

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10Q

Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For quarterly period ended APRIL 30, 2002 or

Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Commission file number 1-8551

Hovnanian Enterprises, Inc.
(Exact name of registrant as specified in its charter)

Delaware 22-1851059
(State or other jurisdiction or (I.R.S. Employer
incorporation or organization) Identification No.)

10 Highway 35, P.O. Box 500, Red Bank, N. J. 07701
(Address of principal executive offices)

732-747-7800
(Registrant's telephone number, including area code)
Same
(Former name, former address and former fiscal year, if changed
since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 23,046,915 Class A Common Shares and 7,450,288 Class B Common Shares were outstanding as of May 31, 2002.

HOVNANIAN ENTERPRISES, INC.

FORM 10Q

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HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands)

ASSETS	April 30, 2002	October 31, 2001
	----- (unaudited)	
Homebuilding:		
Cash and cash equivalents.....	\$ 34,177	\$ 10,173

Inventories - At the lower of cost or fair value:		
Sold and unsold homes and lots under development.....	848,882	593,149
Land and land options held for future development or sale.....	178,331	146,965

Total Inventories.....	1,027,213	740,114

Receivables, deposits, and notes	45,610	75,802

Property, plant, and equipment - net.....	29,932	30,756

Senior residential rental properties - net.....	9,697	9,890

Prepaid expenses and other assets.....	79,625	46,178
Goodwill.....	82,385	32,618

Total Homebuilding.....	1,308,639	945,531

Financial Services:		
Cash and cash equivalents.....	3,482	5,976
Mortgage loans held for sale.....	58,298	105,567
Other assets.....	10,476	6,465

Total Financial Services.....	72,256	118,008

Income Taxes Receivable - Including deferred tax benefits.....	5,377	719

Total Assets.....	\$1,386,272	\$1,064,258
	=====	

See notes to consolidated financial statements.

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands Except Per Share Data)

LIABILITIES AND STOCKHOLDERS' EQUITY	April 30, 2002	October 31, 2001
	----- (unaudited)	
Homebuilding:		
Nonrecourse land mortgages.....	\$ 8,280	\$ 10,086
Accounts payable and other liabilities.....	138,414	124,125
Customers' deposits.....	41,135	39,114
Nonrecourse mortgages secured by operating properties.....	3,335	3,404

Total Homebuilding.....	191,164	176,729

Financial Services:		
Accounts payable and other liabilities.....	4,688	5,264
Mortgage warehouse line of credit.....	52,784	98,305

Total Financial Services.....	57,472	103,569

Notes Payable:		
Term loan.....	115,000	

Senior notes.....	396,152	296,797
Senior subordinated notes.....	150,000	
Subordinated notes.....		99,747
Accrued interest.....	9,822	11,770
	-----	-----
Total Notes Payable.....	670,974	408,314
	-----	-----
Total Liabilities.....	919,610	688,612
	-----	-----

Stockholders' Equity:

Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued.....		
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares; issued 27,082,863 shares at April 2002 and 24,599,379 shares at October 2001 (including 4,295,621 shares at April 2002 and 4,195,621 at October 2001 held in Treasury).....	271	246
Common Stock, Class B, \$.01 par value-authorized 13,000,000 shares; issued 7,799,400 at April 2002 and 7,818,927 shares at October 2001 including 345,874 shares at April 2002 and October 2001 held in Treasury).....	78	78
Paid in Capital.....	148,902	100,957
Retained Earnings.....	354,177	310,106
Deferred Compensation.....	(63)	(127)
Treasury Stock - at cost.....	(36,703)	(35,614)
	-----	-----
Total Stockholders' Equity.....	466,662	375,646
	-----	-----

Total Liabilities and Stockholders' Equity.....	\$1,386,272	\$1,064,258
	=====	=====

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands Except Per Share Data)
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Revenues:				
Homebuilding:				
Sale of homes.....	\$532,386	\$393,301	\$ 975,484	\$676,706
Land sales and other revenues.....	20,416	2,290	22,583	6,535
	-----	-----	-----	-----
Total Homebuilding.....	552,802	395,591	998,067	683,241
Financial Services.....	8,676	6,749	17,663	12,287
	-----	-----	-----	-----
Total Revenues.....	561,478	402,340	1,015,730	695,528
	-----	-----	-----	-----
Expenses:				
Homebuilding:				
Cost of sales.....	437,006	314,162	788,679	539,897
Selling, general and administrative	47,646	34,875	85,295	63,100
Inventory impairment loss.....	1,424	764	2,329	938
	-----	-----	-----	-----
Total Homebuilding.....	486,076	349,801	876,303	603,935
Financial Services.....	5,103	4,716	10,462	8,496
Corporate General and Administration.	10,629	9,401	21,505	19,279
Interest.....	12,802	13,949	26,504	23,454
Other Operations.....	4,400	1,906	8,691	3,757
Restructuring Charges.....				2,480
	-----	-----	-----	-----
Total Expenses.....	519,010	379,773	943,465	661,401
	-----	-----	-----	-----
Income Before Income Taxes and Extraordinary Loss.....	42,468	22,567	72,265	34,127
	-----	-----	-----	-----
State and Federal Income Taxes:				
State.....	1,534	1,028	3,407	1,427
Federal.....	14,442	7,479	24,205	11,717
	-----	-----	-----	-----
Total Taxes.....	15,976	8,507	27,612	13,144
	-----	-----	-----	-----
Extraordinary Loss from Extinguishment Of Debt, Net of Income Taxes.....	(582)		(582)	

Net Income.....	\$ 25,910	\$ 14,060	\$ 44,071	\$ 20,983
Per Share Data:				
Basic:				
Income per common share before				
Extraordinary loss.....	\$ 0.86	\$ 0.50	\$ 1.50	\$ 0.83
Extraordinary loss.....	(.02)		(.02)	
Income.....	\$ 0.84	\$ 0.50	\$ 1.48	\$ 0.83
Weighted average number of common shares outstanding.....	30,670	28,176	29,836	25,262
Assuming dilution:				
Income per common share before				
Extraordinary loss.....	\$ 0.82	\$ 0.48	\$ 1.42	\$ 0.80
Extraordinary loss.....	(.02)		(.02)	
Income.....	\$ 0.80	\$ 0.48	\$ 1.40	\$ 0.80
Weighted average number of common shares outstanding.....	32,402	29,472	31,447	26,116

See notes to consolidated financial statements.

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars In Thousands)

	A Common Stock		B Common Stock		Paid-In Capital	Retained Earnings	Deferred Comp	Treasury Stock	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
Balance, October 31, 2001	20,403,758	\$ 246	7,473,053	\$ 78	\$100,957	\$310,106	\$ (127)	\$(35,614)	\$ 375,646
Shares issued in connection with acquisitions.....	2,208,738	22			45,692				45,714
Sale of common stock under employee stock option plan.....	193,055	2			1,297				1,299
Stock bonus plan.....	62,164	1			956				957
Conversion of Class B to Class A Common Stock....	19,527		(19,527)						
Deferred compensation.....							64		64
Treasury stock purchase...	(100,000)							(1,089)	(1,089)
Net Income.....						44,071			44,071
Balance, April 30, 2002 (unaudited).....	22,787,242	\$ 271	7,453,526	\$ 78	\$148,902	\$354,177	\$ (63)	\$(36,703)	\$ 466,662

See notes to consolidated financial statements.

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(unaudited)

	Six Months Ended April 30,	
	2002	2001
Cash Flows From Operating Activities:		
Net Income.....	\$ 44,071	\$ 20,983
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation.....	3,342	4,018
Amortization of goodwill.....		1,627
(Gain) on sale and retirement of property and assets.....	(7)	(36)
Extraordinary loss from extinguishment of debt net of income taxes.....	582	
Deferred income taxes.....	(745)	1,033
Impairment losses.....	2,329	938

Decrease (increase) in assets:		
Mortgage notes receivable.....	47,023	(10,615)
Receivables, prepaids and other assets.....	13,606	(22,324)
Inventories.....	(69,318)	(9,087)
(Decrease) increase in liabilities:		
State and Federal income taxes.....	(3,761)	(2,643)
Tax effect from exercise of stock options.....	(152)	(398)
Customers' deposits.....	1,684	4,593
Interest and other accrued liabilities.....	(7,265)	(4,109)
Post development completion costs.....	(811)	834
Accounts payable.....	4,455	(10,612)
	-----	-----
Net cash provided by (used in) operating activities.....	35,033	(25,798)
	-----	-----
Cash Flows From Investing Activities:		
Net proceeds from sale of property and assets.....	335	1,002
Purchase of property, equipment and other fixed assets.....	(2,091)	(2,253)
Acquisition of homebuilding companies.....	(140,095)	(37,190)
Investment in and advances to unconsolidated affiliates.....	(1,095)	(181)
	-----	-----
Net cash used in investing activities.....	(142,946)	(38,622)
	-----	-----
Cash Flows From Financing Activities:		
Proceeds from mortgages and notes.....	1,045,306	813,780
Proceeds from senior debt.....	99,152	
Proceeds from senior subordinated debt.....	150,000	
Principal payments on mortgages and notes.....	(1,066,455)	(756,487)
Principal payments on subordinated debt.....	(99,747)	
Purchase of treasury stock.....	(1,089)	67
Proceeds from sale of stock and employee stock plan.....	2,256	2,239
	-----	-----
Net cash provided by financing activities...	129,423	59,599
	-----	-----
Net Increase (decrease) In Cash and Cash Equivalents..	21,510	(4,821)
Cash and Cash Equivalents Balance, Beginning Of Period.....	16,149	43,253
	-----	-----
Cash and Cash Equivalents Balance, End Of Period.....	\$ 37,659	\$ 38,432
	=====	=====

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments for interim periods presented have been made, which include only normal recurring accruals and deferrals necessary for a fair presentation of consolidated financial position, results of operations, and changes in cash flows. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and these differences could have a significant impact on the financial statements. Results for the interim periods are not necessarily indicative of the results which might be expected for a full year. The balance sheet at October 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Interest costs incurred, expensed and capitalized were:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2002	2001	2002	2001

	(Dollars in Thousands)			
Interest Capitalized at				
Beginning of Period.....	\$22,899	\$31,365	\$ 25,124	\$25,694
Plus Acquired Entity Interest.				3,604
Plus Interest Incurred(1)(2)...	14,779	12,333	26,256	23,905
Less Interest Expensed(2).....	12,802	13,949	26,504	23,454
	-----	-----	-----	-----
Interest Capitalized at				
End of Period (2).....	\$24,876	\$29,749	\$ 24,876	\$29,749
	=====	=====	=====	=====

- (1) Data does not include interest incurred by our mortgage and finance subsidiaries.
- (2) Represents acquisition interest for construction, land and development costs which is charged to interest expense when homes are delivered and when land is not under active development.

3. Homebuilding accumulated depreciation at April 30, 2002 and October 31, 2001 amounted to \$20,534,000 and \$18,367,000, respectively. Senior residential rental property accumulated depreciation at April 30, 2002 and October 31, 2001 amounted to \$2,853,000 and \$2,688,000, respectively.

4. We record impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. In addition, from time to time, we will write off certain residential land options including approval, engineering, and capitalized interest costs for land management decided not to purchase. We wrote off such costs in the amount of \$1,338,000 in Poland, \$63,000 in the Northeast Region, \$18,000 in Metro D.C., and \$5,000 in North Carolina during the three months ended April 30, 2002 and we wrote off \$801,000 in the Mid South, \$84,000 in North Carolina, and \$20,000 in the Northeast Region during the three months ended January 31, 2002. We also wrote off such costs in the amount of \$735,000 in California, \$18,000 in Metro D. C., and \$11,000 in the Northeast Region during the three months ended April 30, 2001 and wrote off \$63,000 in the Northeast Region and \$111,000 in Metro D. C. during the three months ended January 31, 2001. Residential inventory impairment losses and option write offs are reported in the Consolidated Statements of Income as "Homebuilding - Inventory Impairment Loss."

5. We are involved from time to time in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on us. As of April 30, 2002 and October 31, 2001, we are obligated under various performance letters of credit amounting to \$89,954,000 and \$51,647,000, respectively.

6. We have an unsecured Revolving Credit Agreement ("Agreement") with a group of banks which provides up to \$440,000,000 through July 2004. Interest is payable monthly and at various rates of either the prime rate plus 0.40% or LIBOR plus 1.85%. In addition, we pay a fee equal to 0.375% per annum on the weighted average unused portion of the line. As of April 30, 2002 and October 31, 2001, there was an outstanding balance of zero.

7. On March 26, 2002, we issued \$100,000,000 8% Senior Notes due 2012 and \$150,000,000 8 7/8% Senior Subordinated Notes due 2012. On April 29, 2002, we redeemed our 9 3/4% Subordinated Notes due 2005. The early retirement of these notes resulted in an extraordinary loss of \$582,000 net of income taxes of \$313,000. The remaining proceeds were used to repay a portion of our Term Loan Facility, repay the current outstanding indebtedness under our Revolving Credit Facility, and the remainder for general corporate purposes.

8. On January 22, 2002 we entered into a \$165,000,000 Term Loan with a group of banks which is due January 22, 2007. Interest is payable monthly at either the prime rate plus 1.25% or LIBOR plus 2.5%. The proceeds from the issuance of the Term Loan were primarily used to partially fund the acquisition of the California operations of The Forecast Group, L.P. ("Forecast"). See Note 8 below. On March 27, 2002 we paid down the Term Loan by \$50,000,000.

9. On January 23, 2001 we merged with Washington Homes, Inc. for a total purchase price of \$87.4 million, of which \$38.5 million was paid in cash and 6,352,900 shares of our Class A Common Stock were issued. At the date of acquisition we loaned Washington Homes, Inc. approximately \$57.0 million to pay off their third party debt.

On January 10, 2002 we acquired the California homebuilding operations of Forecast for an estimated total purchase price of \$196.5 million, of which \$151.6 million was paid in cash and 2,208,738 shares of Class A Common Stock were issued. We acquired Forecast to expand our California homebuilding operations. In addition, we have an option to purchase additional land parcels owned by Forecast for a price of \$49.0 million. At the date of the acquisition we also paid off approximately \$88.0 million of Forecast's third party debt. The total purchase price amounted to \$90.4 million over Forecast's book value, of which \$22.8 million was added to inventory to reflect fair value, \$18.5 million was paid for two option agreements, a two year consultant's agreement, and a three year right of first refusal agreement, and the balance recorded as goodwill.

A Forecast condensed balance sheet (including the effects of purchase accounting adjustments) as of the acquisition date is as follows (in thousands):

January 10,
2002

Cash and cash equivalents.....	\$ 10,209
Inventories.....	220,110
Goodwill.....	49,107
Prepays and other assets.....	20,676

Total Assets	\$ 300,102
	=====

Accounts payable and other liabilities.....	\$ 35,028
Revolving credit agreement.....	219,574
Stockholders' equity.....	45,500

Total Liabilities and Stockholders' Equity.....	\$ 300,102
	=====

The merger with Washington Homes, Inc. and acquisition of Forecast were accounted for as purchases with the results of operations of these entities included in our consolidated financial statements as of the date of the merger and acquisition. The purchase price was allocated based on estimated fair value at the date of the merger and acquisition. An intangible asset equal to the excess purchase price over the fair value of the net assets of \$12.8 million and \$49.8 for Washington Homes and Forecast, respectively, were recorded as goodwill on the consolidated balance sheet. The Washington Homes amount was being amortized on a straight line basis over a period of ten years during fiscal 2001. On November 1, 2001 we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). As a result of adopting SFAS No. 142, goodwill is no longer amortized.

The following unaudited pro forma financial data for the three and six months ended April 30, 2002 and 2001 has been prepared as if the merger with Washington Homes, Inc. on January 23, 2001 and the acquisition of Forecast on January 10, 2002 had occurred on November 1, 2000. Unaudited pro forma financial data is presented for information purposes only and may not be indicative of the actual amounts had the events occurred on the dates listed above, nor does it purport to represent future periods (in thousands).

	Three Months Ended April 30,		Six Months Ended April 30,	
	2002	2001	2002	2001
Revenues.....	\$561,478	\$521,964	\$1,080,079	\$969,787
Expenses.....	519,010	487,100	1,002,450	917,189
Income Taxes.....	15,976	13,438	29,710	19,807
Extraordinary Loss from Extinguishment Of Debt, Net of Taxes.....	(582)		(582)	
	-----	-----	-----	-----
Net Income.....	\$ 25,910	\$ 21,426	\$ 47,337	\$ 32,791
	=====	=====	=====	=====
Diluted Net Income Per Common Share..	\$ 0.80	\$ 0.68	\$ 1.47	\$ 1.05
	=====	=====	=====	=====

10. Restructuring Charges - Restructuring charges are estimated expenses associated with the merger of our operations with those of Washington Homes, Inc. as a result of the merger on January 23, 2001. Under our merger plan, administration offices in Maryland, Virginia, and North Carolina were either closed, relocated, or combined. The merger of administration offices was completed by July 31, 2001. At January 31, 2001, expenses were accrued for salaries, severance and outplacement costs for the involuntary termination of associates, costs to close and/or relocate existing administrative offices, and lost rent and leasehold improvements. During the year ended October 31, 2001 our estimate for restructuring charges was increased to a total of \$3.2 million. We have provided for the termination of 65 associates. We accrued approximately \$2.0 million to cover termination and related costs. Associates being terminated were primarily administrative. In addition, we accrued approximately \$1.2 million to cover closing and/or relocation of various administrative offices in these three states. Such amounts are included in accounts payable and other liabilities in the accompanying financial statements. \$272,000 and \$577,000 was charged against the reserve during the three and six months ended April 30, 2002. At April 30, 2002 \$1.8 million has been charged against termination costs relating to the termination of 63 associates and \$0.8 million has been charged against closing and relocation costs.

11. Intangible Assets - As reported on the balance sheet we have goodwill totaling \$82.4 million. We have no other intangible assets. During the six months ended April 30, 2002 we added \$49.8 million of goodwill as a result of the Forecast acquisition. Goodwill deductible for income tax purposes is approximately \$1,243,000 and \$1,895,000 for the three and six months ended April 30, 2002, respectively. Amortization of goodwill in the amount of \$958,000 and \$1,627,000 was recorded for the three and six months ended April 30, 2001, respectively, and is also included in other operations in the accompanying consolidated financial statements. After income taxes the goodwill amortization for the three and six months ended April 30, 2001,

amounted to approximately \$551,000 and \$1,001,000, which if eliminated from net income would have increased earnings per share approximately \$0.02 and \$0.04, respectively.

In accordance with SFAS No. 142 we no longer amortize goodwill but instead we review goodwill for impairment. The impairment test uses a fair value approach rather than the undiscounted cash flows approach. We have determined that goodwill was not impaired as of April 30, 2002.

12. Hovnanian Enterprises, Inc., the parent company (the "Parent") is the issuer of publicly traded common stock. One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc., (the "Subsidiary Issuer") was the issuer of certain Senior Notes on May 4, 1999, October 2, 2000, and March 26, 2002 and Senior Subordinated Notes on March 26, 2002.

The Subsidiary Issuer acts as a finance and management entity that as of April 30, 2002 had issued and outstanding approximately \$400,000,000 senior notes, \$150,000,000 senior subordinated notes, a revolving credit agreement with an outstanding balance of zero, and a term loan with an outstanding balance of \$115,000,000. The senior subordinated notes, senior notes, the revolving credit agreement, and term loan are fully and unconditionally guaranteed by the Parent.

Each of the wholly owned subsidiaries of the Parent (collectively the "Guarantor Subsidiaries"), with the exception of various subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a mortgage lending subsidiary, a subsidiary holding and licensing the "K. Hovnanian" trade name, a subsidiary engaged in homebuilding activity in Poland, our title subsidiaries, and joint ventures (collectively the "Non-guarantor Subsidiaries"), have guaranteed fully and unconditionally, on a joint and several basis, the obligation to pay principal and interest under the senior notes, the senior subordinated notes, the term loan, and the revolving credit agreement of the Subsidiary Issuer.

In lieu of providing separate audited financial statements for the Guarantor Subsidiaries we have included the accompanying consolidating condensed financial statements. Management does not believe that separate financial statements of the Guarantor Subsidiaries are material to investors. Therefore, separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented.

The following consolidating condensed financial information present the results of operations, financial position, and cash flows of (i) the Parent, (ii) the Subsidiary Issuer, (iii) the Guarantor Subsidiaries of the Parent, (iv) the Non-guarantor Subsidiaries of the Parent, and (v) the eliminations to arrive at the information for Hovnanian Enterprises, Inc. on a consolidated basis.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
 CONSOLIDATING CONDENSED BALANCE SHEET
 APRIL 30, 2002
 (Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Homebuilding.....	\$ (367)	\$ 77,114	\$ 1,224,484	\$ 7,408	\$	\$1,308,639
Financial Services.....			202	72,054		72,256
Income Taxes (Payables)Receivables.	2,584	(2,643)	7,662	(2,226)		5,377
Investments in and amounts due to and from consolidated subsidiaries.....	464,445	607,056	(948,199)	21,827	(145,129)	
Total Assets.....	\$466,662	\$ 681,527	\$ 284,149	\$ 99,063	\$ (145,129)	\$1,386,272
LIABILITIES AND STOCKHOLDERS' EQUITY						
Homebuilding.....	\$	\$ 11,388	\$ 179,739	\$ 37	\$	\$ 191,164
Financial Services.....				57,472		57,472
Notes Payable.....		670,922	52			670,974
Stockholders' Equity.....	466,662	(783)	104,358	41,554	(145,129)	466,662
Total Liabilities and Stockholders' Equity.....	\$466,662	\$ 681,527	\$ 284,149	\$ 99,063	\$ (145,129)	\$1,386,272

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONSOLIDATING CONDENSED BALANCE SHEET
 OCTOBER 31, 2001

(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidi- aries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
Assets						
Homebuilding.....	\$ 2,022	\$ 50,565	\$ 882,715	\$ 10,229	\$	\$ 945,531
Financial Services.....			205	117,803		118,008
Income Taxes (Payables)Receivables.	(5,067)	(3,658)	11,893	(2,449)		719
Investments in and amounts due to and from consolidated subsidiaries.....	378,691	375,514	(668,285)	14,513	(100,433)	
Total Assets.....	\$375,646	\$ 422,421	\$ 226,528	\$ 140,096	\$(100,433)	\$1,064,258
Liabilities						
Homebuilding.....	\$	\$ 14,679	\$ 161,759	\$ 291	\$	\$ 176,729
Financial Services.....				103,569		103,569
Notes Payable.....		408,206	108			408,314
Stockholders' Equity.....	375,646	(464)	64,661	36,236	(100,433)	375,646
Total Liabilities and Stockholders' Equity.....	\$375,646	\$ 422,421	\$ 226,528	\$ 140,096	\$(100,433)	\$1,064,258

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
THREE MONTHS ENDED APRIL 30, 2002
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidi- aries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
Revenues:						
Homebuilding and Other Operations	\$	\$ 125	\$ 551,934	\$ 7,135	\$ (6,392)	\$ 552,802
Financial Services.....			1,324	7,352		8,676
Intercompany Charges.....		34,147	4,180		(38,327)	
Equity In Pretax Income of Consolidated Subsidiaries.....	42,468				(42,468)	
Total Revenues.....	42,468	34,272	557,438	14,487	(87,187)	561,478
Expenses:						
Homebuilding and Other Operations		34,272	519,882	1,084	(41,331)	513,907
Financial Services.....			527	4,925	(349)	5,103
Total Expenses.....		34,272	520,409	6,009	(41,680)	519,010
Income Before Income Taxes.....	42,468		37,029	8,478	(45,507)	42,468
State and Federal Income Taxes.....	15,976	(181)	13,662	3,355	(16,836)	15,976
Extraordinary Loss From Extinguishment of Debt, Net of Income Taxes.....	(582)	(582)			582	(582)
Net Income	\$25,910	\$ (401)	\$ 23,367	\$ 5,123	\$ (28,089)	\$ 25,910

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
THREE MONTHS ENDED APRIL 30, 2001
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidi- aries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
Revenues:						
Homebuilding and Other Operations	\$	\$ 364	\$ 393,839	\$ 3,016	\$ (1,628)	\$ 395,591
Financial Services.....			3,217	3,532		6,749
Intercompany Charges.....		29,809	2,387		(32,196)	
Equity In Pretax Income of Consolidated Subsidiaries.....	22,567				(22,567)	
Total Revenues.....	22,567	30,173	399,443	6,548	(56,391)	402,340

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
 CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
 SIX MONTHS ENDED APRIL 30, 2002
 (Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
Cash Flows From Operating Activities:						
Net Income.....	\$ 44,071	\$ (428)	\$ 38,007	\$ 9,665	\$ (47,244)	\$ 44,071
Adjustments to reconcile net income to net cash provided by (used in) operating activities...	87,095	52,923	(225,305)	40,518	47,244	2,475
Net Cash Provided By (Used In) Operating Activities.....	131,166	52,495	(187,298)	50,183		46,546
Net Cash (Used In) Provided By Investing Activities.....	(44,323)	(1,445)	(108,845)	154		(154,459)
Net Cash Provided By (Used In) Financing Activities.....	(1,089)	264,608	(88,267)	(45,829)		129,423
Intercompany Investing and Financing Activities - Net.....	(85,754)	(295,948)	389,016	(7,314)		
Net Increase (Decrease) In Cash and Cash Equivalents.....		19,710	4,606	(2,806)		21,510
Cash and Cash Equivalents Balance, Beginning of Period.....	10	(5,840)	15,616	6,363		16,149
Cash and Cash Equivalents Balance, End of Period.....	\$ 10	\$ 13,870	\$ 20,222	\$ 3,557	\$	\$ 37,659

\$165,000,000 TERM LOAN FACILITY
 CREDIT AGREEMENT
 by and among
 K. HOVNIANIAN ENTERPRISES, INC.
 (as the Borrower)
 HOVNIANIAN ENTERPRISES, INC.
 (as a Guarantor)
 and THE BANKS PARTY HERETO
 FLEET NATIONAL BANK, as Administrative Agent
 BANK OF AMERICA, N.A.,
 As Syndication Agent
 BANC OF AMERICA SECURITIES, LLC
 and FLEET NATIONAL BANK
 as Joint Lead Arrangers
 and BANC OF AMERICA SECURITIES, LLC
 as Sole Joint Book Manager

Dated January 22, 2002

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LIST OF SCHEDULES AND EXHIBITS

SCHEDULES

SCHEDULE 1.1(A) -	COMMITMENTS OF BANKS AND ADDRESSES FOR NOTICES
SCHEDULE 1.1(B) -	LISTING OF RESTRICTED SUBSIDIARIES, JOINT VENTURES, MORTGAGE SUBSIDIARIES AND NON-RESTRICTED PERSONS
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SCHEDULE 5.1.2 -	SUBSIDIARIES
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EXHIBITS

EXHIBIT 1.1(A) -	ASSIGNMENT AND ASSUMPTION AGREEMENT
EXHIBIT 1.1 (B) -	BANK JOINDER AND ASSUMPTION AGREEMENT
EXHIBIT 1.1(G) -	GUARANTOR JOINDER
EXHIBIT 1.1(T) -	FORM OF TERM NOTE
EXHIBIT 2.4 -	FORM OF TERM LOAN REQUEST
EXHIBIT 7.3.3.1 -	QUARTERLY COMPLIANCE CERTIFICATE
EXHIBIT 7.3.3.2 -	BORROWING BASE CERTIFICATE

CREDIT AGREEMENT

THIS CREDIT AGREEMENT is dated January 22, 2002 and is made by and among K. HOVNANIAN ENTERPRISES, INC., a New Jersey corporation (the "Borrower"), HOVNANIAN ENTERPRISES, INC., a Delaware corporation

("Hovnanian" and a "Guarantor"), the BANKS (as hereinafter defined), and FLEET NATIONAL BANK, in its capacity as administrative agent for the Banks under this Agreement (hereinafter referred to in such capacity as the "Agent").

WITNESSETH:

WHEREAS, the Borrower has requested the Banks to provide a term loan facility to the Borrower in an aggregate principal amount not to exceed on the Closing Date \$165,000,000;

WHEREAS, the Term Loans shall be used to provide funds for the refinancing of the acquisition of substantially all of the assets of The Forecast Group, L.P. in January, 2002 and for other acquisitions not prohibited hereunder and for other corporate purpose; and

WHEREAS, the Banks are willing to provide such credit upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, covenant and agree as follows:

1. CERTAIN DEFINITIONS

1.1 Certain Definitions.

In addition to words and terms defined elsewhere in this Agreement, the following words and terms shall have the following meanings, respectively, unless the context hereof clearly requires otherwise:

Actual Leverage shall mean the ratio of (x)(i) Homebuilding Indebtedness minus (ii) Excess Cash to (y) Adjusted Tangible Net Worth.

Additional Bank shall have the meaning assigned to that term in Section 10.11(b) (Successors and Assigns).

Adjusted Operating Income shall mean for any period the sum of (x) consolidated net income of Hovnanian for such period, (y) to the extent deducted in arriving at such net income, consolidated income taxes, consolidated interest expense, fees in respect of letters of credit under the Revolving Senior Debt Facility, depreciation, amortization, non-cash valuation charges or adjustments and (z) cash distributions received by any Loan Party from Non-Restricted Persons during such period. Adjusted Operating Income shall exclude net income or loss of Non-Restricted Persons.

Adjusted Tangible Net Worth (or ATNW) shall mean (x) consolidated shareholders equity of Hovnanian minus, without duplication (y) (i) Intangibles, (ii) the Dollar amount of Restricted Investments and (iii) equity (comprising "cost" according to GAAP minus the amount of debt secured by applicable mortgages) in residential inventory properties with Purchase Money Mortgages, all as calculated and consolidated in accordance with GAAP.

Affiliate as to any Person shall mean any other Person (i) which directly or indirectly controls, is controlled by, or is under common control with such Person, (ii) which beneficially owns or holds 10% or more of any class of the voting or other equity interests of such Person, or (iii) 10% or more of any class of voting interests or other equity interests of which is beneficially owned or held, directly or indirectly, by such Person. Control, as used in this definition, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, including the power to elect a majority of the directors or trustees of a corporation or trust, as the case may be.

Agent shall mean Fleet National Bank as Administrative Agent.

Agent's Fee shall have the meaning assigned to that term in Section 9.15 (Agent's Fee).

Agent's Letter shall have the meaning assigned to that term in Section 9.15 (Agent's Fee).

Agreement shall mean this Credit Agreement, as the same may be supplemented or amended from time to time, including all schedules and exhibits.

Annual Statements shall have the meaning assigned to that term in Section 5.1.8((i) (Historical Statements)).

Applicable Margin shall mean, as applicable:

(A) the annual rate of one hundred twenty five basis points

(1.25%) to be added to Base Rate under the Base Rate Option,"

(B) the annual rate of two hundred fifty basis points (2.50%) to be added to LIBO-Rate under the LIBO Rate Option.

Approved Fund means with respect to any Bank that is a fund that invests in bank loans, any other fund that invests in commercial loans and is managed or advised by the same investment advisor as such Bank or by an Affiliate of such investment advisor.

Assignment and Assumption Agreement shall mean an Assignment and Assumption Agreement by and among a Purchasing Bank, a Transferor Bank and the Agent, as Agent and on behalf of the remaining Banks, substantially in the form of Exhibit 1.1(A).

Authorized Officer shall mean those individuals, designated by written notice to the Agent from the Borrower, authorized to execute notices, reports and other documents on behalf of the Loan Parties required hereunder. The Borrower may amend such list of individuals from time to time by giving written notice of such amendment to the Agent.

Banks shall mean the financial institutions named on Schedule 1.1(A) and their respective successors and assigns as permitted hereunder, each of which is referred to herein as a Bank.

Base Rate shall mean the greater of (i) the variable per annum rate of interest designated from time to time by Fleet as its "prime rate" (which prime rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer) or (ii) the Federal Funds Effective Rate plus 1/2% per annum.

Base Rate Option shall mean the option of the Borrower to have Term Loans bear interest at the rate and under the terms and conditions set forth in Section 3.1.1(i).

Benefit Arrangement shall mean at any time an "employee benefit plan," within the meaning of Section 3(3) of ERISA, which is neither a Plan nor a Multiemployer Plan and which is maintained, sponsored or otherwise contributed to by the Borrower. Borrower shall mean K. Hovnanian Enterprises, Inc., a corporation organized and existing under the laws of the State of New Jersey and wholly-owned by Hovnanian.

Borrowing Base shall mean at any time, the Dollar amount equal to the sum of the following items, each owned free and clear of all Liens (except Permitted Liens of the type described in items (i), (ii), (iii), (iv), (v) and (vi) of the definition of "Permitted Liens") by the Borrower, Hovnanian or a Restricted Subsidiary:

- (i) 100% of Excess Cash;
- (ii) 95% of Sold Homes;
- (iii) 70% of Unsold Homes; and
- (iv) 55% of Finished Lots and Land Under Development;

provided however that the Borrowing Base shall exclude in all events the Dollar amount of

- (i) property located outside of the United States of America in excess of \$10,000,000;
- (ii) Unimproved Land;

- (iii) any residential or commercial property owned by Hovnanian or any Subsidiary which is leased or held for purposes of leasing primarily to unaffiliated third parties; and

- (iv) properties subject to any Purchase Money Mortgage.

The determination of the Agent in respect of the Borrowing Base shall be conclusive absent manifest error.

Borrowing Base Certificate shall mean the Borrowing Base Certificate in the form of Exhibit 7.3.3.2 duly completed and delivered by the Borrower pursuant to Section 7.3.3.2 (Borrowing Base Certificate).

Borrowing Date shall mean, with respect to any Term Loan, the date for the making thereof or the renewal or conversion thereof at or to the same or a different Interest Rate Option, which shall be a Business Day.

Borrowing Tranche shall mean specified portions of Term Loans outstanding as follows: (i) any Term Loans to which a LIBO-Rate Option applies and which have the same Interest Period shall constitute one Borrowing Tranche, and (ii) all Term Loans to which a Base Rate Option applies shall constitute one Borrowing Tranche.

Business Day shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required to be closed for business at the Principal Office and if the applicable Business Day relates to any Term Loan to which the LIBO-Rate Option applies, such day must also be a day on which dealings are carried on in the London interbank market.

Capital Stock Retirement shall mean any repurchase, redemption, acquisition or retirement of any capital stock or other ownership interest of Hovnanian or of any warrants, options or other rights to purchase such capital stock or other ownership interest; provided that "Capital Stock Retirement" shall not include the conversion or exchange of any of the foregoing into shares of capital stock of Hovnanian.

Cash Flow shall mean Adjusted Operating Income plus any decrease in any Sold Homes, Unsold Homes, Unimproved Land or Finished Lots and Land Under Development which is not the result of a valuation charge or adjustment (or minus any increase in any of the foregoing categories).

Cash Flow Coverage Ratio shall mean the ratio, as of any date of determination, of (x) Cash Flow for the prior twelve (12) months to (y) four (4) multiplied by Fixed Charges for the most-recently ended fiscal quarter.

Closing Date shall mean the date hereof. The closing shall take place at 11:00 a.m., Eastern time, on the Closing Date at Buchanan Ingersoll Professional Corporation in New York, New York, or at such other time and place as the parties agree.

Compliance Certificate shall have the meaning assigned to such term in Section 7.3.3.1 (Certificates of the Borrower).

Contamination shall mean the presence or release or threat of release of Regulated Substances in, on, under or emanating to or from any of the Property, which pursuant to Environmental Laws requires notification or reporting to an Official Body, or which pursuant to Environmental Laws requires the investigation, cleanup, removal,

remediation, containment, abatement of or other response action or which otherwise constitutes a violation of Environmental Laws.

Debt Rating shall mean the rating of Hovnanian's senior unsecured long-term debt by each of Standard & Poor's and Moody's. Default Rate shall have the meaning assigned to that term in Section 3.3.1 (Default Rate).

Dividends shall mean any dividend or distribution by a Person in respect of its capital stock or ownership interests, whether in cash, property or securities.

Dollar, Dollars, U.S. Dollars and the symbol \$ shall mean lawful money of the United States of America.

Dwelling Unit shall mean a residential housing unit held for sale by a Loan Party.

Environmental Complaint shall mean any written complaint by any Person or Official Body setting forth a cause of action for personal injury or property damage, natural resource damage, contribution or indemnity for response costs, civil or administrative penalties, criminal fines or penalties, or declaratory or equitable relief arising under any Environmental Laws or under any order, notice of violation, citation, subpoena, request for information or other written notice or demand of any type issued by an Official Body pursuant to any Environmental Laws.

Environmental Laws shall mean all federal, state, local and foreign Laws and any consent decrees, settlement agreements, judgments, orders, directives, policies or programs issued by or entered into with an Official Body pertaining or relating to: (i) pollution or pollution control; (ii) protection of human health or the environment; (iii) employee safety in the workplace; (iv) the presence, use, management, generation, manufacture, processing, extraction, treatment, recycling, refining, reclamation, labeling, transport, storage, collection, distribution, disposal or release or threat of release of Regulated Substances; (v) the presence of Contamination; (vi) the protection of endangered or threatened species; and (vii) the protection of Environmentally Sensitive Areas.

Environmentally Sensitive Area shall mean (i) any wetland as defined by applicable Environmental Laws; (ii) any area designated as a coastal zone pursuant to applicable Laws, including Environmental Laws; (iii) any area of historic or archeological significance or scenic area as defined or designated by applicable Laws, including Environmental Laws; (iv) habitats of endangered species or threatened species as designated by applicable Laws, including Environmental Laws; or (v) a floodplain or other flood hazard area as defined pursuant to any applicable Laws.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

ERISA Group shall mean, at any time, the Borrower and any entity (whether or not incorporated) that is under common control with the Borrower within the meaning of Section 4001 of ERISA, or the Borrower and all other entities which, together with the Borrower, are treated as a single employer under Sections 414 (b) or (c) of the Internal Revenue Code.

Event of Default shall mean any of the events described in Section 8.1 (Events of Default) and referred to therein as an "Event of Default."

Excess Cash shall mean cash that would appear on a consolidated balance sheet of Hovnanian (to the extent not pledged or encumbered in any way) in excess of \$10,000,000.

Existing Related Business shall mean any mortgage services, income property management and title insurance businesses as such businesses are operated as of the Closing Date.

Federal Funds Effective Rate for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed and rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the "Federal Funds Effective Rate" as of the date of this Agreement; provided, if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the "Federal Funds Effective Rate" for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

Financial Projections shall have the meaning assigned to that term in Section 5.1.8(ii) (Financial Projections).

Finished Lots and Land Under Development shall mean the Dollar amount of the lower of (x) actual cost (including land costs and capitalized expenses relating thereto) or (y) the market value (determined in accordance with GAAP) of any land that has been granted Preliminary Approvals until a time which is the earlier of when (x) it is "Unsold Homes" and (y) it is "Sold Homes".

Fixed Charge Coverage Ratio shall mean the ratio, as of any date of determination, of (x) Adjusted Operating Income for the prior twelve (12) months to (y) four (4) multiplied by Fixed Charges for the most-recently ended fiscal quarter.

Fixed Charges shall mean the sum of (i) interest cost incurred on all Senior Homebuilding Indebtedness over the past fiscal quarter; (ii) interest cost incurred on the Subordinated Debt over the past fiscal quarter; (iii) 50% of the interest cost incurred on all Purchase Money Mortgages over the past fiscal quarter; (iv) fees accrued in respect of letters of credit issued under the Revolving Senior Debt Facility during the prior fiscal quarter; and (v) the interest component of capitalized leases over the past fiscal quarter. Fleet shall mean Fleet National Bank, its successors and assigns.

GAAP shall mean generally accepted accounting principles as are in effect from time to time, subject to the provisions of Section 1.3 [Accounting Principles], and applied on a consistent basis both as to classification of items and amounts.

Guarantor shall mean each of the parties to the Guaranty Agreement (and designated as a "Guarantor" on Schedule 1.1(B)) and each other Person which joins the Guaranty Agreement as a Guarantor after the date hereof pursuant to Section 10.18 (Joinder of Guarantors). As of the Closing Date, KHL shall not be a Guarantor and Hovnanian shall be a Guarantor and all Restricted Subsidiaries other than the Borrower and KHL shall be Guarantors.

Guarantor Joinder shall mean a joinder by a Person as a Guarantor under the Guaranty Agreement in the form of Exhibit 1.1(G). Guaranty of any Person shall mean any obligation of such Person guaranteeing or in effect guaranteeing any Indebtedness of any other Person in any manner, whether directly or indirectly.

Guaranty Agreement shall mean the Guaranty and Suretyship Agreement executed and delivered by each of the Guarantors to the Agent for the benefit of the Banks.

Historical Statements shall have the meaning assigned to that term in Section 5.1.8((i)) (Historical Statements).

Homebuilding Indebtedness shall mean the sum of (x) Senior Homebuilding Indebtedness and (y) Subordinated Debt.

Hovnanian shall mean Hovnanian Enterprises, Inc., a Delaware corporation, shares of whose Class A Common Stock are registered pursuant to the Securities Exchange Act of 1934.

Indebtedness shall mean, as to any Person at any time, any and all indebtedness, obligations or liabilities (whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, or joint or several) of such Person for or in respect of: (i) borrowed money, (ii) amounts raised under or liabilities in respect of any note purchase or acceptance credit facility, (iii) reimbursement obligations (contingent or otherwise) under any letter of credit, (iv) any other transaction (including forward sale or purchase agreements, capitalized leases and conditional sales agreements) having the commercial effect of a borrowing of money entered into by such Person to finance its operations or capital requirements (but not including trade payables and accrued expenses incurred in the ordinary course of business which are not more than ninety (90) days past due or that are being contested in good faith by appropriate proceedings), if and to the extent any of any of the foregoing in this item (iv) would appear as a liability on the balance sheet of such Person prepared on a consolidated basis in accordance with GAAP, or (v) any Guaranty of Indebtedness for borrowed money.

Ineligible Security shall mean any security which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. Section 24, Seventh), as amended.

Insolvency Proceeding shall mean, with respect to any Person, (a) a case, action or proceeding with respect to such Person (i) before any court or any other Official Body under any bankruptcy, insolvency, reorganization or other similar Law now or hereafter in effect, or (ii) for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of any Loan Party or otherwise relating to the liquidation, dissolution, winding-up or relief of such Person, or (b) any general assignment for the benefit of creditors, composition, marshaling of assets for creditors, or other, similar arrangement in respect of such Person's creditors generally or any substantial portion of its creditors undertaken under any Law.

Intangibles shall mean all patents, patent applications, copyrights, trademarks, tradenames, goodwill, organization expenses and other like items of Hovnanian and its Subsidiaries which are treated as intangibles under GAAP.

Interest Period shall mean the period of time selected by the Borrower in connection with (and to apply to) any election permitted hereunder by the Borrower to have Term Loans bear interest under the LIBO-Rate Option. Subject to the last sentence of this definition, such period shall be one, two, three or six Months if Borrower selects the LIBO-Rate Option. Such Interest Period shall commence on the effective date of such Interest Rate Option, which shall be (i) the Borrowing Date if the Borrower is requesting new Term Loans, or (ii) the date of renewal of or conversion to the LIBO-Rate Option if the Borrower is renewing or converting to the LIBO-Rate Option applicable to outstanding Term Loans. Notwithstanding the second sentence hereof: (A) any Interest Period which would otherwise end on a date which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in the next calendar

month, in which case such Interest Period shall end on the next preceding Business Day, and (B) the Borrower shall not select, convert to or renew an Interest Period for any portion of the Term Loans that would end after the Maturity Date.

Interest Rate Option shall mean any LIBO-Rate Option or Base Rate Option.

Interim Statements shall have the meaning assigned to that term in Section 5.1.8((i)) (Historical Statements).

Internal Revenue Code shall mean the Internal Revenue Code of 1986, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

Investment shall mean any loan or advance to or on behalf of, or purchase, acquisition or ownership of any stock, bonds, notes or securities of, or any partnership interest (whether general or limited) or limited liability company interest in, or any other similar investment or interest in, or any capital contribution made to, any other Person, or any agreement to become or remain liable to do any of the foregoing.

Investment in Related Business shall mean the Investments by any of Hovnanian and the Restricted Subsidiaries in (i) income-producing properties other than those listed on Schedule 1.1E; or (ii) Existing Related Businesses.

Joint Ventures shall mean any Person in whom a Loan Party has an ownership interest and which is not a "Subsidiary". Each of the Joint Ventures as of the Closing Date is listed on Schedule 1.1(B).

KHL shall mean KHL, Inc., a Delaware corporation.

Labor Contracts shall mean all employment agreements, employment contracts, collective bargaining agreements and other agreements among any Loan Party or Subsidiary of a Loan Party and its employees.

Law shall mean any law (including common law), constitution, statute, treaty, regulation, rule, ordinance, opinion, release, ruling, order, injunction, writ, decree, bond, judgment, authorization or approval, lien or award of or settlement agreement with any Official Body.

LIBO-Rate shall mean, with respect to the Term Loans comprising any Borrowing Tranche to which the LIBO-Rate Option applies for any Interest Period, the interest rate per annum determined by the Agent by dividing (i) the rate of interest determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the average of the London interbank offered rates for U.S. Dollars quoted by the British Bankers' Association as set forth on Dow Jones Markets Service (formerly known as Telerate) (or appropriate successor or, if the British Bankers' Association or its successor ceases to provide such quotes, a comparable replacement determined by the Agent) display page 3750 (or such other display page on the Dow Jones Markets Service system as may replace display page 3750) two (2) Business Days prior to the first day of such Interest Period for an amount comparable to such Borrowing Tranche and having a borrowing date and a maturity comparable to such Interest Period by (ii) a number equal to 1.00 minus the LIBO-Rate Reserve Percentage. The LIBO-Rate may also be expressed by the following formula:

LIBO-Rate = Average of London interbank offered rates quoted by BBA or appropriate successor as shown on Dow Jones Markets Service display page 3750
1.00 - LIBO-Rate Reserve Percentage

The LIBO-Rate shall be adjusted with respect to any Term Loan to which the LIBO-Rate Option applies that is outstanding on the effective date of any change in the LIBO-Rate Reserve Percentage as of such effective date. The Agent shall give prompt notice to the Borrower of the LIBO-Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

LIBO-Rate Option shall mean the option of the Borrower to have Term Loans bear interest at the rate and under the terms and conditions set forth in Section 3.1.1(i).

LIBO-Rate Reserve Percentage shall mean as of any day the maximum percentage in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "Eurocurrency Liabilities").

Lien shall mean any mortgage, deed of trust, pledge, lien, security interest, charge or other encumbrance or security arrangement of any nature whatsoever, whether voluntarily or involuntarily given, including any conditional sale or title retention arrangement, and any assignment, deposit arrangement or lease intended as, or having the effect of, security.

LLC Interests shall have the meaning given to such term in 5.1.2 (Subsidiaries).

Loan Documents shall mean this Agreement, the Agent's Letter, the Notes, the Guaranty Agreement, and any other instruments, certificates or documents delivered or contemplated to be delivered hereunder or thereunder or in connection herewith or therewith, as the same may be supplemented or amended from time to time in accordance herewith or therewith, and Loan Document shall mean any of the Loan Documents.

Loan Parties shall mean the Borrower, the Guarantors and KHL.

Material Adverse Change shall mean any set of circumstances or events which (a) has or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of this Agreement or any other Loan Document, (b) is or could reasonably be expected to be material and adverse to the business, properties, assets, financial condition, results of operations or business prospects of the Loan Parties taken as a whole, (c) impairs materially or could reasonably be expected to impair materially the ability of the Loan Parties taken as a whole to duly and punctually pay or perform their material indebtedness for borrowed money, or (d) impairs materially or could reasonably be expected to impair materially the ability of the Agent or any of the Banks, to the extent permitted, to enforce their legal remedies pursuant to this Agreement or the Notes or the Guaranty Agreement.

Maturity Date shall mean January 22, 2007.

Month, with respect to an Interest Period under the LIBO-Rate Option, shall mean the interval between the days in consecutive calendar months numerically corresponding to the first day of such Interest Period. If any LIBO-Rate Interest Period begins on a day of a calendar month for which there is no numerically corresponding day in the month in which such Interest Period is to end, the final month of such Interest Period shall be deemed to end on the last Business Day of such final month.

Moody's shall mean Moody's Investors Service, Inc. and its successors.

Mortgage Subsidiary shall mean each Subsidiary which is in the business of making residential mortgage loans. Each of the Mortgage Subsidiaries as of the Closing Date is listed on Schedule 1.1(B).

Multiemployer Plan shall mean any employee benefit plan which is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA.

Non-Restricted Person shall mean any (i) Joint Venture and (ii) Subsidiary of Hovnanian which is not a Restricted Subsidiary. Each of the Non-Restricted Persons as of the Closing Date is listed on Schedule 1.1(B).

Notes shall mean collectively and Note shall mean separately all of the Notes of the Borrower in the form of Exhibit 1.1(T) issued by the Borrower at the request of a Bank pursuant to Section 4.7 evidencing the Term Loans together with all amendments, extensions, renewals, replacements, refinancings or refunds thereof in whole or in part.

Notices shall have the meaning assigned to that term in Section 10.6 (Notices).

Obligation shall mean any obligation or liability of any of the Loan Parties to the Agent or any of the Banks, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due, under or in connection with this Agreement, any Notes, the Agent's Letter or any other Loan Document.

Official Body shall mean any national, federal, state, local or other government or political subdivision or any agency, authority, board, bureau, central bank, commission, department or instrumentality of either, or any court, tribunal, grand jury or arbitrator, in each case whether foreign or domestic.

Partnership Interests shall have the meaning given to such term in 5.1.2. (Subsidiaries).

PBGC shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

Permitted Acquisitions shall have the meaning assigned to such term in Section 7.2.4 (Liquidations, Mergers, Consolidations, Acquisitions).

Permitted Investments shall mean a Loan Party's Investment in:

- (a) (i) cash, marketable direct obligations of the United States of America or any agency thereof, and certificates of deposit, demand deposits, time deposits, or repurchase agreements issued by any bank with a capital and surplus of at least \$25,000,000 organized under the laws of the United States of America or any state thereof, provided that such obligations, certificates of deposit, demand deposits, time deposits, and repurchase agreements have a maturity of less than one year from the date of purchase;
- (ii) investment grade commercial paper or debt having a maturity date of one year or less from the date of purchase; and
- (iii) funds holding assets primarily consisting of those described in clause (i) hereof;
- (b) loans or advances to employees of a Loan Party in the ordinary course of business;
- (c) any Person that is or concurrently becomes a Loan Party;
- (d) purchase money notes not exceeding \$5,000,000 principal amount in the aggregate received incident to sales of property by a Restricted Subsidiary;
- (e) trade credit extended on usual and customary terms in the ordinary course of business;
- (f) loans to officers and directors to the extent permitted by Section 7.2.6.2 (Restricted Payment; Restricted Investments);
- (g) marketable securities costing at the time of purchase no more than \$3,000,000 in the aggregate of any one or more residential real estate developers and which are registered under the Securities

Exchange Act of 1934; and

(h) other Investments not in excess of \$5,000,000 in the aggregate.

Permitted Liens shall mean:

(i) Liens for taxes, assessments or other governmental charges not yet payable or being contested in good faith and as to which adequate reserves shall have been established in accordance with GAAP;

(ii) Pledges or deposits made in the ordinary course of business to secure payment of workers' compensation, or to participate in any fund in connection with workers' compensation, unemployment insurance, old-age pensions or other social security programs;

(iii) Mechanics', materialmen's, warehousemen's, carriers' or other like liens arising in the ordinary course of business securing obligations which are not overdue for a period longer than 30 days or which are being contested in good faith by appropriate proceedings;

(iv) Good-faith pledges or deposits made in the ordinary course of business to secure performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, not in excess of the aggregate amount due thereunder, or to secure statutory obligations, or surety, appeal, indemnity, performance or other similar bonds required in the ordinary course of business;

(v) Encumbrances consisting of zoning restrictions, easements or other restrictions on the use of real property, none of which materially impairs the use of such property or the value thereof, and none of which is violated in any material respect by existing or proposed structures or land use;

(vi) Liens, security interests and mortgages in favor of the Agent for the benefit of the Banks;

(vii) Liens on property leased by any Loan Party or Subsidiary of a Loan Party under capital and operating leases not prohibited by this Agreement securing obligations of such Loan Party or Subsidiary to the lessor under such leases;

(viii) Any Lien existing on the date of this Agreement and described on Schedule 1.1(P), provided that the principal amount secured thereby is not hereafter increased, and no additional assets become subject to such Lien;

(ix) Purchase Money Mortgages and Purchase Money Security Interests and Liens on real property owned and occupied by Hovnanian or any Subsidiary; and

(x) The following, (A) if the validity or amount thereof is being contested in good faith by appropriate and lawful proceedings diligently conducted so long as levy and execution thereon have been stayed and continue to be stayed or (B) if a final judgment is entered and such judgment is discharged within thirty (30) days of entry, and they do not in the aggregate materially impair the ability of any Loan Party to perform its Obligations hereunder or under the other Loan Documents:

(1) Claims or Liens for taxes, assessments or charges due and payable and subject to interest or penalty, provided that the applicable Loan Party maintains such reserves or other appropriate provisions as shall be required by GAAP and pays all such taxes, assessments or charges forthwith upon the commencement of proceedings to foreclose any such Lien;

(2) Claims, Liens or encumbrances upon, and defects of title to, real or personal property, including any attachment of personal or real property or other legal process prior to adjudication of a dispute on the merits;

(3) Claims or Liens of mechanics, materialmen, warehousemen, carriers, or other statutory nonconsensual Liens; or

(4) Liens resulting from final judgments or orders described in Section 8.1.6 (Final Judgments or Orders);

(xi) Liens under the Stock Pledge delivered in connection with the Revolving Senior Debt Facility; and

(xii) Other Liens securing obligations not in excess of \$5,000,000 in the aggregate.

Person shall mean any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, joint venture, government or political subdivision or agency thereof, or any other entity.

Plan shall mean at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Internal Revenue Code in respect of which the Borrower or any member of the ERISA Group is an "employer" as defined in Section 3(5) of ERISA.

Potential Default shall mean any event or condition which with notice, passage of time or a determination by the Agent or the Required Banks, or any combination of the foregoing, would constitute an Event of Default.

Preliminary Approvals shall mean the following: (i) in New Jersey, as defined in the Municipal Land Use Law (N.J.S.A. 40:55D-1 et seq.) and (ii) for states other than New Jersey, a point in time equivalent thereto.

Principal Office shall mean the main banking office of the Agent in Boston, Massachusetts or such other location so designated by the Agent.

Prohibited Transaction shall mean any prohibited transaction as defined in Section 4975 of the Internal Revenue Code or Section 406 of

ERISA for which neither an individual nor a class exemption has been issued by the United States Department of Labor.

Property shall mean all real property, both owned and leased, of any Loan Party or Subsidiary of a Loan Party.

Purchase Money Mortgage shall mean any non-recourse mortgages granted to secure Indebtedness of any Loan Party.

Purchase Money Security Interest shall mean Liens upon tangible personal property securing loans to any Loan Party or deferred payments by such Loan Party or Subsidiary for the purchase of such tangible personal property and excluding Purchase Money Mortgages.

Purchasing Bank shall mean a Bank which becomes a party to this Agreement by executing an Assignment and Assumption Agreement.

Ratable Share shall mean the proportion that a Bank's Commitment bears to the Commitments of all of the Banks or, at any time after the Term Loans have been made, the proportion that a Bank's Term Loan Outstanding bears to the Term Loan Outstandings of all of the Banks.

Regulated Substances shall mean, without limitation, any substance, material or waste, regardless of its form or nature, defined under Environmental Laws as a "hazardous substance," "pollutant," "pollution," "contaminant," "hazardous or toxic substance," "extremely hazardous substance," "toxic chemical," "toxic substance," "toxic waste," "hazardous waste," "special handling waste," "industrial waste," "residual waste," "solid waste," "municipal waste," "mixed waste," "infectious waste," "chemotherapeutic waste," "medical waste," or "regulated substance" or any other material, substance or waste, regardless of its form or nature, which otherwise is regulated by Environmental Laws.

Regulation U shall mean Regulation U, T or X as promulgated by the Board of Governors of the Federal Reserve System, as amended from time to time.

Reportable Event shall mean a reportable event described in Section 4043 of ERISA and regulations thereunder with respect to a Plan other than those events as to which the 30-day notice is waived under the PBGC regulations.

Required Banks shall mean

(i) if there are no Term Loans outstanding, Banks whose Term Loan Commitments aggregate at least 66 2/3% of the Term Loan Commitments of all of the Banks, or

(ii) if there are Term Loans outstanding, any Bank or group of Banks if the sum of the Term Loans of such Banks then outstanding aggregates at least 66 2/3% of the total principal amount of all of the Term Loans then outstanding.

Required Environmental Notices shall mean all notices, reports, plans, forms or other filings which pursuant to Environmental Laws, Required Environmental Permits or at the request or direction of an Official Body either must be submitted to an Official Body or which otherwise must be maintained.

Required Environmental Permits shall mean all permits, licenses, bonds, consents, programs, approvals or authorizations required under Environmental Laws to own, occupy or maintain the Property or which otherwise are required for the operations and business activities of the Loan Parties.

Restricted Investment shall mean a Loan Party's Investment that constitutes a Subsidiary Investment in any Non-Restricted Person or any Investment in Related Business.

Restricted Payments shall mean

(i) Dividends and Capital Stock Retirement payments after January 31, 2001 by Hovnanian or otherwise to the shareholders of Hovnanian; and

(ii) Payments (whether in the form of principal payments, note repurchases or similar items) to the holder of Subordinated Debt made on or after January 31, 2001 other than regularly scheduled payments of principal and interest not otherwise prohibited hereunder; provided, however, with respect to this item (ii), a refinancing of the Subordinated Debt to the extent consisting of the repayment of the Subordinated Debt and the incurring of new "Subordinated Debt" within 60 days of such repayment shall not constitute a "Restricted Payment".

Restricted Subsidiaries shall mean any Subsidiary that has not been designated a Non-Restricted Person as of the Closing Date or in accordance with Section 2.5 [Designation of Subsidiaries and Release of Guarantors]. Each of the Restricted Subsidiaries as of the Closing Date is listed on Schedule 1.1(B).

Revolving Senior Debt Facility shall mean the revolving credit facility provided to K. Hovnanian Enterprises, Inc. under the Credit Agreement dated August 28, 2001 among such Borrower, Hovnanian, PNC Bank National Association as Administrative Agent, Bank of America, N.A. as Syndication Agent, Fleet National Bank as Documentation Agent, and the "Banks" party thereto, as amended from time to time.

SEC shall mean the Securities and Exchange Commission or any governmental agencies substituted therefor.

Senior Homebuilding Indebtedness shall mean the sum (without duplication) of (a) outstanding principal amount of the Obligations, (b) letters of credit (c) Guaranties by any Loan Party of any obligation of any Person which is not a Restricted Subsidiary or Hovnanian, (d) Senior Notes, (e) surety bonds (or similar products) issued by bonding companies in lieu of cash payments or cash deposits on contracts for any Loan Party to acquire land inventory in respect of which a Loan Party is obligated and (f) commencing as of June 1,

2004, the principal amount of the 9 3/4% Subordinated Notes of the Borrower due June 1, 2005 unless, on or before June 1, 2004, either (i) the maturity date thereof has been extended by amendment to a date not earlier than thirty (30) days after the Maturity Date (as determined as of June 1, 2004) or (ii) such Indebtedness has been refinanced with subordinated Indebtedness permitted by this Agreement and having a maturity date not earlier than thirty (30) days after the Maturity Date (as determined as of June 1, 2004) and (g) other Indebtedness of Hovnanian or a Restricted Subsidiary which is permitted under this Agreement; provided however, that "Senior Homebuilding Indebtedness" shall not include (i) obligations of Hovnanian under the Keep-Well Guaranty dated July 16, 2001 previously provided to Bank One, NA, as agent for the benefit of K. Hovnanian Mortgage Inc., (ii) debt secured by Purchase Money Security Interests and Purchase Money Mortgages and (iii) except as provided in item (f) hereof, Subordinated Debt.

Senior Notes shall mean the (i) \$150,000,000 principal amount 10 1/2% Senior Notes of the Borrower and guaranteed by Hovnanian due October 2007 and (ii) \$150,000,000 9 1/8% Senior Notes of the Borrower and guaranteed by Hovnanian due in April 2009 and (iii) other notes sold or guaranteed by Hovnanian or the Borrower from time to time after the Closing Date on terms not materially less favorable to the Banks (as determined by the Agent) as those described in clauses (i) and (ii) above

Sold Homes shall mean the Dollar amount of the capitalized construction costs of any Dwelling Unit upon which a third party purchaser has paid a cash deposit pursuant to an enforceable agreement of sale. Such cost shall include the proportional costs of the land under the Dwelling Unit, site improvements and soft costs incurred to date.

Standard & Poor's shall mean Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

Subordinated Debt shall mean (i) the \$100,000,000 principal amount 9 3/4% Subordinated Notes of the Borrower due June 1, 2005, and (ii) any other unsecured indebtedness of the Borrower, Hovnanian, or any other Loan Party which is subordinated by its terms to the prior payment in full of the Obligations evidenced by this Agreement and the Notes, as may be outstanding from time to time, in a manner no less favorable to the Banks than the terms of the Subordinated Debt described in clause (i) above and which contain covenants that are not materially less favorable to Hovnanian, the Borrower or any other Loan Party than those contained in the Subordinated Debt described in clause (i) above.

Subsidiary of any Person at any time, shall mean a corporation, partnership, limited liability company or other entity (x) whose assets and liabilities are consolidated with Hovnanian in accordance with GAAP and (y) of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of Hovnanian.

Subsidiary Investment shall mean with respect to any Subsidiary or Joint Venture the sum of (x) loans to such Person by Hovnanian or a Restricted Subsidiary and (y) Hovnanian's or a Restricted Subsidiary's share of equity in such Person.

Subsidiary Shares shall have the meaning assigned to that term in Section 5.1.2 (Subsidiaries).

Term Loan shall have the meaning given to such term in Section 2.1.1; Term Loans shall mean collectively all of the Term Loans.

Term Loan Commitment or Commitment shall mean, as to any Bank at any time, the amount initially set forth opposite its name on Schedule 1.1(A) in the column labeled "Amount of Commitment for Term Loans," and thereafter on Schedule I to the most recent Assignment and Assumption Agreement or on any amended Schedule 1.1(A) prepared pursuant to Section 2.1.3 (Increase in Commitments after Closing Date) and Term Loan Commitments or Commitments shall mean the aggregate Term Loan Commitments of all of the Banks.

Term Loan Outstandings shall mean the principal amount of outstanding Term Loans plus the principal amount of any other obligation to pay money hereunder.

Term Loan Request shall have the meaning assigned to that term in Section 2.4 (Renewal and Conversion of Loans).

Total Debt Multiplier shall mean 2.40, subject to adjustment as described in this definition.

(a) Total Debt Multiplier shall not at any time be greater than 2.40 and shall decrease (under circumstances described below) to 2.05 and then 1.95 and so forth in increments of 10 basis points; similarly, at any time Total Debt Multiplier shall increase (under circumstances described below) it shall increase in 10 basis point increments up to 2.05 and then from 2.05 to 2.40. Such decreases and increases shall occur as follows, with reference to the Fixed Charge Coverage Ratio, but only when Actual Leverage is less than or equal to 2.2-to-1.0.

(b) If the Fixed Charge Coverage Ratio is less than 1.25-to-1.0 for two (2) consecutive quarters (for purposes hereof the "reference quarters"):

(i) then for the second of such quarters Total Debt Multiplier shall reduce to 2.05; and

(ii) for the next such quarter after the reference quarters, and each subsequent consecutive quarter in which the Fixed Charge Coverage Ratio is less than 1.25-to-1.0, Total Debt Multiplier shall reduce for each such quarter in the increments described in subsection (a) of this definition.

(c) If the Fixed Charge Ratio equals or exceeds 1.25-to-1.0 for any quarter after the two (2) reference quarters, then Total Debt Multiplier shall increase for such quarters in the increments described in subsection (a) of this definition.

Transferor Bank shall mean the selling Bank pursuant to an Assignment and Assumption Agreement.

Unimproved Land shall mean the Dollar value of land which has not been granted Preliminary Approvals, calculated at the lower of (x) the actual cost (including land costs and capital expenses relating thereto) or (y) the market value (as determined in accordance with GAAP) thereof.

Unsold Dwelling Units shall mean the number of Dwelling Units comprising from time to time "Unsold Homes".

Unsold Homes shall mean the Dollar amount of capitalized construction costs of any Dwelling Unit being built for which the construction of slab (or foundation) has been completed and upon which no cash deposit has been paid pursuant to an enforceable agreement of sale. Such Dollar amount shall include the proportional costs of the land under the Dwelling Unit, site improvements and soft costs actually incurred to date.

1.2 Construction.

Unless the context of this Agreement otherwise clearly requires, the following rules of construction shall apply to this Agreement and each of the other Loan Documents:

1.2.1. Number; Inclusion.

references to the plural include the singular, the plural, the part and the whole; "or" has the inclusive meaning represented by the phrase "and/or," and "including" has the meaning represented by the phrase "including without limitation";

1.2.2. Determination.

references to "determination" of or by the Agent or the Banks shall be deemed to include good-faith estimates by the Agent or the Banks (in the case of quantitative determinations) and good-faith beliefs by the Agent or the Banks (in the case of qualitative determinations) and such determination shall be conclusive absent manifest error;

1.2.3. Agent's Discretion and Consent.

whenever the Agent or the Banks are granted the right herein to act in its or their sole discretion or to grant or withhold consent such right shall be exercised in good faith;

1.2.4. Documents Taken as a Whole.

the words "hereof," "herein," "hereunder," "hereto" and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document as a whole and not to any particular provision of this Agreement or such other Loan Document;

1.2.5. Headings.

the section and other headings contained in this Agreement or such other Loan Document and the Table of Contents (if any) preceding this Agreement or such other Loan Document are for reference purposes only and shall not control or affect the construction of this Agreement or such other Loan Document or the interpretation thereof in any respect;

1.2.6. Implied References to this Agreement.

article, section, subsection, clause, schedule and exhibit references are to this Agreement or other Loan Document, as the case may be, unless otherwise specified;

1.2.7. Persons.

reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Agreement or such other Loan Document, as the case may be, and reference to a Person in a particular capacity excludes such Person in any other capacity;

1.2.8. Modifications to Documents.

reference to any agreement (including this Agreement and any other Loan Document together with the schedules and exhibits hereto or thereto), document or instrument means such agreement, document or instrument as amended, modified, replaced, substituted for, superseded or restated;

1.2.9. From, To and Through.

relative to the determination of any period of time, "from" means "from and including," "to" means "to but excluding," and "through" means "through and including"; and

1.2.10. Shall; Will.

references to "shall" and "will" are intended to have the same meaning.

1.3 Accounting Principles.

Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters and all

financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate), and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP; provided, however, that all accounting terms used in Section 7.2 (Negative Covenants) (and all defined terms used in the definition of any accounting term used in Section 7.2 (Negative Covenants) shall have the meaning given to such terms (and defined terms) under GAAP as in effect on the date hereof applied on a basis consistent with those used in preparing the Annual Statements referred to in Section 5.1.8((i)) (Historical Statements). In the event of any change after the date hereof in GAAP, and if such change would result in the inability to determine compliance with the financial covenants set forth in Section 7.2 (Negative Covenants) based upon the Loan Parties' regularly prepared financial statements by reason of the preceding sentence, then the parties hereto agree to endeavor, in good faith, to agree upon an amendment to this Agreement that would adjust such financial covenants in a manner that would not affect the substance thereof, but would allow compliance therewith to be determined in accordance with the Loan Parties' financial statements at that time.

2. TERM LOAN

2.1 Term Loan Commitments.

2.1.1. Term Loans.

Subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, each Bank severally agrees to make Term Loans to the Borrower on the Closing Date provided that after giving effect to each such Term Loan the aggregate amount of Term Loan Outstandings owed to such Bank shall not exceed such Bank's Term Loan Commitment. As of the Closing Date, the aggregate Term Loan Commitments are \$165,000,000. Thereafter, at any time and from time to time until May 22, 2002, the aggregate Term Loan Commitments may, unless there exists an Event of Default or Potential Default, be increased without the approval of the Banks pursuant to Section 2.1.3 to an amount not in excess of \$175,000,000. No Term Loans shall be made after the Closing Date except pursuant to such an increase in the Term Loan Commitments.

2.1.2. Voluntary Prepayment.

The Borrower shall have the right at any time after the Closing Date (i) upon five (5) days' prior written notice to the Agent to repay the Term Loans and permanently reduce the Term Loan Commitments, in a minimum amount equal to (i) \$500,000 and in increments of \$100,000 for any Term Loan to which the Base Rate Option applies or (ii) \$2,500,000 and in increments of \$500,000 for any Term Loan to which the LIBO-Rate Option applies or (ii) at any time upon prepayment in full of the Obligations, terminate completely the Commitments, without penalty or premium except as hereinafter set forth, provided that any such reduction or termination shall be accompanied by prepayment of the Notes, and the full amount of interest accrued on the principal sum to be prepaid (and all amounts referred to in Section 4.6.2(Indemnity) hereof), to the extent that the aggregate amount thereof then outstanding exceeds the Commitments as so reduced or terminated. Any notice to repay the Term Loans and permanently reduce the Term Loan Commitments under this Section 2.1.2 shall be irrevocable and amounts prepaid hereunder may not be re-borrowed.

2.1.3. Increase in Commitments After Closing Date.

Borrower may request at any time after the Closing Date, subject to the time restrictions in Section 2.1.1 (Term Loans) and the requirements of Section 6.2 (Each Additional Term Loan), that a new lender join this Agreement as a "Bank" in order to provide additional Term Loan Commitments or that an existing Bank increase its Term Loan Commitment. (Any existing Bank may decline to increase its Term Loan Commitment in its sole discretion.) In connection with any such increase, Schedule 1.1(A) shall be amended and restated to reflect such increase. The selection of any new Bank shall be subject to the Borrower's and Agent's consent, which shall not be unreasonably withheld. Any new Bank shall join this Agreement as a Bank pursuant to the procedures contained in Section 10.11(b) (Additional Bank). The Term Loan Commitments as increased in accordance herewith shall not exceed the Dollar limits described in Section 2.1.1 Term Loans.

2.2 Nature of Banks' Obligations with Respect to Term Loans

Each Bank shall be obligated to participate in each request for Term Loans in accordance with its Ratable Share. The aggregate of each Bank's Term Loans outstanding hereunder to the Borrower at any time shall never exceed its Term Loan Commitment. The obligations of each Bank hereunder are several. The failure of any Bank to perform its obligations hereunder shall not affect the Obligations of the Borrower to any other party nor shall any other party be liable for the failure of such Bank to perform its obligations hereunder. The Banks shall have no obligation to make Term Loans hereunder on or after the Maturity Date.

2.3 Use of Proceeds.

The proceeds of the Term Loans shall be used in accordance with Section 7.1.10 (Use of Proceeds).

2.4 Renewal and Conversion of Loans.

Except as otherwise provided herein, the Borrower may from time to time prior to the Expiration Date request the Banks to renew or convert the Interest Rate Option applicable to existing Term Loans pursuant to Section 3.2 (Interest Periods), by delivering to the

Agent, not later than 10:00 a.m., Eastern time, (i)three (3) Business Days prior to the date of conversion to or the renewal of the LIBO-Rate Option for any Term Loans; and (ii)the last day of the preceding Term Loan with respect to the conversion to the Base Rate Option for any Term Loan, of a duly completed "Term Loan Request" therefor substantially in the form of Exhibit 2.4 or a Term Loan Request by telephone immediately confirmed in writing by letter, facsimile in the form of such Exhibit 2.4, it being understood that the Agent may rely on the authority of any individual making such a telephonic request without the necessity of receipt of such written confirmation. Each Term Loan Request shall be irrevocable and shall specify (i)the proposed Borrowing Date; (ii)the aggregate amount of the proposed Term Loans comprising each Borrowing Tranche, the amount of which shall be in integral multiples of \$500,000 and not less than \$2,500,000 for each Borrowing Tranche to which the LIBO-Rate Option applies and not less than the lesser of \$500,000 or the maximum amount available for Borrowing Tranches to which the Base Rate Option applies; (iii)whether Term Loan LIBO-Rate Option or Base Rate Option shall apply to the proposed Term Loans comprising the applicable Borrowing Tranche; and (iv)in the case of a Borrowing Tranche to which the Term Loan LIBO-Rate Option applies, an appropriate Interest Period for the Term Loans comprising such Borrowing Tranche. In addition, except as otherwise provided herein, the Borrower may, from time to time during the period described in Section 2.1.1 (Term Loans) and in accordance with Section 2.1.3 (Increase in Commitments after the Closing Date) and Section 10.11(b) (Additional Bank) (if applicable), request one or more new or existing Banks to make Term Loans in respect of an increase in the aggregate Term Loan Commitments described in such Sections 2.1.1 and 2.1.3. Each such request shall be made pursuant to a completed Term Loan Request and shall otherwise be subject to the provisions of this Section 2.4 and Section 6.2 (Each Additional Term Loan).

2.5 Designation of Subsidiaries and Release of Guarantors.

2.5.1. Release of Guarantors.

At any time when the Borrower wishes to cause the Banks to release a Guarantor from its obligations under the Guaranty Agreement (whether directly or in connection with the designation of a Restricted Subsidiary as a Non-Restricted Person), the consent of the Banks shall be required as described below and shall be subject to the other provisions of this Section 2.5.

(a) For the release of any Guarantor (i) whose assets are principally comprised of residential or commercial property which is leased or held for the purposes of leasing to unaffiliated third parties or (ii) in which any Loan Party (or Loan Parties in the aggregate) has, at the time of such release, a Subsidiary Investment less than \$1,000,000, no consent of the Banks shall be required and such request of the Borrower shall be granted absent an Event of Default or Potential Default, effective on the date specified by the Borrower which shall not be earlier than five (5) Business Days after the receipt by the Agent of such request;

(b) For the release of Hovnanian or any Guarantor (not described in item (a)(i) hereof) in which any Loan Party (or Loan Parties in the aggregate) has, at the time of such release, a Subsidiary Investment greater than or equal to \$1,000,000, the consent of 100% of the Banks shall be required; and

(c) The designation of a Person as a Non-Restricted Person for any reason shall not itself constitute a release of any Guarantor.

2.5.2. Designation of Non-Restricted Person.

The Borrower may, by written notice delivered to the Agent, designate as a Non-Restricted Person a Subsidiary formerly designated a Restricted Subsidiary or a newly formed or acquired Subsidiary, subject to: (i) the provisions of subsection 2.5.1 hereof in relation to Guaranties, (ii) the requirements of Section 7 (Covenants) and in particular Section 7.2.10 (Borrowing Base); and (iii) the requirement that such designation not cause an Event of Default or Potential Default. Such designation shall be effective on the date specified by the Borrower which shall not be earlier than five (5) Business Days after the receipt by the Agent of such notice.

2.5.3. Automatic Designation of Non-Restricted Person.

Upon the occurrence of any event described in Section 8.1.10 (Insolvency), Section 8.1.14 (Involuntary Proceedings), Section 8.1.15 (Voluntary Proceedings), or the winding-up or termination of business, with respect to any Restricted Subsidiary, such Subsidiary shall automatically become a Non-Restricted Person. Such designation as a Non-Restricted Person shall, with respect to such Person's obligations under the Guaranty Agreement, if any, be subject to the requirements of Section 2.5.1. The release of any Subsidiary which is a Guarantor from its obligations under the Guaranty Agreement pursuant to Section 2.5.1 shall automatically cause such Subsidiary to be a Non-Restricted Person.

2.5.4. Designation of Restricted Subsidiary.

The Borrower may by written notice delivered to the Agent designate as a Restricted Subsidiary a Subsidiary formerly designated a Non-Restricted Person or a newly formed or acquired Subsidiary. Such designation is subject to (i) compliance with Section 10.18 (Joinder of Guarantors); (ii) the requirements of Section 7 (Covenants) and in particular Section 7.2.10 (Borrowing Base); and

(iii) the requirement that such designation not cause an Event of Default or Potential Default. Such designation shall be effective on the date specified by the Borrower which shall not be earlier than five (5) Business Days after the receipt by the Agent of such notice.

2.5.5. Designations under Revolving Senior Debt Facility.

(i) Neither the release of any "Guarantor" nor the designation of a Person as a "Non-Restricted Person" under the Revolving Senior Debt Facility shall itself constitute any such release or designation under this Agreement; and (ii) the Borrower agrees that it shall designate (under the terms of this Section 2.5) a Person as a Restricted Subsidiary or a Non-Restricted Subsidiary under this Agreement contemporaneously with any such a designation under the Revolving Senior Debt Facility.

3. INTEREST RATES

3.1 Interest Rate Options.

The Borrower shall pay interest in respect of the outstanding unpaid principal amount of the Term Loans as selected by it from the Base Rate Option or LIBO-Rate Option set forth below applicable to the Term Loans, it being understood that, subject to the provisions of this Agreement, the Borrower may select different Interest Rate Options and different Interest Periods to apply simultaneously to the Term Loans comprising different Borrowing Tranches and may convert to or renew one or more Interest Rate Options with respect to all or any portion of the Term Loans comprising any Borrowing Tranche, provided that there shall not be at any one time outstanding more than five (5) Borrowing Tranches in the aggregate among all of the Term Loans. If at any time the designated rate applicable to any Term Loan made by any Bank exceeds such Bank's highest lawful rate, the rate of interest on such Bank's Term Loan shall be limited to such Bank's highest lawful rate.

3.1.1. Term Loan Interest Rate Options.

The Borrower shall have the right to select from the following Interest Rate Options applicable to the Term Loans:

(i) Base Rate Option: A variable rate per annum (computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed) equal to the Base Rate plus the Applicable Margin, such interest rate to change automatically from time to time effective as of the effective date of each change in the Base Rate; or

(ii) LIBO-Rate Option: A rate per annum (computed on the basis of a year of 360 days and actual days elapsed) equal to the LIBO-Rate plus the Applicable Margin.

3.1.2. Rate Quotations.

The Borrower may call the Agent on or before the date on which a Term Loan Request is to be delivered to receive an indication of the rates then in effect, but it is acknowledged that such projection shall not be binding on the Agent or the Banks nor affect the rate of interest which thereafter is actually in effect when the election is made.

3.2 Interest Periods.

At any time when the Borrower shall select, convert to or renew a LIBO-Rate Option, the Borrower shall notify the Agent thereof at least three (3) Business Days prior to the effective date of such LIBO-Rate Option by delivering a Term Loan Request. The notice shall specify an Interest Period during which such Interest Rate Option shall apply. Notwithstanding the preceding sentence, in the case of the renewal of a LIBO-Rate Option at the end of an Interest Period, the first day of the new Interest Period shall be the last day of the preceding Interest Period, without duplication in payment of interest for such day.

3.3 Interest After Default.

3.3.1. Default Rate.

To the extent permitted by Law, upon the occurrence of an Event of Default under Section 8.1.1 (Payment Under Loan Documents, Section 8.1.10 (Insolvency), Section 8.1.14 (Involuntary Proceedings), Section 8.1.15 (Voluntary Proceedings) or the Obligations are accelerated under this Agreement and until such time such Event of Default shall have been cured or waived, each Obligation hereunder shall bear interest at a rate per annum equal to the sum of the rate of interest applicable under the Base Rate Option plus an additional 3.0% per annum from the time such Obligation becomes due and payable and until it is paid in full (the "Default Rate").

3.3.2. Acknowledgment.

The Borrower acknowledges that the increase in rate referred to in Section 3.3.1 (Default Rate) reflects, among other things, the fact that such Term Loans or other amounts have become a substantially greater risk given their default status and that the Banks are entitled to additional compensation for such risk; and all such interest shall be payable by Borrower upon demand by Agent.

3.4 LIBO-Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available.

3.4.1. Unascertainable.

If on any date on which a LIBO-Rate would otherwise be determined, the Agent shall have determined that:

(i) adequate and reasonable means do not exist for ascertaining such LIBO-Rate, or

(ii) a contingency has occurred which materially and adversely affects the London interbank eurodollar

market relating to the LIBO-Rate, the Agent shall have the rights specified in Section 3.4.3 (Agent's and Bank's Rights).

3.4.2. Illegality; Increased Costs; Deposits Not Available.

If at any time any Bank shall have determined that:

(i) the making, maintenance or funding

of any Term Loan to which a LIBO-Rate Option applies has been made impracticable or unlawful by compliance by such Bank in good faith with any Law or any interpretation or application thereof by any Official Body or with any request or directive of any such Official Body (whether or not having the force of Law), or

(ii) such LIBO-Rate Option will not adequately and fairly reflect the cost to such Bank of the establishment or maintenance of any such Term Loan, or

(iii) after making all reasonable efforts, deposits of the relevant amount in Dollars for the relevant Interest Period for a Term Loan, or to banks generally, to which a LIBO-Rate Option applies, respectively, are not available to such Bank with respect to such Term Loan, or to banks generally, in the interbank eurodollar market,

then the Agent shall have the rights specified in Section 3.4.3 (Agent's and Bank's Rights).

3.4.3. Agent's and Bank's Rights.

In the case of any event specified in Section 3.4.1

(Unascertainable) above, the Agent shall promptly so notify the Banks and the Borrower thereof, and in the case of an event specified in Section 3.4.2 (Illegality; Increased Costs; Deposits Not Available) above, such Bank shall promptly so notify the Agent and endorse a certificate to such notice as to the specific circumstances of such notice, and the Agent shall promptly send copies of such notice and certificate to the other Banks and the Borrower. Upon such date as shall be specified in such notice (which shall not be earlier than the date such notice is given), the obligation of (A)the Banks, in the case of such notice given by the Agent, or (B)such Bank, in the case of such notice given by such Bank, to allow the Borrower to select, convert to or renew a LIBO-Rate Option shall be suspended until the Agent shall have later notified the Borrower, or such Bank shall have later notified the Agent, of the Agent's or such Bank's, as the case may be, determination that the circumstances giving rise to such previous determination no longer exist. If at any time the Agent makes a determination under Section 3.4.1 (Unascertainable) and the Borrower has previously notified the Agent of its selection of, conversion to or renewal of a LIBO-Rate Option and such Interest Rate Option has not yet gone into effect, such notification shall be deemed to provide for selection of, conversion to or renewal of the Base Rate Option otherwise available with respect to such Term Loans. If any Bank notifies the Agent of a determination under Section 3.4.2 (Illegality; Increased Costs; Deposits Not Available), the Borrower shall, subject to the Borrower's indemnification Obligations under Section 4.6.2 [Indemnity], as to any Term Loan of the Bank to which a LIBO-Rate Option applies, on the date specified in such notice either convert such Term Loan to the Base Rate Option otherwise available with respect to such Term Loan or prepay such Term Loan in accordance with Section 4.4 [Voluntary Prepayments]. Absent due notice from the Borrower of conversion or prepayment, such Term Loan shall automatically be converted to the Base Rate Option otherwise available with respect to such Term Loan upon such specified date.

3.5 Selection of Interest Rate Options.

If the Borrower fails to select a new Interest Period to apply to any Borrowing Tranche of Term Loans under the LIBO-Rate Option at the expiration of an existing Interest Period applicable to such Borrowing Tranche in accordance with the provisions of Section 3.2[Interest Periods], the Borrower shall be deemed to have converted such Borrowing Tranche to the Base Rate Option, commencing upon the last day of the existing Interest Period.

4. PAYMENTS

4.1 Payments.

All payments and prepayments to be made in respect of principal, interest, Agent's Fee or other fees or amounts due from the Borrower hereunder shall be payable prior to eleven o'clock (11:00) a.m., Eastern time, on the date when due without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrower, and without set-off, counterclaim or other deduction of any nature, and an action therefor shall immediately accrue. Such payments shall be made to the Agent at the Principal Office for the ratable accounts of the Banks with respect to the Term Loans in Dollars and in immediately available funds, and the Agent shall promptly distribute such amounts to the Banks in immediately available funds, provided that in the event payments are received by eleven o'clock (11:00) a.m., Eastern time, by the Agent with respect to the Term Loans and such payments are not distributed to the Banks on the same day received by the Agent, the Agent shall pay the Banks the Federal Funds Effective Rate with respect to the amount of such payments for each day held by the Agent and not distributed to the Banks. The Agent's and each Bank's statement of account, ledger or other relevant record shall, in the absence of manifest error, be conclusive as the statement of the amount of principal of and interest on the Term Loans and other amounts owing under this Agreement and shall be deemed an "account stated."

4.2 Pro Rata Treatment of Banks.

Each borrowing shall be allocated to each Bank according to its Ratable Share, and each selection of, conversion to or renewal of any Interest Rate Option and each payment or prepayment by the Borrower with respect to principal, interest, or other fees (except for the Agent's Fee) or amounts due from the Borrower hereunder to the Banks with respect to the Term Loans, shall (except as provided in Section 3.4.3 (Agent's and Bank's Rights) in the case of an event specified in Sections 3.4 (LIBO-Rate Unascertainable; Illegality, Increased Costs, Deposits Not Available), 4.4.2 (Replacement of a Bank) or 4.6 (Additional Compensation in Certain Circumstances)) be made in proportion to the Ratable Share of each Bank.

4.3 Interest Payment Dates and Maturity Date.

Interest on Term Loans to which the Base Rate Option applies shall be due and payable in arrears on the first Business Day of each calendar month after the date hereof and on the Maturity Date or upon acceleration of the Term Loan. Interest on Term Loans to which the LIBO-Rate Option applies shall be due and payable on the last day of each Interest Period for those Term Loans and, if such Interest Period is longer than three (3) Months, also on the 90th day of such Interest Period. Interest on mandatory prepayments of principal under Section 4.5 (Mandatory Payments) shall be due on the date such mandatory prepayment is due. Interest on the principal amount of each Term Loan or other monetary Obligation shall be due and payable on demand after such principal amount or other monetary Obligation becomes due and payable (whether on the stated maturity date, upon acceleration or otherwise). All outstanding principal of and accrued and unpaid interest on the Term Loans shall be due and payable on the Maturity Date, unless accelerated under the terms of this Agreement, and the Borrower agrees promptly to make all such payments of principal and interest when due hereunder.

4.4 Voluntary Prepayments.

4.4.1. Right to Prepay.

The Borrower shall have the right at its option at any time and from time to time to prepay the Term Loans in whole or part without premium or penalty (except as provided in Section 4.4.2 (Replacement of a Bank) below or in Section 4.6 (Additional Compensation in Certain Circumstances)) in accordance with Section 2.1.2 (Voluntary Prepayments). All prepayment notices shall be irrevocable and amounts prepaid may not be re-borrowed. The principal amount of the Term Loans for which a prepayment notice is given, together with interest on such principal amount except with respect to Term Loans to which the Base Rate Option applies, shall be due and payable on the date specified in such prepayment notice as the date on which the proposed prepayment is to be made. Except as provided in Section 3.4.3 (Agent's and Bank's Rights), if the Borrower prepays a Term Loan but fails to specify the applicable Borrowing Tranche which the Borrower is prepaying, the prepayment shall be applied first to Term Loans to which the Base Rate Option applies, and then to Term Loans to which the LIBO-Rate Option applies. Any prepayment hereunder shall be subject to the Borrower's Obligation to indemnify the Banks under Section 4.6.2 (Indemnity).

4.4.2. Replacement of a Bank.

In the event any Bank (i) gives notice under Section 3.4 (LIBO-Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available) or Section 4.6.1 (Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.), (ii) does not fund Term Loans because the making of such Term Loans would contravene any Law applicable to such Bank, or (iii) becomes subject to the control of an Official Body (other than normal and customary supervision), then the Borrower shall have the right at its option, with the consent of the Agent, which shall not be unreasonably withheld, to prepay the Term Loans of such Bank in whole, together with all interest accrued thereon, within ninety (90) days after (x) receipt of such Bank's notice under Section 3.4 (LIBO-Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available) or 4.6.1 (Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.), (y) the date such Bank has failed to fund Term Loans because the making of such Term Loans would contravene Law applicable to such Bank, or (z) the date such Bank became subject to the control of an Official Body, as applicable; provided that the Borrower shall also pay to such Bank at the time of such prepayment any amounts required under Section 4.6 (Additional Compensation in Certain Circumstances) and any accrued interest due on such amount and any related fees. Notwithstanding the foregoing, the Agent may only be replaced subject to the requirements of Section 9.14 (Successor Agent).

4.4.3. Change of Lending Office.

Each Bank agrees that upon the occurrence of any event giving rise to increased costs or other special payments under Section 3.4.2 (Illegality; Increased Costs; Deposits Not Available) or 4.6.1 (Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.) with respect to such Bank, it will if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of such Bank) to designate another lending office for any Term Loans affected by such event, provided that such designation is made on such terms that such Bank and its lending office suffer no economic, legal or regulatory

disadvantage, with the object of avoiding the consequence of the event giving rise to the operation of such Section. Nothing in this Section 4.4.3 (Change of Lending Office) shall affect or postpone any of the Obligations of the Borrower or any other Loan Party or the rights of the Agent or any Bank provided in this Agreement.

4.5 Mandatory Payments.

The Borrower shall make mandatory payments of principal (together with accrued interest thereon) to the Agent to the extent by which Term Loan Outstandings exceeds at any time the Commitments (as they may be reduced pursuant to Section 2.1.2 (Voluntary Prepayment) or otherwise) within three (3) Business Days after such excess is calculated. The Borrower shall also make payments as and when required under Section 7.2.10 (Borrowing Base).

4.6 Additional Compensation in Certain Circumstances.

4.6.1. Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.

If any Law, guideline or interpretation or any change in any Law, guideline or interpretation or application thereof by any Official Body charged with the interpretation or administration thereof or compliance with any request or directive (whether or not having the force of Law) of any central bank or other Official Body:

(i) subjects any Bank to any tax or

changes the basis of taxation with respect to this Agreement, the Notes, the Term Loans or payments by the Borrower of principal, interest, or other amounts due from the Borrower hereunder (except for taxes on the overall net income of such Bank),

(ii) imposes, modifies or deems

applicable any reserve, special deposit or similar requirement against credits or commitments to extend credit extended by, or assets (funded or contingent) of, deposits with or for the account of, or other acquisitions of funds by, any Bank, or

(iii) imposes, modifies or deems

applicable any capital adequacy or similar requirement (A) against assets (funded or contingent) of, or other credits or commitments to extend credit extended by, any Bank, or (B) otherwise applicable to the obligations of any Bank under this Agreement,

and the result of any of the foregoing is to increase the cost to, reduce the income receivable by, or impose any expense upon any Bank with respect to this Agreement, or the making, maintenance or funding of any part of the Term Loans (or, in the case of any capital adequacy or similar requirement, to have the effect of reducing the rate of return on any Bank's capital, taking into consideration such Bank's customary policies with respect to capital adequacy) by an amount which such Bank in its sole discretion deems to be material, such Bank shall from time to time notify the Borrower and the Agent of the amount determined in good faith (using any averaging and attribution methods employed in good faith) by such Bank to be necessary to compensate such Bank for such increase in cost, reduction of income, additional expense or reduced rate of return. Such notice shall set forth in reasonable detail the basis for such determination. Such amount shall be due and payable by the Borrower to such Bank ten (10) Business Days after such notice is given.

4.6.2. Indemnity.

In addition to the compensation required by Section 4.6.1

(Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.), the Borrower shall

indemnify each Bank against all liabilities, losses or expenses

(including actual loss of margin, any loss or expense incurred in liquidating or employing deposits from third parties and any loss or expense incurred in connection with funds acquired by a Bank to fund or maintain Term Loans subject to a LIBO-Rate Option) which such Bank sustains or incurs as a consequence of any:

(i) payment, prepayment, conversion or

renewal of any Term Loan to which a LIBO-Rate Option applies on a day other than the last day of the corresponding Interest Period (whether or not such payment or prepayment is mandatory, voluntary or automatic and whether or not such payment or prepayment is then due),

(ii) attempt by the Borrower to revoke

(expressly, by later inconsistent notices or otherwise) in whole or part any Term Loan Requests under Section 3.2 (Interest Periods) or notice relating to prepayments under Section 4.4 (Voluntary Prepayments), or

(iii) default by the Borrower in the

performance or observance of any covenant or condition contained in this Agreement or any other Loan Document, including any failure of the Borrower to pay when due (by acceleration or otherwise) any principal, interest, or any other amount due hereunder.

If any Bank sustains or incurs any such loss or expense, it shall from time to time notify the Borrower of the amount determined in good faith by such Bank (which determination may include such assumptions, allocations of costs and expenses and averaging or attribution methods as such Bank shall deem reasonable) to be necessary to indemnify such Bank for such loss or expense. Such notice shall set forth in reasonable detail the basis for such determination. Such amount shall be due and payable by the Borrower to such Bank ten (10) Business Days after such notice is given.

4.7 Notes.

The Term Loans made by each Bank shall, if requested by such Bank, be evidenced by a Note.

5. REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties.

The Borrower and Hovnanian, jointly and severally, represent and warrant to the Agent and to each of the Banks as follows:

5.1.1. Organization and Qualification.

Each of the Borrower, KHL and Hovnanian is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and each other Loan Party is a corporation, partnership or limited liability company duly organized, validly existing and in good standing under the laws of its jurisdiction of organization except to the extent the failure to do so could not, individually or in the aggregate, reasonably be expected to cause a Material Adverse Change. Each Loan Party has the lawful power to own or lease its properties and to engage in the business it presently conducts or proposes to conduct. Each Loan Party is duly licensed or qualified and in good standing in each jurisdiction where the failure to obtain them could, individually or in the aggregate, reasonably be expected to cause a Material Adverse Change.

5.1.2. Subsidiaries.

As of the Closing Date, Schedule 5.1.2 states the name of each of Hovnanian's Subsidiaries and its jurisdiction of incorporation. Hovnanian and each Loan Party has good and marketable title to all of the Subsidiary Shares, Partnership Interests and LLC Interests it purports to own, free and clear in each case of any Lien. All Subsidiary Shares, Partnership Interests and LLC Interests have been validly issued, and all Subsidiary Shares are fully paid and nonassessable. All capital contributions and other consideration required to be made or paid in connection with the issuance of the Partnership Interests and LLC Interests have been made or paid, as the case may be. Such Schedule 5.1.2 includes, among other things, as to each of Hovnanian's Subsidiaries, the percentage ownership of each owner of: the issued and outstanding shares (referred to herein as the "Subsidiary Shares") if such Subsidiary is a corporation, its outstanding partnership interests (the "Partnership Interests") if such Subsidiary is a partnership and its outstanding limited liability company interests (the "LLC Interests") if such Subsidiary is a limited liability company. Schedule 5.1.2 shall also footnote the controlling interests of each Subsidiary if such controlling interest is held by a Person other than Hovnanian or a Subsidiary of Hovnanian.

5.1.3. Power and Authority.

Each Loan Party has full power to enter into, execute, deliver and carry out this Agreement and the other Loan Documents to which it is a party, to incur the Indebtedness contemplated by the Loan Documents and to perform its Obligations under the Loan Documents to which it is a party, and all such actions have been duly authorized by all necessary proceedings on its part.

5.1.4. Validity and Binding Effect.

This Agreement has been duly and validly executed and delivered by each Loan Party, and each other Loan Document which any Loan Party is required to execute and deliver on or after the date hereof will have been duly executed and delivered by such Loan Party on the required date of delivery of such Loan Document. This Agreement and each other Loan Document constitutes, or will constitute, legal, valid and binding obligations of each Loan Party which is or will be a party thereto on and after its date of delivery thereof, enforceable against such Loan Party in accordance with its terms, except to the extent that enforceability of any of such Loan Document may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforceability of creditors' rights generally or limiting the right of specific performance.

5.1.5. No Conflict.

Neither the execution and delivery of this Agreement or the other Loan Documents by any Loan Party nor the consummation of the transactions herein or therein contemplated or compliance with the terms and provisions hereof or thereof by any of them will conflict with, constitute a default under or result in any breach of (i) the terms and conditions of the certificate of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation, limited liability company agreement or other organizational documents of any Loan Party or (ii) any Law or any material agreement or instrument or order, writ, judgment, injunction or decree to which any Loan Party is a party or by which it is bound or to which it is subject, or result in the creation or enforcement of any Lien, charge or encumbrance whatsoever upon any property (now or hereafter acquired) of any Loan Party (other than Liens granted under the Loan Documents) which could, individually or in the aggregate, reasonably be expected to cause a Material Adverse Change.

5.1.6. Litigation.

There are no actions, suits, proceedings or investigations pending or, to the knowledge of any Loan Party, threatened against such Loan Party at law or equity before any Official Body which individually or in the aggregate may result in any Material Adverse Change. None of the Loan Parties is in violation of any order, writ, injunction or any decree of any Official Body which may result in any Material Adverse Change.

5.1.7. Title to Properties.

Each Loan Party has good and marketable title to or a valid leasehold interest in all properties, assets and other rights which it purports to own or lease or which are reflected as owned or leased on its books and records, free and clear of all Liens and encumbrances, except Permitted Liens, and subject to the terms and conditions of the applicable leases. All leases of property are in full force and effect without the necessity for any consent which has not previously been obtained upon consummation of the transactions contemplated hereby.

5.1.8. Financial Statements.

(i) Historical Statements. The

Borrower has delivered to the Agent copies of Hovnanian's audited consolidated year-end financial statements for and as of the end of the fiscal year ended October 31, 2001 (the "Annual Statements"). In addition, the Borrower has delivered to the Agent copies of Hovnanian's unaudited consolidated interim financial statements for the fiscal year to date and as of the end of the fiscal quarter ended July 31, 2001 (the "Interim Statements") (the Annual and Interim Statements being collectively referred to as the "Historical Statements"). The Historical Statements were compiled from the books and records maintained by Hovnanian's management, are correct and complete and fairly represent the consolidated financial condition of Hovnanian and its Subsidiaries as of their dates and the results of operations for the fiscal periods then ended and have been prepared in accordance with GAAP consistently applied, subject (in the case of the Interim Statements) to normal year-end audit adjustments.

(ii) Financial Projections. The

Borrower has delivered to the Agent and the Banks financial projections of Hovnanian and its Subsidiaries for each of the fiscal years ending October 31, 2002, 2003, 2004 and 2005, each derived from various assumptions of Hovnanian's management (the "Financial Projections"). The Financial Projections represent a reasonable range of possible results in light of the history of the business, present and foreseeable conditions and the intentions of Hovnanian's management (it being understood that actual results may vary materially from the Financial Projections). The Financial Projections accurately reflect the liabilities of Hovnanian and its Subsidiaries upon consummation of the transactions contemplated hereby as of the Closing Date.

(iii) Accuracy of Financial Statements.

As of the Closing Date, neither Hovnanian nor any Subsidiary of Hovnanian has any liabilities, contingent or otherwise, or forward or long-term commitments that are required by GAAP to be, but are not, disclosed in the Historical Statements or in the notes thereto, and except as disclosed therein there are no unrealized or anticipated losses from any commitments of Hovnanian or any Subsidiary of Hovnanian which may cause a Material Adverse Change. Since October 31, 2001, no Material Adverse Change has occurred.

5.1.9. Use of Proceeds; Margin Stock.

5.1.9.1. General.

The Loan Parties intend to use the proceeds of the Term Loans in accordance with Sections 2.3 (Use of Proceeds) and 7.1.10 (Use of Proceeds).

5.1.9.2. Margin Stock.

None of the Loan Parties engages or intends to engage principally, or as one of its important activities, in the business of extending credit for the purpose, immediately, incidentally or ultimately, of purchasing or carrying margin stock (within the meaning of Regulation U). No part of the proceeds of any Term Loan has been or will be used, immediately, incidentally or ultimately, to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock or to refund Indebtedness originally incurred for such purpose, or for any purpose which entails a violation of or which is inconsistent with the provisions of the regulations of the Board of Governors of the Federal Reserve System. None of the Loan Parties holds or intends to hold margin stock in such amounts that more than 25% of the reasonable value of the assets of such Loan Party are or will be represented by margin stock.

5.1.10. Full Disclosure.

Neither this Agreement nor any other Loan Document, nor any certificate, statement, agreement or other documents furnished to the Agent or any Bank in connection herewith or therewith, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein, in light of the circumstances under which they were made, not misleading. There is no fact known to any Loan Party which materially adversely affects the business, property, assets, financial condition, results of operations or business prospects of the Loan Parties taken as a whole which has not been set forth in this Agreement or in the certificates, statements, agreements or other documents furnished in writing to the Agent and the Banks prior to or at the date hereof in connection with the transactions contemplated hereby.

5.1.11. Taxes.

All federal, state, local and other tax returns required to have been filed with respect to the Loan Parties have been filed, and payment or adequate provision has been made for the payment of all taxes, fees, assessments and other governmental charges which have or

may become due pursuant to said returns or to assessments received, except to the extent that such taxes, fees, assessments and other charges are not material or are being contested in good faith by appropriate proceedings diligently conducted and for which such reserves or other appropriate provisions, if any, as shall be required by GAAP shall have been made. There are no agreements or waivers extending the statutory period of limitations applicable to any federal income tax return of any Loan Party for any period.

5.1.12. Consents and Approvals.

No consent, approval, exemption, order or authorization of, or a registration or filing with, any Official Body or any other Person is required by any Law or any agreement in connection with the execution, delivery and carrying out of this Agreement and the other Loan Documents by any Loan Party, except as listed on Schedule 5.1.12, all of which shall have been obtained or made on or prior to the Closing Date except as otherwise indicated on Schedule 5.1.12.

5.1.13. No Event of Default; Compliance with Instruments.

No event has occurred and is continuing and no condition exists or will exist after giving effect to the borrowings or other extensions of credit to be made on the Closing Date under or pursuant to the Loan Documents which constitutes an Event of Default or Potential Default. None of the Loan Parties is in violation of (i) any term of its certificate of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation, limited liability company agreement or other organizational documents or (ii) any material agreement or instrument to which it is a party or by which it or any of its properties may be subject or bound where such violation would constitute a Material Adverse Change.

5.1.14. Patents, Trademarks, Copyrights, Licenses, Etc.

Each Loan Party owns or possesses all the material patents, trademarks, service marks, trade names, copyrights, licenses, registrations, franchises, permits and rights necessary to own and operate its properties and to carry on its business as presently conducted and planned to be conducted by such Loan Party, without known possible, alleged or actual material conflict with the rights of others.

5.1.15. Insurance.

No notice has been given or claim made and no grounds exist to cancel or avoid any of insurance policies of the type described in Section 7.1.3 (Maintenance of Insurance) or to reduce the coverage provided thereby.

5.1.16. Compliance with Laws.

The Loan Parties are in compliance in all material respects with all applicable Laws (other than Environmental Laws which are specifically addressed in Section 5.1.21 (Environmental Matters)) in all jurisdictions in which any Loan Party is presently or will be doing business except where the failure to do so would not constitute a Material Adverse Change.

5.1.17. Burdensome Restrictions.

None of the Loan Parties is bound by any contractual obligation, or subject to any restriction in any organization document, or any requirement of Law which could reasonably be expected to constitute a Material Adverse Change.

5.1.18. Investment Companies; Regulated Entities.

None of the Loan Parties is an "investment company" registered or required to be registered under the Investment Company Act of 1940 or under the "control" of an "investment company" as such terms are defined in the Investment Company Act of 1940 and shall not become such an "investment company" or under such "control." None of the Loan Parties is subject to any other Federal or state statute or regulation limiting its ability to incur indebtedness for borrowed money (other than Regulation X of the Board of Governors of the Federal Reserve System).

5.1.19. Plans and Benefit Arrangements.

(i) Except where the liability that could reasonably be expected to result therefrom would not, individually or in the aggregate, result in a Material Adverse Change, (a) the Loan Parties and each other member of the ERISA Group are in compliance in all material respects with any applicable provisions of ERISA with respect to all Plans and, as to the Borrower, Benefit Arrangements; (b) there has been no Prohibited Transaction with respect to any such Benefit Arrangement or any Plan which could result in any material liability of the Loan Parties or any other member of the ERISA Group; (c) the Loan Parties and all other members of the ERISA Group have made when due any and all payments required to be made under any agreement relating to a Multiemployer Plan or any Law pertaining thereto; (d) with respect to each Plan the Loan Parties and each other member of the ERISA Group (i) have fulfilled in all respects their obligations under the minimum funding standards of ERISA, (ii) have not incurred any liability to the PBGC, except for premiums in the ordinary course which are not overdue and (iii) have not had asserted against them any penalty for failure to fulfill the minimum funding requirements of Section 302 of ERISA; and (e) all Plans and Benefit Arrangements have been administered in material compliance with their terms and applicable Law.

(ii) Except where the liability that could reasonably be expected to result therefrom would not, individually or in the aggregate, result in a Material Adverse Change,

no event requiring notice to the PBGC under Section 302(f)(4)(A) of ERISA has occurred or is reasonably expected to occur with respect to any Plan, and no amendment with respect to which security is required under Section 307 of ERISA has been made or is reasonably expected to be made to any Plan.

(iii) Except where the liability that could reasonably be expected to result therefrom would not, individually or in the aggregate, result in a Material Adverse Change, neither the Loan Parties nor any other member of the ERISA Group has incurred or reasonably expects to incur any material withdrawal liability under Section 4201 of ERISA to any Multiemployer Plan or under Section 4063 or 4064 of ERISA to any Plan. Neither the Loan Parties nor any other member of the ERISA Group has been notified by any Multiemployer Plan or Plan that such Multiemployer Plan or Plan has been terminated within the meaning of Sections 4041 A or 4064, respectively, of ERISA and, to the best knowledge of the Borrower, no Multiemployer Plan is reasonably expected to be reorganized or terminated, within the meaning of Title IV of ERISA.

(iv) To the best knowledge of Borrower, neither the Borrower nor any other member of the ERISA Group has, within the preceding five years, entered into a transaction to which either Section 4069 or Section 4212(c) of ERISA could apply so as to subject Borrower or other member of the ERISA Group to a liability, except where the liability that could reasonably be expected to result therefrom would not result in a Material Adverse Change.

5.1.20. Employment Matters.

Each of the Loan Parties is in compliance with the Labor Contracts and all applicable Federal, state and local labor and employment Laws including those related to equal employment opportunity and affirmative action, labor relations, minimum wage, overtime, child labor, medical insurance continuation, worker adjustment and relocation notices, immigration controls and worker and unemployment compensation, where such failure to comply would constitute a Material Adverse Change. There are no outstanding grievances, arbitration awards or appeals therefrom arising out of the Labor Contracts or current or threatened strikes, picketing, handbilling or other work stoppages or slowdowns at facilities of any of the Loan Parties which in any case would constitute a Material Adverse Change.

5.1.21. Environmental Matters.

None of the Loan Parties has received any Environmental Complaint, including but not limited to those from any Official Body or private Person alleging that such Loan Party or any prior owner, operator or occupant of any of the Property is a potentially responsible party under the Comprehensive Environmental Response, Cleanup and Liability Act, 42 U.S.C. 9601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et seq. or any analogous state or local Law, which could reasonably be expected to constitute a Material Adverse Change and none of the Loan Parties has any reason to believe that such an Environmental Complaint might be received. There are no pending or, to any Loan Party's knowledge, threatened Environmental Complaints relating to any Loan Party or, to any Loan Party's knowledge, any prior owner, operator or occupant of any of the Properties pertaining to, or arising out of, any Contamination or violations of Environmental Laws or Required Environmental Permits which could reasonably be expected to constitute a Material Adverse Change.

5.1.22. Senior Debt Status.

The Obligations of each Loan Party under this Agreement, the Guaranty Agreement and each of the other Loan Documents to which it is a party do rank and will rank at least pari passu in priority of payment with all other Indebtedness of such Loan Party except Indebtedness of such Loan Party to the extent secured by Permitted Liens. There is no Lien upon or with respect to any of the properties or income of any Loan Party which secures Indebtedness or other obligations of any Person except for Permitted Liens.

5.2 Continuation of Representations.

The Borrower and Hovnanian make the representations and warranties in this Section 5 on the Closing Date.

6. CONDITIONS OF LENDING

The obligation of each Bank to make Term Loans and of the Agent hereunder is subject to the performance by each of the Loan Parties of its Obligations to be performed hereunder at or prior to the making of any such Term Loans and to the satisfaction of the following further conditions:

6.1 Term Loans On the Closing Date.

6.1.1. Officer's Certificate.

The representations and warranties of each of the Loan Parties contained in Section 5 (Representation and Warranties) and in each of the other Loan Documents shall be true and correct on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein), and each of the Loan Parties shall have performed and complied with all covenants and conditions hereof and thereof, no Event of Default or Potential Default shall have occurred and be continuing or shall

exist; and there shall be delivered to the Agent for the benefit of each Bank a certificate of each of the Loan Parties, dated the Closing Date and signed by the Chief Executive Officer, President, Chief Financial Officer or Vice-President-Finance and Treasurer of each of the Loan Parties, to each such effect.

6.1.2. Incumbency Certificate.

There shall be delivered to the Agent for the benefit of each Bank a certificate dated the Closing Date and signed by the Secretary or an Assistant Secretary or the managing member (or equivalent), as the case may be, of each of the Loan Parties, certifying as appropriate as to:

(i) all action taken by each Loan Party in connection with this Agreement and the other Loan Documents;

(ii) the names of the officer or officers authorized to sign this Agreement and the other Loan Documents and the true signatures of such officer or officers and specifying the Authorized Officers permitted to act on behalf of each Loan Party for purposes of this Agreement and the true signatures of such officers, on which the Agent and each Bank may conclusively rely; and

(iii) as to Hovnanian and the Borrower only, copies of its organizational documents, including its certificate of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation, and limited liability company agreement as in effect on the Closing Date certified by the appropriate state official where such documents are filed in a state office together with certificates from the appropriate state officials as to the continued existence and good standing of such Loan Party in each state where organized, all as acceptable to the Agent.

6.1.3. Delivery of Loan Documents .

The Guaranty Agreement, the Notes, and the other Loan Documents shall have been duly executed and delivered by Hovnanian to the Agent for the benefit of the Banks.

6.1.4. Opinion of Counsel.

There shall be delivered to the Agent for the benefit of each Bank a written opinion of Peter Reinhart, Esquire, in-house counsel for the Loan Parties, dated the Closing Date and in form and substance satisfactory to the Agent and its counsel.

6.1.5. Legal Details.

All legal details and proceedings in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be in form and substance satisfactory to the Agent and counsel for the Agent, and the Agent shall have received all such other counterpart originals or certified or other copies of such documents and proceedings in connection with such transactions, in form and substance satisfactory to the Agent and said counsel, as the Agent or said counsel may reasonably request.

6.1.6. Payment of Fees.

The Borrower shall have paid or caused to be paid to the Agent for itself and for the account of the Banks to the extent not previously paid, all fees accrued through the Closing Date and the costs and expenses for which the Agent and the Banks are entitled to be reimbursed.

6.1.7. Consents.

All material consents required to effectuate the transactions contemplated hereby as set forth on Schedule 5.1.12 shall have been obtained.

6.1.8. Officer's Certificate Regarding MACs.

Since October 31, 2001, no Material Adverse Change shall have occurred, and there shall have been delivered to the Agent for the benefit of each Bank a certificate dated the Closing Date and signed by the Chief Executive Officer, President, Chief Financial Officer or Vice-President-Finance and Treasurer of each Loan Party to each such effect.

6.1.9. No Actions or Proceedings.

No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of, this Agreement, the other Loan Documents or the consummation of the transactions contemplated hereby or thereby.

6.1.10. Obligations under Revolving Senior Debt.

The Borrower shall have established to the satisfaction of the Agent that the transactions contemplated hereby do not conflict with the terms of the Revolving Senior Debt Facility.

6.1.11. Closing Borrowing Base Certificate.

The Borrower shall have delivered a duly completed Borrowing Base Certificate respect of the period ended November 30, 2001.

6.2 Each Additional Term Loan.

At the time of making any Loans after the Closing Date incident to an increase in the aggregate Term Loan Commitments pursuant to Section 2.1.3 (Increase in Commitments After Closing Date) and after giving effect to the proposed extensions of credit: the representations and warranties of the Loan Parties contained in Section 5 (Representations and Warranties) and in the other Loan Documents shall be true and correct in all material respects on and as of the date of such additional Term Loan with the same effect as

though such representations and warranties had been made on and as of such date (except representations and warranties which expressly relate solely to an earlier date or time, which representations and warranties shall be true and correct in all material respects on and as of the specific dates or times referred to therein); no Event of Default or Potential Default shall have occurred and be continuing or shall exist; and the Borrower shall have delivered to the Agent a duly executed and completed Term Loan Request.

7. COVENANTS

7.1 Affirmative Covenants.

The Borrower and Hovnanian, jointly and severally, covenant and agree that until payment in full of the Term Loans, and interest thereon, satisfaction of all of the Loan Parties' other Obligations under the Loan Documents and termination of all Term Loan Commitments, they shall, and shall cause the other Loan Parties to, comply at all times with the following affirmative covenants:

7.1.1. Preservation of Existence, Etc.

Each Loan Party shall maintain its legal existence as a corporation, limited partnership or limited liability company and its license or qualification and good standing in each jurisdiction in which its ownership or lease of property or the nature of its business makes such license or qualification necessary, except as otherwise expressly permitted in Section 7.2.4 (Liquidations, Mergers, Consolidations, Acquisitions) and except where failure to do so could not reasonably be expected to constitute a Material Adverse Change with respect to the Borrower or Hovnanian or with respect to the Loan Parties taken as a whole.

7.1.2. Payment of Liabilities, Including Taxes, Etc.

Each Loan Party shall duly pay and discharge all material liabilities to which it is subject or which are asserted against it, promptly as and when the same shall become due and payable, including all material taxes, assessments and governmental charges upon it or any of its properties, assets, income or profits, prior to the date on which penalties attach thereto, except to the extent that such liabilities, including taxes, assessments or charges, are being contested in good faith and by appropriate and lawful proceedings diligently conducted and for which such reserve or other appropriate provisions, if any, as shall be required by GAAP shall have been made, or to the extent that failure to discharge any such liabilities would not result in any additional liability which would adversely affect to a material extent the financial condition of the Borrower or Hovnanian or of the Loan Parties taken as a whole, provided that the Loan Parties will pay all such liabilities forthwith upon the commencement of proceedings to foreclose any Lien which may have attached as security therefor.

7.1.3. Maintenance of Insurance.

Each Loan Party shall insure its properties and assets against loss or damage by fire and such other insurable hazards as such assets are commonly insured (including fire, extended coverage, property damage, workers' compensation, public liability, flood and business interruption insurance) and against other risks (including errors and omissions) in such amounts as similar properties and assets are insured by prudent companies in similar circumstances carrying on similar businesses, and with reputable and financially sound insurers, including self-insurance to the extent customary.

7.1.4. Maintenance of Properties and Leases.

Each Loan Party shall maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties necessary to its business, and from time to time, such Loan Party will make or cause to be made all appropriate repairs, renewals or replacements thereof.

7.1.5. Maintenance of Patents, Trademarks, Etc.

Each Loan Party shall maintain in full force and effect all patents, trademarks, service marks, trade names, copyrights, licenses, franchises, permits and other authorizations necessary for the ownership and operation of its properties and business if the failure so to maintain the same would constitute a Material Adverse Change.

7.1.6. Visitation Rights.

Each Loan Party shall permit any of the officers or authorized employees or representatives of the Agent or (at the expense of such Bank) any of the Banks to visit and inspect any of its properties and to examine and make excerpts from its books and records and discuss its business affairs, finances and accounts with its officers, all in such detail and at such times and as often as any of the Banks may reasonably request, provided that each Bank shall provide the Borrower and the Agent with reasonable notice prior to any visit or inspection. In the event any Bank desires to conduct an audit of any Loan Party, such Bank shall make a reasonable effort to conduct such audit contemporaneously with any audit to be performed by the Agent.

7.1.7. Keeping of Records and Books of Account.

The Loan Parties shall maintain and keep proper books of record and account which enable Hovnanian and its Subsidiaries to issue financial statements in accordance with GAAP and as otherwise required by applicable Laws of any Official Body having jurisdiction over Hovnanian or any Subsidiary of Hovnanian, and in which full, true and correct entries shall be made in all material respects of all its dealings and business and financial affairs.

7.1.8. Plans and Benefit Arrangements.

The Loan Parties shall, and shall cause each member of the ERISA Group that is a Subsidiary to, and shall use its reasonable best efforts to cause each other member of the ERISA Group to, comply with ERISA, the Internal Revenue Code and other applicable Laws applicable to Plans and, as to the Borrower, Benefit Arrangements, except where such failure, alone or in conjunction with any other failure, would not result in a Material Adverse Change. Without limiting the generality of the foregoing, the Loan Parties shall cause all of their Plans and shall use reasonable best efforts to cause all Plans maintained by any member of the ERISA Group, to be funded in accordance with the minimum funding requirements of ERISA and shall make, and cause each Subsidiary to, and shall use its reasonable best efforts to cause each member of the ERISA Group to make, in a timely manner, all contributions due to Plans and Multiemployer Plans except where such failure, alone or in conjunction with any other failure, would not result in a Material Adverse Change.

7.1.9. Compliance with Laws.

Each Loan Party shall comply with all applicable Laws, including all Environmental Laws, in all respects, provided that it shall not be deemed to be a violation of this Section 7.1.9 if any failure to comply with any Law would not result in fines, penalties, remediation costs, other similar liabilities or injunctive relief which in the aggregate would constitute a Material Adverse Change.

7.1.10. Use of Proceeds.

The Loan Parties will use the proceeds of the Term Loans only to refinance the purchase of substantially all of the assets of The Forecast Group, L.P. effected prior to the Closing Date in January 2002 by K. Hovnanian Forecast Homes, Inc., a wholly-owned Subsidiary of Hovnanian Developments of California, Inc., a wholly-owned Subsidiary of Hovnanian, each a Guarantor hereunder, to finance Permitted Acquisitions and for ongoing corporate purposes.

7.1.11. Required Dividends of KHL.

The Loan Parties shall cause KHL to pay to Hovnanian, at least annually, all net income of KHL.

7.1.12. Payments to and by KHL.

At any time that there exists any Event of Default or Potential Default, no Loan Party shall make any payments to KHL and at any time that there exists any Event of Default, the Loan Parties shall cause KHL to pay to Hovnanian all monies theretofore paid by any Loan Party to KHL during the fiscal year in which such Event of Default exists to the extent such monies have not already been repaid or advanced to a Loan Party.

7.2 Negative Covenants.

The Borrower and Hovnanian, jointly and severally, covenant and agree that until payment in full of the Term Loans and interest thereon, satisfaction of all of the Loan Parties' other Obligations hereunder, and termination of all Term Loan Commitments, they shall, and shall cause the other Loan Parties to, comply with the following negative covenants:

7.2.1. Indebtedness.

7.2.1.1. Each of the Loan Parties shall not at any time create, incur, assume or suffer to exist any secured indebtedness, except Indebtedness secured by Permitted Liens.

7.2.1.2. KHL shall not incur Indebtedness of any kind or suffer to exist any Lien on its property or provide any Guaranty in respect of the Indebtedness or other obligations of any Person, or become obligated to do so, and no Loan Party shall allow any of the foregoing to occur.

7.2.1.3. The Loan Parties shall not permit any Mortgage Subsidiary to incur or suffer to exist any Indebtedness if, after giving effect thereto, the ratio of (x) debt to (y) equity plus the amount of any loans or Guaranties provided by Hovnanian of such Mortgage Subsidiary exceeds 12.0-to-1.0.

7.2.2. Liens.

Each of the Loan Parties shall not at any time create, incur, assume or suffer to exist any Lien on any of its property or assets, tangible or intangible, now owned or hereafter acquired, or agree or become liable to do so, except Permitted Liens.

7.2.3. Loans and Investments.

Each of the Loan Parties shall not, at any time, make or suffer to remain outstanding any Investment except Permitted Investments and, to the extent permitted by Section 7.2.6 (Restricted Payments; Restricted Investments), Restricted Investments.

7.2.4. Liquidations, Mergers, Consolidations, Acquisitions.

Each of the Loan Parties shall not dissolve, liquidate or wind-up its affairs, or become a party to any merger or consolidation, or acquire by purchase, lease or otherwise all or substantially all of the assets or capital stock of any other Person, provided that

(1) any Loan Party other than the Borrower or Hovnanian may consolidate or merge into another Loan Party (or any Person that concurrently becomes a Loan Party) which is wholly-owned by one or more of the other Loan Parties, and

(2) any Loan Party may consolidate or merge with a Person who is not a Loan Party if the common stockholders of Hovnanian prior to such transaction maintain at least 50% of the voting control (direct or indirect) of the combined entity after consummation of the transaction, and

(3) any Loan Party may acquire, whether by purchase or by merger, (A)all or substantially all of the ownership interests of another Person or (B)all or substantially all of assets of another Person or of a business or division of another Person (each, a "Permitted Acquisition"), provided that each of the following requirements is met:

(i) if the Loan Parties are acquiring the ownership interests in such Person, and such Person is, or concurrently will be, designated a Restricted Subsidiary, such Person shall execute a Guarantor Joinder and join this Agreement as a Guarantor pursuant to Section 10.18 (Joinder of Guarantors) and the Borrower shall have otherwise complied with Section 2.5.4 (Designation of Restricted Subsidiary) on or before the date of such Permitted Acquisition;

(ii) if such Person's shares are registered as "public" shares under applicable law, the board of directors or other equivalent governing body of such Person shall have approved such Permitted Acquisition;

(iii) the business acquired, or the business conducted by the Person whose ownership interests are being acquired, as applicable, shall comply with Section 7.2.8 (Continuation of or Change in Business); and

(iv) no Potential Default or Event of Default shall exist immediately prior to and after giving effect to such Permitted Acquisition.

(4) the Loan Parties may make, whether by purchase or merger or otherwise, Permitted Investments and, to the extent permitted by Section 7.2.6 (Restricted Investments and Restricted Payments), Restricted Investments and Restricted Payments;

(5) the Loan Parties may liquidate or wind-up Restricted Subsidiaries of Hovnanian which are not individually material to Hovnanian, the Borrower or to the Loan Parties taken as a whole; provided that the Loan Parties shall satisfy the requirements of Section 2.5 [Designation of Subsidiaries and Release of Guarantors], to the extent applicable;

(6) the Loan Parties may effectuate any sale permitted by Section 7.2.5 as a merger or consolidation; and

(7) for the avoidance of doubt, any Loan Party may effect or allow the liquidation or winding-up of any Non-Restricted Person.

7.2.5. Dispositions of Assets or Subsidiaries; Sale and Leaseback.

7.2.5.1. Each of the Loan Parties shall not sell, convey, assign, lease, abandon or otherwise transfer or dispose of, voluntarily or involuntarily, any of its properties or assets, tangible or intangible (including sale, assignment, discount or other disposition of accounts, contract rights, chattel paper, equipment or general intangibles with or without recourse or of capital stock, shares of beneficial interest, partnership interests or limited liability company interests of a Subsidiary of such Loan Party, but excluding Investments in Non-Restricted Persons), except:

(i) any sale, transfer or lease of assets in the ordinary course of business which are no longer necessary or required in the conduct of such Loan Party's business;

(ii) any sale, transfer or lease of assets to a Loan Party;

(iii) any sale, transfer or lease of assets in the ordinary course of business which are replaced by substitute assets acquired not in violation of this Agreement; or

(iv) any sale and leaseback permitted by Section 7.2.5.2.

7.2.5.2. The Loan Parties shall not, directly or indirectly, sell, transfer or otherwise dispose of real and/or personal property with a view directly or indirectly to the leasing back of the same or of any similar property except for (i) sales and leasebacks of sample model homes and their contents; (ii) sales and leasebacks of any office buildings and their contents, or (iii) sales and leasebacks in the normal course of business.

7.2.6. Restricted Payments; Restricted Investments.

7.2.6.1. The Loan Parties shall not pay or make Restricted Payments or Restricted Investments from and after January 31, 2001 which exceed in the aggregate the sum of:

(i) \$45,000,000;

(ii) 50% of net income of Hovnanian (calculated and consolidated in accordance with GAAP) for all fiscal quarters commencing on February 1, 2001 and thereafter; and

(iii) 50% of the proceeds (less costs of issuance) of any issuance or sale of equity of Hovnanian to any Person other than a Loan Party during all fiscal quarters commencing on February 1, 2001 and thereafter.

7.2.6.2. Each of the Loan Parties shall not enter into or carry out any transaction with any Affiliate (including purchasing property or services from or selling property or services to any Affiliate of any Loan Party or other Person but excluding transactions between Loan Parties) unless such transaction is not otherwise prohibited by this Agreement, is entered into in the ordinary course of business upon fair and reasonable arm's-length terms and is in accordance with all applicable Law. Without limiting

the foregoing, the aggregate amount of all Indebtedness for owed or borrowed money owing to any Loan Party by any officer or director, or relative thereof, shall not exceed \$4,000,000 in the aggregate owing at any one time and all such Indebtedness shall bear interest at a rate not less than the coupon rate on six month U.S. Treasury bills as of the date such Indebtedness is incurred.

7.2.6.3. The Loan Parties shall not pay or make (i) any Restricted Payment in respect of Dividends and Capital Stock Retirement in excess of \$25,000,000 in the aggregate after January 31, 2001 or (ii) any Restricted Payment in respect of the Subordinated Debt in excess of \$25,000,000 in the aggregate after January 31, 2001.

7.2.7. Subsidiaries, Partnerships and Joint Ventures.

Each of the Loan Parties shall not own or create directly or indirectly any Subsidiaries other than (i) any Subsidiary which has executed the Guaranty Agreement as Guarantor on the Closing Date, (ii) KHL, (iii) any Subsidiary formed or acquired after the Closing Date which joins the Guaranty Agreement as a Guarantor pursuant to Section 10.18 (Joinder of Guarantors) or (iv) any Non-Restricted Person.

7.2.8. Continuation of or Change in Business.

Each of the Loan Parties shall not engage in any business other than the homebuilding business or Existing Related Businesses.

7.2.9. Plans and Benefit Arrangements.

Each of the Loan Parties shall not engage in a Prohibited Transaction with any Plan, Benefit Arrangement or Multiemployer Plan which, alone or in conjunction with any other circumstances or set of circumstances, results in liability under ERISA, except where the liability that could reasonably be expected to result therefrom would not result in a Material Adverse Change.

7.2.10. Borrowing Base.

The Loan Parties shall not permit Senior Homebuilding Indebtedness minus the face amount of outstanding letters of credit under the Revolving Senior Debt Facility or any other letter of credit in respect of which a Loan Party is obligated and which is issued to guaranty or assure the installation of site improvements on (or appurtenant to) land owned by a Loan Party to exceed at any time the Borrowing Base. Pursuant thereto, the Borrower shall make (or cause to be made), on the Business Day following the date on which any such excess is calculated, payments of principal of Senior Homebuilding Indebtedness sufficient to reduce to zero (\$0) on such date any such excess.

7.2.11. Minimum ATNW.

The Loan Parties shall not permit Adjusted Tangible Net Worth to be less than the sum of: (i) \$245,600,000 and (ii) 50% of Hovnanian's consolidated net income (calculated and consolidated in accordance with GAAP) for each fiscal quarter commencing on August 1, 2001 and thereafter in which net income was earned (as opposed to a net loss) and (iii) 50% of the proceeds (less costs of issuance) of any issuance or sale of equity of Hovnanian to any Person other than a Loan Party during each fiscal quarter commencing on August 1, 2001 and thereafter.

7.2.12. Leverage Ratio.

(a) The Loan Parties shall not permit Actual Leverage to exceed 2.20-to-1.0 in any two (2) consecutive fiscal quarters in which the Fixed Charge Coverage Ratio is less than 1.5-to-1.0; and

(b) The Loan Parties shall not permit Actual Leverage to exceed the Total Debt Multiplier.

7.2.13. Inventory and Land Purchase Limits.

7.2.13.1. The Loan Parties shall not permit:

(i) The Dollar value of Unimproved Land to exceed twenty percent (20%) of the sum of Adjusted Tangible Net Worth and the principal amount of the Subordinated Debt, as calculated as of the end of each fiscal quarter;

(ii) The Dollar value of Finished Lots and Land under Development plus Unimproved Land to exceed the sum of Adjusted Tangible Net Worth and the principal amount of the Subordinated Debt, as calculated as of the end of each fiscal quarter; or

(iii) The number of Unsold Dwelling Units existing as of the end of any fiscal quarter to exceed 25% of the number of Dwelling Units conveyed to third party purchasers within the previous twelve (12) months.

7.2.13.2. If the Fixed Charge Coverage Ratio is less than 1.0-to-1.0 and the Cash Flow Coverage Ratio is less than 1.1-to-1.0 for two (2) consecutive fiscal quarters (referred to herein as the "prior two quarters"), then, during the fiscal quarter following the prior two quarters, the Loan Parties shall not purchase land (whether Unimproved Land or otherwise) in amounts which exceed in such quarter the lesser of:

(x) the total land portion of "cost of sales" as reflected in the financial statements delivered pursuant to Section 7.3 (Reporting Requirements) for sales by the Loan Parties to third party purchasers in arm's length transactions during the immediately preceding fiscal quarter; and

(y) fifty percent (50%) of the total land portion of "cost of sales" as reflected in the financial statements delivered pursuant to Section 7.3 (Reporting Requirements) for the average quarterly sales

by the Loan Parties to third party purchasers in arm's length transactions during the preceding four (4) fiscal quarters.

7.2.14. Fiscal Year.

The Loan Parties shall not change their fiscal year from the twelve-month period ending October 31.

7.2.15. Changes in Subordinated Debt Documents.

The Loan Parties shall not amend or modify any provisions of the documents relating to the Subordinated Debt without providing at least ten (10) calendar days' prior written notice to the Agent and the Banks, and, if the same would adversely affect the interests of the Agent and the Banks, obtaining the prior written consent of the Required Banks. No Loan Party shall directly or indirectly make any payment on the Subordinated Debt which would violate the provisions of any applicable subordination agreement or provision. Neither the Senior Notes nor the Subordinated Debt shall become secured.

7.3 Reporting Requirements.

The Borrower and Hovnanian, jointly and severally, covenant and agree that until payment in full of the Term Loans and interest thereon, satisfaction of all of the Loan Parties' other Obligations hereunder and under the other Loan Documents, and termination of all Term Loan Commitments they shall, and shall cause the other Loan Parties to, furnish or cause to be furnished to the Agent and each of the Banks:

7.3.1. Quarterly Financial Statements.

As soon as available and in any event within fifty-five (55) calendar days after the end of each of the first three fiscal quarters in each fiscal year of Hovnanian, financial statements of Hovnanian, consisting of a consolidated and consolidating balance sheet as of the end of such fiscal quarter and related consolidated and consolidating statements of income, stockholders' equity and cash flows for the fiscal quarter then ended and the fiscal year through that date, all in reasonable detail and certified (subject to normal year-end audit adjustments) by the Chief Executive Officer, President, Treasurer or Chief Financial Officer or principal accounting officer of Hovnanian as having been prepared in accordance with GAAP, consistently applied, and setting forth in comparative form the respective financial statements for the corresponding date and period in the previous fiscal year. The Loan Parties will be deemed to have complied with the delivery requirements of this Section 7.3.1 if within fifty-five (55) days after the end of their fiscal quarter, the Borrower delivers to the Agent and each of the Banks a copy of Hovnanian's Form 10-Q as filed with the SEC and the financial statements contained therein meets the requirements described in this Section 7.3.1.

7.3.2. Annual Financial Statements.

As soon as available and in any event within ninety (90) days after the end of each fiscal year of Hovnanian, financial statements of Hovnanian consisting of a consolidated balance sheet as of the end of such fiscal year, and related consolidated statements of income, stockholders' equity and cash flows for the fiscal year then ended, all in reasonable detail and setting forth in comparative form the financial statements as of the end of and for the preceding fiscal year, and certified by independent certified public accountants of nationally recognized standing satisfactory to the Agent. The certificate or report of accountants shall be free of qualifications (other than any consistency qualification that may result from a change in the method used to prepare the financial statements as to which such accountants concur) and shall not indicate the occurrence or existence of any event, condition or contingency which would materially impair the prospect of payment or performance of any covenant, agreement or duty of any Loan Party under any of the Loan Documents or cause or constitute an Event of Default. The Loan Parties will be deemed to have complied with the delivery requirements of this Section 7.3.2 if within ninety (90) days after the end of Hovnanian's fiscal year, the Borrower delivers to the Agent and each of the Banks a copy of Hovnanian's Annual Report and Form 10-K as filed with the SEC and the financial statements and separately delivers the above-referenced certification of public accountants.

7.3.3. Certificates of the Borrower.

7.3.3.1. Compliance Certificate. Concurrently with the financial statements of Hovnanian furnished to the Agent and to the Banks pursuant to Sections 7.3.1 [Quarterly Financial Statements] and 7.3.2 [Annual Financial Statements]:

(a) a certificate of the Borrower signed by the Chief Executive Officer, President, Treasurer or Chief Financial Officer or principal accounting officer of the Borrower, in the form of Exhibit 7.3.3.1, to the effect that, except as described pursuant to Section 7.3.3.2 (Borrowing Base Certificate), (i) the representations and warranties of the Borrower contained in Section 5.1 (Representations and Warranties) and in the other Loan Documents are true and correct in all material respects on and as of the date of such certificate with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which expressly relate solely to an earlier date or time), (ii) no Event of Default or Potential Default exists and is continuing on the date of such certificate and (iii) containing calculations in sufficient detail to demonstrate compliance as of the date of such financial statements with all financial covenants contained in Section 7.2 [Negative Covenants].

(b) summary consolidated and consolidating financial statements for each of (i) the Mortgage Subsidiaries as a group; (ii) the Non-Restricted Persons as a group and (iii) the Borrower, Hovnanian and the Restricted Subsidiaries as a group;

(c) summary financial statements for each Joint Venture in which any Loan Party has a Subsidiary Investment greater than an amount equal to 2% of Adjusted Tangible Net Worth as of the last day of the previous fiscal quarter of Hovnanian; and

(d) to the extent not previously disclosed in writing to the Agent and the Banks, a report of any changes to Schedule 1.1(B) including changes arising under Section 2.5 [Designation of Subsidiaries and Release of Guarantors].

7.3.3.2. Borrowing Base Certificate.

As soon as available, but not later than fifty-five (55) days after the end of each month, a Borrowing Base Certificate as of the end of such month, appropriately completed, executed and delivered by an Authorized Officer, together with a certificate of the Borrower signed by the Chief Executive Officer, President, Treasurer or Chief Financial Officer or principal accounting officer of the Borrower, in the form of Exhibit 7.3.3.2, to the effect that, except as described pursuant to Section 7.3.4 (Notice of Default), no Event of Default or Potential Default exists and is continuing on the date of such Borrowing Base Certificate.

7.3.4. Notice of Default.

Promptly after any officer of any Loan Party has learned of the occurrence of an Event of Default or Potential Default, a certificate signed by the Chief Executive Officer, President or Chief Financial Officer or principal accounting officer of such Loan Party setting forth the details of such Event of Default or Potential Default and the action which such Loan Party proposes to take with respect thereto.

7.3.5. Notice of Litigation.

Promptly after the commencement thereof, notice of all actions, suits, proceedings or investigations before or by any Official Body or any other Person against any Loan Party that involve a claim or series of claims in excess of \$1,000,000 or which could reasonably be expected to constitute a Material Adverse Change.

7.3.6. Notice of Change in Debt Rating.

Within two (2) Business Days after Standard & Poor's or Moody's announces a change in Hovnanian's Debt Rating, notice of such change. Hovnanian will deliver together with such notice a copy of any written notification which Hovnanian received from the applicable rating agency regarding such change of Debt Rating.

7.3.7. Budgets, Forecasts, Other Reports and Information.

Promptly upon their becoming available to any Loan Party:

(i) any reports, notices or proxy statements generally distributed by Hovnanian to its stockholders,

(ii) regular or periodic reports, including Forms 10-K, 10-Q and 8-K, registration statements and prospectuses, filed by Hovnanian with the SEC, and

(iii) such other reports and information as any of the Banks may from time to time reasonably request. The Loan Parties shall also notify the Banks promptly of the enactment or adoption of any Law which could reasonably be expected to constitute a Material Adverse Change.

7.3.8. Notices Regarding Plans and Benefit Arrangements.

7.3.8.1. Certain Events.

Promptly after learning of the occurrence thereof, notice (including the nature of the event and, when known, any action taken or threatened by the Internal Revenue Service or the PBGC with respect thereto) of any of the following events, or services of such events, if, individually or in the aggregate, any liabilities or penalties resulting from such event(s) could reasonably be expected to result in a Material Adverse Change:

(i) any Reportable Event with respect to any Plan,

(ii) any Prohibited Transaction which could subject any Loan Party or any other member of the ERISA Group to a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Internal Revenue Code in connection with any Plan, any Benefit Arrangement or any trust created thereunder,

(iii) any withdrawal from a Multiemployer Plan by the Borrower or any other member of the ERISA Group under Title IV of ERISA or assertion by a Multiemployer Plan that such a withdrawal has occurred

(iv) any cessation of operations (by any Loan Party or any other member of the ERISA Group) at a facility in the circumstances described in Section 4062(e) of ERISA,

(v) withdrawal by any Loan Party or any other member of the ERISA Group from a Plan in the circumstances described in Section 4063 of ERISA or the termination of such Plan in the circumstances described in Section 4064 of ERISA,

(vi) a failure to make any required contribution to a Plan or the creation of any Lien in favor of the PBGC or a Plan,

(vii) the adoption of an amendment to a Plan requiring the provision of security to such Plan pursuant to

Section 307 of ERISA, or (viii) the distress termination of a Plan, under Title IV of ERISA, which has insufficient assets to pay all liabilities.

7.3.8.2. Notices of Involuntary Termination and Annual Reports.

Promptly after receipt thereof, copies of (a) all notices received by any Loan Party or any other member of the ERISA Group of the PBGC's intent to terminate any Plan administered or maintained by the Borrower or any member of the ERISA Group, or to have a trustee appointed to administer any such Plan; and (b) at the request of the Agent or any Bank each annual report (IRS Form 5500 series) and all accompanying schedules, the most recent actuarial reports, the most recent financial information concerning the financial status of each Plan administered or maintained by any Loan Party or any other member of the ERISA Group, and schedules showing the amounts contributed to each such Plan by or on behalf of the Borrower or any other member of the ERISA Group in which any of their personnel participate or from which such personnel may derive a benefit, and each Schedule B (Actuarial Information) to the annual report filed by any Loan Party or any other member of the ERISA Group with the Internal Revenue Service with respect to each such Plan.

7.3.8.3. Notice of Voluntary Termination.

Where a termination of any Plan would result in a Material Adverse Change, promptly upon the filing thereof, copies of any Form 5310, or any successor or equivalent form to Form 5310, filed with the PBGC in connection with the termination of any Plan.

8. DEFAULT

8.1 Events of Default.

An Event of Default shall mean the occurrence or existence of any one or more of the following events or conditions (whatever the reason therefor and whether voluntary, involuntary or effected by operation of Law):

8.1.1. Payments Under Loan Documents.

The Borrower shall fail to pay (i) any principal of any Term Loan (including scheduled installments, mandatory prepayments or the payment due at maturity) when such principal is due hereunder or (ii) any interest on any Term Loan or any other amount owing hereunder or under the other Loan Documents within three (3) Business Days after such interest or other amount becomes due in accordance with the terms hereof or thereof;

8.1.2. Breach of Warranty.

Any representation or warranty made at any time by any of the Loan Parties herein or by any of the Loan Parties in any other Loan Document, or in any certificate, other instrument or statement furnished pursuant to the provisions hereof or thereof, shall prove to have been false or misleading in any material respect as of the time it was made or furnished;

8.1.3. Breach of Certain Negative Covenants.

Any of the Loan Parties shall default in the observance or performance of any covenant contained in Sections 7.2.10 (Borrowing Base), 7.2.11 (Minimum ATNW), 7.2.12 (Leverage Ratio) or 7.2.13 (Inventory and Land Purchase Limits);

8.1.4. Breach of Other Covenants.

Any of the Loan Parties shall default in the observance or performance of any other covenant, condition or provision hereof or of any other Loan Document and such default shall continue unremedied for a period of thirty (30) Business Days after notice to the Borrower from the Agent;

8.1.5. Defaults in Other Agreements or Indebtedness.

A default or event of default shall occur at any time under the terms of any other agreement involving borrowed money or the extension of credit or any other Indebtedness under which any Loan Party may be obligated as a borrower or guarantor in excess of \$1,000,000 in the aggregate (including in all events the Revolving Senior Debt Facility), and such breach, default or event of default consists of the failure to pay (beyond any period of grace permitted with respect thereto, whether waived or not) any Indebtedness when due (whether at stated maturity, by acceleration or otherwise) or if such breach or default permits or causes the acceleration of any Indebtedness (whether or not such right shall have been waived) or the termination of any commitment to lend;

8.1.6. Final Judgments or Orders.

Any final judgments or orders for the payment of money in excess of \$1,000,000 in the aggregate shall be entered against any Loan Party by a court having jurisdiction, which judgment is not discharged, vacated, bonded or stayed pending appeal within a period of thirty (30) days from the date of entry;

8.1.7. Loan Document Unenforceable.

Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the party executing the same or such party's successors and assigns (as permitted under the Loan Documents) in accordance with the respective terms thereof or shall in any way be terminated (except in accordance with its terms or as permitted under the Loan Documents) or become or be declared ineffective or inoperative or shall in any way be challenged or contested or cease to give or provide the respective Liens, security interests, rights, titles, interests, remedies, powers or privileges

intended to be created thereby;

8.1.8. Uninsured Losses; Proceedings Against Assets.

Any of the Loan Parties' assets are attached, seized, levied upon or subjected to a writ or distress warrant; or such come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors and the same is not cured within thirty (30) days thereafter and any of the foregoing could reasonably be expected to constitute a Material Adverse Change;

8.1.9. Notice of Lien or Assessment.

A notice of Lien or assessment in excess of \$1,000,000 which is not a Permitted Lien is filed of record with respect to all or any part of any of the Loan Parties' assets by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal or other governmental agency, including the PBGC, or any taxes or debts owing at any time or times hereafter to any one of these becomes payable and the same is not paid within thirty (30) days after the same becomes payable;

8.1.10. Insolvency.

Any of (i) Hovnanian, (ii) the Borrower or (iii) Restricted Subsidiaries owning as of the date of any event described in this Section 8.1.10 three percent (3%) or more of the Dollar value of all of the assets of all of the Subsidiaries of Hovnanian taken as a whole ceases to be solvent or admits in writing its inability to pay its debts as they mature;

8.1.11. Events Relating to Plans and Benefit Arrangements.

Any of the following occurs: (i) any Reportable Event with respect to a Plan, which the Agent reasonably determines in good faith constitutes grounds for the termination of any Plan by the PBGC or the appointment of a trustee to administer or liquidate any Plan, shall have occurred and be continuing; (ii) proceedings shall have been instituted or other action taken to terminate any Plan, or a termination notice shall have been filed with respect to any Plan; (iii) a trustee shall be appointed to administer or liquidate any Plan; (iv) the PBGC shall give notice of its intent to institute proceedings to terminate any Plan or Plans or to appoint a trustee to administer or liquidate any Plan; and, in the case of the occurrence of (i), (ii), (iii) or (iv) above, the Agent reasonably determines in good faith that the amount of any Loan Party's liability is likely to exceed 10% of its Consolidated Tangible Net Worth; (v) any "accumulated funding deficiency" (as defined in Section 302 of ERISA) shall exist with respect to any Plan, or any Lien in favor of the PBGC or a Plan shall arise on the assets of the Borrower or any other member of the ERISA Group, (vi) any Loan Party or any other member of the ERISA Group shall make any amendment to a Plan with respect to which security is required under Section 307 of ERISA; (vii) any Loan Party or any other member of the ERISA Group shall incur any liability in connection with a withdrawal from a Multiemployer Plan; (viii) any Loan Party or any other member of the ERISA Group shall withdraw under Section 4063 of ERISA (or shall be deemed under Section 4062(e) of ERISA to withdraw) from a Plan; or (ix) any applicable Law is adopted, changed or interpreted by any Official Body with respect to or otherwise affecting one or more Plans, Multiemployer Plans or Benefit Arrangements and, with respect to any of the events specified in (v), (vi), (vii), (viii) or (ix), the Agent reasonably determines in good faith that any such occurrence, together with all other such events, would be reasonably likely to result in a Material Adverse Change;

8.1.12. Cessation of Business.

Any Loan Party ceases to conduct its business as contemplated, except as expressly permitted under Section 7.2.4 (Liquidations, Mergers, Consolidations, Acquisitions) or Section 7.2.5 (Dispositions of Assets or Subsidiaries; Sale and Leaseback), or any Loan Party is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business and such injunction, restraint or other preventive order is not dismissed within thirty (30) days after the entry thereof and any of the foregoing could reasonably be expected to constitute a Material Adverse Change;

8.1.13. Change of Control.

(i) Any person or group of persons (within the meaning of Sections 13(d) or 14(a) of the Securities Exchange Act of 1934, as amended) shall have acquired beneficial ownership of (within the meaning of Rule 13d-3 promulgated by the SEC under said Act) 40% or more of the voting capital stock of Hovnanian; or (ii) within a period of twelve (12) consecutive calendar months, individuals who were directors of the Borrower on the first day of such period, or who were nominated by a majority of such directors, shall cease to constitute a majority of the board of directors of the Borrower;

8.1.14. Involuntary Proceedings.

A proceeding shall have been instituted in a court having jurisdiction seeking a decree or order for relief in respect of any of (i) Hovnanian, (ii) the Borrower or (iii) Restricted Subsidiaries owning as of the date of any event described in this Section 8.1.14 three percent (3%) or more of the Dollar value of all of the assets of all of the Subsidiaries of Hovnanian taken as a whole in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian,

trustee, sequestrator, conservator (or similar official) of any Loan Party for any substantial part of its property, or for the winding-up or liquidation of its affairs, and such proceeding shall remain undismissed or unstayed and in effect for a period of sixty (60) consecutive days or such court shall enter a decree or order granting any of the relief sought in such proceeding; or

8.1.15. Voluntary Proceedings.

Any of (i) Hovnanian, (ii) the Borrower or (iii) Restricted Subsidiaries owning as of the date of any event described in this Section 8.1.15 three percent (3%) or more of the Dollar value of all of the assets of all of the Subsidiaries of Hovnanian taken as a whole shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or other similar official) of itself or for any substantial part of its property or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any action in furtherance of any of the foregoing.

8.2 Consequences of Event of Default.

8.2.1. Events of Default Other Than Bankruptcy, Insolvency or Reorganization Proceedings.

If an Event of Default specified under Sections 8.1.1 (Payments Under Loan Documents) through 8.1.13 (Change of Control) shall occur and be continuing, the Banks and the Agent shall be under no further obligation to make Term Loans and the Agent may, and upon the request of the Required Banks, shall by written notice to the Borrower, declare the unpaid principal amount of the Term Loan then outstanding and all interest accrued thereon, any unpaid fees and all other Indebtedness of the Borrower to the Banks hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Agent for the benefit of each Bank without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived; and

8.2.2. Bankruptcy, Insolvency or Reorganization Proceedings.

If an Event of Default specified under Section 8.1.14 (Involuntary Proceedings) or 8.1.15 (Voluntary Proceedings) shall occur, the Banks shall be under no further obligations to make Term Loans hereunder and the unpaid principal amount of the Term Loans then outstanding and all interest accrued thereon, any unpaid fees and all other Indebtedness of the Borrower to the Banks hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived; and

8.2.3. Set-off.

If an Event of Default shall occur and be continuing, any Bank to whom any Obligation is owed by any Loan Party hereunder or under any other Loan Document or any participant of such Bank which has agreed in writing to be bound by the provisions of Section 9.13 (Equalization of Banks) and any branch, Subsidiary or Affiliate of such Bank or participant anywhere in the world shall have the right, in addition to all other rights and remedies available to it, without notice to such Loan Party, to set-off against and apply to the then unpaid balance of all past-due Term Loans and all other past-due Obligations of the Borrower and the other Loan Parties hereunder or under any other Loan Document any debt owing to, and any other funds held in any manner for the account of, the Borrower or such other Loan Party by such Bank or participant or by such branch, Subsidiary or Affiliate, including all funds in all deposit accounts (whether time or demand, general or special, provisionally credited or finally credited, or otherwise) now or hereafter maintained by the Borrower or such other Loan Party for its own account (but not including funds held in custodian or trust accounts) with such Bank or participant or such branch, Subsidiary or Affiliate; and

8.2.4. Suits, Actions, Proceedings.

If an Event of Default shall occur and be continuing, and whether or not the Agent shall have accelerated the maturity of Term Loans pursuant to any of the foregoing provisions of this Section 8.2 (Consequences of Event of Default), the Agent or any Bank, if owed any amount with respect to the Term Loans, may proceed to protect and enforce its rights by suit in equity, action at law and/or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement or the other Loan Documents, including as permitted by applicable Law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Agent or such Bank; and

8.2.5. Application of Proceeds.

From and after the date on which the Agent has taken any action pursuant to this Section 8.2 (Consequences of Event of Default) and until all Obligations of the Loan Parties have been paid in full, any and all proceeds received by the Agent from the exercise of any remedy by the Agent, shall be applied as follows:

(i) first, to reimburse the Agent and

the Banks for out-of-pocket costs, expenses and disbursements, including reasonable attorneys' and paralegals' fees and legal expenses, incurred by the Agent or the Banks in connection with collection of any Obligations of any of the Loan Parties under any of the Loan Documents;

(ii) second, to the repayment of all Indebtedness then due and unpaid of the Loan Parties to the Banks incurred under this Agreement or any of the other Loan Documents, whether of principal, interest, fees, expenses or otherwise, in such manner as the Agent may determine in its discretion; and (iii) the balance, if any, as required by Law.

8.2.6. Other Rights and Remedies.

In addition to all of the rights and remedies contained in this Agreement or in any of the other Loan Documents, the Agent shall have all of the rights and remedies under applicable Law, all of which rights and remedies shall be cumulative and non-exclusive, to the extent permitted by Law. The Agent may, and upon the request of the Required Banks shall, exercise all post-default rights granted to the Agent and the Banks under the Loan Documents or applicable Law.

9. THE AGENT

9.1 Appointment.

Each Bank hereby irrevocably designates, appoints and authorizes Fleet act as Agent for such Bank under this Agreement and to execute and deliver or accept on behalf of each of the Banks the other Loan Documents. Each Bank hereby irrevocably authorizes the Agent to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and any other instruments and agreements referred to herein, and to exercise such powers and to perform such duties hereunder as are specifically delegated to or required of the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. Fleet agrees to act as the Agent on behalf of the Banks to the extent provided in this Agreement.

9.2 Delegation of Duties.

The Agent may perform any of its duties hereunder by or through agents or employees (provided such delegation does not constitute a relinquishment of its duties as Agent) and, subject to Sections 9.5 (Reimbursement and Indemnification of Agent by the Borrower) and 9.6 (Exculpatory Provisions; Limitation of Liability), shall be entitled to engage and pay for the advice or services of any attorneys, accountants or other experts concerning all matters pertaining to its duties hereunder and to rely upon any advice so obtained.

9.3 Nature of Duties; Independent Credit Investigation.

The Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and no implied covenants, functions, responsibilities, duties, obligations, or liabilities shall be read into this Agreement or otherwise exist. In the exercise of its duties as Agent hereunder, the Agent shall use the same diligence and standard of care that is customarily used by the Agent with respect to similar loans held by the Agent solely for its own account. The duties of the Agent shall be mechanical and administrative in nature; the Agent shall not have by reason of this Agreement a fiduciary or trust relationship in respect of any Bank; and nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon the Agent any obligations in respect of this Agreement except as expressly set forth herein. Without limiting the generality of the foregoing, the use of the term "agent" in this Agreement with reference to the Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties. Each Bank expressly acknowledges (i) that the Agent has not made any representations or warranties to it and that no act by the Agent hereafter taken, including any review of the affairs of any of the Loan Parties, shall be deemed to constitute any representation or warranty by the Agent to any Bank; (ii) that it has made and will continue to make, without reliance upon the Agent, its own independent investigation of the financial condition and affairs and its own appraisal of the creditworthiness of each of the Loan Parties in connection with this Agreement and the making and continuance of the Term Loans hereunder; and (iii) except as expressly provided herein, that the Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Bank with any credit or other information with respect thereto, whether coming into its possession before the making of any loan or at any time or times thereafter.

9.4 Actions in Discretion of Agent; Instructions From the Banks.

The Agent agrees, upon the written request of the Required Banks, to take or refrain from taking any action of the type specified as being within the Agent's rights, powers or discretion herein, provided that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement or any other Loan Document or applicable Law. In the absence of a request by the Required Banks, the Agent shall have authority, in its sole discretion, to take or not to take any such action, unless this Agreement specifically requires the consent of the

Required Banks or all of the Banks. Any action taken or failure to act pursuant to such instructions or discretion shall be binding on the Banks, subject to Section 9.6 (Exculpatory Provisions; Limitation of Liability). Subject to the provisions of Section 9.6 (Exculpatory Provisions; Limitation of Liability), no Bank shall have any right of action whatsoever against the Agent as a result of the Agent acting or refraining from acting hereunder in accordance with the instructions of the Required Banks, or in the absence of such instructions, in the absolute discretion of the Agent.

9.5 Reimbursement and Indemnification of Agent by the Borrower.

The Borrower unconditionally agrees to pay or reimburse the Agent and hold the Agent harmless against (a) liability for the payment of all reasonable out-of-pocket costs, expenses and disbursements, including fees and expenses of counsel (including the allocated costs of staff counsel), incurred by the Agent (i) in connection with the development, negotiation, preparation, printing, execution, administration, syndication, interpretation and performance of this Agreement and the other Loan Documents, (ii) relating to any requested amendments, waivers or consents pursuant to the provisions hereof, (iii) in connection with the enforcement of this Agreement or any other Loan Document or collection of amounts due hereunder or thereunder or the proof and allowability of any claim arising under this Agreement or any other Loan Document, whether in bankruptcy or receivership proceedings or otherwise, and (iv) in any workout or restructuring or in connection with the protection, preservation, exercise or enforcement of any of the terms hereof or of any rights hereunder or under any other Loan Document or in connection with any foreclosure, collection or bankruptcy proceedings, and (b) all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Documents or any action taken or omitted by the Agent hereunder or thereunder, provided that the Borrower shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements if the same results from the Agent's gross negligence or willful misconduct, or if the Borrower was not given notice of the subject claim and the opportunity to participate in the defense thereof, at its expense (except that the Borrower shall remain liable to the extent such failure to give notice does not result in a loss to the Borrower), or if the same results from a compromise or settlement agreement entered into without the consent of the Borrower, which shall not be unreasonably withheld. In addition, after the occurrence and during the continuance of an Event of Default, the Borrower agrees to reimburse and pay all reasonable out-of-pocket expenses of the Agent's regular employees and agents engaged periodically to perform audits of the Loan Parties' books, records and business properties.

9.6 Exculpatory Provisions; Limitation of Liability.

Neither the Agent nor any of its directors, officers, employees, agents, attorneys or Affiliates shall (a) be liable to any Bank for any action taken or omitted to be taken by it or them hereunder, or in connection herewith including pursuant to any Loan Document, unless caused by its or their own gross negligence or willful misconduct, (b) be responsible in any manner to any of the Banks for the effectiveness, enforceability, genuineness, validity or the due execution of this Agreement or any other Loan Documents or for any recital, representation, warranty, document, certificate, report or statement herein or made or furnished under or in connection with this Agreement or any other Loan Documents, or (c) be under any obligation to any of the Banks to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions hereof or thereof on the part of the Loan Parties, or the financial condition of the Loan Parties, or the existence or possible existence of any Event of Default or Potential Default. No claim may be made by any of the Loan Parties, any Bank, the Agent or any of their respective Subsidiaries against the Agent, any Bank or any of their respective directors, officers, employees, agents, attorneys or Affiliates, or any of them, for any special, indirect or consequential damages or, to the fullest extent permitted by Law, for any punitive damages in respect of any claim or cause of action (whether based on contract, tort, statutory liability, or any other ground) based on, arising out of or related to any Loan Document or the transactions contemplated hereby or any act, omission or event occurring in connection therewith, including the negotiation, documentation, administration or collection of the Term Loans, and each of the Loan Parties (for itself and on behalf of each of its Subsidiaries), the Agent and each Bank hereby waive, release and agree never to sue upon any claim for any such damages, whether such claim now exists or hereafter arises and whether or not it is now known or suspected to exist in its favor. Each Bank agrees that, except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder or given to the Agent for the account of or with copies for the Banks, the Agent and each of its directors, officers, employees, agents, attorneys or Affiliates shall not have any duty or responsibility to provide any Bank with credit or other information concerning the business, operations, property, condition (financial or otherwise),

prospects or creditworthiness of the Loan Parties which may come into the possession of the Agent or any of its directors, officers, employees, agents, attorneys or Affiliates.

9.7 Reimbursement and Indemnification of Agent by Banks.

Each Bank agrees to reimburse and indemnify the Agent (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so) in proportion to its Ratable Share from and against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements, including attorneys' fees and disbursements (including the allocated costs of staff counsel), and costs of appraisers and environmental consultants, of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Documents or any action taken or omitted by the Agent hereunder or thereunder, provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements (a) if the same results from the Agent's gross negligence or willful misconduct, or (b) if such Bank was not given notice of the subject claim and the opportunity to participate in the defense thereof, at its expense (except that such Bank shall remain liable to the extent such failure to give notice does not result in a loss to the Bank), or (c) if the same results from a compromise and settlement agreement entered into without the consent of such Bank, which shall not be unreasonably withheld. In addition, each Bank agrees promptly upon demand to reimburse the Agent (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so) in proportion to its Ratable Share for all amounts due and payable by the Borrower to the Agent in connection with the Agent's periodic audit of the Loan Parties' books, records and business properties.

9.8 Reliance by Agent.

The Agent shall be entitled to rely upon any writing, telegram, telex or teletype message, electronic mail, resolution, notice, consent, certificate, letter, cablegram, statement, order or other document or conversation by telephone or otherwise believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon the advice and opinions of counsel and other professional advisers selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action hereunder unless it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

9.9 Notice of Default.

The Agent shall not be deemed to have knowledge or notice of the occurrence of any Potential Default or Event of Default unless the Agent has received written notice from a Bank or the Borrower referring to this Agreement, describing such Potential Default or Event of Default and stating that such notice is a "notice of default."

9.10 Notices.

The Agent shall promptly send to each Bank a copy of all notices received from the Borrower or any Bank pursuant to the provisions of this Agreement or the other Loan Documents promptly upon receipt thereof. The Agent shall promptly notify the Borrower and the other Banks of each change in the Base Rate and the effective date thereof.

9.11 Banks in Their Individual Capacities; Agents in its Individual Capacity.

With respect to its Term Loan Commitment, the Term Loans made by it and any other rights and powers given to it as a Bank hereunder or under any of the other Loan Documents, the Agent shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not the Agent, and the term "Bank" and "Banks" shall, unless the context otherwise indicates, include the Agent in its individual capacity. Fleet and its Affiliates and each of the Banks and their respective Affiliates may, without liability to account, except as prohibited herein, make loans to, acquire equity interests in, accept deposits from, discount drafts for, act as trustee under indentures of, and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with, the Loan Parties and their Affiliates, in the case of the Agent, as though it were not acting as Agent hereunder and in the case of each Bank, as though such Bank were not a Bank hereunder, in each case without notice to or consent of the other Banks. The Banks acknowledge that, pursuant to such activities, the Agent or its Affiliates may (i) receive information regarding the Loan Parties or any of their Subsidiaries or Affiliates (including information that may be subject to confidentiality obligations in favor of the Loan Parties or such Subsidiary or Affiliate) and, except as otherwise specifically required hereby, acknowledge that the Agent shall be under no obligation to provide such information to them, and (ii) accept fees and other consideration from the Loan Parties for services in connection with this Agreement and otherwise without having to account for the same to the Banks.

9.12 Holders of Notes.

The Agent may deem and treat any payee of any Note as the owner thereof for all purposes hereof unless and until written notice of the

assignment or transfer thereof shall have been filed with the Agent. Any request, authority or consent of any Person who at the time of making such request or giving such authority or consent is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

9.13 Equalization of Banks.

The Banks and the holders of any participations in any Term Loans or other rights or obligations of a Bank hereunder agree among themselves that, with respect to all amounts received by any Bank or any such holder for application on any Obligation hereunder or under any such participation, whether received by voluntary payment, by realization upon security, by the exercise of the right of set-off or banker's lien, by counterclaim or by any other non-pro rata source, equitable adjustment will be made in the manner stated in the following sentence so that, in effect, all such excess amounts will be shared ratably among the Banks and such holders in proportion to their interests in payments on the Term Loans, except as otherwise provided in Section 3.4.3 (Agent's and Bank's Rights), 4.4.2 (Replacement of a Bank) or 4.6 (Additional Compensation in Certain Circumstances). The Banks or any such holder receiving any such amount shall purchase for cash from each of the other Banks an interest in such Bank's Term Loans in such amount as shall result in a ratable participation by the Banks and each such holder in the aggregate unpaid amount of the Term Loans, provided that if all or any portion of such excess amount is thereafter recovered from the Bank or the holder making such purchase, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, together with interest or other amounts, if any, required by law (including court order) to be paid by the Bank or the holder making such purchase.

9.14 Successor Agent.

The Agent (i) may resign as Agent or (ii) shall resign if such resignation is requested by the Required Banks (if the Agent is a Bank, the Agent's Term Loans shall be considered in determining whether the Required Banks have requested such resignation) or required by Section 4.4.2 (Replacement of a Bank), in either case of (i) or (ii) by giving not less than thirty (30) days' prior written notice to the Borrower. If the Agent shall resign under this Agreement, then either (a) the Required Banks shall appoint from among the Banks a successor agent for the Banks, subject to the consent of the Borrower, such consent not to be unreasonably withheld, or (b) if a successor agent shall not be so appointed and approved within the thirty (30) day period following the Agent's notice to the Banks of its resignation, then the Agent shall appoint from among the Banks, with the consent of the Borrower, such consent not to be unreasonably withheld, a successor agent who shall serve as Agent until such time as the Required Banks appoint and the Borrower consents to the appointment of a successor agent. Upon its appointment pursuant to either clause (a) or (b) above, such successor agent shall succeed to the rights, powers and duties of the Agent, and the term "Agent" shall mean such successor agent, effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement. After the resignation of any Agent hereunder, the provisions of this Section 9 shall inure to the benefit of such former Agent and such former Agent shall not by reason of such resignation be deemed to be released from liability for any actions taken or not taken by it while it was an Agent under this Agreement.

9.15 Agent's Fee.

The Borrower shall pay the several nonrefundable fees (together, the "Agent's Fee") under the terms of a letter dated November 21, 2001 (the "Agent's Letter") between the Borrower and Agent, as amended from time to time.

9.16 Availability of Funds.

The Agent may assume that each Bank has made or will make the proceeds of a Term Loan available to the Agent unless the Agent shall have been notified by such Bank on or before the later of (1) the close of Business on the Business Day preceding the Borrowing Date with respect to such Term Loan or two (2) hours before the time on which the Agent actually funds the proceeds of such Term Loan to the Borrower (whether using its own funds pursuant to this Section 9.16 or using proceeds deposited with the Agent by the Banks and whether such funding occurs before or after the time on which Banks are required to deposit the proceeds of such Term Loan with the Agent). The Agent may, in reliance upon such assumption (but shall not be required to), make available to the Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Agent by such Bank, the Agent shall be entitled to recover such amount on demand from such Bank (or, if such Bank fails to pay such amount forthwith upon such demand from the Borrower) together with interest thereon, in respect of each day during the period commencing on the date such amount was made available to the Borrower and ending on the date the Agent recovers such amount, at a rate per annum equal to (i) the Federal Funds Effective Rate during the first three (3) days after such interest shall begin to accrue and (ii) the applicable interest rate in respect of such Term Loan after the end of such three-day period.

9.17 Calculations.

In the absence of gross negligence or willful misconduct, the Agent shall not be liable for any error in computing the amount payable to any Bank whether in respect of the Term Loans, fees or any other amounts due to the Banks under this Agreement. In the event an error in computing any amount payable to any Bank is made, the Agent, the Borrower and each affected Bank shall, forthwith upon discovery of such error, make such adjustments as shall be required to correct such error, and any compensation therefor will be calculated at the Federal Funds Effective Rate.

9.18 Beneficiaries.

Except as expressly provided herein, the provisions of this Section 9 (The Agent) are solely for the benefit of the Agent and the Banks, and the Loan Parties shall not have any rights to rely on or enforce any of the provisions hereof. In performing its functions and duties under this Agreement, the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for any of the Loan Parties.

10. MISCELLANEOUS

10.1 Modifications, Amendments or Waivers.

With the written consent of the Required Banks, the Agent, acting on behalf of all the Banks, and the Borrower, on behalf of the Loan Parties, may from time to time enter into written agreements amending or changing any provision of this Agreement or any other Loan Document or the rights of the Banks or the Loan Parties hereunder or thereunder, or may grant written waivers or consents to a departure from the due performance of the Obligations of the Loan Parties hereunder or thereunder. Any such agreement, waiver or consent made with such written consent shall be effective to bind all the Banks and the Loan Parties; provided, that, without the written consent of all the Banks, no such agreement, waiver or consent may be made which will:

10.1.1. Increase of Commitment.

Increase the amount of the aggregate Term Loan Commitments other than pursuant to Section 2.1.1 (Term Loans);

10.1.2. Extension of Payment; Reduction of Principal, Interest or Fees; Modification of Terms of Payment.

Whether or not any Term Loans are outstanding, extend the time for payment of principal or interest of any Term Loan (excluding the due date of any mandatory prepayment of a Term Loan, or any mandatory Term Loan Commitment reduction in connection with such a mandatory prepayment hereunder, except for mandatory reductions of the Term Loan Commitments on the Maturity Date), or any other fee payable to any Bank, or reduce the principal amount of or the rate of interest borne by any Term Loan or any other fee payable to any Bank, or otherwise directly affect the terms of payment of the principal of or interest of any Term Loan, or any other fee payable to any Bank;

10.1.3. Miscellaneous

Amend Section 4.2 (Pro Rata Treatment of Banks), 9.6 (Exculpatory Provisions; Limitation of Liability), 9.13 (Equalization of Banks) or this Section 10.1 (Modifications, Amendments or Waivers) change the pro rata treatment of the Banks, change the definition of Required Banks, or change any requirement providing for the Banks or the Required Banks to authorize the taking of any action hereunder; provided, that no agreement, waiver or consent which would modify the interests, rights or obligations of the Agent in its capacity as Agent shall be effective without the written consent of the Agent.

10.2 No Implied Waivers; Cumulative Remedies; Writing Required.

No course of dealing and no delay or failure of the Agent or any Bank in exercising any right, power, remedy or privilege under this Agreement or any other Loan Document shall affect any other or future exercise thereof or operate as a waiver thereof, nor shall any single or partial exercise thereof or any abandonment or discontinuance of steps to enforce such a right, power, remedy or privilege preclude any further exercise thereof or of any other right, power, remedy or privilege. The rights and remedies of the Agent and the Banks under this Agreement and any other Loan Documents are cumulative and not exclusive of any rights or remedies which they would otherwise have. Any waiver, permit, consent or approval of any kind or character on the part of any Bank of any breach or default under this Agreement or any such waiver of any provision or condition of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing.

10.3 Reimbursement and Indemnification of Banks by the Borrower; Taxes.

The Borrower agrees unconditionally upon demand to pay or reimburse to each Bank (other than the Agent, as to which the Borrower's Obligations are set forth in Section 9.5 (Reimbursement and Indemnification of Agent by the Borrower)) and to save such Bank harmless against (i) liability for the payment of all reasonable out-of-pocket costs, expenses and disbursements (including fees and expenses of counsel (including allocated costs of staff counsel) for the Agent except with respect to (a) and (b) below), incurred by the Agent (a) in connection with the administration and interpretation of this Agreement, and other instruments and documents to be delivered hereunder, (b) relating to any amendments, waivers or consents pursuant to the provisions hereof, (c) in connection with the enforcement of

this Agreement or any other Loan Document, or collection of amounts due hereunder or thereunder or the proof and allowability of any claim arising under this Agreement or any other Loan Document, whether in bankruptcy or receivership proceedings or otherwise, and (d) in any workout or restructuring or in connection with the protection, preservation, exercise or enforcement of any of the terms hereof or of any rights hereunder or under any other Loan Document or in connection with any foreclosure, collection or bankruptcy proceedings, or (ii) all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against such Bank, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Documents or any action taken or omitted by such Bank hereunder or thereunder, provided that the Borrower shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements (A) if the same results from such Bank's gross negligence or willful misconduct, or (B) if the Borrower was not given notice of the subject claim and the opportunity to participate in the defense thereof, at its expense (except that the Borrower shall remain liable to the extent such failure to give notice does not result in a loss to the Borrower), or (C) if the same results from a compromise or settlement agreement entered into without the consent of the Borrower, which shall not be unreasonably withheld. The Borrower agrees unconditionally to pay all stamp, document, transfer, recording or filing taxes or fees and similar impositions now or hereafter determined by the Agent to be payable in connection with this Agreement or any other Loan Document, and the Borrower agrees unconditionally to save the Agent and the Banks harmless from and against any and all present or future claims, liabilities or losses with respect to or resulting from any omission to pay or delay in paying any such taxes, fees or impositions.

10.4 Holidays.

Whenever payment of a Term Loan to be made or taken hereunder shall be due on a day which is not a Business Day such payment shall be due on the next Business Day (except as provided in Section 3.3 (Interest Periods) with respect to Interest Periods under the LIBO-Rate Option) and such extension of time shall be included in computing interest and fees, except that the Term Loans shall be due on the Business Day preceding the Maturity Date if the Maturity Date is not a Business Day. Whenever any payment or action to be made or taken hereunder (other than payment of the Term Loans) shall be stated to be due on a day which is not a Business Day, such payment or action shall be made or taken on the next following Business Day, and such extension of time shall not be included in computing interest or fees, if any, in connection with such payment or action.

10.5 Funding by Branch, Subsidiary or Affiliate.

10.5.1. Notional Funding.

Each Bank shall have the right from time to time, without notice to the Borrower, to deem any branch, Subsidiary or Affiliate (which for the purposes of this Section 10.5 shall mean any corporation or association which is directly or indirectly controlled by or is under direct or indirect common control with any corporation or association which directly or indirectly controls such Bank) of such Bank to have made, maintained or funded any Term Loan to which the LIBO-Rate Option applies at any time, provided that immediately following (on the assumption that a payment were then due from the Borrower to such other office), and as a result of such change, the Borrower would not be under any greater financial obligation (including pursuant to Section 4.6 (Additional Compensation in Certain Circumstances)) than it would have been in the absence of such change. Notional funding offices may be selected by each Bank without regard to such Bank's actual methods of making, maintaining or funding the Term Loans or any sources of funding actually used by or available to such Bank.

10.5.2. Actual Funding.

Each Bank shall have the right from time to time to make or maintain any Term Loan by arranging for a branch, Subsidiary or Affiliate of such Bank to make or maintain such Term Loan subject to the last sentence of this Section 10.5.2. If any Bank causes a branch, Subsidiary or Affiliate to make or maintain any part of the Term Loans hereunder, all terms and conditions of this Agreement shall, except where the context clearly requires otherwise, be applicable to such part of the Term Loans to the same extent as if such Term Loans were made or maintained by such Bank, but in no event shall any Bank's use of such a branch, Subsidiary or Affiliate to make or maintain any part of the Term Loans hereunder cause such Bank or such branch, Subsidiary or Affiliate to incur any cost or expenses payable by the Borrower hereunder or require the Borrower to pay any other compensation to any Bank (including any expenses incurred or payable pursuant to Section 4.6 (Additional Compensation in Certain Circumstances)) which would otherwise not be incurred.

10.6 Notices.

Any notice, request, demand, direction or other communication (for purposes of this Section 10.6 only, a "Notice") to be given to or made upon any party hereto under any provision of this Agreement shall be given or made by telephone or in writing (which includes means of electronic transmission (i.e., "e-mail") or facsimile transmission or by setting forth such Notice on a site on the World Wide Web (a

"Website Posting") if Notice of such Website Posting (including the information necessary to access such site) has previously been delivered to the applicable parties hereto by another means set forth in this Section 10.6 in accordance with this Section 10.6. Any such Notice must be delivered to the applicable parties hereto at the addresses and numbers set forth under their respective names on Schedule 1.1(B) hereof or in accordance with any subsequent unrevoked Notice from any such party that is given in accordance with this Section 10.6. Any Notice shall be effective:

(i) In the case of hand-delivery, when delivered;

(ii) If given by mail, four (4) days after such Notice is deposited with the United States Postal Service, with first-class postage prepaid, return receipt requested;

(iii) In the case of a telephonic Notice, when a party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next Business Day by hand delivery, a facsimile or electronic transmission, a Website Posting or overnight courier delivery of a confirmatory notice (received at or before noon on such next Business Day);

(iv) In the case of a facsimile transmission, when sent to the applicable party's facsimile machine's telephone number if the party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine;

(v) In the case of electronic transmission, when actually received;

(vi) In the case of a Website Posting, upon delivery of a Notice of such posting (including the information necessary to access such web site) by another means set forth in this Section 10.6; and

(vii) If given by any other means (including by overnight courier), when actually received.

Any Bank giving a Notice to a Loan Party shall concurrently send a copy thereof to the Agent, and the Agent shall promptly notify the other Banks of its receipt of such Notice.

10.7 Severability.

The provisions of this Agreement are intended to be severable.

If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

10.8 Governing Law.

This Agreement shall be deemed to be a contract under the Laws of the State of New Jersey and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of the State of New Jersey without regard to its conflict of laws principles.

10.9 Prior Understanding.

This Agreement and the other Loan Documents supersede all prior understandings and agreements, whether written or oral, between the parties hereto and thereto relating to the transactions provided for herein and therein, including any prior confidentiality agreements and commitments.

10.10 Duration; Survival.

All representations and warranties of the Borrower and Hovnanian contained herein or made in connection herewith shall survive the making of Term Loans and shall not be waived by the execution and delivery of this Agreement, any investigation by the Agent or the Banks, the making of Term Loans or payment in full of the Term Loans. All covenants and agreements of the Borrower and Hovnanian contained in Sections 7.1 (Affirmative Covenants), 7.2 (Negative Covenants) and 7.3 (Reporting Requirements) herein shall continue in full force and effect from and after the date hereof so long as the Borrower may borrow hereunder and until payment in full of the Term Loans. All covenants and agreements of the Borrower contained herein relating to the payment of principal, interest, premiums, additional compensation or expenses and indemnification, including those set forth in Section 4 (Payments) and Sections 9.5 (Reimbursement and Indemnification of Agent by the Borrower), 9.7 (Reimbursement and Indemnification of Agent by Banks) and 10.3 (Reimbursement and Indemnification of Banks by Borrower; Taxes), shall survive payment in full of the Term Loans.

10.11 Successors and Assigns.

(a) (i) This Agreement shall be binding upon and shall inure to the benefit of the Banks, the Agent, the Loan Parties a party hereto and their respective successors and assigns, except that none of the Loan Parties a party hereto may assign or transfer any of its rights and obligations hereunder or any interest herein. Each Bank may, at its own cost, make assignments of all or any part of its Term Loans made by it to one or more banks or other entities, subject to the consent of the Borrower and the Agent with respect to any assignee, such consent not to be unreasonably withheld provided that (1)no consent of the Borrower shall be required (A) if an Event of Default exists and is continuing, (B) in the case of an assignment by a Bank to an Affiliate of such Bank or Approved Fund of any Bank and (2)any assignment by a Bank to a Person other than an Affiliate of such Bank or Approved Fund of any Bank may not be made in

amounts less than the lesser of \$5,000,000, the amount of the assigning Bank's Term Loan or such lesser amount agreed to by the Borrower and Agent. In the case of an assignment, upon receipt by the Agent of the Assignment and Assumption Agreement, the assignee shall have, to the extent of such assignment (unless otherwise provided therein), the same rights, benefits and obligations as it would have if it had been a signatory Bank hereunder, and upon surrender of any Note subject to such assignment, the Borrower shall execute and deliver a new Note to the assignee, if such assignee requests such a Note in an amount equal to the amount of the Term Loan assumed by it and a new Note to the assigning Bank, if the assigning Bank requests such a Note, in an amount equal to the Term Loan retained by it hereunder. Any Bank which assigns any or all of its Term Loans to a Person other than an Affiliate of such Bank shall pay to the Agent a service fee in the amount of \$3,500 for each assignment and in the case of assignments on the same day by a Bank to more than one fund managed or advised by the same investment advisor (which funds are not then Banks hereunder), only a single \$3,500 fee shall be payable for all such assignments by such Bank to such funds. Any Bank may, without notice to or the consent of the Borrower or Agent, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Bank's rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Term Loans owing to it); provided that (i) such Bank's obligations under this Agreement and the other Loan Documents shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement and the other Loan Documents. In the case of a participation, the participant shall only have the rights specified in Section 8.2.3 (Set-off) (the participant's rights against such Bank in respect of such participation to be those set forth in the agreement executed by such Bank in favor of the participant relating thereto and not to include any voting rights except with respect to changes of the type referenced in Sections 10.1.1 Increase of Commitment, Extension of Maturity Date), or 10.1.2 (Extension of Payment; Reduction of Principal, Interest or Fees; Modification of Terms of Payment)), all of such Bank's obligations under this Agreement or any other Loan Document shall remain unchanged, and all amounts payable by any Loan Party hereunder or thereunder shall be determined as if such Bank had not sold such participation.

(i)

(ii) Each Bank or assignee or participant of a Bank that is not incorporated under the laws of the United States of America or a state thereof (and, upon the written request of the Agent, each other Bank or assignee or participant of a Bank) shall deliver to the Borrower and the Agent a Withholding Certificate as described in Section 10.17 (Tax Withholding Clause) relating to federal income tax withholding. Each Bank may furnish any publicly available information concerning Hovnanian or any Loan Party and any other information concerning Hovnanian or any Loan Party in the possession of such Bank from time to time to assignees and participants (including prospective assignees or participants), provided that such assignees and participants agree to be bound by the provisions of Section 10.12 (Confidentiality).

(iii) Notwithstanding any other provision in this Agreement, any Bank may at any time pledge or grant a security interest in all or any portion of its rights under this Agreement, its Note (if any) and the other Loan Documents to any Federal Reserve Bank in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 CFR Section 203.14 without notice to or consent of the Borrower or the Agent. No such pledge or grant of a security interest shall release the transferor Bank of its obligations hereunder or under any other Loan Document.

(iv) In the case of any Bank that is a fund that invests in bank loans, such Bank may, without the consent of any Borrower or Agent, assign or pledge all or any portion of its rights under this Agreement, including the Loans and Notes or any other instrument evidencing its rights as a Bank under this Agreement, to any holder of, trustee for, or any other representative of holders of, obligations owed or securities issued by such fund, as security for such obligations or securities, provided that any foreclosure or similar action by such trustee or representative shall be subject to the provisions of this Section 10.11 concerning assignments.

(b) Additional Bank. A lender which is to become a party to this Agreement pursuant to Section 2.1.3 (Increase in Commitments After Closing Date] hereof or otherwise (each an "Additional Bank") shall execute and deliver to the Agent a Bank Joinder to this Agreement in substantially the form attached hereto as Exhibit 1.1(B). Upon execution and delivery of a Bank Joinder, such Additional Bank shall be a party hereto and a "Bank" under each of the Loan Documents for all purposes, except that such Additional Bank shall not participate in any Term Loans to which the LIBO-Rate Option applies which are outstanding on the effective date of such Bank Joinder. If Borrower should renew after the effective date of such Bank Joinder the LIBO-Rate Option with respect Term Loans existing on

such date, Borrower shall be deemed to repay the applicable Term Loans on the renewal date and then reborrow a similar amount on such date so that the Additional Bank shall participate in such Term Loans after such renewal date. Schedule 1.1(A) shall be amended and restated on the date of such Bank Joinder to read as set forth on the attachment to such Bank Joinder. Simultaneously with the execution and delivery of such Bank Joinder, the Borrower shall execute, if requested, a Note and deliver it to such Additional Bank together with copies of such other documents described in Section 7.1 (Affirmative Covenants) hereof as such Additional Bank may reasonably require.

10.12 Confidentiality.

10.12.1. General.

The Agent and the Banks each agree to keep confidential all information obtained from any Loan Party or its Subsidiaries which is nonpublic and confidential or proprietary in nature (including any information the Borrower specifically designates as confidential), except as provided below, and to use such information only in connection with their respective capacities under this Agreement and for the purposes contemplated hereby. The Agent and the Banks shall be permitted to disclose such information (i) to outside legal counsel, accountants and other professional advisors who need to know such information in connection with the administration and enforcement of this Agreement, subject to agreement of such Persons to maintain the confidentiality, (ii) to Moody's, Standard & Poor's and similar rating agencies, (iii) to assignees and participants as contemplated by Section 10.11 (Successors and Assigns), and prospective assignees and participants subject to an agreement of such Persons to maintain the confidentiality, (iv) to the extent requested by any bank regulatory authority or, with notice to the Borrower, as otherwise required by applicable Law or by any subpoena or similar legal process, or in connection with any investigation or proceeding arising out of the transactions contemplated by this Agreement, (v) if it becomes publicly available other than as a result of a breach of this Agreement or becomes available from a source not known to be subject to confidentiality restrictions, (vi) to any direct or indirect contractual counterparty in any swap, hedge or similar agreement (or to any such contractual counterparty's professional advisor), so long as such contractual counterparty (or such professional advisor) agrees to be bound by the provisions of this Section 10.12.1, or (vii) if the Borrower shall have consented to such disclosure.

10.12.2. Sharing Information With Affiliates of the Banks.

Each Loan Party a party hereto acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Affiliates (in connection with this Agreement or otherwise) by any Bank or by one or more Subsidiaries or Affiliates of such Bank and each of the Loan Parties a party hereto hereby authorizes each Bank to share any information delivered to such Bank by such Loan Party and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Bank to enter into this Agreement, to any such Subsidiary or Affiliate of such Bank, it being understood that any such Subsidiary or Affiliate of any Bank receiving such information shall be bound by the provisions of Section 10.12 (Confidentiality) as if it were a Bank hereunder. Such Authorization shall survive the repayment of the Term Loans and other Obligations.

10.13 Counterparts.

This Agreement may be executed by different parties hereto on any number of separate counterparts, each of which, when so executed and delivered, shall be an original, and all such counterparts shall together constitute one and the same instrument.

10.14 Agent's or Bank's Consent.

Whenever the Agent's or any Bank's consent is required to be obtained under this Agreement or any of the other Loan Documents as a condition to any action, inaction, condition or event, unless specifically otherwise provided herein, the Agent and each Bank shall be authorized to give or withhold such consent in its sole and absolute discretion and to condition its consent upon the giving of additional collateral, the payment of money or any other matter.

10.15 Exceptions.

The representations, warranties and covenants contained herein shall be independent of each other, and no exception to any representation, warranty or covenant shall be deemed to be an exception to any other representation, warranty or covenant contained herein unless expressly provided, nor shall any such exceptions be deemed to permit any action or omission that would be in contravention of applicable Law.

10.16 CONSENT TO FORUM; WAIVER OF JURY TRIAL.

EACH LOAN PARTY A PARTY HERETO HEREBY IRREVOCABLY CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF THE SUPERIOR COURT OF NEW JERSEY, LAW DIVISION, MIDDLESEX COUNTY AND THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY AND WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON IT AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS BE MADE BY CERTIFIED OR REGISTERED MAIL DIRECTED TO SUCH LOAN PARTY AT THE ADDRESSES PROVIDED FOR IN SECTION 10.6 (NOTICES) AND SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED UPON ACTUAL RECEIPT THEREOF. EACH LOAN PARTY A PARTY HERETO WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED AGAINST IT AS PROVIDED HEREIN AND AGREES NOT TO ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR

VENUE. EACH LOAN PARTY A PARTY HERETO, THE AGENT AND THE BANKS HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATED TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR ANY COLLATERAL TO THE FULL EXTENT PERMITTED BY LAW.

10.17 Tax Withholding Clause.

Each Bank or assignee or participant of a Bank that is not incorporated under the Laws of the United States of America or a state thereof (and, upon the written request of the Agent, each other Bank or assignee or participant of a Bank) agrees that it will deliver to each of the Borrower and the Agent two (2) duly completed appropriate valid Withholding Certificates (as defined under 1.1441-1(c)(16) of the Income Tax Regulations ("Regulations")) certifying its status (i.e., U.S. or foreign person) and, if appropriate, making a claim of reduced, or exemption from, U.S. withholding tax on the basis of an income tax treaty or an exemption provided by the Internal Revenue Code. Such delivery may be made by electronic transmission as described in 1.1441-1(e)(4)(iv) of the Regulations if the Agent establishes an electronic delivery system. The term "Withholding Certificate" means a Form W-9; a Form W-8BEN; a Form W-8ECI; a Form W-8IMY and the related statements and certifications as required under 1.1441-1(e)(3) of the Regulations; a statement described in 1.871-14(c)(2)(v) of the Regulations; or any other certificates under the Code or Regulations that certify or establish the status of a payee or beneficial owner as a U.S. or foreign person. Each Bank, assignee or participant required to deliver to the Borrower and the Agent a valid Withholding Certificate pursuant to the preceding sentence shall deliver such valid Withholding Certificate as follows: (A) each Bank which is a party hereto on the Closing Date shall deliver such valid Withholding Certificate at least five (5) Business Days prior to the first date on which any interest or fees are payable by the Borrower hereunder for the account of such Bank; (B) each assignee or participant shall deliver such valid Withholding Certificate at least five (5) Business Days before the effective date of such assignment or participation (unless the Agent in its sole discretion shall permit such assignee or participant to deliver such Withholding Certificate less than five (5) Business Days before such date in which case it shall be due on the date specified by the Agent). Each Bank, assignee or participant which so delivers a valid Withholding Certificate further undertakes to deliver to each of the Borrower and the Agent two (2) additional copies of such Withholding Certificate (or a successor form) on or before the date that such Withholding Certificate expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent Withholding Certificate so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent. Notwithstanding the submission of a Withholding Certificate claiming a reduced rate of, or exemption from, United States withholding tax, the Agent shall be entitled to withhold United States federal income taxes at the full 30% withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under 1.1441-7(b) of the Regulations. Further, the Agent is indemnified under 1.1461-1(e) of the Regulations against any claims and demands of any Bank or assignee or participant of a Bank for the amount of any tax it deducts and withholds in accordance with regulations under 1441 of the Internal Revenue Code.

10.18 Joinder of Guarantors.

Any Subsidiary of Hovnanian which is required to join the Guaranty Agreement as a Guarantor pursuant to Section 7.2.7 (Subsidiaries, Partnerships and Joint Ventures) or which is to become, a Restricted Subsidiary shall execute and deliver to the Agent (i) a Guarantor Joinder pursuant to which it shall join as a Guarantor the Guaranty Agreement; and (ii) at the request of the Agent, documents in the forms described in Section 6.1 (First Term Loans) modified as appropriate to relate to such new Guarantor. Hovnanian and Borrower shall deliver such Guarantor Joinder and any related documents that the Agent may reasonably request to the Agent after the formation thereof and its designation as a Restricted Subsidiary; such Subsidiary shall not be a Restricted Subsidiary until the delivery and effectiveness of the items required herein.

10.19 Concerning Agent Terms.

Notwithstanding anything contained herein which may be construed to the contrary, none of the Syndication Agent, and the Joint Lead Arrangers and Sole Book Manager and similar terms, shall exercise any of the rights or have any of the responsibilities of the Agent hereunder, or any other rights or responsibilities other than their respective rights and responsibilities (if any) as Banks hereunder. IN WITNESS WHEREOF, the undersigned have executed this Agreement on the date first written.

K. HOVNANIAN ENTERPRISES, INC.

By:
Title:
FLEET NATIONAL BANK, as Administrative Agent and as a Bank

By:
Title:
BNP PARIBAS

By:
Title:
and

By:
Title:

IKB CAPITAL CORPORATION

By:
Title:

FIRST AMERICAN BANK, SSB

By:
Title:

SOVEREIGN BANK

By:
Title:

COMPASS BANK

By:
Title:

CALIFORNIA BANK & TRUST

By:
Title:

GUARANTY BANK

By:
Title:

COMERICA BANK

By:
Title:

BANKERS TRUST COMPANY

By:
Title:

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SIGNATURES CONTINUED ON THE FOLLOWING PAGE

BANK OF AMERICA, N.A.,
as a Bank

By:
Title:

ACCEPTED AND AGREED:

HOVNANIAN ENTERPRISES, INC.
as a Guarantor

By:
Title

Bank

Bank Name (also Administrative Agent):

FLEET NATIONAL BANK
Address for Notices:
115 Perimeter Center Place NE
Suite 500
Atlanta, GA 30346
Attention: Jeff Aycock
Telephone: (770) 390-6583
Telecopy: (770) 390-8434

Address of Lending Office:
115 Perimeter Center Place NE
Suite 500
Atlanta, GA 30346
Attention: Sandy Wheeler
Telephone: (770) 390-6571
Telecopy: (770) 390-8434

Amount of Commitment for Term Loans \$45,000,000

Ratable Share 27.272727272727%

Bank

Bank Name:
BNP PARIBAS
Address for Notices:
787 Seventh Avenue
New York, NY 10019
Attention: Stephanie Rogers
Telephone: (212) 841-2973
Telecopy: (212) 841-3830

Address of Lending Office:
787 Seventh Avenue
New York, NY 10019
Attention: Stephanie Rogers
Telephone: (212) 841-2973
Telecopy: (212) 841-3830

Amount of Commitment for Term Loans \$15,000,000

Ratable Share 9.090909090909%

Bank Name:
IKB CAPITAL CORPORATION
Address for Notices:
555 Madison Avenue
24th Floor
New York, NY 10022
Attention: Volker Jacobi

Telephone: (212) 485-3630

Telecopy: (212) 583-8838

Address of Lending Office:
555 Madison Avenue
24th Floor
New York, NY 10022
Attention: Volker Jacobi

Telephone: (212) 485-3630
Telecopy: (212) 583-8838

\$15,000,000

9.090909090909%

Bank Name:
FIRST AMERICAN BANK, SSB
Address for Notices:
One Lincoln Park, Suite 500
8401 N. Central Expressway
Dallas, TX 75225

Attention: Jerry Schillaci
Telephone: (972) 419-3451
Telecopy: (972) 419-3375

Address of Lending Office:
One Lincoln Park, Suite 500
8401 N. Central Expressway
Dallas, TX 75225
Attention: Cynthia Fannin
Telephone: (972) 419-3438
Telecopy: (972) 419-3375

\$15,000,000

9.090909090909%

Bank Name:
SOVEREIGN BANK
Address for Notices:
75 State Street
MA1-SST-0411
Boston, MA 02109
Attention: Gregory Donohue
Telephone: (617) 757-5578
Telecopy: (617) 757-5653

Address of Lending Office:
P.O. Box 84100
MA1-MB2-03-03
Boston, MA 02284
Attention: Edward Girvan
Telephone: (617) 533-1606
Telecopy: (617) 533-1936

\$15,000,000

9.090909090909%

Bank Name:
COMPASS BANK
Address for Notices:
15 South 20th Street
15th Floor
Birmingham, AL 35233
Attention: Johanna Duke Paley
Telephone: (205) 297-3851
Telecopy: (205) 297-7994

Address of Lending Office:
15 South 20th Street
15th Floor
Birmingham, AL 35233
Attention: Rosie Fletcher
Telephone: (205) 297-3282
Telecopy: (205) 297-7994

\$15,000,000

9.090909090909%

Bank Name:
CALIFORNIA BANK & TRUST
Address for Notices:
3101 N. Central Avenue, Suite 500
Phoenix, AZ 85012
Attention: Jennifer Pescatore
Telephone: (602) 212-8835
Telecopy: (602) 230-1345

Address of Lending Office:
3101 N. Central Avenue, Suite 500
Phoenix, AZ 85012
Attention: Chantel Wastall
Telephone: (602) 212-5412
Telecopy: (602) 230-1345

\$10,000,000

6.060606060606%

Bank Name:
GUARANTY BANK
Address for Notices:
8333 Douglas Avenue
Dallas, TX 75225
Attention: Rhonda Puente
Telephone : (214) 360-2655
Telecopy: (214) 360-1659

Address of Lending Office:
8333 Douglas Avenue
Dallas, TX 75225
Attention: Rhonda Puente
Telephone : (214) 360-2655
Telecopy: (214) 360-1659

10,000,000

6.060606060606%

Bank Name:
COMERICA BANK
Address for Notices:
500 Woodward Avenue
MC 3256
Detroit, MI 48226
Attention: Charles Weddell
Telephone: (313) 222-3323
Telecopy: (313) 222-9295

Address of Lending Office:
500 Woodward Avenue
MC 3256
Detroit, MI 48226
Attention: Betsy Branson
Telephone: (313) 222-5878
Telecopy: (313) 222-3697

\$10,000,000

6.060606060606%

Bank Name:
BANKERS TRUST COMPANY
Address for Notices:
31 West 52nd Street
7th Floor
New York, NY 10019
Attention: Gregory Shefrin
Telephone: (646) 324-2185
Telecopy: (646) 324-7460

Address of Lending Office:
90 Hudson Street
5th Floor
Jersey City, NJ 07302
Attention: C.J. Powell
Telephone: (201) 593-2171
Telecopy: (201) 593-2309

\$10,000,000

6.060606060606%

Bank Name:
Bank of America, N.A.
Address for Notices:
231 S. LaSalle Street
Mail Code IL1-231-12-18
Chicago, IL 60697
Attention: Kelley Prentiss
Telephone: (312) 828-7363
Telecopy: (312) 974-4970

Address of Lending Office:
231 S. LaSalle Street
Mail Code IL 1-231-12-18
Chicago, IL 60697
Attention: Charlene Wright-Jones
Telephone: (312) 828-4160
Telecopy: (312) 828-3950

\$5,000,000

3.030303030303%
TOTAL

\$165,000,000

100%

ADMINISTRATIVE AGENT:

Name: FLEET NATIONAL BANK
Address: 115 Perimeter Center Place, N.E.
Suite 500
Atlanta, GA 30346
Attention: Oved Amram
Telephone: (770) 390-6598
Telecopy: (770) 390-8434

BORROWER:

Name: K. HOVNIANIAN ENTERPRISES, INC.
Address: 10 Route 35, P.O. Box 500
Red Bank, NJ 07701
Attention: Kevin C. Hake
Telephone: (732) 747-7800
Telecopy: (732) 747-6835

GUARANTORS:

Name: name of Guarantor
Address: c/o K. Hovnianian Enterprises, Inc.
10 Route 35, P.O. Box 500
Red Bank, NJ 07701
Attention: Kevin C. Hake
Telephone: (732) 747-7800
Telecopy: (732) 747-6835

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