NVR, Inc., as issuer, NVR Homes, Inc., as guarantor, and The Bank of New York, as trustee. Incorporated by reference to Exhibit 4.3 in NVR, Inc.'s Current Report on Form 8-K filed April 23, 1998.
**10.1	Employment Agreement between NVR, Inc. and Dwight C. Schar dated January 1, 1996.
**10.3	Executive Employment Agreement between NVR, Inc. and Paul C. Saville dated January 1, 1995.
**10.5	Employment Agreement between NVR, Inc. and William J. Inman dated November 13, 1995.
*10.6	Loan Agreement dated as of September 7, 1999 among NVR Mortgage Finance, Inc. and US Bank National Association, 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.

- **10.19 Employee Stock Ownership Plan of NVR, Inc.
- **10.22 NVR, Inc. 1994 Management Equity Incentive Plan.
- 10.23 NVR, Inc. 1998 Management Long-Term Stock Option Plan.
Incorporated by reference to Exhibit 4 of NVR, Inc.'s Form S-8
Registration Statement filed June 4, 1999.
- 10.24 NVR, Inc. 1998 Directors' Long-Term Stock Option Plan.
Incorporated by reference to Exhibit 4 of NVR, Inc.'s Form S-8
Registration Statement filed June 4, 1999.
- 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.
- **10.29 Third Amended and Restated Credit Agreement dated as of September
30, 1998 among NVR, Inc. as borrower and Certain Banks and
BankBoston, as Agent for itself and Certain Banks.
- **10.30 NVR, Inc. High Performance Compensation Plan dated as of January
1, 1996.
- *10.31 NVR, Inc. High Performance Compensation Plan No. 2 dated as of
January 1, 1999.
- **10.32 Whole Loan Purchase and Sale Agreement between NVR Mortgage
Finance, Inc., as seller, and Prudential Securities Realty
Funding Corporation, as Purchaser, dated as of August 11, 1997.
- **10.33 Mortgage Loan Purchase and Sale Agreement dated as of January 15,
1997 between Prudential Securities Realty Funding Corporation and
NVR Mortgage Finance, Inc.
- **10.34 Mortgage Loan Purchase and Sale Agreement between Greenwich
Capital Financial Products, Inc. and NVR Mortgage Finance, Inc.,
dated as of July 22, 1998
- *11 Computation of Earnings per Share
- *21 NVR, Inc. Subsidiaries.
- *23 Consent of KPMG LLP (independent auditors).
- *27 Financial Data Schedule

* Filed herewith.

** Contained in a previously filed Annual Report on Form 10-K.

Reports on Form 8-K

No reports on Form 8-K were filed by NVR during the last quarter covered by this report.

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 8, 2000

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 (Principal Executive Officer)	March 8, 2000
/s/ C. Scott Bartlett, Jr. ----- C. Scott Bartlett, Jr.	Director	March 8, 2000
/s/ Manuel H Johnson ----- Manuel H. Johnson	Director	March 8, 2000
/s/ William A. Moran ----- William A. Moran	Director	March 8, 2000
/s/ Richard H. Norair, Sr. ----- Richard H. Norair, Sr.	Director	March 8, 2000
/s/ David A. Preiser ----- David A. Preiser	Director	March 8, 2000
/s/ George E. Slye ----- George E. Slye	Director	March 8, 2000
/s/ John M. Toups ----- John M. Toups	Director	March 8, 2000
/s/ Paul C. Saville ----- Paul C. Saville	Senior Vice President, Chief Financial Officer and Treasurer	March 8, 2000

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, 1999 and 1998 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, 1999. 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, 1999 and 1998 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

McLean, Virginia
February 2, 2000

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

	December 31,	
	1999	1998
ASSETS		
Homebuilding:		
Cash and cash equivalents	\$ 77,968	\$ 59,118
Receivables	2,171	1,515
Inventory:		
Lots and housing units, covered under sales agreements with customers	276,193	236,447
Unsold lots and housing units	37,573	45,478
Manufacturing materials and other	9,689	6,713
	323,455	288,638
Property, plant and equipment, net	13,114	16,663
Reorganization value in excess of amounts allocable to identifiable assets, net	53,901	60,062
Goodwill, net	8,566	9,659
Contract land deposits	62,784	40,699
Other assets	49,776	41,301
	591,735	517,655
Mortgage Banking:		
Cash and cash equivalents	11,158	9,386
Mortgage loans held for sale, net	136,311	178,695
Mortgage servicing rights, net	3,384	3,680
Property and equipment, net	4,239	934
Reorganization value in excess of amounts allocable to identifiable assets, net	9,523	10,611
Goodwill, net	2,739	-
Other assets	8,192	3,398
	175,546	206,704
Total assets	\$767,281	\$724,359
	=====	=====

(Continued)

See notes to consolidated financial statements.

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

	December 31,	
	1999	1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Homebuilding:		
Accounts payable	\$ 98,322	\$ 88,272
Accrued expenses and other liabilities	125,172	103,683
Customer deposits	50,348	34,639
Notes payable	2,128	4,054
Other term debt	5,206	5,434
Senior notes	145,000	145,000
	-----	-----
	426,176	381,082
	-----	-----
Mortgage Banking:		
Accounts payable and other liabilities	14,666	11,709
Notes payable	125,799	165,849
	-----	-----
	140,465	177,558
	-----	-----
 Total liabilities	 566,641	 558,640
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 20,614,855 and 20,190,971 shares issued for 1999 and 1998, respectively	204	202
Additional paid-in-capital	196,654	174,173
Retained earnings	241,564	132,683
Less treasury stock at cost - 11,443,247 and 9,805,132 shares at December 31, 1999 and 1998, respectively	(237,782)	(141,339)
	-----	-----
Total shareholders' equity	200,640	165,719
	-----	-----
 Total liabilities and shareholders' equity	 \$ 767,281	 \$ 724,359
	=====	=====

See notes to consolidated financial statements.

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

	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
Homebuilding:			
Revenues	\$ 1,942,660	\$ 1,504,744	\$1,154,022
Other income	1,712	1,874	1,232
Cost of sales	(1,610,727)	(1,273,815)	(995,855)
Selling, general and administrative	(140,762)	(113,329)	(87,231)
Amortization of reorganization value in excess of amounts allocable to identifiable assets/goodwill	(7,254)	(7,547)	(6,635)
Operating income	185,629	111,927	65,533
Interest expense	(13,533)	(17,528)	(16,410)
Homebuilding income	172,096	94,399	49,123
Mortgage Banking:			
Mortgage banking fees	48,122	42,703	25,946
Interest income	13,556	9,861	6,415
Other income	598	634	674
General and administrative	(40,020)	(30,022)	(23,636)
Amortization of reorganization value in excess of amounts allocable to identifiable assets/goodwill	(1,636)	(1,088)	(1,088)
Interest expense	(7,504)	(6,120)	(3,544)
Operating income	13,116	15,968	4,767
Total segment income	185,212	110,367	53,890
Income tax expense	(76,331)	(44,260)	(25,011)
Income before extraordinary loss	108,881	66,107	28,879
Extraordinary loss-extinguishment of debt (net of tax benefit of \$5,885)	-	(9,401)	-
Net income	\$ 108,881	\$ 56,706	\$ 28,879
Basic earnings per share:			
Income before extraordinary loss	\$ 10.69	\$ 5.94	\$ 2.44
Extraordinary loss	-	(0.84)	-
Basic earnings per share	\$ 10.69	\$ 5.10	\$ 2.44
Diluted earnings per share:			
Income before extraordinary loss	\$ 9.01	\$ 4.97	\$ 2.18
Extraordinary loss	-	(0.71)	-
Diluted earnings per share	\$ 9.01	\$ 4.26	\$ 2.18

See notes to consolidated financial statements.

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

	Common Stock -----	Additional Paid-in Capital -----	Retained Earnings -----	Treasury Stock -----
Balance, December 31, 1996	\$199	\$157,842	\$ 47,098	\$ (53,129)
Net income	-	-	28,879	-
Purchase of common stock	-	-	-	-
for treasury	-	-	-	(45,545)
Performance share activity	-	5,580	-	2,406
Tax benefit from stock options exercised	-	464	-	-
Option activity	1	845	-	-
	-----	-----	-----	-----
Balance, December 31, 1997	200	164,731	75,977	(96,268)
Net income	-	-	56,706	-
Purchase of common stock	-	-	-	-
for treasury	-	-	-	(50,199)
Performance share activity	-	3,953	-	5,128
Tax benefit from stock options exercised	-	3,744	-	-
Option activity	2	1,745	-	-
	-----	-----	-----	-----
Balance, December 31, 1998	202	174,173	132,683	(141,339)
Net income	-	-	108,881	-
Purchase of common stock	-	-	-	-
for treasury	-	-	-	(101,765)
Performance share activity	-	13,412	-	5,322
Tax benefit from stock options exercised	-	7,542	-	-
Option activity	2	1,527	-	-
	-----	-----	-----	-----
Balance, December 31, 1999	\$204	\$196,654	\$241,564	\$ (237,782)
	=====	=====	=====	=====

See notes to consolidated financial statements.

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

	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
Cash flows from operating activities:			
Net income	\$ 108,881	\$ 56,706	\$ 28,879
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Extraordinary loss - extinguishment of debt	-	15,286	-
Depreciation and amortization	14,727	13,408	13,338
Gain on sales of loans	(33,807)	(31,071)	(16,731)
Deferred tax provision	(11,911)	(10,927)	(629)
Mortgage loans closed	(2,911,865)	(2,717,456)	(1,485,763)
Proceeds from sales of mortgage loans	3,027,057	2,655,949	1,450,618
Gain on sales of mortgage servicing rights	(2,962)	(1,368)	(1,069)
Net change in assets and liabilities, net of acquisitions:			
Increase in inventories	(34,817)	(64,597)	(31,354)
(Increase) decrease in receivables	(2,517)	2,601	693
Increase in accounts payable and accrued expenses	57,450	68,815	20,556
Other, net	5,117	1,003	6,437
	-----	-----	-----
Net cash provided (used) by operating activities	215,353	(11,651)	(15,025)
	-----	-----	-----
Cash flows from investing activities:			
Proceeds from sales of mortgage-backed securities	-	9,569	15,126
Business acquisition, net of cash acquired	(3,697)	-	(12,533)
Purchase of property, plant and equipment	(9,070)	(3,964)	(3,053)
Principal payments on mortgage-backed securities	1,765	5,076	4,190
Proceeds from sales of mortgage servicing rights	31,647	27,637	14,199
Other, net	5,450	1,266	1,236
	-----	-----	-----
Net cash provided by investing activities	26,095	39,584	19,165
	-----	-----	-----
Cash flows from financing activities:			
Redemption of mortgage-backed bonds	(2,300)	(13,341)	(18,019)
Extinguishment of 11% senior notes	-	(129,344)	-
Deferred financing fees	-	(2,311)	-
Issuance of 8% Senior Notes	-	145,000	-
Purchases of treasury stock	(101,765)	(50,199)	(45,545)
Net borrowings (repayments) under notes payable and credit lines	(118,290)	43,294	29,523
Other, net	1,529	1,747	846
	-----	-----	-----
Net cash used by financing activities	(220,826)	(5,154)	(33,195)
	-----	-----	-----
Net increase (decrease) in cash	20,622	22,779	(29,055)
Cash, beginning of year	68,504	45,725	74,780
	-----	-----	-----
Cash, end of year	\$ 89,126	\$ 68,504	\$ 45,725
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Interest paid during the year	\$ 21,115	\$ 24,670	\$ 21,255
	=====	=====	=====
Income taxes paid during the year, net of refunds	\$ 78,493	\$ 43,097	\$ 23,018
	=====	=====	=====

See notes to consolidated financial statements.

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

1. Summary of Significant Accounting Policies

Principles of Consolidation

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

Merger

Effective September 30, 1998, NVR merged each of NVR Homes, Inc., NVR's wholly owned homebuilding subsidiary, and NVR Financial Services, Inc., NVR's wholly owned mortgage banking holding company, into the Company. The Company now conducts its homebuilding activities both directly and through its wholly owned subsidiary, Fox Ridge Homes, Inc. ("Fox Ridge"). The Company conducts its mortgage banking operations primarily through another wholly owned subsidiary, NVR Mortgage Finance, Inc. ("NVR Finance") and First Republic Mortgage Corporation, wholly owned by NVR Finance.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

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

Homebuilding Inventory

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

Reorganization Value in Excess of Amounts Allocable to Identifiable Assets

Reorganization value in excess of amounts allocable to identifiable assets is being amortized on a straight-line basis over 15 years. Accumulated amortization as of December 31, 1999 and 1998 was \$49,278 and \$42,030, respectively. Determination of any impairment losses related to this intangible asset is based on consideration of projected undiscounted cash flows. Tax benefits realized in subsequent periods related to unrecognized deferred tax assets as of September 30, 1993 are recorded as a reduction of reorganization value in excess of amounts allocable to identifiable assets. For the year ended December 31, 1998, \$2,852 of such benefits was realized.

NVR, Inc.
Notes to Consolidated Financial Statements
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Goodwill

The excess of amounts paid for business acquisitions over the net fair value of the assets acquired and the liabilities assumed is amortized using the straight line method ranging from five to ten years. Accumulated amortization was \$2,918 and \$1,276 at December 31, 1999 and 1998, 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, forward trade commitments and origination commitments are valued at the lower of cost or market on a net aggregate basis.

Mortgage-Backed Securities and Mortgage-Backed Bonds

The Company's consolidated balance sheets for all periods presented reflect its ownership interests in mortgage-backed securities net of the related mortgage-backed bonds as a component of other assets of the mortgage banking segment, and the consolidated statements of income for all periods presented reflect earnings from such interests net of the related interest expense as a component of other income of the mortgage banking segment. All of such interests are at, or are nearing, the end 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. See note 11 for additional information.

Earnings per Share

The following weighted average shares and share equivalents are used to calculate basic and diluted EPS for the years ended December 31, 1999, 1998 and 1997:

	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
	-----	-----	-----
Weighted average number of shares outstanding used to calculate Basic EPS	10,189,878	11,131,114	11,838,743
Dilutive securities:			
Stock Options	1,898,510	2,168,950	1,405,934
	-----	-----	-----
Weighted average number of shares and share equivalents outstanding used to calculate Diluted EPS	12,088,388	13,300,064	13,244,677
	=====	=====	=====

Revenues-Homebuilding Operations

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, NVR 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.

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

Mortgage Banking Fees

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

Mortgage Servicing Rights

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

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

Depreciation

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

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 here and note 4 to the financial statements, NVR believes that insignificant differences exist between the carrying value and the fair value of its financial instruments. The estimated fair value of NVR's 8% Senior Notes due 2005 as of December 31, 1999 and 1998 was \$136,663 and \$145,508, respectively. The estimated fair values are based on quoted market prices. The carrying value was \$145,000 at December 31, 1999 and 1998.

Stock-Based Compensation

As permitted under SFAS No. 123, NVR has elected to continue to follow the guidance of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, in accounting for its stock-based employee compensation arrangements. The pro forma financial information required by SFAS No. 123 is included in note 9.

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

2. Segment Information, Nature of Operations, and Certain Concentrations

NVR operates in two business segments: homebuilding and mortgage banking. The homebuilding segment is one of the largest homebuilders in the United States and in the Washington, D.C. and Baltimore, Maryland metropolitan areas, where NVR derived approximately 62% of its 1999 homebuilding revenues. NVR's homebuilding segment primarily constructs and sells single-family detached homes, townhomes and condominium buildings under three tradenames: Ryan Homes, NVHomes and Fox Ridge Homes. The Ryan Homes product is built in sixteen metropolitan areas located in Maryland, Virginia, Pennsylvania, New York, North Carolina, South Carolina, Ohio, New Jersey, Delaware and Tennessee. The Fox Ridge Homes product is built solely in the Nashville, Tennessee metropolitan area. The Ryan Homes' and Fox Ridge Homes' products are moderately priced and marketed primarily towards first-time buyers. The NVHomes product is built largely in the Washington, D.C. metropolitan area, and is marketed primarily to move-up buyers.

The mortgage banking segment, which operates under NVR Finance, 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. NVR's mortgage banking business generates revenues primarily from origination fees, gains on marketing of loans, title fees, and sales of servicing rights. A substantial portion of the Company's mortgage operations is conducted in the Washington, D.C. and Baltimore, MD 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 39% of the aggregate dollar amount of loans closed in 1999.

Corporate general and administrative expenses are fully allocated to the homebuilding and mortgage banking segments in the information presented below.

For the Year Ended December 31, 1999

	Homebuilding	Mortgage Banking	Totals	
	-----	-----	-----	
Revenues	\$1,942,660	\$ 48,122	\$1,990,782	(a)
Interest income	141	13,556	13,697	(a)
Interest expense	13,533	7,504	21,037	(a)
Depreciation and amortization	3,775	2,062	5,837	(b)
Segment profit	179,350	14,752	194,102	(b)
Segment assets	529,268	163,284	692,552	(b)
Expenditures for segment assets	6,465	2,605	9,070	(a)

(a) Total amounts for the reportable segments equal the respective amounts for the consolidated enterprise.

(b) The following reconciles segment profit and segment assets to the respective amounts for the consolidated enterprise:

	Homebuilding	Mortgage Banking	Totals
	-----	-----	-----
Segment depreciation and amortization	\$ 3,775	\$ 2,062	\$ 5,837
Add: amortization of excess reorganization value and goodwill	7,254	1,636	8,890
	-----	-----	-----
Consolidated depreciation and amortization	\$ 11,029	\$ 3,698	\$ 14,727
	=====	=====	=====
Segment profit	\$179,350	\$14,752	\$194,102
Less: amortization of excess reorganization value and goodwill	(7,254)	(1,636)	(8,890)
	-----	-----	-----
Consolidated income before income taxes	\$172,096	\$13,116	\$185,212
	=====	=====	=====

NVR, Inc.
Notes to Consolidated Financial Statements
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	Homebuilding	Mortgage Banking	Totals
	-----	-----	-----
Segment assets	\$ 529,268	\$163,284	\$ 692,552
Add: Excess reorganization value and goodwill	62,467	12,262	74,729
	-----	-----	-----
Total consolidated assets	\$ 591,735	\$175,546	\$ 767,281
	=====	=====	=====

For the Year Ended December 31, 1998

	Homebuilding	Mortgage Banking	Totals	
	-----	-----	-----	
Revenues	\$1,504,744	\$ 42,703	\$1,547,447	(c)
Interest income	1,256	9,861	11,117	(c)
Interest expense	17,528	6,120	23,648	(c)
Depreciation and amortization	4,166	607	4,773	(d)
Segment profit	101,946	17,056	119,002	(d)
Segment assets	447,934	196,093	644,027	(d)
Expenditures for segment assets	3,007	957	3,964	(c)

(c) Total amounts for the reportable segments equal the respective amounts for the consolidated enterprise.

(d) The following reconciles segment profit and segment assets to the respective amounts for the consolidated enterprise:

	Homebuilding	Mortgage Banking	Totals
	-----	-----	-----
Segment depreciation and amortization	\$ 4,166	\$ 607	\$ 4,773
Add: amortization of excess reorganization value and goodwill	7,547	1,088	8,635
	-----	-----	-----
Consolidated depreciation and amortization	\$ 11,713	\$ 1,695	\$ 13,408
	=====	=====	=====
Segment profit	\$ 101,946	\$ 17,056	\$ 119,002
Less: amortization of excess reorganization value and goodwill	(7,547)	(1,088)	(8,635)
	-----	-----	-----
Consolidated income before income taxes and extraordinary loss	\$ 94,399	\$ 15,968	\$ 110,367
	=====	=====	=====
Segment assets	\$ 447,934	\$196,093	\$ 644,027
Add: Excess reorganization value and goodwill	69,721	10,611	80,332
	-----	-----	-----
Total consolidated assets	\$ 517,655	\$206,704	\$ 724,359
	=====	=====	=====

For the Year Ended December 31, 1997

	Homebuilding	Mortgage Banking	Totals	
	-----	-----	-----	
Revenues	\$1,154,022	\$ 25,946	\$1,179,968	(e)
Interest income	252	6,415	6,667	(e)
Interest expense	16,410	3,544	19,954	(e)
Depreciation and amortization	4,384	1,231	5,615	(f)
Segment profit	55,758	5,855	61,613	(f)
Segment assets	345,780	127,022	472,802	(f)
Expenditures for segment assets	2,708	345	3,053	(e)

(e) Total amounts for the reportable segments equal the respective amounts for the consolidated enterprise.

NVR, Inc.
Notes to Consolidated Financial Statements
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(f) The following reconciles segment profit and segment assets to the respective amounts for the consolidated enterprise:

	Homebuilding -----	Mortgage Banking -----	Totals -----
Segment depreciation and amortization	\$ 4,384	\$ 1,231	\$ 5,615
Add: amortization of excess reorganization value and goodwill	6,635	1,088	7,723
	-----	-----	-----
Consolidated depreciation and amortization	\$ 11,019	\$ 2,319	\$ 13,338
	=====	=====	=====
Segment profit	\$ 55,758	\$ 5,855	\$ 61,613
Less: amortization of excess reorganization value and goodwill	(6,635)	(1,088)	(7,723)
	-----	-----	-----
Consolidated income before income taxes	\$ 49,123	\$ 4,767	\$ 53,890
	=====	=====	=====
Segment assets	\$345,780	\$127,022	\$472,802
Add: Excess reorganization value and goodwill	80,119	11,700	91,819
	-----	-----	-----
Total consolidated assets	\$425,899	\$138,722	\$564,621
	=====	=====	=====

3. Related Party Transactions

During 1999, 1998, and 1997, NVR purchased, at market prices, developed lots from a company that is controlled by a member of the board of directors. Those purchases totaled approximately \$18,700, \$13,000 and \$8,100 during 1999, 1998 and 1997, respectively. NVR expects to purchase the majority of the remaining lots under contract as of December 31, 1999 over the next 18 to 24 months for an aggregate purchase price of approximately \$36,000.

During the years ended December 31, 1999, 1998 and 1997, one of the executive officers of NVR was a partner in a law firm, which billed NVR approximately \$471, \$441 and \$375, respectively, in fees and expenses for legal services.

4. Loan Servicing Portfolio, Mortgage Loan Commitments and Off-Balance Sheet Risk

At December 31, 1999 and 1998, NVR was servicing approximately 2,700 and 3,170 mortgage loans for various investors with aggregate balances of approximately \$220,000 and \$261,000, respectively.

At December 31, 1999, NVR had capitalized mortgage servicing rights of \$3,384 which related to approximately \$218 million of the aggregate \$220 million in loans serviced. The mortgage servicing rights associated with the remaining \$2 million in loans serviced are not subject to capitalization because the loans were originated and sold prior to NVR's adoption of SFAS No. 122 on January 1, 1995. At December 31, 1998, NVR had capitalized purchased mortgage servicing rights of \$3,680.

NVR 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 \$3,328 and \$3,878 at December 31, 1999 and 1998, respectively. The fair value of the mortgage servicing rights not subject to capitalization was \$200 and \$300 at December 31, 1999 and 1998, respectively. Based on management's estimate of the fair value of the designated strata, the Company has a \$175 valuation

NVR, Inc.
Notes to Consolidated Financial Statements
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reserve at December 31, 1999.

NVR 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, 1999, 1998 and 1997 was \$306, \$484 and \$506, respectively.

In the normal course of business, NVR 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'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 \$120,716 and \$235,812 outstanding at December 31, 1999 and 1998, respectively. The fair values of mortgage loan commitments were approximately \$120,914 and \$236,272 at December 31, 1999 and 1998, respectively. There were open forward delivery contracts aggregating approximately \$198,131 and \$287,317 at December 31, 1999 and 1998, respectively. The fair values of open forward delivery contracts were approximately \$198,181 and \$287,528 at December 31, 1999 and 1998, respectively.

NVR 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. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date to a broker/dealer. This market risk is managed by entering into forward contracts as discussed below.

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

NVR enters into optional and mandatory forward delivery contracts to sell mortgage-backed securities at specific prices and dates to broker/dealers. NVR 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, 1999 and 1998 there were no such positions. There were no counterparty default losses on forward contracts in 1999, 1998 or 1997. Market risk with respect to forward contracts arises from changes in the value of contractual positions due to fluctuations in interest rates. NVR limits its exposure to market risk by monitoring differences between the total of commitments to customers and loans held for sale and forward contracts with broker/dealers. In the event NVR has forward delivery contract commitments in excess of available mortgage-backed securities, NVR 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. NVR has no market risk associated with optional delivery contracts because NVR has the right but not the obligation to deliver mortgage backed securities to broker/dealers under these contracts.

NVR, Inc.
Notes to Consolidated Financial Statements
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5. Property, Plant and Equipment, net

	December 31,	
	1999	1998
Homebuilding:		
Office facilities and other	\$ 5,992	\$ 17,996
Model home furniture and fixtures	8,583	6,377
Manufacturing facilities	10,330	8,170
Property under capital leases	4,234	4,234
	29,139	36,777
Less accumulated depreciation and amortization	(16,025)	(20,114)
	\$ 13,114	\$ 16,663
	=====	=====
Mortgage Banking:		
Office facilities and other	\$ 8,640	\$ 3,854
Less accumulated depreciation and amortization	(4,401)	(2,920)
	\$ 4,239	\$ 934
	=====	=====

Included in Homebuilding property, plant and equipment are amounts for land totaling \$260 and \$1,732 at December 31, 1999 and 1998.

Certain property, plant and equipment listed above are collateral for various debt of NVR and certain of its subsidiaries as more fully described in note 6.

6. Debt

	December 31,	
	1999	1998
Homebuilding:		
Notes payable:		
Working capital revolving credit (a)	\$ -	\$ -
Other (b)	2,128	4,054
	\$ 2,128	\$ 4,054
	=====	=====
Other term debt:		
Capital lease and financing obligations due in monthly installments through 2014 (c)	\$ 5,206	\$ 5,434
	=====	=====
Senior notes (d)	\$145,000	\$145,000
	=====	=====
Mortgage Banking:		
Mortgage warehouse revolving credit (e)	\$107,588	\$145,496
Mortgage repurchase facility (f)	17,363	19,868
Capital lease and financing obligations due in monthly installments through 2004 (c)	848	485
	\$125,799	\$165,849
	=====	=====

(a) In September 1998, the Company, as borrower, succeeded to the obligations of NVR Homes, Inc. under the unsecured working capital revolving credit facility as amended and restated (the "Facility"). This Facility currently provides for unsecured borrowings up to \$100,000 (of which \$60,000 is committed), subject to certain borrowing base limitations, and is generally available to fund working capital needs of NVR's homebuilding segment. Up to approximately \$24,000 of the Facility is currently available for issuance in the form of letters of credit of which \$12,542 and \$11,719 were issued at December 31, 1999 and 1998, respectively. The Facility expires May 31, 2002 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) 1.35% above the Eurodollar

NVR, Inc.
Notes to Consolidated Financial Statements
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Rate. The weighted average interest rates for the amounts outstanding under the Facility were 6.5% and 7.2% for 1999 and 1998, respectively.

The Facility 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 NVR. In addition, the Facility contains restrictions on the ability of NVR to, among other things, incur debt and make investments. Also, the Facility prohibits NVR from paying dividends to shareholders.

(b) Other notes payable as of December 31, 1999 is principally comprised of a \$1,530 note payable issued in connection with the acquisition of Fox Ridge in 1997. The weighted average interest rate was 6.9% and 7.5% during 1999 and 1998, respectively.

(c) The capital lease and financing obligations 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 approximately \$6,700 and \$4,700 at December 31, 1999 and 1998, respectively.

During December 1998, the Company exercised its option to purchase two office buildings previously utilized by NVR for certain administrative functions of both its homebuilding and mortgage banking segments, thereby extinguishing the Company's obligations under the capital lease pertaining to these buildings. The Company expended funds of \$12,295, excluding accrued interest, to extinguish the capital lease obligation, which resulted in an extraordinary loss of \$2,275, net of a \$1,424 tax benefit, (\$0.17 per diluted share), in the accompanying consolidated income statements. During 1999, the Company sold both buildings to an unrelated third party and leased back one of the buildings for a five-year term expiring in 2004. There was no resultant material gain or loss on the sale transaction.

The following schedule provides future minimum lease payments under all financing and capital leases together with the present value as of December 31, 1999:

Years ending December 31:	
2000	\$ 1,355
2001	1,074
2002	968
2003	949
2004	853
Thereafter	6,496

	11,695
Amount representing interest	5,641

	\$ 6,054
	=====

(d) On January 20, 1998, the Company filed a shelf registration statement with the Securities and Exchange Commission for the issuance of up to \$400,000 of the Company's debt securities. The shelf registration statement was declared effective on February 27, 1998 and provides that securities may be offered from time to time in one or more series, and in the form of senior or subordinated debt.

On April 14, 1998, the Company completed an offering under the shelf registration statement for \$145,000 of senior notes due 2005 (the "New Senior Notes"), resulting in aggregate net proceeds to the Company of approximately \$142,800 after fees and expenses. The New Senior Notes mature on June 1, 2005 and bear interest at 8%, payable semi-annually on June 1 and December 1 of each year, commencing June 1, 1998. The New Senior Notes are senior unsecured obligations of the Company, ranking equally in right of payment with the Company's other existing and future unsecured indebtedness. The New Senior Notes are redeemable at the option of the Company, in whole or in part, at any time on or after June 1, 2003 at redemption prices ranging from 104% of par in 2003 to par beginning in 2005. An additional \$30,000 in principal is available for issuance under the New Senior Note offering.

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

Through a tender offer commenced on April 21, 1998 and completed May 18, 1998, various open market purchases throughout 1998 and a contractual call exercised on December 1, 1998, the Company repurchased all of the \$120,000 in aggregate principal outstanding under the Company's 11% Senior Notes due 2003 ("Senior Notes"). The Senior Notes were retired upon purchase. The amount of funds expended to complete the Senior Note Repurchase totaled \$129,345, excluding accrued interest, and resulted in the recognition of an extraordinary loss of \$7,126, net of a \$4,461 tax benefit, (\$0.54 per diluted share), in the accompanying consolidated income statements.

(e) The mortgage warehouse facility ("Mortgage Warehouse Revolving Credit") of NVR Finance has a borrowing limit at December 31, 1999 of \$225,000 of which \$200,000 is committed. The interest rate under the Mortgage Warehouse Revolving Credit agreement is either: (i) the London Interbank Offering Rate ("Libor") plus either 1.25% or 1.75% depending on the type of collateral, or (ii) 1.25% or 1.75% to the extent that NVR Finance provides compensating balances and depending on the type of collateral. The weighted average interest rates for amounts outstanding under the Mortgage Warehouse Revolving Credit line were 5.8% and 5.2% during 1999 and 1998, respectively. Primarily mortgage loans and gestation mortgage-backed securities collateralize the Mortgage Warehouse Revolving Credit agreement. The Mortgage Warehouse Revolving Credit Agreement is an annually renewable facility and currently expires in July 2000.

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

(f) NVR Finance from time to time enters into various gestation and repurchase agreements. NVR Finance currently has available an aggregate of \$175,000 of borrowing capacity in such uncommitted facilities. Amounts outstanding thereunder accrue interest at various rates tied to the Libor rate and are collateralized by gestation mortgage-backed securities and whole loans. The uncommitted facilities generally require NVR Finance to, among other items, maintain a minimum net worth and limit its level of liabilities in relation to its net worth. The weighted average interest rates for amounts outstanding under these uncommitted facilities were 5.5% and 6.5% during 1999 and 1998, respectively.

* * * * *

Maturities with respect to the other notes payable, other term debt, and the New Senior Notes as of December 31, 1999 are as follows:

Years ending December 31:	

2000	\$ 2,789
2001	534
2002	419
2003	424
2004	372
Thereafter	148,644

The \$148,644 maturing after 2004 includes \$145,000 in New Senior Notes which mature in June 2005.

NVR Finance's mortgage warehouse facility limits the ability of NVR Finance to transfer funds to

NVR, Inc.
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NVR in the form of dividends, loans or advances. NVR Finance had net assets of \$11,500 as of December 31, 1999 that were so restricted.

At December 31, 1999, the homebuilding and mortgage banking segments had restricted cash of \$907 and \$9,780, respectively, which includes certain 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.

7. Common Stock

There were 9,171,608 and 10,385,839 common shares outstanding at December 31, 1999 and 1998, respectively. As of December 31, 1999, NVR had reacquired a total of 12,536,969 shares of NVR common shares at an aggregate cost of \$252,346 since December 31, 1993. Approximately 1,100,000 common shares have been reissued from the treasury in satisfaction of employee benefit liabilities. The average cost basis for the aggregate number of shares reissued from the treasury was \$13.32 per share. In addition, approximately 492,000 stock options were exercised during 1999 with NVR realizing \$1,529 in equity proceeds.

8. Income Taxes

The provision for income taxes consists of the following:

	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
Current:			
Federal	\$72,664	\$ 47,632	\$22,539
State	15,578	7,555	3,101
Deferred:			
Federal	(8,374)	(10,031)	(1,030)
State	(3,537)	(896)	401
	<u>\$76,331</u>	<u>\$ 44,260</u>	<u>\$25,011</u>
	=====	=====	=====

In addition to amounts applicable to income before taxes, the following income tax benefits were recorded in shareholders' equity:

	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
Income tax benefits arising from compensation expense for tax purposes in excess of amounts recognized for financial statement purposes	\$7,542 =====	\$3,744 =====	\$464 =====

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

	December 31,	
	1999	1998
Total deferred tax assets	\$43,267	\$33,365
Less: deferred tax liabilities	5,349	8,035
	<u>\$37,918</u>	<u>\$25,330</u>
	=====	=====

Deferred tax assets arise principally as a result of various accruals required for financial reporting purposes and deferred compensation, which are not currently deductible for tax return purposes. Deferred tax liabilities arose at September 30, 1993 upon the Company's implementation of "fresh start" accounting.

NVR, Inc.
Notes to Consolidated Financial Statements
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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 \$195,790 and \$110,357 for the years ended December 31, 1999 and 1998.

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, 1999 -----	Year Ended December 31, 1998 -----	Year Ended December 31, 1997 -----
Income taxes computed at the Federal statutory rate	\$64,824	\$38,628	\$18,862
State income taxes, net of Federal income tax benefit	7,827	4,328	2,276
Non-deductible amortization	2,729	2,639	2,639
Utilization of net operating loss carryforward	-	(3,300)	-
Other, net	951	1,965	1,234
	-----	-----	-----
	\$76,331	\$44,260	\$25,011
	=====	=====	=====

The merger of NVR Homes, Inc. and NVR Financial Services, Inc. into the Company on September 30, 1998 allowed the Company to utilize a separate return limitation year net operating loss ("SRLY NOL") generated by the Company's previously owned savings and loan institution, NVR Savings Bank. As a result, the Company recognized a \$3,300 tax benefit during 1998. The SRLY NOL has been fully utilized and there remains no unused carryforward.

9. Profit Sharing and Incentive Plans

Profit Sharing Plans--NVR has a trustee-administered, profit sharing retirement plan (the "Profit Sharing Plan") and an Employee Stock Ownership Plan ("ESOP") covering substantially all employees. The Profit Sharing Plan and the ESOP provide for annual contributions in amounts as determined by the NVR Board of Directors (the "Board"). The combined plan expense for the years ended December 31, 1999, 1998 and 1997 was \$7,712, \$6,436 and \$3,081, respectively. During 1999 and 1998, the ESOP purchased in the open market 105,440 and 111,902 shares respectively of NVR common stock using cash contributions provided by NVR. As of December 31, 1999, all shares held by the ESOP have been committed to be released to participant accounts.

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

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

Under the 1994 Management Incentive Plan (the "1994 Incentive Plan"), executive officers and other key employees of the Company were eligible to receive stock options (the "1994 NVR Share Options") and performance shares (the "1994 Performance Shares"). There were 48,195 1994 NVR Share Options and 1,124,929 1994 Performance Shares authorized for grant under the 1994 Incentive Plan. The 1994 NVR Share Options generally expire 10 years after the dates upon which they were granted, and generally vest in one-third increments on each of December 31, 1997, 1998 and 1999, with vesting based upon continued employment. All 1,124,929 1994 Performance Shares have been granted to employees under the 1994 Incentive Plan, and all 1994 Performance Shares have vested. For the years ended December 31, 1999, 1998 and 1997, compensation expense recognized for the 1994 Performance Shares totaled \$18,670, \$9,081 and \$7,986, respectively.

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

During 1999, the Company's Shareholders approved the Board of Directors' adoption of the 1998 Management Long-Term Stock Option Plan (the "1998 Management Long Term Stock Option Plan"). There are 1,000,000 non-qualified stock options ("Options") authorized under the 1998 Management Long Term Stock Option Plan. The Options generally expire 10 years after the dates upon which they were granted, and vest in one-third increments on each of December 31, 2003, 2004 and 2005, with vesting based upon continued employment.

NVR, Inc.
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	1999		1998		1997	
	Options	Weighted Average Exercise Prices	Options	Weighted Average Exercise Prices	Options	Weighted Average Exercise Prices
1993 NVR Share Options						
Options outstanding at the beginning of the year	825,971	\$ 7.60	953,952	\$ 7.60	1,076,424	\$ 7.60
Granted	-	-	-	-	-	-
Canceled	-	-	-	-	(5,000)	7.62
Exercised	(471,200)	7.62	(127,981)	7.62	(117,472)	7.64
Outstanding at end of year	354,771	\$ 7.60	825,971	\$ 7.60	953,952	\$ 7.60
Exercisable at end of year	354,771	\$ 7.60	825,971	\$ 7.60	953,952	\$ 7.60
1994 NVR Share Options						
Options outstanding at the beginning of the year	43,363	\$ 19.54	35,000	\$14.00	-	\$ -
Granted	-	-	13,195	32.20	35,000	14.00
Canceled	-	-	-	-	-	-
Exercised	(8,331)	14.00	(4,832)	14.00	-	-
Outstanding at end of year	35,032	\$ 20.86	43,363	\$19.54	35,000	\$14.00
Exercisable at end of year	29,569	\$ 19.02	22,898	\$17.50	11,667	\$14.00
1996 Option Plan						
Options outstanding at the beginning of the year	1,753,405	\$ 11.42	1,770,000	\$11.30	1,554,000	\$10.58
Granted	200,500	42.65	13,405	25.00	216,000	16.51
Canceled	(62,000)	12.48	(30,000)	10.63	-	-
Exercised	-	-	-	-	-	-
Outstanding at end of year	1,891,905	\$ 14.70	1,753,405	\$11.42	1,770,000	\$11.30
Exercisable at end of year	-	\$ -	-	\$ -	-	\$ -
1998 Option Plan						
Options outstanding at the beginning of the year	-	\$ -	-	\$ -	-	\$ -
Granted	927,000	47.63	-	-	-	-
Canceled	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding at end of year	927,000	\$ 47.63	-	\$ -	-	\$ -
Exercisable at end of year	-	\$ -	-	\$ -	-	\$ -

Range of Exercise Prices	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
1993 NVR Share Options			
Outstanding at December 31, 1999:			
\$5.06 - \$6.41	16,750	\$ 5.30	5.1
\$7.62 - \$9.11	338,021	\$ 7.71	3.9
Exercisable at December 31, 1999:			
\$5.06 - \$6.41	16,750	\$ 5.30	-
\$7.62 - \$9.11	338,021	\$ 7.71	-
1994 NVR Share Options			
Outstanding at December 31, 1999:			
\$14.00 - \$14.00	21,837	\$ 14.00	7.2
\$25.00 - \$34.50	13,195	\$ 32.20	8.5
Exercisable at December 31, 1999:			
\$14.00 - \$14.00	21,837	\$ 14.00	-
\$25.00 - \$34.50	7,732	\$ 33.19	-

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

Range of Exercise Prices	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years

*1996 Option Plan			

Outstanding at December 31, 1999:			
\$8.78 - \$13.25	1,530,000	\$ 10.59	6.4
\$14.00 - \$21.00	150,000	\$ 18.32	7.7
\$22.63 - \$25.00	13,405	\$ 23.59	7.9
\$38.00 - \$48.50	198,500	\$ 43.03	9.3
*1998 Option Plan			

Outstanding at December 31, 1999:			
\$47.63 - \$47.88	927,000	\$ 47.63	9.4

*None of the options outstanding under the 1996 and 1998 Option Plans is exercisable at December 31, 1999.

The weighted average fair values of grants made in 1999, 1998 and 1997 for management incentive plans were \$29.41, \$18.65 and \$10.13, respectively. The fair values of the options granted were estimated on the grant date using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	1999	1998	1997

Estimated option life	10 years	10 years	10 years
Risk free interest rate	5.94%	5.52%	6.79%
Expected volatility	40.19%	45.14%	35.16%
Expected dividend yield	0.0%	0.0%	0.0%

Director Incentive Plans--The NVR Directors' Long Term Incentive Plan ("1993 Directors' Plan") provides for each eligible director to be granted options to purchase 22,750 shares of common stock with a maximum number of shares issuable under the plan of 364,000. There were 182,000 Directors' Options granted to eligible directors on September 30, 1993 at a grant price of \$16.60 per share, which exceeded the fair value of the underlying shares on the date of grant. The options became exercisable six months after the date of grant and expire in September 2003. Pursuant to the 1993 Directors' Plan, each outside director also received a one-time cash payment of \$200 during 1997 for the achievement of certain goals under a five-year measurement period beginning September 30, 1993.

There were 192,000 NVR share options authorized and granted in 1996 to the Company's outside directors under the Directors' Long Term Stock Option Plan (the "1996 Directors' Plan"). There are no additional options available for grant under this plan. The option exercise price for the options granted was \$10.25 per share, which was equal to the fair market value of the Company's Shares on the date of grant. The Options were granted for a 10-year period beginning from the date of grant, and vest in one-third increments on each of December 31, 1999, 2000, and 2001. There were 24,000 previously unvested 1996 Directors' Options exercised during 1998, pursuant to a separation of service due to death clause within the 1996 Directors' Plan.

There were 150,000 NVR share options authorized for grant in 1999 to the Company's outside directors under the 1998 Directors' Long Term Stock Option Plan (the "1998 Directors' Plan"). A total of 87,500 options were granted at an exercise price of \$49.06, which was equal to the fair market value of the Company's Shares on the date of grant. The Options were granted for a 10 year period beginning from the date of grant, and vest in twenty-five percent (25%) increments on each of December 31, 2002, 2003, 2004 and 2005.

NVR, Inc.
Notes to Consolidated Financial Statements
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	1999		1998		1997	
	Options	Exercise Price	Options	Exercise Price	Options	Exercise Price
1993 Directors' Plan						
Options outstanding at the beginning of the year	113,750	\$16.60	182,000	\$16.60	182,000	\$16.60
Granted	-	-	-	-	-	-
Canceled	-	-	-	-	-	-
Exercised	(12,750)	16.60	(68,250)	16.60	-	-
Outstanding at end of year	101,000	\$16.60	113,750	\$16.60	182,000	\$16.60
Exercisable at end of year	101,000	\$16.60	113,750	\$16.60	182,000	\$16.60
1996 Directors' Plan						
Options outstanding at the beginning of the year	168,000	\$10.25	192,000	\$10.25	192,000	\$10.25
Granted	-	-	-	-	-	-
Canceled	-	-	-	-	-	-
Exercised	-	-	(24,000)	10.25	-	-
Outstanding at end of year	168,000	\$10.25	168,000	\$10.25	192,000	\$10.25
Exercisable at end of year	56,000	\$10.25	-	\$ -	-	\$ -
1998 Directors' Plan						
Options outstanding at the beginning of the year	-	\$ -	-	\$ -	-	\$ -
Granted	87,500	49.06	-	-	-	-
Canceled	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding at end of year	87,500	\$49.06	-	\$ -	-	\$ -
Exercisable at end of year	-	\$ -	-	\$ -	-	\$ -

The weighted average grant-date fair value of the options granted during 1999 under director incentive plans was \$30.48 per share. The fair value was calculated using the Black-Scholes option pricing model, under the following assumptions: i) the estimated option life was equal to ten years, ii) the risk free interest rate was 5.77%, iii) the expected volatility equaled 40.19%, 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 \$104,122 (\$8.61 per diluted share), \$55,352 (\$4.16 per diluted share), and \$27,637 (\$2.09 per diluted share) for the years ended December 31, 1999, 1998 and 1997, respectively, if the Company had accounted for its stock based employee compensation arrangements using the fair value method. The 1999, 1998 and 1997 effects of applying SFAS No. 123 for providing pro forma disclosures are not likely to be representative of the effects on reported net income and earnings per share for future years because the number of option grants and the fair value assigned to future grants could differ.

10. Commitments and Contingent Liabilities

NVR 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, 1999 are as follows:

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Years ended December 31,	
2000	\$ 9,497
2001	5,661
2002	3,471
2003	2,653
2004	1,592
Thereafter	3,688

	\$26,562
	=====

Total rent expense incurred under operating leases was approximately \$10,800, \$7,787, and \$6,625 for the years ended December 31, 1999, 1998 and 1997, respectively.

During the ordinary course of operating the mortgage banking and homebuilding businesses, NVR is required to enter into bond or letter of credit arrangements with local municipalities, government agencies, or land developers to collateralize its obligations under various contracts. NVR had approximately \$21,722 of contingent obligations under such agreements as of December 31, 1999. NVR believes it will fulfill its obligations under the related contracts and does not anticipate any losses under these bonds or letters of credit.

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

11. Mortgage-Backed Securities, net of Mortgage-Backed Bonds, and Related Assets and Liabilities

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

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

During 1998, NVR sold, at a premium, MBS totaling \$9,080, the proceeds of which were used to redeem in full the related outstanding Bonds, which totaled \$8,855. The sales of the MBS resulted in a pre-tax gain of \$608, which was substantially offset by a pre-tax loss on the related Bonds of \$315. During 1997, NVR sold, at a premium, MBS totaling \$15,126, the proceeds of which were used to redeem in full the related outstanding Bonds which totaled \$14,074. The sales of the MBS resulted in a pre-tax gain of \$590, which was partially offset by a pre-tax loss on the related Bonds of \$552. There were no Bond calls during 1999.

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

	December 31,	
	1999	1998
Assets:		
Mortgage-backed securities, net	\$5,110	\$7,438
Funds held by trustee	83	74
Other assets	257	584
Total assets	5,450	8,096
Liabilities:		
Accrued expenses and other liabilities	211	405
Mortgage-backed bonds, net unamortized discounts	5,229	7,681
Total liabilities	5,440	8,086
Mortgage-backed securities, net of mortgage-backed bonds, and related assets and liabilities	\$ 10	\$ 10

The weighted average portfolio yield on the MBS was 8.9% and 9.0% at December 31, 1999 and 1998, respectively. The Bonds mature on October 1, 2016 and bear interest at 9.0%. However, NVR has the contractual right to call the Bonds in 2001.

12. Acquisition

On March 4, 1999, NVR Mortgage Acquisition, Inc. ("NVRMA"), a wholly owned subsidiary of NVR Finance, NVR's wholly owned mortgage banking subsidiary, purchased all of the outstanding capital stock of First Republic Mortgage Corporation ("First Republic") for approximately \$5,300 in cash and the assumption of approximately \$78,000 of liabilities and debt. First Republic, based in Rockville, Maryland, is a leading mortgage lender in the Baltimore and Washington Metropolitan area. NVRMA accounted for this acquisition using the purchase method, and the operations of the acquired business have been included in NVR's 1999 consolidated financial statements beginning on the date of the acquisition. Goodwill of approximately \$3,300 that was generated pursuant to the purchase transaction is being amortized using the straight-line method over 5 years.

The following unaudited pro forma summary of combined operations was prepared to illustrate the estimated effects of the 1999 acquisition of First Republic as if such acquisition had occurred on the first day of the respective periods presented.

	Year Ended December 31,	
	1999	1998
Mortgage banking fees	\$ 52,587	\$68,230
Net income	108,241	55,654
Diluted earnings per share before extraordinary loss	8.95	4.89

NVR Fox Ridge, Inc., a wholly owned subsidiary of NVR, was formed during 1997 to purchase substantially all of the assets and assume certain liabilities of Fox Ridge Homes, Inc. ("FRH"), a leading homebuilder in Nashville, Tennessee. NVR Fox Ridge, Inc. was renamed Fox Ridge Homes, Inc. ("Fox Ridge") in November 1997. To consummate the purchase on October 31, 1997, Fox Ridge assumed approximately \$15,160 of FRH's liabilities, paid FRH \$14,250 in cash at settlement on October 31, 1997, and

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

issued a note payable for the remaining \$4,750 purchase price. The note bears interest at 200 basis points above the federal funds target rate. The first two annual installments were paid on October 31, 1999 and 1998, respectively, including accrued interest. The remaining installment will be paid on October 31, 2000.

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

The following unaudited pro forma summary of combined operations was prepared to illustrate the estimated effects of the 1997 acquisition of Fox Ridge as if such acquisition had occurred on the first day of the 1997 period.

	Year Ended December 31, 1997 -----
Homebuilding revenues	\$1,192,684
Net income	29,343
Diluted earnings per share	2.22

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, 1999 and 1998.

	Year Ended December 31, 1999 -----			
	1st Quarter -----	2nd Quarter -----	3rd Quarter -----	4th Quarter -----
Revenues-homebuilding operations	\$429,687	\$492,058	\$523,552	\$497,363
Gross profit - homebuilding operations	\$ 73,143	\$ 83,891	\$ 90,172	\$ 84,727
Mortgage banking fees	\$ 13,522	\$ 12,465	\$ 13,162	\$ 8,973
Net income	\$ 26,007	\$ 28,263	\$ 30,341	\$ 24,270
Diluted earnings per share	\$ 2.02	\$ 2.26	\$ 2.52	\$ 2.18
Contracts for sale, net of cancellations (units)	2,541	2,855	1,866	2,416
Settlements (units)	2,098	2,424	2,516	2,278
Backlog, end of period (units)	5,016	5,447	4,797	4,935
Loans closed	\$779,406	\$869,774	\$675,593	\$587,092

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	Year Ended December 31, 1998			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues-homebuilding operations	\$291,547	\$385,738	\$441,034	\$386,425
Gross profit - homebuilding operations	\$ 43,591	\$ 59,892	\$ 68,084	\$ 59,362
Mortgage banking fees	\$ 7,687	\$ 10,684	\$ 11,724	\$ 12,608
Income before extraordinary loss	\$ 10,860	\$ 15,495	\$ 24,759	\$ 14,993
Diluted earnings per share before extraordinary loss	\$ 0.81	\$ 1.15	\$ 1.87	\$ 1.16
Contracts for sale, net of cancellations (units)	2,262	2,533	1,821	2,384
Settlements (units)	1,543	1,995	2,169	1,915
Backlog, end of period (units)	3,914	4,452	4,104	4,573
Loans closed	\$578,334	\$658,789	\$697,567	\$782,766

LOAN AGREEMENT

among

NVR MORTGAGE FINANCE, INC.
a Virginia corporation,

U.S. BANK NATIONAL ASSOCIATION,
as Agent,

and

The Lenders Party Hereto

September 7, 1999

Initially \$225,000,000

(\$200,000,000 Committed and \$25,000,000 Uncommitted)

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LOAN AGREEMENT

THIS AGREEMENT ("this Agreement") is made and entered into as of September 7, 1999, 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 U.S. BANK NATIONAL ASSOCIATION, a national banking association ("Agent"), as agent for Lenders hereunder.

A. Borrower, Chase Bank of Texas, National Association as agent and certain Lenders (including U.S. Bank National Association) are parties to that certain Loan Agreement dated as of July 10, 1998 (as modified and amended, the "Existing Loan Agreement").

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

Accordingly, for adequate and sufficient consideration, Borrower, Lenders, and Agent entirely replace 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 Tangible Net Worth of Borrower means, as of any date of determination, the sum of (a) the Tangible Net Worth of Borrower determined as of such date in accordance with GAAP and (b) the outstanding principal amount of Permitted Subordinated Indebtedness on such date.

Advance means a Warehouse Advance, an L/C 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.

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 U.S. Bank Trust National Association in its capacity as document custodian on behalf of an Agency.

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 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, U.S. Bank National Association, 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 Loan Agreement.

Agreement to Pledge has the meaning specified in the Security Agreement.

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.

Bailee Letter has the meaning specified in the Security Agreement.

Balance Funded Rate Agreement has the meaning specified in Section 2.11(f).

Balance Funded Rate Segment means that portion of a Tranche which bears interest at the applicable rate set forth in Section 2.11(b).

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, (b) a Swing Advance by Agent in connection with a Borrowing Request, or (c) an L/C Advance.

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; and
- (c) 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

(i) Mortgage Loans the Mortgage Note and/or other Principal Mortgage Document for which has been delivered to Borrower for correction under a Trust Receipt pursuant to the Security Agreement shall be \$5,000,000,

(ii) Second Lien Loans shall be 5% of the then Total Commitment,

(iii) Construction Loans and Lot Loans, in the aggregate, shall be 5% of the then Total Commitment,

(iv) Jumbo Loans (without regard to Face Amount) shall be 20% of the then Total Commitment,

(v) Super Jumbo Loans (without regard to Face Amount) shall be 25% of the then Total Commitment available for Jumbo Loans pursuant to clause (iv) above,

(vi) Wet Mortgage Loans shall be (A) during the period commencing on the third to last Business Day of any calendar month and continuing through and including the fourth Business Day of the following calendar month, 50% of the then Total Commitment, and (B) at any other time, 30% of the then Total Commitment, and

(viii) Investment Mortgage Loans shall be 5% of the then Total Commitment, \$1,000,000 of which may be used to finance REO.

Borrowing Base Report means a report substantially in the form of Exhibit G.

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 telephonic request by Borrower to Agent for a Borrowing pursuant to Section 2, promptly confirmed by delivery by Borrower to Agent of a duly completed and executed Confirmation. Each Borrowing Request shall include the information called for with respect to a Borrowing by the form of Confirmation.

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 Minnesota.

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.

Category refers to the category of Collateral Value which is deemed to support a Tranche for interest rate pricing purposes under this Agreement. The Categories of Tranches available with respect to the Notes under this Agreement are Construction/Lot

Loan Tranches, Gestation Loan Tranches and Regular Tranches.

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

Collateral has meaning specified in the Security Agreement.

Collateral Account means account number 104756234357 of Borrower with Agent, which shall be under the sole dominion and control of Agent and to which Borrower shall have no access.

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 33% of the then Total Commitment, such pools of Eligible Gestation Mortgage Loans in excess of 33% of the then Total Commitment shall be attributed Collateral Value as if they consisted of Eligible Mortgage Loans rather than Eligible Gestation Mortgage Loans;

(b) with respect to an Eligible Mortgage Loan (other than Investment Mortgage Loans, REO, Lot 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;

(c) 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 such Investment Mortgage Loan or the Appraisal of such REO;

(d) 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;

(e) with respect to a Lot Loan, 100% of the sales price of the related lot less the down payment attributed to such sales price; and

(f) 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 Gestation Mortgage Loan, Eligible Mortgage Loan or an Eligible Mortgage-Backed Security shall have a Collateral Value of zero.

Commitment as to a Lender means the obligation of such Lender to make Advances to Borrower pursuant to Section 2.1.

Commitment Amount as to a Lender means the amount set forth on Schedule 1.1(a) as such Lender's Commitment Amount.

Commitment Percentage means the proportion to which any Lender's Commitment Amount bears to the Total Commitment.

Committed Warehouse Promissory Notes means the promissory notes delivered by Borrower to Lenders pursuant to Section 2.2 each in the form attached hereto as Exhibit A-1 and all renewals, extensions, modifications and rearrangements thereof.

Confirmation means a Confirmation of Borrowing, Paydown or Conversion in the form attached hereto as Exhibit B.

Conforming Loan means a loan, including conventional, 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 and (ii) 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.

Construction/Lot Loan Tranche means, with respect to any Note at any time, that portion of the then outstanding principal balance of such Note which is deemed to be supported by the Collateral Value of Construction Loans and Lot Loans included in the Collateral held by Agent at that time, as specified from time to time by Borrower in the Borrowing Requests and Conversion Requests received by Agent from Borrower, provided, that (a) the aggregate principal amount of all Construction/Lot Loan Tranches outstanding under the Notes of all Lenders at any time shall not exceed the aggregate Collateral Value of Construction Loans and Lot Loans included in the Collateral held by Agent at such time, and (b) the aggregate principal amount of all Construction/Lot Loan Tranches outstanding under any Lender's Notes at any time shall not exceed the product of the aggregate Collateral Value of Construction Loans and Lot Loans included in the Collateral held by Agent at such time multiplied by a fraction the numerator of which is the aggregate principal balance outstanding under such Lender's Notes at such time and the denominator of which is the aggregate principal balance outstanding under all Lenders' Notes at such time.

Conversion Request means a telephonic request by Borrower to Agent for a conversion of Tranches and/or Borrowings pursuant to Section 2.12, promptly confirmed by delivery by Borrower to Agent of a duly completed and executed Confirmation. Each Borrowing Request shall include the information called for with respect to a conversion by the form of Confirmation.

Cost with respect to any Mortgage Loan means, as applicable, the actual out-of-pocket cost to Borrower of such Mortgage Loan, if purchased, 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 which both (a) hold deposits in accounts in the name of Borrower and (b) have entered into a Balance Funded Rate Agreement 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.

Dollars means lawful money of the United States of America.

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) to which Borrower has allocated Gestation Loan status in accordance with Section 3.4(b)

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 has been fully funded except in the case of Construction Loans;

(c) which is "covered" (within the meaning given to such term in Section 6.19) by a Take-Out Commitment, except in the case of Investment Mortgage Loans, Lot Loans, and Construction Loans;

(d) which, in the case of an Eligible Mortgage Loan other than a Construction Loan, an Investment Loan or a Lot Loan, has not been included as an Eligible Mortgage

Loan in the Collateral held by Agent for more than 120 days;

(e) which, in the case of a Construction Loan, has not been included in the Collateral held by Agent (i) for more than 270 days as a Construction Loan or (ii) more than 360 days as an Eligible Mortgage Loan;

(f) which, in the case of an Investment Loan, has not been included as an Eligible Mortgage Loan in the Collateral held by Agent for more than 364 days;

(g) which, in the case of a Lot Loan, has not been included as an Eligible Mortgage Loan in the Collateral held by Agent for more than 270 days;

(h) which has not previously been sold to an Investor and repurchased by Borrower ;

(i) which, except in the case of an Investment Mortgage Loan, is not Delinquent or, to Borrower's knowledge, otherwise in default;

(j) which, in the case of a Lot Loan, has not been without a construction contract on the lot at any time for more than 5 days;

(k) with respect to which no more than 180 days have elapsed since the original funding of such Mortgage Loan to the Mortgagor;

(l) with respect to which there is an Appraisal which complies with all applicable Appraisal Laws and Regulations ;

(m) with respect to which Agent has received the Principal Mortgage Documents and, if applicable, the Construction Loan Documents or Lot Loan Documents, as the case may be;

(n) with respect to which, if any Mortgage Note has been delivered to an Investor under a Bailee Letter pursuant to the Security Agreement, no more than 45 days have elapsed since the delivery of such Mortgage Document without the Agent having received from such Investor either (i) the Warehouse Purchase Price specified in such Bailee Letter or (ii) such Mortgage Note and any related Mortgage Documents delivered to such Investor therewith;

(o) with respect to which, if Agent shall have delivered a Mortgage Note and/or any other Mortgage Document to Borrower for correction under a Trust Receipt pursuant to the Security Agreement, no more than 21 days have elapsed since the delivery of such Mortgage Note and/or other Mortgage Document without such Mortgage Note and/or other Mortgage Document having been returned to Agent; and

(p) with respect to a Wet Mortgage Loan, no more than 7 Business Days have elapsed since the date on which such Wet Mortgage Loan was funded.

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

Event of Default has the meaning specified in Section 8.1.

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.

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 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.

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

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

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

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

Gestation Loan Tranche means, with respect to any Note at any time, that portion of the then outstanding principal balance of such Note which is deemed to be

supported by the Collateral Value of Eligible Gestation Mortgage Loans included in the Collateral held by Agent at that time, as specified from time to time by Borrower in the Borrowing Requests and Conversion Requests received by Agent from Borrower, provided, that (a) the aggregate principal amount of all Gestation Loan Tranches outstanding under the Notes of all Lenders at any time shall not exceed the aggregate Collateral Value of Eligible Gestation Mortgage Loans included in the Collateral held by Agent at such time, and (b) the aggregate principal amount of all Gestation Loan Tranches outstanding under any Lender's Notes at any time shall not exceed the product of the aggregate Collateral Value of Eligible Gestation Mortgage Loans included in the Collateral held by Agent at such time multiplied by a fraction the numerator of which is the aggregate principal balance outstanding under such Lender's Notes at such time and the denominator of which is the aggregate principal balance outstanding under all Lenders' Notes at such time.

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.

Good Funds Wire Clearing Account means account number 104756234332 of Borrower with Agent, which shall be in the sole dominion and control of the Agent and to which Borrower shall have no access.

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.

Guidance Line means, for any Lender, the amount stated beside its name and so designated on Schedule 1.1(a) as it may be amended under this Agreement), as that amount may be canceled or terminated under this Agreement.

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.

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;
- (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; and
- (v) that is on terms and pricing agreed upon at the time of utilizing this Indebtedness.

Investment Mortgage Loan means a Mortgage Loan that is otherwise an Eligible Mortgage Loan but for which there is no applicable Take-Out Commitment.

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 \$1,000,000, 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.

L/C means a standby letter of credit (a) relating to seller contracts or other needs of Borrower acceptable to Agent, (b) having a maturity prior to the Scheduled Termination Date, (c) issued by Agent for Borrower's account under Section 2.1(e) and an L/C Agreement, and (d) subject to the L/C Advance Limit.

L/C Advance means the issuance of an L/C pursuant to Section 2.1(e) and any advance by a Lender under its Commitment Amount to refinance L/C Obligations pursuant to Section 2.1(f).

L/C Advance Limit means \$5,000,000.

L/C Agreement means, at any time, a letter of credit application and agreement, in substantially the standard form customarily used by Agent at that time, executed and delivered by Borrower for the issuance of an L/C for Borrower's account.

L/C Exposure means, at any time and without duplication, the sum of (a) the total undrawn and uncanceled face amount of all L/Cs plus (b) the L/C Obligation.

L/C Obligation means, at any time, Borrower's total unpaid reimbursement obligations to Agent for drafts or drawings paid under any L/C.

Lender and Lenders shall have the meanings specified in the preamble of this Agreement.

Lender Addition Agreement means a Lender Addition Agreement in the form attached hereto as Exhibit J, together with such changes as Agent and Lenders executing a particular Lender Addition Agreement may require. Lender Addition Agreement with respect to a particular Additional Lender means the Lender Addition Agreement by which such Additional Lender became a Lender.

LIBOR means, on any date of determination, the average offered rate for one month deposits in Dollars, which rate appears on the Reuters Screen LIBO page as of 11:00 a.m., London time (or such other time as of which such rate appears) on such date of determination, or the rate for such deposits determined by Agent at such time based on such other published service of general application as shall be selected by Agent for such purpose; provided, that in lieu of determining the rate in the foregoing manner, if not so determinable on such date, at the option of Agent, Agent may determine the rate based on rates at which one month Dollar deposits are offered to Agent in the interbank Eurodollar market at such time in an amount approximately equal to the aggregate principal amount of the LIBOR Rate Segments to which such rate is to apply. "Reuters Screen LIBO page" means the display designated as page "LIBO" on the Reuters Monitor Money Rate Screen (or such other page as may replace the LIBO page on such service for the purpose of displaying London interbank offered rates of major banks for Dollar deposits). For purposes of determining any interest rate hereunder or under any other Loan Document which is based on LIBOR, such interest rate shall change as and when LIBOR shall change.

LIBOR Segment means any that portion of any Tranche which bears interest at the applicable rate set forth in Section 2.11(c).

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.

Loan to Value Ratio means, with respect to any Mortgage Loan as of any date, a fraction, expressed as a percentage, the numerator of which is the outstanding principal balance of such Mortgage Loan at the date of determination and the related denominator of which is the value of the related mortgaged property as set forth in the Appraisal. For purposes of calculating the Loan to Value Ratio for a Mortgage Loan secured by a second Mortgage, the outstanding principal balance of the related first Mortgage as well as the second Mortgage shall be included in the numerator.

Lot Loan means a Mortgage Loan that is otherwise an Eligible Mortgage Loan but (i) which may not exceed a Face Amount of \$150,000, (ii) for which Borrower also has delivered Lot Loan Documents, (iii) that otherwise complies with the program set forth on Schedule 1.1(e), and (iv) that covers property located in Pennsylvania, upon which a home is being constructed by the Parent or its subsidiaries.

Lot Loan Documents means, in addition to the applicable Principal Mortgage Documents and Other Mortgage Documents, (i) a deed of conveyance, (ii) a coal clause for deed, (iii) a receipt evidencing down payment amount, (iv) a lot sales agreement, (v) a Construction Agreement, and (vi) any other documents reasonably requested by Agent or any of the Lenders.

Market Value means, at any time for Mortgage Loans, a market value based upon the then most recent posted net yield for 30-day mandatory future delivery furnished by FNMA and published and distributed by Telerate Mortgage Services or Knight-Ridder or (if that posted net yield is not available from these services) obtained by the Agent from FNMA.

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, taken as a whole, under any Security Instrument, (iv) the enforceability or priority of the Lien in favor of Agent for the benefit of Lenders on the collateral, taken as a whole, 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 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, which grants, as security for a Mortgage Loan, a perfected first-priority lien (or, in the case of Second Lien Loans, second-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 Documents means, for any Mortgage Loan, the Principal Mortgage Documents, the Other Mortgage Documents, and, if applicable, the Construction Loan Documents and/or Lot Loan Documents relevant thereto.

Mortgage Loan means an FHA Loan, VA Loan, Conforming Loan, Investment Mortgage Loan, Second Lien Loan, Construction Loan, Lot 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 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.

Notes means the Committed Warehouse Promissory Notes, the Uncommitted Warehouse Promissory Notes, and the Swing Promissory Note.

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.

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.

Other Mortgage Documents has the meaning specified in the Security Agreement.

Parent means NVR, Inc., a Virginia corporation.

Parent Note means that certain subordinated demand revolving credit note issued by Borrower to the order of the Parent a true and correct copy of which is attached as Exhibit M.

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 7.11.

Permitted Intercompany Payables means amounts due to Affiliates of Borrower in respect of Permitted Intercompany Transactions and the Permitted Subordinated Indebtedness.

Permitted Intercompany Transactions means transactions with Affiliates of Borrower (a) which comply in all respects with Section 7.12 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 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 Section 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 \$3,000,000;

(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; and

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

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 7.11.

Permitted Subordinated Indebtedness means Indebtedness under the Parent 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 \$1,000,000.

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 7.16.

Person means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, Governmental Authority, or other form of entity.

Plan means an "employee pension benefit plan" (as defined in Section 3(2) of ERISA) which is or has been established or maintained, or to which contributions are or have been made, by Borrower or any of its Related Persons, or an employee pension benefit plan as to which Borrower or any of its Related Persons would be treated as a contributory sponsor under Title IV of ERISA if it were to be terminated.

Pledged Mortgage Loan has the meaning specified in the Security Agreement.

Principal Mortgage Documents has the meaning specified in the Security Agreement.

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

Reference Rate means the rate of interest from time to time publicly announced by Agent as its "reference rate." Agent may lend to its customers at rates that are at, above or below the Reference Rate. For purposes of determining any interest rate hereunder or under any other Loan Document which is based on the Reference Rate, such interest rate shall change as and when the Reference Rate shall change.

Reference Rate Segment means that portion of a Tranche which bears interest at the Reference Rate.

Regular Tranche means, with respect to any Note at any time, that portion of the then outstanding principal balance of such Note which is deemed to be supported by the Collateral Value of Collateral which is other than Construction Loans, Lot Loans or Eligible Gestation Mortgage Loans, as specified from time to time by Borrower in the Borrowing Requests and Conversion Requests received by Agent from Borrower, provided, that (a) the aggregate principal amount of all Regular Tranches outstanding under the Notes of all Lenders at any time shall not exceed the remainder (the "Remainder Collateral Value") of (i) the aggregate Collateral Value of all Collateral held by Agent at that time minus (ii) the aggregate Collateral Value of all Construction Loans, Lot Loans and Eligible Gestation Mortgage Loans included in the Collateral held by the Agent at such time, and (b) the aggregate principal amount of all Regular Tranches outstanding under any Lender's Notes at any time shall not exceed the product of the Remainder Collateral Value at such time multiplied by a fraction the numerator of which is the aggregate principal balance outstanding under such Lender's Notes at such time and the denominator of which is the aggregate principal balance outstanding under all Lenders' Notes at such time.

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

Related Person means any Person that is (a) a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as Borrower, (b) under common control (within the meaning of Section 414(c) of the Code or Section 4001 of ERISA) with Borrower, (c) a member of any affiliated service group (within the meaning of Section 414(m) of the Code) which includes Borrower, or (d) otherwise treated as part of the controlled group which includes Borrower (within the

meaning of Section 414(o) of the Code).

Remainder Collateral Value has the meaning given such term in the definition of the term "Regular Tranche" set forth in this Section 1.1.

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.

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.

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.

Returns of Capital means any and all payments made by Borrower to the Parent which represent a return of cash capital contributions made by the Parent to Borrower at any time on or after the Agreement Date.

Scheduled Termination Date means September 4, 2000.

Second Lien Loan means a Mortgage Loan that is otherwise an Eligible Mortgage Loan but is secured by a second-priority security interest in the property (but a first priority security interest in the Mortgage Loan) and whose Loan to Value Ratio does not exceed 100%.

Securities Credit Transaction Regulations means Regulations 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 Pledge and Security Agreement dated as of the date of this Agreement, as amended, between Borrower and Agent in substantially the form of Exhibit K attached, as the same may from time to time be 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 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.

Segment means a Balance Funded Rate Segment, a LIBOR Segment or a Reference Rate Segment.

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 \$1,000,000 but no greater than \$1,500,000 (or such greater amount as Agent, in its sole discretion, may permit on a case-by-case basis, but no greater than \$1,750,000), 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.

Swing Advance means an advance by Agent to Borrower pursuant to Section 2.1(c).

Swing Advance Limit means \$50,000,000.

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-3 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 H hereto (or such other forms as to which Borrower and Agent may agree), delivered by Borrower pursuant to Section 6.1(f).

Tangible Net Worth of Borrower means, as of any date of determination, the sum of the amounts set forth on the balance sheet of Borrower as the sum of the common stock, preferred stock, additional paid-in capital and retained earnings of Borrower (excluding treasury stock), less the book value of all intangible assets of Borrower, including all such items as goodwill, trademarks, trade names, service marks, copyrights, patents, licenses, unamortized debt discount and expenses and the excess of the purchase price of the assets of any business acquired by the Borrower over the book value of such assets.

Tax Allocation Agreement means that certain Amended and Restated Tax Allocation Agreement dated as of March 7, 1996, among the Parent, Borrower and certain Affiliates of Borrower, a true and correct copy of which is attached as Exhibit L.

Termination Date means the Scheduled Termination Date or the 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.

Tranche means a Construction/Lot Loan Tranche, a Gestation Loan Tranche or a Regular Tranche.

Trust Receipt has the meaning specified in the Security Agreement.

Type refers to the type of interest rate option applicable to a Segment of a Tranche. The Types of Segments available under Agreement are Balance Funded Rate Segments, LIBOR Segments and Reference Rate Segments.

UCC means the Uniform Commercial Code as adopted in the State of Minnesota, as amended from time to time.

Uncommitted Warehouse Promissory Notes means the promissory notes delivered by Borrower to Lenders pursuant to Section 2.2 each in the form attached hereto as Exhibit A-2 and all renewals, extensions, modifications and rearrangements thereof.

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.

Warehouse Advance means an advance by a Lender to Borrower pursuant to Section 2.1(b) or 2.1(d).

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 (other than a Construction Loan, a Lot Loan or REO) the Principal Mortgage Documents for which have not been delivered to the Agent.

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

Minneapolis, Minnesota. 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 "telecopy," "facsimile," "fax," or similar terms are to facsimile or telecopy 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 and L/C 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 or the L/C Advance Limit respectively. Subject to the terms and conditions contained in this Agreement, any Lender may elect to fund under the Guidance Line on a revolving credit basis from time to time on any Business Day, so long as no Default or Event of Default exists, 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 Guidance Line. Subject to the other terms and conditions of this Agreement, Warehouse Advances made under each Lenders Notes shall be allocated to Construction/Lot Loan Tranches, Gestation Tranches and/or Regular Tranches under such Notes, which Tranches shall, at the election of Borrower, bear interest as Balance Funded Rate Segments, LIBOR Segments, Reference Rate Segments, or any combination thereof.

(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 sum of (A) the Total Commitment plus (B) the total Guidance Line minus (x) the aggregate amount of Swing Advances plus (y) the amount of the L/C Exposure.

(ii) the sum of the aggregate amount of Warehouse Advances (committed and Guidance Line) outstanding and the aggregate amount of Swing Advances and L/C Advances outstanding shall not at any time exceed the Borrowing Base; and

(iii) the aggregate amount of Guidance Line Advances at any time outstanding shall not exceed the lesser of either (a) the total Guidance Line or (b) the sum of the Borrowing Base minus the Total Commitment.

Within the limits of each Lender's Commitment together with each Lender's Guidance Line, 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 plus the Guidance Line minus the aggregate amount of Warehouse Advances and L/C Advances then outstanding;

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

(iii) Agent has not received a Borrowing Request;

(iv) Agent has received written notice from Borrower or any Lender that a Default or Event of Default exists and such Default or Event of Default 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 or Event of Default 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 1:00 p.m. 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.

(e) L/C Advances. Each L/C Advance under this Section 2.1(e) shall be

made solely by Agent (in its individual capacity) on the Borrowing Date, provided, that notwithstanding anything to the contrary in this Agreement or any other Loan Document, Agent shall have no obligation to make any L/C Advance if:

(i) The aggregate amount of L/C Exposure after giving effect to such L/C Advance would exceed the lesser of:

(A) The L/C Advance Limit; and

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

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

(iii) Agent has not received a Borrowing Request;

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

(v) the employee of Agent authorizing such L/C Advance has actual knowledge that a Default or Event of Default exists or would result from the funding thereof.

(f) Refinancing of L/C. Obligations. Provided that there is no

Default, each L/C Obligation may be refinanced (and not otherwise paid on demand pursuant to Section 2.3(d)) as a Borrowing, such Borrowing to be advanced by each Lender pro rata in accordance with its Commitment Percentage, upon the Borrower's request for such refinance and delivery to the Agent of an appropriate Borrowing Request for such Borrowing, provided that (i) the sum of such Borrowings under this Section 2.1(f), together with all other L/C Exposure, shall not at any time exceed the L/C Advance Limit, (ii) at the time of such Borrowing Request, the Borrower shall have satisfied the conditions set forth in clauses (i) through (v) of Section 2.1(e), and (iii) after giving effect to such Borrowing, the total of all Advances of any Lender would not exceed such Lender's Commitment Amount. All advances made by the Lenders under this Section 2.1(f) or pursuant to Section 2.3(c)(ii) shall constitute Advances under this Agreement, shall be evidenced by the Notes, and shall be payable to the Lenders pursuant to Section 2.7.

(g) Increases. Borrower may from time to time request any one or more

Lenders to increase their respective Guidance Line or Commitment so that the total Guidance Line may be increased to no more than \$50,000,000, or so that the total Commitment may be increased to no more than \$250,000,000. That increase must be effected by an amendment executed by Borrower, Agent, and the increasing Lender. Borrower shall execute and deliver to each such Lender a Committed or an Uncommitted Warehouse Note in the stated amount of its new Commitment or Guidance Line increase. No Lender is obligated to increase its Commitment under any circumstances, and no Lender's Commitment may be increased except by its execution of an amendment as stated above. Each new Lender providing such additional Commitment or Guidance Line increase shall be a "Lender" hereunder, entitled to the rights and benefits, and subject to the duties, of a Lender under the Credit Documents. All amounts advanced hereunder pursuant to any such additional Commitment shall be secured by the Collateral on a pari passu basis with all other amounts advanced hereunder. In the event the total Commitments are increased, Borrower shall execute a new Committed Warehouse Note in favor of the Lender extending such additional Commitment in a stated amount of its

new Commitment and shall notify each Lender in writing of such additional Commitment. In such case, each Lender's Commitment Percentage shall be recalculated to reflect the new proportionate share of the revised total Commitments and the Lender responsible for the additional Commitment shall, immediately upon receiving notice from Agent, pay to each Lender an amount equal to its pro rata share of the Borrowings outstanding as of such date. All such payments shall reduce the outstanding principal balance of the Committed Warehouse Note of each Lender receiving such payments and shall represent Borrowings to Borrower under the purchasing Lender's Committed Warehouse Note. The purchasing Lender shall be entitled to share ratably in interest accruing on the balances purchased, at the rates provided herein for such balances, from and after the date of purchase. All new Borrowings occurring after an increase of the total Commitments shall be funded in accordance with each Lender's revised Commitment Percentage.

2.2 Notes. The Warehouse Advances made by each Lender pursuant to Section 2.1(b)

and 2.1(d) and the L/C Advances made by Agent pursuant to Section 2.1(e) shall be evidenced by a Committed Warehouse Promissory Note payable to such Lender in the principal amount of the Commitment Amount of such Lender and an Uncommitted Warehouse Promissory Note payable to such Lender in the principal amount of the Guidance Line 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, 2.11, and 11.9.

2.3 Notice and Manner of Obtaining Borrowings.

(a) Borrowings Generally.

(i) Borrower shall request each Borrowing by making a Borrowing Request upon 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 1:00 p.m. 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 3:00 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 Collateral Account.

(ii) Notwithstanding the foregoing, unless Agent shall have received notice from a Lender prior to 3:00 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 U.S. Bank National Association in its capacity as a Lender hereunder and (ii) for so much of such amount as is repaid by such Lender, Average Adjusted LIBOR. 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 as of the applicable Borrowing Date 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 Collateral Account.

(b) L/C Advances. The following conditions and procedures apply to L/Cs:

(i) Borrowing Request and L/C Agreement. Borrower may only

request a L/C by delivering to Agent a related Borrowing Request and L/C Agreement before 11:30 a.m. on the second Business Day before the L/C is to be issued.

(ii) Participations. Immediately upon Agent's issuance of any

L/C, Agent is deemed to have sold and transferred to each other Lender, and each other Lender is deemed irrevocably and unconditionally to have purchased and received from Agent, without recourse or warranty, an undivided interest and participation in the L/C and Agent's obligations under it to the extent of that Lender's Commitment Percentage of the face amount of that L/C, which participation must be paid for on Agent's demand if there is ever any L/C Obligation outstanding in connection with it. Agent shall provide a copy of each L/C to each other Lender promptly after issuance.

(iii) Reimbursement Obligation. To induce Agent to issue and

maintain L/Cs and Lenders to participate in issued L/Cs, Borrower agrees to reimburse Agent (i) on demand, on or after the date when any draft or draw request is presented under any L/C, the amount paid by Agent and (ii) promptly, upon demand, the amount of any additional fees Agent customarily charges for the application and issuance of a letter of credit, amending letter of credit applications and agreements, honoring drafts and draw requests, and taking similar action in connection with letters of credit. Until repaid by Borrower by a payment or a Borrowing under Section 2.1, the L/C Obligation is a demand obligation and bears interest at the Reference Rate while outstanding. Borrower's obligations in respect of the L/C Obligation are absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim, or defense to payment that Borrower may have at any time against Agent or any other Person.

(iv) Payments Under L/Cs. Agent shall promptly notify Borrower

of the date and amount of any draft or draw request presented for honor under any L/C. Agent's failure to give that notice will not affect Borrower's obligations under this Agreement. Agent shall pay the requested amount upon presentment of a draft or draw request unless presentment on its face does not comply with the terms of the applicable L/C. When making payment, Agent may disregard (i) any default or potential default that exists under any other agreement and (ii) obligations under any other agreement that have or have not been performed by the beneficiary or any other Person. Agent is not liable for any of those obligations.

(v) Absolute Obligations. Borrower's reimbursement obligations

to Agent and Lenders, and each Lender's obligations to Agent, under this Section 2.3(c) are absolute and unconditional irrespective of, and Agent is not responsible for, (i) the validity, enforceability, sufficiency, accuracy, or genuineness of documents or endorsements (even if they are in any respect invalid, unenforceable, insufficient, inaccurate, fraudulent, or forged), (ii) any dispute by Borrower with, or any claims, setoffs, defenses, counterclaims, or other rights by Borrower against, Agent, any Lender, or any other Person, or (iii) the occurrence of any Default or Event of Default. However, nothing in this Agreement constitutes a waiver of Borrower's or any Lender's rights to assert any claim or defense based upon the gross negligence or willful misconduct of Agent.

(vi) Issuance and Cancellation. Each L/C is deemed issued upon

delivery to the beneficiary of Borrower. If Borrower requests any L/C be delivered to Borrower rather than the beneficiary and later cancels that L/C, then Borrower shall return it to Agent together with Borrower's written certification that it has never been delivered to the beneficiary. If any L/C is delivered to the beneficiary under Borrower's instructions, Borrower's cancellation is ineffective without Agent's receipt of the beneficiary's written consent and the L/C.

Borrower shall indemnify Agent and each Lender for all losses, costs, damages, expenses, and reasonable attorneys' fees suffered or incurred by Agent or any Lender resulting from any dispute concerning Borrower's cancellation of any L/C.

(vii) Agent's Responsibilities. Agent shall exercise and give

the same care and attention to each L/C as it gives to its other letters of credit. In paying any draft or draw under any L/C, Agent has no responsibility to obtain any document (other than any documents expressly required by the respective L/C) or to ascertain or inquire as to any document's validity, enforceability, sufficiency, accuracy, or genuineness or the authority of any Person delivering it. Neither Agent nor its representatives will be liable to any Lender or Borrower for any L/C's use or for any beneficiary's acts or omissions. Any action, inaction, error, delay, or omission taken or suffered by Agent or any of its representatives in connection with any L/C, applicable draws, drafts, or documents, or the transmission, dispatch, or delivery of any related message or advice, if in good faith and in conformity with applicable Laws and in accordance with the standards of care specified in the Uniform Customs and Practices for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500 is binding upon the Company and Lenders and does not place Agent or any of its representatives under any resulting liability to either Company or any Lender. Agent is not liable to the Company or any Lender for any action taken or omitted, in the absence of gross negligence or willful misconduct, by Agent or its Representative in connection with any L/C.

(viii) Cash Collateral. On the Termination Date, during the

continuance of any Default under Section 8.1(f), (g), or (h) or upon any demand by Agent while any other Default exists, Borrower shall provide to Agent, for the benefit of Lenders, cash collateral in an amount equal to the then-existing L/C Exposure or other collateral acceptable to Agent in its sole discretion.

(ix) Other Agreements. Although referenced in any L/C, terms of

any particular agreement or other obligation to the beneficiary are not incorporated into this Agreement in any manner.

(x) Governing Provisions. The fees and other amounts payable

with respect to each L/C are as provided in this Agreement, drafts and draws under each L/C are part of the Obligation, and the terms of this Agreement control any conflict between the terms of this Agreement and any L/C Agreement.

2.4 Fees.

(a) Facility Fees. Borrower agrees to pay to Agent for the account of

each Lender a facility fee for each calendar quarter in an amount equal to 0.125% per annum of (i) such Lender's average Commitment Amount and (ii) on such Lender's advanced portion of the Guidance Line. Facility fees accrued through the last day of any calendar quarter shall be payable on the fifth day of the following calendar quarter. Facility fees shall be computed on the basis of actual days elapsed and a year of 360 days.

(b) L/C Issuance and Fronting Fee. In consideration of Agent serving

as L/C issuer under this Agreement and the other Loan Documents, Borrower agrees to pay Agent L/C fees as set forth in a separate Agent Fee Letter.

(c) Standby L/C Fee. Borrower shall pay to Agent, for the ratable

benefit of Lenders, a fee for each L/C equal to the product of (i) 1.00% multiplied by (ii) the face amount of each L/C, payable at the issuance of each L/C.

(d) Deficiency Fees. Borrower shall pay to each Deposit Holding

Lender from time to time for the account of such Deposit Holding Lender any deficiency fees payable to such Deposit Holding Lender under its Balance Funded Rate Agreement.

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 plus the Guidance Line 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

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 and shall promptly confirm such payment by a delivering a Confirmation to Agent, duly completed and executed by Borrower. If no Event of Default exists and is continuing, Borrower shall repay all Advances in the following order:

First, Warehouse Advances outstanding under the Uncommitted Warehouse Promissory Notes,

Second, L/C Advances,

Third, Swing Advances,

Fourth, Warehouse Advances outstanding under the Committed Warehouse Promissory Notes;

provided, that at the election of Agent, Warehouse Advances outstanding under the Committed Warehouse Promissory Notes shall be repaid prior to repayment of Swing Advances.

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(b), 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 L/C Advances, then 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 L/C Advances, then under 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 Average Adjusted Libor.

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 2.4(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) General. 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 Notes;

(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) Capital Adequacy. 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 LIBOR Segments. A

Lender's obligations to make Advances as, or to continue or convert Segments into, LIBOR Segments shall be suspended, all such outstanding Segments under such

Lender's Notes shall be converted into, and all pending requests for the making of Advances as, or for continuation of or conversion of Segments into, LIBOR Segments by such Lender shall be deemed requests for, Reference Rate Segments, if:

(i) on or prior to the determination of an interest rate for a LIBOR Segment, Agent determines that appropriate information is not available to it for purposes of determining LIBOR;

(ii) Agent or Lenders determine that LIBOR as determined by Agent would not accurately reflect the cost to such Lender of making an Advance as, or continuing or converting a Segment into, a LIBOR Segment; 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, an Advance as, or to continue or convert a Segment into, a LIBOR Segment, or to comply with its obligations hereunder in respect thereof.

If, as a result of this Section 2.10(c), any Advance of any Lender that would otherwise be made as a LIBOR Segment, or any Segment of any Lender that would otherwise be maintained as or converted into a LIBOR Segment is instead made or maintained as or converted into a Reference Rate Segment, then, unless the corresponding Advances and Segments of each of the other Lenders are also to be made or maintained as or converted into Reference Rate Segments, such Advance and/or Segment, as the case may be, shall be treated as being a LIBOR Segment 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 Advance or Segment. 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 Advances and Segments, but the failure by Agent or such Lender to give any such notice shall not affect such Lender's rights hereunder.

(d) 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.

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

contemplated by Sections 2.10(a), (b), and (c), 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(e), 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), and (c) 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), and (c) above, but the failure to give such notice shall not affect such Lender's right to compensation.

(f) Mitigation of Circumstances. Each Lender shall promptly notify

Borrower and Agent of any event of which it has knowledge which will result in, and will use reasonable commercial efforts available to it (and not, in such Lender's sole judgment, otherwise disadvantageous to such Lender) to mitigate or avoid, (i) any obligation by Borrower to pay any amount pursuant to Section 2.10(a) or Section 2.10(b) or (ii) the occurrence of any circumstances described in Section 2.10(c) (and, if any Lender has given notice of any such event described in clause (i) or (i) of this sentence and thereafter such event ceases to exist, such Lender shall promptly so notify Borrower and Agent). Without limiting the foregoing, each Lender will designate a different funding office if such designation will avoid (or reduce the cost to Borrower of) any event described in clause (i) or (ii) of the preceding sentence and such designation will not, in such Lender's sole judgment, be otherwise disadvantageous to such Lender.

(g) Replacement of Lenders. If Borrower becomes obligated to pay

additional amounts to an Lender pursuant to Section 2.10(a) or Section 2.10(b), or any Lender gives notice of the occurrence of any circumstances described in Section 2.10(c), Borrower may designate another lender which is acceptable to Agent in its reasonable discretion (such other lender being called a "Replacement Lender") to purchase the Advances of such Lender and such Lender's rights hereunder, without recourse to or warranty by, or expense to, such Lender, for a purchase price equal to the outstanding principal amount of the Advances payable to such Lender plus any accrued but unpaid interest on such Advances and all accrued but unpaid fees owed to such Lender and any other amounts payable to such Lender under this Agreement, and to assume all the obligations of such Lender hereunder, and, upon such purchase and assumption (pursuant to a Lender Addition Agreement), such Lender shall no longer be a party hereto or have any rights hereunder (other than rights with respect to indemnities and similar rights applicable to such Lender prior to the date of such purchase and assumption) and shall be relieved of all obligations to Borrower hereunder, and the Replacement Lender shall succeed to the rights and obligations of such Lender hereunder.

2.11 Interest.

(a) In General. Interest accrued on the Notes through the last day

of each calendar month shall be paid on the fifth day of the following calendar month. Accrued

interest shall also be paid on the Termination Date. Interest shall be computed on the basis of the actual number of days elapsed and a year of 360 days.

(b) Balance Funded Rate Segment. A Balance Funded Rate Segment consisting of

any portion of a Construction/Lot Loan Tranche shall bear interest at the rate of 1.75% per annum. A Balance Funded Rate Segment consisting of any portion of a Gestation Loan Tranche shall bear interest at the rate of 0.65% per annum. A Balance Funded Rate Segment consisting of any portion of a Regular Tranche shall bear interest at the rate of 1.25% per annum.

(c) LIBOR Segments. A LIBOR Segment consisting of any portion of a

Construction/Lot Loan Tranche shall bear interest at a rate per annum equal to the sum of LIBOR plus 1.75% per annum. A LIBOR Segment consisting of any portion of a Gestation Loan Tranche shall bear interest at a rate per annum equal to the sum of LIBOR plus 0.65% per annum. A LIBOR Segment consisting of any portion of a Regular Tranche shall bear interest at a rate per annum equal to the sum of LIBOR plus 1.25% per annum.

(d) Reference Rate Segment. Each Reference Rate Segment (whether

consisting of a portion of a Construction/Lot Loan Tranche, a Gestation Loan Tranche or a Regular Tranche) shall bear interest at a rate per annum equal to the Reference Rate.

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

shall bear interest for each day that such amounts are overdue (after, as and 4.00% per annum. Interest payable on overdue amounts shall be payable on demand.

(f) Balance Funded Rate Agreements. If they so elect, Borrower and any Deposit

Holding Lender may enter into additional written agreements (each an Balance Funded Rate Agreement) providing for the maintenance by Borrower of deposit account balances with such Deposit Holding Lender in amounts sufficient to support Balance Funded Rate Segments from such Lender and the payment of any balance deficiency fees, provided, that (i) nothing in such Balance Funded Rate Agreement 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); (ii) 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 Balance Funded Rate Agreement, and Borrower and each Lender which is not a Deposit Holding Lender shall certify to Agent the absence of any such Balance Funded Rate Agreement; and (iii) the provisions of this Section 2.11(f) shall be controlling in the event of any conflict between such provisions and any such Balance Funded Rate Agreement.

2.12 Conversions. On the terms and subject to the limitations hereof, Borrower

shall have the option at any time and from time to time to convert all or any portion of a Segment of one Type into a Segment or Segments of another Type or Types and to convert all or any portion of a Tranche of one Category into a Tranche or Tranches of another Category or Categories by making a Conversion Request upon Agent prior to 11:00 a.m. on the date on which such conversion is to be effective (which shall be a Business Day), which Conversion Request shall be

promptly confirmed by Borrower by delivering to Agent a duly completed and executed Confirmation; provided, that after giving effect to such Conversion Request, (a) the aggregate principal amount of all Construction/Lot Loan Tranches outstanding under the Notes of all Lenders at any time shall not exceed the aggregate Collateral Value of Construction Loans and Lot Loans included in the Collateral held by Agent at such time, (b) the aggregate principal amount of all Construction/Lot Loan Tranches outstanding under any Lender's Notes at any time shall not exceed the product of the aggregate Collateral Value of Construction Loans and Lot Loans included in the Collateral held by Agent at such time multiplied by a fraction the numerator of which is the aggregate principal balance outstanding under such Lender's Notes at such time and the denominator of which is the aggregate principal balance outstanding under all Lenders' Notes at such time, (c) the aggregate principal amount of all Gestation Loan Tranches outstanding under the Notes of all Lenders at any time shall not exceed the aggregate Collateral Value of Eligible Gestation Mortgage Loans included in the Collateral held by Agent at such time, (d) the aggregate principal amount of all Gestation Loan Tranches outstanding under any Lender's Notes at any time shall not exceed the product of the aggregate Collateral Value of Eligible Gestation Mortgage Loans included in the Collateral held by Agent at such time multiplied by a fraction the numerator of which is the aggregate principal balance outstanding under such Lender's Notes at such time and the denominator of which is the aggregate principal balance outstanding under all Lenders' Notes at such time, (e) the aggregate principal amount of all Regular Tranches outstanding under the Notes of all Lenders at any time shall not exceed the remainder the Remainder Collateral Value at such time, and (f) the aggregate principal amount of all Regular Tranches outstanding under any Lender's Notes at any time shall not exceed the product of the Remainder Collateral Value at such time multiplied by a fraction the numerator of which is the aggregate principal balance outstanding under such Lender's Notes at such time and the denominator of which is the aggregate principal balance outstanding under all Lenders' Notes at such time. Any Conversion Request made Borrower under this Section shall be irrevocable. All conversions of Segments and Tranches must be made uniformly and ratably among Lenders.

SECTION 3. COLLATERAL -----

3.1 Collateral. -----

(a) In General. Pursuant to this Agreement and the Security -----

Agreement, and to secure the payment of the Obligations, Borrower grants 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 now or in the future 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 Delivery of Collateral. The Collateral shall be delivered to Agent for the

benefit of the Lenders in accordance with the Security Agreement and the Attachments thereto.

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 Lender'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 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 Collateral.

(a) Generally. The disposition of Collateral shall be governed by the
Security Agreement.

(b) Allocation of Mortgage Loans to Agency Pools; Eligible Gestation
Mortgage Loan Status. 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 to Agent of a duly completed Shipping
Instruction Letter for Pools in the form of Exhibit E-1 hereto (a "Pool
Shipping Instruction") and duly completed a transmittal letter in the form
of Exhibit E-2 hereto (a "Pool Transmittal Letter"), together with the
enclosures referred to therein, instruct Agent to deliver the Mortgage
Notes relating to specific Pledged Mortgage Loans to the Agency Custodian
for inclusion in a pool of Mortgage Loans backing Mortgage-Backed
Securities issued or guaranteed by an Agency and may allocate such Pledged
Mortgage Loans to status as Eligible Gestation Mortgage Loans for purposes
of this Agreement and the Borrowing Base.

3.5 Concerning the Collateral Account and the Good Funds Wire Clearing Account.

Borrower hereby expressly acknowledges that the Collateral Account, the Good
Funds Wire Clearing Account, and any other of Borrower's accounts with any
Lender are subject in all respects to the right of offset in favor of Agent
granted under Section 11.10.

3.6 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.

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 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) the Security Agreement;

(d) 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 _____, 1999;

(e) 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 _____, 1999, 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;

(f) 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 _____, 1999, and (ii) the existence of Borrower as of a date no earlier than _____, 1999;

(g) a certificate from the Secretary of the Commonwealth of Pennsylvania as to (i) the good standing of Borrower of a date no earlier than _____, 1999, and (ii) the authority of Borrower to do business in Pennsylvania as of a date no earlier than _____, 1999;

(h) a written opinion of legal counsel to Borrower as to the matters set forth in Schedule 4.1(h) and such other matters as Agent or its counsel may require;

(i) tax, judgment and Uniform Commercial Code lien searches in the appropriate offices in the State of Virginia [and Uniform Commercial Code lien searches in the appropriate offices in the State of Pennsylvania];

(j) Uniform Commercial Code financing statements prepared for filing in the appropriate offices in the State of Virginia [and the State of Pennsylvania]; and

(k) such other documents Agent or any Lender may reasonably request hereunder or as referenced in Schedule 4.1(k).

In addition, the obligation of each Lender to make its initial Advance shall be subject to the condition that Borrower shall have paid, or reimbursed Agent for, the fees, service charges and expenses of Dorsey & Whitney LLP, Agent's legal counsel, in connection with the preparation, negotiation, execution and delivery of this Agreement, the Notes and the other Loan Documents, if and to the extent that Borrower has received a statement therefor prior to the making of such

Advance.

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, Agent shall have received a Borrowing Request from Borrower, which Borrowing Request shall be promptly confirmed by Borrower by delivering to Agent a duly completed and executed Confirmation;

(b) subject to the provisions of the Security Agreement, 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 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 Borrowing Date; and

(e) the Collateral Account and the Good Funds Wire Clearing 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 Agreement to Pledge delivered to Agent and not subsequently released by Agent pursuant to the Existing Loan Agreement, or this Agreement, and (ii) each Take-Out Commitment of Borrower. Upon delivery to Agent of a Agreement to Pledge identifying a Wet Mortgage Loan and the funding by Lenders of the Warehouse Advances (or by Agent of the Swing Advance or L/C Advance) requested in connection therewith, Agent will have valid, enforceable, perfected, first priority Liens and security interests for the benefit of Lenders in such Wet Mortgage Loan and in all Mortgage Documents related thereto.

5.6 No Liens. Borrower has good and indefeasible title to the Collateral. All

of the Collateral is free and clear of all Liens and other adverse claims of any nature, other than 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, 1998, 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 July 31, 1999 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, which default could have a Material Adverse Effect.

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 and as to which there is a reasonable likelihood of an adverse determination.

5.11 Taxes. All tax returns required to be filed by Borrower in any

jurisdiction and which, if not filed, could have a Material Adverse Effect have been filed and all taxes, assessments, fees and other governmental charges upon Borrower or upon any of its properties, income or franchises which, if not paid, could give rise to a Lien thereon having a Material Adverse Effect, have been paid prior to the time that such taxes could give rise to such Lien, 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 which could have a Material Adverse Effect.

5.12 Principal Office, etc. As of the date hereof, 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 as to which a failure to fulfill such obligations could have a Material Adverse Effect; 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 with respect to which a failure to make such payment could have a Material Adverse Effect 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 which could have a Material Adverse Effect. 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.

5.26 Year 2000 Compliance. Borrower has (i) initiated a review and assessment of

all areas within its and each of its Subsidiaries' business and operations (including those affected by suppliers and vendors) that could be adversely affected by the "Year 2000 Problem" (that is, the risk that computer applications used by the Borrower or any of its Subsidiaries (or its suppliers and vendors) may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to, including and after December 31, 1999), (ii) developed a plan and time line for addressing the Year 2000 Problem on a timely basis, and (iii) implemented in all material respects that plan in accordance with that timetable. Based on the foregoing, Borrower has no reason to believe that the Year 2000 Problem will result in a material adverse change in the business, condition (financial or otherwise), operations or prospects of Borrower

and its Subsidiaries, or Borrower's ability to repay Lenders.

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 the Parent 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 I 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 reasonably 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 and could have a Material Adverse Effect; 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 or other Mortgage Documents returned to Borrower under a Trust Receipt, the period specified in such Trust Receipt), 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 (including, without limitation, the fees, service charges and expenses of Dorsey & Whitney LLP, legal counsel to the Agent) in connection with the preparation, negotiation, execution and delivery 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; provided, however, that Borrower shall, prior to the first Advance (if and to the extent that Borrower has received a statement therefor, which statement shall constitute appropriate evidence of the amount thereof), pay, or reimburse Agent for, the fees, service charges and expenses of Dorsey & Whitney LLP, Agent's legal counsel, in connection with the preparation, negotiation, execution and delivery of this Agreement, the Notes and the other Loan Documents.

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 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 Environmental Matters. Borrower shall comply in all material respects

with all Requirements of Law relating to the environment, hazardous materials or pollution control and where noncompliance could have a Material Adverse Effect 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.

6.19 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, Construction Loans, and Lot 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 any Agreement to Pledge, 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.

6.20 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 Agreement to Pledge 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 Agreement to Pledge) 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 6.20, which notice shall identify the Wet Mortgage Loan which has not closed, contemporaneously with the making of such repayment.

6.21 Year 2000 Compliance. Borrower will promptly notify the Agent in the

event Borrower discovers or determines that any computer application (including those of its suppliers and vendors) that is material to its or any of its Subsidiaries' business and operations will not be Year 2000 compliant on a timely basis, except to the extent that such failure is not reasonably expected to cause a Material Adverse Effect.

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) Permitted Intercompany Payables, (c) Indebtedness, including the Obligations, secured by Permitted Liens and by no other Liens on the Property of Borrower, (d) liabilities in respect of unfunded vested benefits under a Plan as determined in accordance with ERISA, to the extent permitted under Section 7.16, (e) 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 \$5,000,000, (f) Investment Line of Credit Indebtedness, (g) other Indebtedness in an aggregate amount at any time outstanding not greater than \$1,000,000.

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 the Security Agreement 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 \$1,000,000.

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 the Security Agreement; 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 Adjusted Tangible Net Worth. The Adjusted Tangible Net Worth of Borrower at

any date shall not be less than \$11,500,000.

7.10 Liabilities to Adjusted Tangible Net Worth Ratios. The ratio of (a) the

Total Liabilities, excluding (i) net deferred taxes, (ii) Advances to the extent of the aggregate Collateral Value of all Eligible Gestation Mortgage Loans, and (iii) obligations of Borrower in respect of Repurchase Agreements, of Borrower to (b) the Adjusted Tangible Net Worth of Borrower shall not average more than 12.0 to 1.0 at any reporting time pursuant to Section 6.1, and never, at any time, exceed 17.5 to 1.0.

7.11 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 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, demonstrating the amount and source of such return or distribution.

7.12 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.

7.13 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.

7.14 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.

7.15 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.

7.16 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.

7.17 Tax Allocation Agreement. Borrower shall not permit the amendment or

modification of the Tax Allocation Agreement in any way which has an adverse effect on Borrower.

7.18 Permitted Subordinated Indebtedness. Borrower shall not increase the

outstanding amount of the Permitted Subordinated Indebtedness, modify or amend the Parent Note without providing a copy of the Parent Note, as modified, to Agent within 20 days after execution of the Parent Note, or make any payment in respect of the Parent 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 Parent Note.

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, 6.19, or 6.20 or Section 7 (other than Sections 7.11, 7.12, 7.16, 7.18, and 7.14, which Section 7.14 is governed by Section 8.1(i) regarding payments of judgments), and (ii) any term, covenant or agreement set forth in Sections 6.22, 7.11, 7.12, 7.14, or 7.16, or 7.18 if such failure shall remain unremedied for 20 days, and (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; 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;

(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 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, 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 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 7.14 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 or any reason other than death or disability;

(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 U.S. Bank National

Association, 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 the Security Agreement and Sections 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, but subject to the proviso clause of the preceding sentence, 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 with the written consent of Borrower, which consent shall not be unreasonably withheld or delayed, provided that the consent of the Borrower shall not be required if a Default or an Event of Default shall have occurred and is continuing. 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, upon written request by such party to the Agent, to visit and inspect the premises on which the custodial duties of Agent hereunder are performed at a time which is mutually satisfactory to Agent and such requesting party, and allow such requesting party to 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.

9.8 Reports. On the fifth (5th) day of each calendar month (or if such day is not a Business Day, the next succeeding Business Day), Agent shall deliver to each Lender and Borrower (a) a report of the Pledged Mortgage Loans (noting any document exceptions) for the month ended (a "Basic Status Report"); and (b) a report of the Pledged Mortgage Loans shipped to Investors for which Agent has not received the full purchase price in cash (a "Shipped Not Paid Report"). The information on the Basic Status Report and the Shipped Not Paid Report shall be dated as of the end of the immediately preceding month.

SECTION 10. INDEMNIFICATION OF LENDERS

10.1 Indemnification.

(a) Borrower will indemnify and hold harmless Agent, each Lender, and Agent's and 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 any L/C or L/C Agreement, any other Loan Document 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 5 OF THE SECURITY AGREEMENT 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, VA 22102
Attention: William J. Inman
Telecopy: (703) 761-2030

Agent: U.S. Bank National Association
U.S. Bank Place
601 Second Avenue South
Minneapolis, MN 55402-4302
Attention: Kathleen M. Connor
Telecopy: (612) 973-0826

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, Conversion Requests and Agreements to Pledge 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, 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 \$250,000,000. 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 8.1(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, 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 \$25,000,000.

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 MINNESOTA, 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. CHAPTER 346 OF THE TEXAS FINANCE CODE (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.

If Texas Laws are applicable for purposes of determining the "Maximum Rate" or the "Maximum Amount," then those terms mean the "weekly ceiling" from time to time in effect under Article 5069-1D.001, et seq., Title 79, Texas Revised Civil Statutes, as amended. Chapter 346 of the Texas Finance Code, as amended (which regulates certain revolving credit loan accounts and revolving triparty accounts), does not apply to the Obligation.

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 (excepted 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 obligations 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, in respect of each such Participation, 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. In the case of an assignment by any Lender, Borrower retains the right to approve the assignment, which approval may not be unreasonably withheld.

(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 Lender Addition Agreement. Each Lender hereby agrees to execute each Lender Addition Agreement for purposes of acknowledging the terms and provisions thereof.

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 SITTING IN HENNEPIN COUNTY OR RAMSEY COUNTY, Minnesota, 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 Minnesota, or in the United States District Court for the District of Minnesota, sitting, in either case, in Hennepin County or Ramsey County, Minnesota, 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 the date hereof 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: September 7, 1999

NVR MORTGAGE FINANCE, INC., as
Borrower

U.S. BANK, NATIONAL
ASSOCIATION, as Agent and Lender

By _____
Its _____

By _____
Its _____

THE BANK OF NEW YORK, as Lender

BANK BOSTON, N.A., as Lender

By _____
Its _____

By _____
Its _____

CHASE BANK OF TEXAS, NATIONAL
- - - - -
ASSOCIATION, as Lender

GUARANTY FEDERAL BANK, F.S.B.,
as Lender

By _____
Its _____

By _____
Its _____

NVR, INC.

HIGH PERFORMANCE COMPENSATION PLAN - Number 2

(EFFECTIVE JANUARY 1, 1999)

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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, 1999.

II. DEFINITIONS

2.1. "Beneficiary" means the person or persons so designated by a Participant pursuant to Section 5.9.

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 or his Beneficiary 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 - Number 2, 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 Performance 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 Performance 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 the related Performance Period for any of the reasons described in subsection (a), (b), (c) or (d) of Section 5.4, 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 participated for the entire Performance Period based on the number of months (rounded to the nearest whole month) of the Performance 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 Performance 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 Performance Period has commenced, shall, for purposes of this Section 2.20, be deemed to have been eligible as of the beginning of such Performance 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. Eligibility Periods under the Plan 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. Performance Periods shall commence and terminate as determined by the Committee; provided that each such Performance Period shall commence coincident with 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. Notwithstanding the forgoing, Participants designated to be eligible to participate in a Performance Period subsequent to the initial Performance Period commencement date shall have their award reduced to reflect their participation for less than the full Performance Period.

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, 5.4 and/or 7.3, if applicable).

5.2. Timing and Form of Payment.

(a) Payments to Participants pursuant to Section 5.1 shall be payable at dates and in a form as determined solely by the Committee.

(b) Prior to any specified payment date of any portion of a Performance Award, 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, at the option of the Participant, (1) be adjusted quarterly 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), or (2) be credited with interest quarterly based upon the balance of the Participant's Deferred Compensation Account (the rate of interest will equal the same rate as that of the ninety (90) day Treasury Bill as of the close of the quarter). Once a method for determining the investment experience of the Deferred Compensation Account is selected by the Participant, that method selected for calculating investment experience can not be changed.

(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 a Change of Control

(a) Upon a Change of Control, Performance Compensation determined to be earned pursuant to Section 5.1 will be paid to the Participant in a lump sum payable on demand by the Participant after the Change of Control Event occurs.

(b) Notwithstanding the forgoing (including Section 4.4(c)), a majority vote by the Plan's Participants may cause the continuation of the Plan in its then existing format. The vote will be monitored by the Committee, and must occur within two business days subsequent to the Change of Control event. Each Participant is granted one (1) vote, which is weighted by the ratio of his respective Performance Compensation granted pursuant to Section 5.1 to the aggregate Performance Compensation granted pursuant to Section 5.1. Uncast votes are excluded from formulating the election results.

5.4. Distribution upon Termination of Employment.

(a) Death. If a Participant in the Plan dies before the end of a Performance 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 a Performance 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 a Performance 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 Before the End of the Performance Period. If, (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 a Performance 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) Termination of Employment Without Cause After End of the Performance Period but Before the End of the Eligibility Period. If, after the end of the Performance Period but before the end of the Eligibility Period (i) the Company terminates a Participant's employment other than for Cause (ii) the Participant terminates the Participant's employment at the request of the Company, or (iii) the Participant terminates a Participant's employment by reason of Death, Disability or Normal Retirement, the Participant or his or her beneficiary will be distributed the Performance Compensation that has been determined pursuant to Section 5.1. This distribution is payable in the same form and at the same time that all other Participants under the Plan receive their distributions with respect to the Performance Period.

(f) Other Termination of Employment. If, before the end of the Eligibility Period, including any and all Performance Periods, a Participant in the Plan incurs a voluntary termination of employment for any reason other than those specified in subsections (a)-(e) of this Section 5.4, or the Participant is terminated for Cause, he shall forfeit all rights to receive any further distributions of Performance Compensation under the Plan.

5.5 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 5.7 at the end of the deferral period elected pursuant to Section 5.2(b), 5.2(c) or on termination of employment, if earlier.

5.6 Hardship Distributions. The Committee may, in its sole discretion, make distributions to a Participant or his Beneficiary from his Deferred Compensation Account prior to the date that amounts would otherwise become payable if the Committee determines that the Participant or his Beneficiary has suffered a Hardship. The amount of any such distribution shall be limited to the amount reasonably necessary to meet the Participant's or his Beneficiary's needs created by the Hardship. In the event that the Participant or his Beneficiary is incapacitated, the Participant's or Beneficiary's guardian or legal representative is authorized by the Plan to request Hardship relief on behalf of the Participant or his Beneficiary.

5.7. Form of Payment.

(a) Except as provided in paragraph (c), the amount which a Participant or Beneficiary becomes entitled to receive pursuant to Section 5.5 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.

5.8. 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.

5.9. 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 Senior 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 Senior 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

7.1. Modification The Committee may elect to modify Performance Awards under the Plan at any time without the Participant's consent.

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

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 Commonwealth 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.

9.0. Participation Agreement. All Participants who are eligible to participate in the Plan will receive their notice of eligibility in a written form via a Participation Agreement.

NVR, Inc.
 Computation of Earnings Per share
 (amounts in thousands, except per Share amounts)

	Year Ended December 31, 1999 -----	Year Ended December 31, 1998 -----	Year Ended December 31, 1997 -----
1. Net income	\$108,881 =====	\$56,706 =====	\$28,879 =====
2. Average number of Shares outstanding	10,190	11,131	11,839
3. Shares issuable upon exercise of dilutive options, warrants and subscriptions outstanding during period, based on average market price	1,898 -----	2,169 -----	1,406 -----
4. Average number of Shares and Share equivalents outstanding (2 + 3)	12,088 =====	13,300 =====	13,245 =====
5. Basic earnings per share (1/2)	\$ 10.69 =====	\$ 5.10 =====	\$ 2.44 =====
6. Diluted earnings per share (1/4)	\$ 9.01 =====	\$ 4.26 =====	\$ 2.18 =====

NVR, Inc. Subsidiaries

Name of Subsidiary -----	State of ----- Incorporation or ----- Organization -----
NVR Mortgage Finance, Inc.	Virginia
NVR Settlement Services, Inc.	Pennsylvania
Ryan Mortgage Acceptance Corporation IV	Delaware
RVN, Inc.	Delaware
Fox Ridge Homes, Inc.	Tennessee
First Republic Mortgage Company	Maryland

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), the registration statement (No. 33-69436) on Form S-3, the registration statement (No. 333-44515) on Form S-3 (for a universal shelf registration for senior or subordinated debt in an amount up to \$400 million), the amended registration statement (No. 333-44515) on Form S-3A (for a universal shelf registration for senior or subordinated debt in an amount up to \$400 million), the registration statement (No. 333-79949) on Form S-8 (for the NVR, Inc. 1998 Directors' Long-Term Stock Option Plan), and the registration statement (No. 333-79951) on Form S-8 (for the NVR, Inc. 1998 Management Stock Option Plan) of our reports on the consolidated balance sheets of NVR, Inc. and subsidiaries as of December 31, 1999 and 1998 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, 1999, included herein.

KPMG LLP

McLean, Virginia
March 8, 2000

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NVR INC.'S CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000906163
NVR, INC.
1,000
U.S. DOLLARS

12-MOS		
	DEC-31-1999	
	JAN-01-1998	
	DEC-31-1999	
	1	89,126
		0
	2,171	0
	323,455	0
	0	17,353
	0	0
	767,281	
	0	145,000
	0	0
		196,858
		3,782
767,281		
	1,942,660	
2,006,648		
	1,610,727	
	1,791,509	
	8,090	
	0	
	21,037	
	185,212	
	76,331	
108,881		
	0	
	0	
		0
	108,881	
	10.69	
	9.01	

ITEM REPRESENT THE NON-CASH AMORTIZATION OF EXCESS REORGANIZATION VALUE AND GOODWILL.