

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the twelve months ended OCTOBER 31, 1998

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

Commission file number: 1-8551

Hovnanian Enterprises, Inc.

(Exact name of registrant as specified in its charter)

Delaware 22-1851059
(State or other jurisdiction of (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)

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

Title of Each Class -----	Name of Each Exchange on Which Registered -----
Class A Common Stock, \$.01 par value per share	American Stock Exchange

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

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

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

As of the close of business on January 7, 1999, there were outstanding 13,830,820 shares of the Registrant's Class A Common Stock and 7,688,600 shares of its Class B Common Stock. The approximate aggregate market value (based upon the closing price on the American Stock Exchange) of these shares held by non-affiliates of the Registrant as of January 7, 1999 was \$71,038,000. (The value of a share of Class A Common Stock is used as the value for a share of Class B Common Stock as there is no established market for Class B Common Stock and it is convertible into Class A Common Stock on a share-for-share basis.)

Documents Incorporated by Reference:

Part III - Those portions of registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with registrant's annual meeting of shareholders to be held on March 23, 1999 which are responsive to Items 10, 11, 12 and 13.

HOVNANIAN ENTERPRISES, INC.
FORM 10-K
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PART I

ITEMS 1 AND 2 - BUSINESS AND PROPERTIES

The Company primarily designs, constructs and markets multi-family attached condominium apartments and townhouses and single family detached homes in planned residential developments in its Northeast Region (comprised primarily of New Jersey, southern New York state, and eastern Pennsylvania), southeastern Florida, North Carolina, northern Virginia, southern California, and Poland. The Company markets its homes to first time buyers. In addition, the Company provides financial services (mortgage loans and title insurance) to its homebuilding customers and third parties. The Company also developed and held for investment income producing properties but has exited this business.

The Company employed approximately 1,200 full-time associates as of October 31, 1998. The Company was incorporated in New Jersey in 1967 and was reincorporated in Delaware in 1982.

RESIDENTIAL DEVELOPMENT ACTIVITIES

The Company's residential development activities include evaluating and purchasing properties, master planning, obtaining governmental approvals and constructing, marketing and selling homes. A residential development generally includes a number of residential buildings containing from two to twenty-four individual homes per building and/or single family detached homes, together with amenities such as recreational buildings, swimming pools, tennis courts and open areas. By using standardized cost efficient designs and materials and by rigorous control of subcontracting costs, the Company attempts to keep costs low.

The Company attempts to reduce the effect of certain risks inherent in the housing industry through the following policies and procedures:

- The Company acquires land for future development principally through the use of land options which need not be exercised before the completion of the regulatory approval process. The Company structures these options in most cases with flexible takedown schedules rather than with an obligation to takedown the entire parcel upon approval. Additionally, the Company purchases improved lots in certain markets by acquiring a small number of improved lots with an option on additional lots. This allows the Company to minimize the economic costs and risks of carrying a large land inventory, while maintaining its ability to commence new developments during favorable market periods.

- In an attempt to reduce its land acquisition costs, the Company monitors

housing industry cycles and seeks to acquire land options near the cyclical trough of specific geographic housing cycles.

- The Company generally begins construction on a residential multi-family building only after entering into contracts for the sale of at least 50% of the homes in that building. Single family detached homes are generally started after a contract is signed and mortgage approvals obtained. This limits the build-up of inventory of unsold homes and the costs of maintaining and carrying that inventory.

- The Company finances all construction, land acquisition and operations through equity, non-recourse purchase money mortgages, long term debt, its unsecured revolving credit facility or cash flow. This eliminates the need of obtaining specific community construction financing, which is especially important at times when obtaining such community financing is difficult.

- Through its presence in multiple geographic markets, the Company's goal is to reduce the effects that housing industry cycles, seasonality and local conditions in any one area may have on its business. In addition, the Company plans to achieve a significant market presence in each of its markets in order to obtain powers and economies of scale.

- The Company looks to diversify its product line to provide housing to a broad range of customers. Currently the Company's customers primarily consist of first-time buyers, first and second time move-up buyers, move down buyers and active adult buyers.

- The Company offers a wide range of customer options to satisfy individual customer tastes. In its larger communities the Company has constructed decoration centers where the customer can better see customization possibilities for their new home. The Company is also planning larger regional design centers and expects to open one in New Jersey and one in California during the next year.

- Through operational excellence the Company attempts to reduce its housing construction costs. Operational excellence is further discussed under "Certain Operating Policies and Procedures" below.

The Company offers a broad array of products consisting of moderately priced, multi-family attached condominium apartments and townhouses, which are marketed primarily to first time buyers, as well as moderately priced townhouses with garages and single family detached homes, which are marketed primarily to first and second time move-up buyers and to active adult buyers. The Company also offers detached single family homes and larger townhouses with garages designed for the move-up buyer and age restricted communities for active adults. Current base prices for the Company's homes in contract backlog at October 31, 1998 (exclusive of upgrades and options) range from \$41,000 to \$921,000 in its Northeast Region, from \$157,000 to \$352,000 in Florida, from \$100,000 to \$413,000 in North Carolina, from \$140,000 to \$355,000 in Virginia, from \$113,000 to \$307,000 in California, and from \$84,000 to \$94,000 in Poland. Closings generally occur and are typically reflected in revenues from two to twelve months after sales contracts are signed.

Information on homes delivered by market area is set forth below:

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
	(Housing Revenue in Thousands)		
Northeast Region:			
Housing Revenues.....	\$595,873	\$445,817	\$460,931
Homes Delivered.....	2,530	2,128	2,364
Average Price.....	\$235,522	\$209,500	\$194,979
North Carolina:			
Housing Revenues.....	\$127,592	\$125,242	\$123,347
Homes Delivered.....	687	695	738
Average Price.....	\$185,723	\$180,204	\$167,137
Florida:			
Housing Revenues.....	\$ 44,168	\$ 74,146	\$ 99,085
Homes Delivered.....	241	418	632
Average Price.....	\$183,269	\$177,382	\$156,780
Virginia:			
Housing Revenues.....	\$ 38,904	\$ 14,398	\$ 16,749
Homes Delivered.....	152	70	75
Average Price.....	\$255,947	\$205,685	\$223,320

California:			
Housing Revenues.....	\$ 82,546	\$ 69,252	\$ 64,570
Homes Delivered.....	457	365	325
Average Price.....	\$180,625	\$189,731	\$198,677
Poland:			
Housing Revenues.....	\$ 6,561	\$ 2,952	--
Homes Delivered.....	71	41	--
Average Price.....	\$ 92,408	\$ 72,000	--
Combined Total:			
Housing Revenues.....	\$895,644	\$731,807	\$764,682
Homes Delivered.....	4,138	3,717	4,134
Average Price.....	\$216,443	\$196,881	\$184,974

Information on homes delivered by product type is set forth below:

	Year Ended		
	October	October	October
	31, 1998	31, 1997	31, 1996

	(Housing Revenues in Thousands)		
First Time Buyer Product(1)			
Housing Revenues.....	\$ 34,987	\$ 52,589	\$ 77,682
Homes Delivered.....	279	407	619
Percentage of Housing Revenues.....	4%	7%	10%
Move-Up Buyer Product(2)			
Housing Revenues.....	\$860,657	\$679,218	\$687,000
Homes Delivered.....	3,859	3,310	3,515
Percentage of Housing Revenues.....	96%	93%	90%

- (1) First time buyer product consists of all of the Company's multi-family attached home products other than townhouses with garages.
- (2) Move-up buyer product consists of single family detached homes and townhouses with garages.

The Company's net sales contracts increased to \$806,247,000 for the year ended October 31, 1998 from \$762,750,000 for the year ended October 31, 1997 or 5.7%, and was the net result of a 4.8% decrease in the number of homes contracted to 3,877 in 1998 from 4,073 in 1997 and a 11.0% increase in the average home base sales prices. On a market area and dollar basis, Virginia achieved the highest increase of 136.6%, followed by the Northeast Region with an 11.6% increase and North Carolina with a 2.4% increase. The large increase in Virginia was the result of an acquisition of a small Virginia developer on May 1, 1998. Net sales contracts decreased in California, Florida and Poland. In California and Poland, contracts decreased due to fewer homes available for sale. Florida's decrease was due to the downsizing of the division.

During the year ended October 31, 1998 the Company has written down one Florida residential community and one New Jersey parcel of land for sale. In the Florida community, higher discounts are being offered to speed up sales. At the New Jersey land site, lots are being contracted at prices lower than anticipated. The result of the above decisions was a reduction in inventory carrying amounts to fair value, resulting in a \$1.9 million impairment loss in accordance with FAS 121. The Company has also written off three New Jersey residential land options including approval, engineering and capitalized interest costs amounting to \$2.1 million. The Company did not exercise these options because of changes in local market conditions and difficulties in obtaining government approvals. Total writedowns and write-offs of residential inventories are presented on the consolidated statement of income as "Inventory impairment loss." See "Notes to Consolidated Financial Statements - Note 10" for additional explanation.

As of October 31, 1998, the following table summarizes the Company's active communities under development:

Communities	Approved Lots	Homes Delivered	(1)	(2)	
			Contracted Not Delivered	Remaining Home Sites Available	
-----	-----	-----	-----	-----	
Northeast Region.....	31	10,111	3,818	1,126	5,167
North Carolina.....	32	3,740	1,285	232	2,223
Florida.....	4	970	622	73	275
Virginia.....	11	1,033	250	115	668

California.....	6	1,036	466	119	451
Poland.....	-	130	112	7	11
	-----	-----	-----	-----	-----
Total	84	17,020	6,553	1,672	8,795
	=====	=====	=====	=====	=====

(1) Includes 8 lots under option.

(2) Of the total home sites available, 460 were under construction or completed (including 54 models and sales offices), 4,570 were under option, and 330 were financed through purchase money mortgages.

In addition, in substantially completed or suspended developments, the Company had 11 homes under construction or completed including 8 homes which are under contract. The Company also had 281 lots without construction (1 under contract) in these substantially completed or suspended developments.

As of October 31, 1998, the following table summarizes the Company's total started or completed unsold homes:

	Unsold Homes	Models	Total
	-----	-----	-----
Northeast Region.....	180	16	196
North Carolina.....	93	-	93
Florida.....	24	6	30
Virginia.....	23	11	34
California.....	78	21	99
Poland.....	11	-	11
	-----	-----	-----
Total	409	54	463
	=====	=====	=====

BACKLOG

Sales of the Company's United States residential homes typically are made pursuant to a standard sales contract. This contract requires a nominal customer deposit at the time of signing with the remainder of a 5% to 10% down payment due 30 to 60 days after signing and provides the customer with a statutorily mandated right of rescission for a period ranging up to 15 days after execution. The contract may include a financing contingency, which permits the customer to cancel his obligation in the event mortgage financing at prevailing interest rates (including financing arranged or provided by the Company) is unobtainable within the period specified in the contract. This contingency period typically is four to eight weeks following the date of execution.

At October 31, 1998 and October 31, 1997, the Company had a backlog of signed contracts for 1,681 homes and 1,872 homes, respectively, with sales values aggregating \$381,816,000 and \$374,314,000, respectively. Substantially all of the Company's backlog at October 31, 1998 is expected to be completed and closed within the next twelve months. At December 31, 1998 and 1997, the Company's backlog of signed contracts was 1,584 homes and 1,779 homes, respectively, with sales values aggregating \$359,213,000 and \$360,969,000, respectively.

RESIDENTIAL LAND INVENTORY

It is the Company's objective to control a supply of land, primarily through options, consistent with anticipated homebuilding requirements in its housing markets. Controlled land as of October 31, 1998, exclusive of communities under development described under "Business and Properties -- Residential Development Activities," is summarized in the following table:

	Number of Proposed Communities	Proposed Developable Lots	Total Land Option Price	Book Value(1)(2)
	-----	-----	-----	-----
(In Thousands)				
Northeast Region:				
Under Option.....	23	6,217	\$ 127,469	\$ 16,288
Owned.....	3	359		14,593
	-----	-----		-----
Total.....	26	6,576		30,881
	-----	-----		-----
North Carolina:				
Under Option.....	8	651	\$ 11,610	268
Owned.....	1	82		1,058
	-----	-----		-----
Total.....	9	733		1,326

Florida:				
Owned.....	3	1,033		3,923
California:				
Under Option.....	14	2,136	\$ 63,384	6,028
Poland:				
Owned.....	1	485		1,350
Totals:				
Under Option.....	45	9,004		22,584
Owned.....	8	1,959		20,924
Combined Total.....	53	10,963	\$	43,508
	=====	=====		=====

(1) Properties under option also includes costs incurred on properties not under option but which are under investigation. For properties under option, the Company paid, as of October 31, 1998, option fees and deposits aggregating approximately \$11,085,000. As of October 31, 1998, the Company spent an additional \$11,499,000 in non-refundable predevelopment costs on such properties.

(2) The book value of \$43,508,000 is identified on the balance sheet as "Inventories - land, land options, and cost of projects in planning."

In its Northeast Region, the Company's objective is to control a supply of land sufficient to meet anticipated building requirements for at least three to five years.

In North Carolina and Virginia, some land historically has been acquired from land developers on a lot takedown basis. Under a typical agreement with the lot developer, the Company purchases a minimal number of lots. The balance of the lots to be purchased are covered under an option agreement or a non-recourse purchase agreement. Due to the dwindling supply of improved lots in North Carolina and Virginia, the Company is currently optioning parcels of unimproved land for development.

In Florida, the Company is focusing its development efforts primarily in the southeast. Emphasis is principally on building single family detached homes. As a result of its decision to downsize, the Company is attempting to sell all its land in other locations, including the parcels of owned land included in the table on the previous page.

In California, the Company has focused its development efforts in the southern region. Here the emphasis is on affordable housing and will consist of single family attached and detached homes. Where possible, the Company plans to option developed or partially developed lots with no more than fifty to seventy-five lots to be taken down during any twelve month period. With a dwindling supply in California of developed lots, some land parcels will be optioned which will require the full range of development activities. Option fees range up to 10% of the land value.

CUSTOMER FINANCING

At the Company's communities, on-site personnel facilitate sales by offering to arrange financing for prospective customers through K. Hovnanian Mortgage, Inc. ("KHM"). Management believes that the ability to offer financing to customers on competitive terms as a part of the sales process is an important factor in completing sales.

KHM's business consists of providing the Company's customers as well as unrelated third parties with competitive financing and coordinating and expediting the loan origination transaction through the steps of loan application, loan approval and closing. KHM has its headquarters in Red Bank, New Jersey. It originates loans in New Jersey, New York, Pennsylvania, North Carolina, Florida, California, South Carolina and Illinois.

KHM's principal sources of revenues are: (i) net gains from the sale of loans; (ii) revenues from the sale of the rights to service loans; and (iii) interest income earned on mortgage loans during the period they are held by KHM prior to their sale to investors.

KHM is approved by the Government National Mortgage Association ("GNMA") as a seller-servicer of Federal Housing Administration ("FHA") and Veterans Administration ("VA") loans. A portion of the conventional loans originated by KHM (i.e., loans other than those insured by FHA or guaranteed by VA) qualify for inclusion in loan guarantee programs sponsored by the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). KHM also originates conventional loans which are sold to a number of private investors. KHM arranges for fixed and adjustable rate, conventional,

privately insured mortgages, FHA-insured or VA-guaranteed mortgages, and mortgages funded by revenue bond programs of states and municipalities.

KHM is a delegated underwriter under the FHA Direct Endorsement and VA Automatic programs in accordance with criteria established by such agencies. Additionally, KHM has delegated underwriting authority from FNMA and FHLMC. As a delegated underwriter, KHM may underwrite and close mortgage loans under programs sponsored by these agencies without their prior approval, which expedites the loan origination process.

KHM, like other mortgage bankers, customarily sells nearly all of the loans that it originates. Additionally, KHM sells virtually all of the loan servicing rights to loans it originates. Loans are sold either individually or in pools to GNMA, FNMA, or FHLMC or against forward commitments to institutional investors, including banks and savings and loan associations.

KHM plans to grow its mortgage banking operations. Initially, KHM focused on originating loans from customers who purchase homes from Hovnanian Enterprises, Inc. affiliates. KHM's objective is to increase the capture rate of non-cash homebuyers from the 58% rate achieved in fiscal 1998 to 70% over the next several years. KHM has now expanded to offer its mortgage products and services to unrelated third parties. During the year ended October 31, 1998, third party loans amounted to 40% of total mortgage closings.

RENTAL PROPERTY DEVELOPMENT ACTIVITIES AND LAND INVENTORY

The Company had previously diversified its business, on a limited scale, through the development, acquisition and ownership of commercial properties, primarily in central New Jersey, and, to a lesser extent, in Florida, but has exited this business (see "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations").

CERTAIN OPERATING POLICIES AND PROCEDURES

Financial Goals. The Company has been focusing on housing margin improvement and de-emphasizing revenue growth. Housing margins had declined from 18.0% for the year ended February 28, 1994 to 15.6% for the year ended October 31, 1997. To improve its housing margin, the Company is focusing on increasing associate productivity, reducing overheads and reducing construction costs by decreasing construction cycle times, designing and building cost efficient products, and using national and regional contracts. Also the Company has consolidated its vendor base and centralized purchasing functions in the Northeast Region. As a result of the combination of these efforts, the Company's housing margin increased to 17.3% for the year ended October 31, 1998.

Strategic Initiatives. In order to help improve housing margins the Company previously introduced three strategic initiatives. These initiatives are Partners In Excellence, Process Redesign, and Training.

Partners In Excellence (the Company's total quality management initiative) is intended to focus on improving the way operations are performed. It involves all Company associates through a systematic, team-oriented approach to improvement. It increases the Company's profits by streamlining processes and by reducing errors which cost money. The Company was recognized for its efforts by receiving the 1997 gold National Housing Quality Award from Professional Builder and The NAHB Research Center.

Process Redesign is a fundamental rethinking and radical redesign of our processes to achieve dramatic improvements in performance. The Company's Process Redesign efforts are currently focused on streamlining and standardizing all of its key business processes. In addition, the Company is working to implement a new enterprise wide "Enterprise Resource Package" computer software system.

Training is designed to provide our associates with the knowledge, attitudes, skill and habits necessary to succeed at their jobs. The Company's Training Department regularly conducts training classes in sales, construction, administrative, and managerial areas. In addition, as Process Redesign develops new processes, the Training Department is responsible for educating the Company's associates on the processes, procedures, and operations.

Land Acquisition, Planning and Development. Before entering into a contract to acquire land, the Company completes extensive comparative studies and analyses which assist the Company in evaluating the economic feasibility of such land acquisition. The Company generally follows a policy of acquiring options to purchase land for future community developments. The Company attempts to acquire land with a minimum cash investment and negotiate takedown options, thereby limiting the financial exposure to the amounts invested in property and predevelopment costs. This policy of land acquisition may somewhat raise the price of land that the Company acquires, but significantly reduces

risk. Further, this policy generally allows the Company to obtain necessary development approvals before acquisition of the land, thereby enhancing the value of the options and the land eventually acquired.

The Company's option and purchase agreements are typically subject to numerous conditions, including, but not limited to, the Company's ability to obtain necessary governmental approvals for the proposed community. Generally, the deposit on the agreement will be returned to the Company if all approvals are not obtained, although predevelopment costs may not be recoverable. By paying an additional, nonrefundable deposit, the Company has the right to extend a significant number of its options for varying periods of time. In all instances, the Company has the right to cancel any of its land option agreements by forfeiture of the Company's deposit on the agreement. In such instances, the Company generally is not able to recover any predevelopment costs.

The Company's development activities include site planning and engineering, obtaining environmental and other regulatory approvals and constructing roads, sewer, water and drainage facilities, and for the Company's residential developments, recreational facilities and other amenities. These activities are performed by the Company's staff, together with independent architects, consultants and contractors. The Company's staff also carries out long-term planning of communities.

Design. The Company's residential communities are generally located in suburban areas near major highways. The communities are designed as neighborhoods that fit existing land characteristics. The Company strives to create diversity within the overall planned community by offering a mix of homes with differing architecture, textures and colors. Wherever possible, recreational amenities such as a swimming pool, tennis courts and tot lots are included.

Construction. The Company designs and supervises the development and building of its communities. Its homes are constructed according to standardized prototypes which are designed and engineered to provide innovative product design while attempting to minimize costs of construction. The Company employs subcontractors for the installation of site improvements and construction of homes. Agreements with subcontractors are generally short term and provide for a fixed price for labor and materials. The Company rigorously controls costs through the use of a computerized monitoring system. Because of the risks involved in speculative building, the Company's general policy is to construct a residential multi-family building only after signing contracts for the sale of at least 50% of the homes in that building. Single family detached homes are usually constructed after the signing of a contract and mortgage approval has been obtained.

Materials and Subcontractors. The Company attempts to maintain efficient operations by utilizing standardized materials available from a variety of sources. In addition, the Company contracts with subcontractors representing all building trades in connection with the construction of its homes. In recent years, the Company has experienced no significant construction delays due to shortages of materials or labor. The Company cannot predict, however, the extent to which shortages in necessary materials or labor may occur in the future.

Marketing and Sales. The Company's residential communities are sold principally through on-site sales offices. In order to respond to its customers' needs and trends in housing design, the Company relies upon its internal market research group to analyze information gathered from, among other sources, buyer profiles, exit interviews at model sites, focus groups and demographic data bases. The Company makes use of newspaper, radio, magazine, its website, billboard, video and direct mail advertising, special promotional events, illustrated brochures, full-sized and scale model homes in its comprehensive marketing program. For the year ended October 31, 1998, the Company's advertising expenditures totaled \$10,531,000.

Customer Service and Quality Control. The Company's associates responsible for customer service participate in pre-closing quality control inspection as well as responding to post-closing customer needs. Prior to closing, each home is inspected and any necessary completion work is undertaken by the Company. In some of its markets the Company is also enrolled in a standard limited warranty program which, in general, provides a homebuyer with a one-year warranty for the home's materials and workmanship, a two-year warranty for the home's heating, cooling, ventilating, electrical and plumbing systems and a ten-year warranty for major structural defects. All of the warranties contain standard exceptions, including, but not limited to, damage caused by the customer.

Customer Financing. The Company sells its homes to customers who generally finance their purchases through mortgages. During the year ended October 31, 1998, approximately 58% of the Company's non-cash customers obtained mortgages originated by the Company's wholly-owned mortgage banking subsidiary, with a substantial portion of the Company's remaining customers obtaining mortgages from various independent lending institutions. Mortgages originated by the Company's wholly-owned mortgage banking subsidiary are sold in the secondary

market.

Financing arrangements with independent lending institutions are at prevailing rates and on terms in accordance with the lending institutions policies. Mortgages offered by the Company's subsidiary are on terms similar to those offered by independent lending institutions. There are no assurances that mortgage financing will remain readily available to the Company's customers at affordable rates.

COMPETITION

The Company's residential business is highly competitive. The Company competes in each of the geographic areas in which it operates with numerous real estate developers, ranging from small local builders to larger regional and national builders and developers, some of which have greater sales and financial resources than the Company. Resales of housing and the availability of rental housing provide additional competition. The Company competes primarily on the basis of reputation, price, location, design, quality, service and amenities.

REGULATION AND ENVIRONMENTAL MATTERS

General. The Company is subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations which impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular locality. In addition, the Company is subject to registration and filing requirements in connection with the construction, advertisement and sale of its communities in certain states and localities in which it operates even if all necessary government approvals have been obtained. The Company may also be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums that could be implemented in the future in the states in which it operates. Generally, such moratoriums relate to insufficient water or sewerage facilities or inadequate road capacity.

Environmental. The Company is also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning protection of health and the environment ("environmental laws"). The particular environmental laws which apply to any given community vary greatly according to the community site, the site's environmental conditions and the present and former uses of the site. These environmental laws may result in delays, may cause the Company to incur substantial compliance and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas.

The Florida Growth Management Act of 1985 became fully effective in Palm Beach County on February 1, 1990. The act requires that infrastructure, including roads, sewer and water lines must be in existence concurrently with the construction of the development. If such infrastructure is not concurrently available, then the community cannot be developed. This will have an effect on limiting the amount of land available for development and may delay approvals of some developments.

Fair Housing Act. In July 1985, New Jersey adopted the Fair Housing Act which established an administrative agency to adopt criteria by which municipalities will determine and provide for their fair share of low and moderate income housing. This agency adopted such criteria in May 1986. Its implementation thus far has caused some delay in approvals for some of the Company's New Jersey communities and may result in a reduction in the number of homes planned for some properties.

Both prior to the enactment of the Fair Housing Act and in its implementation thus far, municipal approvals in some of the New Jersey municipalities in which the Company owns land or land options required the Company to set aside up to 22% of the approved homes for sale at prices affordable to persons of low and moderate income. In order to comply with such requirements, the Company must sell these homes at a loss. The Company attempts to reduce some of these losses through increased density, certain cost saving construction measures and reduced land prices from the sellers of property. Such losses are absorbed by the market priced homes in the same developments.

State Planning Act. Pursuant to the 1985 State Planning Act, the New Jersey State Planning Commission has adopted a State Development and Redevelopment Plan ("State Plan"). The State Plan, if fully implemented, would designate large portions of the state as unavailable for development or as available for development only at low densities, and other portions of the state for more intense development. State government agencies would be required to make permitting decisions in accordance with the State Plan, if it is fully implemented. The state government agencies have not yet adopted policies and regulations to fully implement the State Plan. However, at least one state agency has issued an Executive Order requiring compliance with the State Plan. It is unclear what effect this Executive Order may have on the Company's ability

to develop its lands.

Conclusion. Despite the Company's past ability to obtain necessary permits and approvals for its communities, it can be anticipated that increasingly stringent requirements will be imposed on developers and homebuilders in the future. Although the Company cannot predict the effect of these requirements, they could result in time-consuming and expensive compliance programs and substantial expenditures for pollution and water quality control, which could have a material adverse effect on the Company. In addition, the continued effectiveness of permits already granted or approvals already obtained is dependent upon many factors, some of which are beyond the Company's control, such as changes in policies, rules and regulations and their interpretation and application.

Company Offices. The Company owns its corporate headquarters, a four-story, 24,000 square foot office building located in Red Bank, New Jersey, a 17,450 square foot office building located in Winston-Salem, North Carolina, and 17,255 square feet in a Middletown, New Jersey condominium office building. The Company leases office space consisting of 63,691 square feet in various New Jersey locations, 3,300 square feet in Woodbridge, Virginia, 18,456 square feet in various North Carolina locations, 15,900 square feet in West Palm Beach, Florida, and 10,520 square feet in southern California.

ITEM 3 - LEGAL PROCEEDINGS

The Company is 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 the Company.

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

During the fourth quarter of the year ended October 31, 1998 no matters were submitted to a vote of security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information on executive officers of the registrant is incorporated herein from Part III, Item 10.

PART II

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

The number of shares and all data presented on a per share basis in this Form 10-K have been adjusted to give effect to all stock splits. The Company's Class A Common Stock is traded on the American Stock Exchange and was held by approximately 800 shareholders of record at January 7, 1999. There is no established public trading market for the Company's Class B Common Stock, which was held by approximately 670 shareholders of record at January 7, 1999. In order to trade Class B Common Stock, the shares must be converted into Class A Common Stock on a one-for-one basis. The high and low sales prices for the Company's Class A Common Stock were as follows for each fiscal quarter during the years ended October 31, 1998, 1997, and 1996:

Quarter	Class A Common Stock					
	Oct. 31, 1998		Oct. 31, 1997		Oct. 31, 1996	
	High	Low	High	Low	High	Low
First.....	\$ 9.25	\$ 6.50	\$7.63	\$5.63	\$7.75	\$6.25
Second.....	\$11.50	\$ 8.56	\$7.00	\$6.25	\$8.25	\$6.25
Third.....	\$11.19	\$ 8.50	\$7.13	\$5.69	\$7.25	\$5.06
Fourth.....	\$ 9.88	\$ 6.00	\$8.13	\$6.75	\$6.63	\$5.50

Certain debt instruments to which the Company is a party contain restrictions on the payment of cash dividends. As a result of the most restrictive of these provisions, approximately \$42,995,000 was free of such restrictions at October 31, 1998. The Company has never paid dividends nor does it currently intend to pay dividends.

ITEM 6 - SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected financial data for the Company and its consolidated subsidiaries and should be read in conjunction with the financial statements included elsewhere in this Form 10-K. Per common share data and weighted average number of common shares outstanding reflect all stock splits.

Summary Consolidated Income Statement Data	Year Ended				Eight Months Ende	Year Ended
	October 31, 1998	October 31, 1997	October 31, 1996	October 31, 1995	October 31, 1994	February 28, 1994

(In Thousands Except Per Share Data)

Revenues.....	\$941,947	\$784,136	\$807,464	\$777,745	\$386,585	\$587,010
Expenses.....	900,655	796,260	782,458	756,091	402,090	557,859
Income(loss) before income taxes and extraordinary loss.	41,292	(12,124)	25,006	21,654	(15,505)	29,151
State and Federal income taxes.	15,141	(5,154)	7,719	7,526	(5,075)	9,229
Extraordinary loss.....	(748)	--	--	--	--	(1,277)
Net income (loss).....	\$ 25,403	\$ (6,970)	\$ 17,287	\$ 14,128	\$ (10,430)	\$ 18,645

Per Share Data:

Basic::						
Income (loss) before extraordinary loss.....	\$ 1.20	\$ (0.31)	\$ 0.75	\$ 0.61	\$ (0.46)	\$ 0.87
Extraordinary loss.....	(0.03)	--	--	--	--	(0.05)
Net income (loss).....	\$ 1.17	\$ (0.31)	\$ 0.75	\$ 0.61	\$ (0.46)	\$ 0.82
Weighted average number of common shares outstanding..	21,781	22,615	23,037	23,032	22,906	22,821

Assuming Dilution:

Income (loss) before extraordinary loss.....	\$ 1.19	\$ (0.31)	\$ 0.75	\$ 0.61	\$ (0.45)	\$ 0.86
Extraordinary loss.....	(0.03)	--	--	--	--	(0.05)
Net income (loss).....	\$ 1.16	\$ (0.31)	\$ 0.75	\$ 0.61	\$ (0.45)	\$ 0.81
Weighted average number of common shares outstanding..	22,016	22,712	23,120	23,079	23,061	23,072

Summary Consolidated Balance Sheet Data	October 31, 1998	October 31, 1997	October 31, 1996	October 31, 1995	October 31, 1994	February 28, 1994
Total assets.....	\$589,102	\$637,082	\$614,111	\$645,378	\$612,925	\$539,602
Mortgages and notes payable....	\$150,282	\$184,519	\$145,336	\$183,044	\$167,179	\$ 68,244
Bonds collateralized by mortgages receivable.....	\$ 5,652	\$ 7,855	\$ 9,231	\$ 17,880	\$ 20,815	\$ 30,343
Participating senior subordinated debentures and subordinated notes.....	\$145,449	\$190,000	\$200,000	\$200,000	\$200,000	\$200,000
Stockholders' equity.....	\$201,392	\$178,762	\$193,622	\$176,335	\$162,130	\$171,001

RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

For purposes of computing the ratios of earnings to fixed charges and earnings to combined fixed charges and preferred dividends, earnings consist of earnings (loss) from continuing operations before income taxes, minority interest, extraordinary items and cumulative effect of accounting changes, plus fixed charges (interest charges and preferred share dividend requirements of subsidiaries, adjusted to a pretax basis), less interest capitalized, less preferred share dividend requirements of subsidiaries adjusted to a pretax basis and less undistributed earnings of affiliates whose debt is not guaranteed by the Company.

The following table sets forth the ratios of earnings to fixed charges and earnings to combined fixed charges and preferred dividends for the Company for the periods indicated:

	Years Ended October 31,				Eight Months Ended	February 28,
	1998	1997	1996	1995	October 31 1994	1994
Ratio of earnings to fixed charges.....	2.6	(a)	1.6	1.4	(b)	1.8
Ratio of earnings to combined fixed charges and preferred stock						

- (a) No ratio is presented for the year ended October 31, 1997 as the earnings for such period were insufficient to cover fixed charges by \$9,197,000.
- (b) No ratio is presented for the eight months ended October 31, 1994 as the earnings for such period were insufficient to cover fixed charges by \$18,803,000.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAPITAL RESOURCES AND LIQUIDITY

The Company's cash uses during the twelve months ended October 31, 1998 were for operating expenses, seasonal increases in housing inventories, construction, income taxes, interest, the repurchase of common stock, the redemption of subordinated indebtedness, and the net reduction of the revolving credit line. The Company provided for its cash requirements from housing and land sales, the revolving credit facility, the sale of commercial facilities, financial service fees, and other revenues. The Company believes that these sources of cash are sufficient to finance its working capital requirements and other needs.

In December 1998 the Board of Directors increased the stock repurchase program to purchase up to 3 million shares of Class A Common Stock. This authorization expires on December 31, 2000. As of October 31, 1998, 1,591,500 shares were repurchased under this program of which 407,100 were repurchased during the year ended October 31, 1998.

The Company's bank borrowings are made pursuant to a revolving credit agreement (the "Agreement") which provides a revolving credit line and letter of credit line of up to \$280,000,000 through July 2001. Interest is payable monthly and at various rates of either the prime rate or Libor plus 1.45%. The Company believes that it will be able either to extend the Agreement beyond July 2001 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. The Company currently is in compliance and intends to maintain compliance with its covenants under the Agreement. As of October 31, 1998, borrowings under the Agreement were \$68,000,000.

The aggregate principal amount of subordinated indebtedness issued by the Company and outstanding as of October 31, 1998 was \$145,449,000. During the year ended October 31, 1998, the Company reduced its subordinated debt by \$44,551,000. See "Results of Operations - Extraordinary Loss." Payments of \$45,449,000 and \$100,000,000 are due in April 2002 and June 2005, respectively.

The Company's mortgage banking subsidiary borrows under a bank warehousing arrangement. Other finance subsidiaries formerly borrowed from a multi-builder owned financial corporation and a builder owned financial corporation to finance mortgage backed securities but in fiscal 1988 decided to cease further borrowing from multi-builder and builder owned financial corporations. These non-recourse borrowings have been generally secured by mortgage loans originated by one of the Company's subsidiaries. As of October 31, 1998, the aggregate outstanding principal amount of such borrowings was \$72,318,000.

The book value of the Company's inventories, rental condominiums, and commercial properties completed and under development amounted to the following:

	October 31, 1998	October 31, 1997
	-----	-----
Residential real estate inventory.....	\$375,733,000	\$410,393,000
Senior residential rental property.....	10,794,000	11,412,000
	-----	-----
Total residential real estate.....	386,527,000	421,805,000
Commercial properties.....	17,832,000	38,946,000
	-----	-----
Combined Total.....	\$404,359,000	\$460,751,000
	=====	=====

Total residential real estate decreased \$35,278,000 from October 31, 1997 to October 31, 1998 as a result of an inventory decrease of \$34,660,000 and depreciation of senior residential rental property. The decrease in residential real estate inventory was primarily due to decreases in the Company's Northeast Region where fewer deliveries are planned for the first quarter of fiscal year 1999 compared to the same period in fiscal 1998. Residential homes under construction or completed and included in residential real estate inventory at October 31, 1998 are expected to be closed during the next twelve months. Most

residential real estate, completed or under development, is financed through the Company's line of credit and subordinated indebtedness.

The following table summarizes housing lots included in the Company's total residential real estate:

	Total Home Lots	Contracted Not Delivered	Remaining Lots Available
October 31, 1998:			
Owned.....	8,054	1,673	6,381
Optioned.....	13,668	8	13,660
Total.....	21,722	1,681	20,041
October 31, 1997:			
Owned.....	8,266	1,848	6,418
Optioned.....	12,159	24	12,135
Total.....	20,425	1,872	18,553

The following table summarizes the Company's started or completed unsold homes in active, substantially completed and suspended communities:

	October 31, 1998			October 31, 1997		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region....	180	16	196	279	63	342
North Carolina.....	93	--	93	83	--	83
Florida.....	24	6	30	47	11	58
Virginia.....	23	11	34	16	10	26
California.....	78	21	99	60	16	76
Poland.....	11	--	11	10	2	12
Total	409	54	463	495	102	597

Prior to the second quarter of fiscal 1997, the Company's commercial properties represented long-term investments in commercial and retail facilities completed or under development. At the end of the second quarter of fiscal 1997, the Company announced it was planning an orderly exit from the business of owning investment properties. During fiscal 1998, the Company sold all its remaining commercial facilities which had a book value of \$23,920,000 and outstanding loan balances of \$19,241,000 as of October 31, 1997. In addition, a 50% owned partnership sold its retail center. The Company has various parcels of land approved for commercial development. The Company has contracts on all such parcels and expects to close substantially all such land sales in the first quarter of 1999. See "Results of Operations - Investment Properties."

Collateral Mortgage Financing - collateral for bonds payable consists of collateralized mortgages receivable which are pledged against non-recourse collateralized mortgage obligations. Financial Services - mortgage loans held for sale consist of residential mortgages receivable of which \$71,002,000 and \$47,660,000 at October 31, 1998 and October 31, 1997, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of mortgage loans held for sale is being held as an investment by the Company. The Company may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, the Company has incurred minimal credit losses.

RESULTS OF OPERATIONS

The Company's operations consist primarily of residential housing development and sales in its Northeast Region (comprised primarily of New Jersey, southern New York state, and eastern Pennsylvania), in southeastern Florida, North Carolina, northern Virginia, southern California, and Poland. In addition, the Company had developed and operated commercial properties as long-term investments in New Jersey, and, to a lesser extent, Florida, but has exited this business (see "Investment Properties" below).

During the years ended October 31, 1998, 1997, and 1996, the Company's Northeast Region and North Carolina Division housing operations consistently produced operating profits. The Company's California housing operations

produced profits in 1998 and 1997. In 1998, financial services and the sale of commercial properties also contributed profits to the Company. These profits have been reduced by net losses from its other housing divisions, the writedown of certain residential inventories and commercial properties to their estimated fair value and the write-off of optioned properties and related approval, engineering and capitalized interest costs. See "Notes to Consolidated Financial Statements - Note 10".

Historically, the Company's first two quarters produced the least amount of deliveries for the year and the fourth quarter produced the most deliveries for the year, sometimes in excess of 40%. The Company's management has made a concerted effort to change this trend using new management tools to focus on delivery evenness and through a new quarterly bonus incentive plan. The percentage distribution of deliveries for the last three years is as follows:

	Quarter Ended				
	January 31	April 30	July 31	October 31	Total
1998.....	24%	23%	26%	27%	100%
1997.....	16%	19%	25%	40%	100%
1996.....	14%	18%	25%	43%	100%

Total Revenues

Compared to the same prior period, revenues increased (decreased) as follows:

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
	(Dollars in Thousands)		
Homebuilding:			
Sale of homes.....	\$163,837	\$(32,875)	\$ 24,201
Land sales and other revenues.....	(11,572)	8,371	3,214
Financial services.....	8,363	(481)	868
Investment properties.....	(2,646)	2,838	1,388
Collateralized mortgage financing....	(171)	(1,181)	48
Total change.....	\$157,811	\$(23,328)	\$ 29,719
Percent change.....	20.1%	(2.9%)	3.8%

Homebuilding

Compared to the same prior period, housing revenues increased \$163.8 million or 22.4% for the year ended October 31, 1998, after decreasing \$32.9 million or 4.3% for the year ended October 31, 1997, and increasing \$24.2 million or 3.3% for the year ended October 31, 1996. Housing revenues are recorded at the time each home is delivered and title and possession have been transferred to the buyer.

Information on homes delivered by market area is set forth below:

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
	(Dollars in Thousands)		
Northeast Region:			
Housing Revenues.....	\$595,873	\$445,817	\$460,931
Homes Delivered.....	2,530	2,128	2,364
North Carolina:			
Housing Revenues.....	\$127,592	\$125,242	\$123,347
Homes Delivered.....	687	695	738
Florida:			
Housing Revenues.....	\$ 44,168	\$ 74,146	\$ 99,085
Homes Delivered.....	241	418	632
Virginia:			
Housing Revenues.....	\$ 38,904	\$ 14,398	\$ 16,749
Homes Delivered.....	152	70	75
California:			
Housing Revenues.....	\$ 82,546	\$ 69,252	\$ 64,570

Homes Delivered.....	457	365	325
Poland:			
Housing Revenues.....\$	6,561	\$ 2,952	--
Homes Delivered.....	71	41	--
Totals:			
Housing Revenues.....\$	895,644	\$731,807	\$764,682
Homes Delivered.....	4,138	3,717	4,134

The overall increase in housing revenues is a combination of higher deliveries and increases in average sales prices. The increase in the number of homes delivered during the year ended October 31, 1998 is primarily due to the increased deliveries in the Northeast Region, California and Virginia which was partially offset by decreased sales in Florida. The increase in the Northeast was due to the timing of deliveries in fiscal 1997 and the Company's desire to even out deliveries over the four quarters of fiscal 1998. In California, deliveries increased due to the opening of additional communities. In Virginia, deliveries increased due to the acquisition of a small home developer on May 1, 1998. In Florida, deliveries declined since the Company cut back its operations due to a highly competitive market. The increased average sales prices are primarily the result of diversifying the Company's product mix in the Northeast Region to include more detached single family homes and larger townhouses with garages designed for the move-up buyer and the sale of more decorator and structural options. In Florida, average sales prices increased as a result of fewer communities, all of which are higher priced single family developments. In Virginia, average sales prices increased because there was a higher percentage of single family detached homes delivered. In North Carolina, average sales prices did not show a significant change. In California, sales prices decreased due to a change in product mix to smaller, less expensive homes.

Unaudited quarterly housing revenues and sales contracts using base sales prices by market area for the years ending October 31, 1998, 1997, and 1996 are set forth below:

	Quarter Ended			
	October 31, 1998	July 31, 1998	April 30, 1998	January 31, 1998

	(In Thousands)			
Housing Revenues:				
Northeast Region.....	\$157,882	\$162,847	\$136,133	\$139,011
North Carolina.....	38,997	34,655	28,264	25,676
Florida.....	11,291	8,111	15,254	9,512
Virginia.....	16,687	11,256	4,843	6,118
California.....	22,980	18,832	17,613	23,121
Poland.....	2,283	2,199	1,460	619

Total.....	\$250,120	\$237,900	\$203,567	\$204,057
	=====			

Sales Contracts (Net of Cancellations):				
Northeast Region.....	\$114,144	\$124,144	\$188,082	\$ 98,814
North Carolina.....	37,085	33,302	35,990	23,903
Florida.....	5,385	9,503	8,631	7,802
Virginia.....	11,834	15,265	9,583	3,866
California.....	21,325	25,402	9,535	18,769
Poland.....	1,758	516	332	1,277

Total.....	\$191,531	\$208,132	\$252,153	\$154,431
	=====			

	Quarter Ended			
	October 31, 1997	July 31, 1997	April 30, 1997	January 31, 1997

	(In Thousands)			
Housing Revenues:				
Northeast Region.....	\$193,513	\$118,186	\$ 70,678	\$ 63,440
North Carolina.....	41,566	35,293	26,341	22,042
Florida.....	28,951	14,325	17,042	13,828
Virginia.....	5,214	2,759	3,018	3,407
California.....	23,317	15,113	18,489	12,333
Poland.....	1,212	1,008	667	65

Total.....	\$293,773	\$186,684	\$136,235	\$115,115
	=====			

Sales Contracts (Net of Cancellations):				
Northeast Region.....	\$134,280	\$124,860	\$118,840	\$ 92,544

North Carolina.....	29,409	30,339	35,988	31,506
Florida.....	11,134	15,296	21,399	9,708
Virginia.....	5,618	3,761	5,279	2,478
California.....	24,255	22,785	22,383	16,268
Poland.....	2,109	436	468	1,607
Total.....	<u>\$206,805</u>	<u>\$197,477</u>	<u>\$204,357</u>	<u>\$154,111</u>

Quarter Ended

October 31, 1996	July 31, 1996	April 30, 1996	January 31, 1996
---------------------	------------------	-------------------	---------------------

(In Thousands)

Housing Revenues:

Northeast Region.....	\$210,951	\$112,665	\$ 81,950	\$ 55,365
North Carolina.....	44,334	33,506	24,445	21,062
Florida.....	38,910	21,407	20,890	17,878
Virginia.....	5,538	3,614	3,200	4,397
California.....	25,747	15,936	13,019	9,868
Total.....	<u>\$325,480</u>	<u>\$187,128</u>	<u>\$143,504</u>	<u>\$108,570</u>

Sales Contracts (Net of
Cancellations):

Northeast Region.....	\$149,930	\$ 94,933	\$147,576	\$ 55,785
North Carolina.....	28,973	31,485	43,136	19,594
Florida.....	13,485	19,668	41,003	19,315
Virginia.....	1,638	2,249	5,821	3,463
California.....	16,419	14,847	19,496	8,209
Poland.....	1,306	--	--	--
Total.....	<u>\$211,751</u>	<u>\$163,182</u>	<u>\$257,032</u>	<u>\$106,366</u>

The Company's contract backlog using base sales prices by market area is set forth below:

October 31, 1998	October 31, 1997	October 31, 1996
---------------------	---------------------	---------------------

(Dollars in Thousands)

Northeast Region:

Total Contract Backlog.....	\$270,753	\$266,889	\$198,248
Number of Homes.....	1,132	1,287	977

North Carolina:

Total Contract Backlog.....	\$ 48,713	\$ 45,879	\$ 43,587
Number of Homes.....	235	232	233

Florida:

Total Contract Backlog.....	\$ 14,800	\$ 25,315	\$ 36,910
Number of Homes.....	73	150	217

Virginia:

Total Contract Backlog.....	\$ 26,083	\$ 7,621	\$ 4,252
Number of Homes.....	115	27	24

California:

Total Contract Backlog.....	\$ 20,721	\$ 25,636	\$ 8,073
Number of Homes.....	119	137	46

Poland:

Total Contract Backlog.....	\$ 746	\$ 2,974	\$ 1,306
Number of Homes.....	7	39	19

Totals:

Total Contract Backlog.....	\$381,816	\$374,314	\$292,376
Number of Homes.....	1,681	1,872	1,516

The Company has written down or written off certain residential inventories \$4.0 million, \$14.0 million and \$1.6 million during the years ended October 31, 1998, 1997, and 1996, respectively, to their estimated fair value. See "Notes to Consolidated Financial Statements - Note 10" for additional explanation. These writedowns and writeoffs were incurred primarily because of lower property values due to economic downturns, a change in the marketing strategy to liquidate a particular property, or the decision not to exercise an option.

During the year ended October 31, 1998, the Company has written down one Florida residential community and one New Jersey parcel of land for sale. In the Florida residential community, higher discounts are being offered to speed up

sales. At the New Jersey land site, lots are being contracted at prices lower than anticipated. The result of the above decisions was a reduction in inventory carrying amounts to fair value, resulting in a \$1.9 million impairment loss in accordance with FAS 121. The Company has also written off three New Jersey residential land options including approval, engineering and capitalized interest costs amounting to \$2.1 million. The Company did not exercise these options because of changes in local market conditions and difficulties in obtaining government approvals.

During the year ended October 31, 1997, the Company had written down certain residential communities, and written off certain residential land options including approval, engineering and capitalized interest costs. In Florida, the Company's return on investment was unsatisfactory. As a result, the Company established a goal to reduce its investment in Florida by \$25.0 million. To do so on an accelerated basis, it reduced prices and offered pricing concessions in all Florida residential communities. The Company also decided to sell all inactive properties in Florida. In the Northeast Region, the Company changed the product type to be constructed on a parcel of land it owns. In an active community in the Northeast Region, the Company incurred unforeseen development costs. Also in the Northeast, the Company decided to sell an optioned property instead of developing it. The result of the above decisions was a reduction in fair values below carrying amounts and, in accordance with FAS 121, the Company recorded an impairment loss on the related inventories. At October 31, 1997, residential inventories were reduced \$9.3 million to reduce such inventories to estimated fair value. The Northeast Region also wrote off costs associated with three optioned properties and related approval, engineering and capitalized interest costs amounting to \$4.7 million. In two cases, the Company decided not to exercise the option due to environmental problems. The third option was not exercised because the community's proforma profitability did not produce an adequate return on investment commensurate with the risk.

The writedowns of residential inventories during the year ended October 31, 1996 were primarily attributable to one community in New Jersey, a parcel of land in Florida and one community and a parcel of land in Virginia. In New Jersey, the writedown was due to the change in use of a parcel of land from residential to commercial. In Florida, a parcel of idle land was written down due to a decline in land values. In Virginia, the writedown was primarily due to reduced sales prices in one community. Also in Virginia, a reserve was recorded against a parcel of land which the Company was attempting to liquidate through lot sales.

Cost of sales includes expenses for housing and land and lot sales. A breakout of such expenses for housing sales and housing gross margin is set forth below:

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
	(Dollars In Thousands)		
Sale of homes.....	\$895,644	\$731,807	\$764,682
Cost of sales.....	740,871	617,312	638,944
Housing gross margin.....	\$154,773	\$114,495	\$125,738
Gross margin percentage....	17.3%	15.6%	16.4%

Cost of sales expenses as a percentage of home sales revenues are presented below:

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
	(Dollars In Thousands)		
Sale of homes.....	100.0%	100.0%	100.0%
Cost of sales:			
Housing, land and development costs.....	74.8	76.0	75.5
Commissions.....	1.9	2.0	1.7
Financing concessions....	0.7	0.9	1.0
Overheads.....	5.3	5.5	5.4
Total cost of sales.....	82.7	84.4	83.6
Gross margin.....	17.3%	15.6%	16.4%

The Company sells a variety of home types in various local communities, each yielding a different gross margin. As a result, depending on the mix of both the communities and of home types delivered, consolidated gross margin will fluctuate up or down. During the year ended October 31, 1998, the Company's gross margin increased 1.7% from the previous year. This can be attributed to higher gross margins being achieved in each of the Company's markets except Florida. Higher gross margins are primarily attributed to positive effects from process redesign and quality programs that reduced the housing and land development costs, selective price increases or reduced selling incentives in the Company's stronger markets, and an increased percentage of deliveries from the better performing communities. In addition, gross margin percentages are higher in the Northeast Region compared to the Company's other markets. In 1998, the gross margin benefited from a higher percentage of housing revenues from the Northeast Region amounting to 66.5% in fiscal 1998 compared to 60.9% in fiscal 1997.

During the year ended October 31, 1997, gross margins decreased in all the Company's markets compared to the prior year. This decline was primarily caused by higher housing, land and development costs and commission expenses. 0.3% of the increase was the result of unforeseen development costs in one community in the Northeast Region. The balance of the increase in housing, land and development costs was due to a higher number of communities not obtaining acceptable housing, land and development cost performance. The increase in commissions was the result of more co-broker sales and sales associate incentives to increase sales.

Selling and general administrative expenses as a percentage of homebuilding revenues decreased to 7.5% for the year ended October 31, 1998 from 8.2% for the year ended October 31, 1997 which had increased from 7.7% for the year ended October 31, 1996. The percentage decrease during the year ended October 31, 1998 is due to increased deliveries. The percentage increase during the year ended October 31, 1997 was due to increased costs while home deliveries declined. Such expenses increased \$5.7 million and \$1.8 million for the years ended October 31, 1998 and 1997, respectively, from the previous year. The dollar increase is due primarily to increased salary and bonus administration costs in 1998 and increased advertising and sales center operations in 1997.

Land Sales and Other Revenues

Land sales and other revenues consist primarily of land and lot sales, interest income, contract deposit forfeitures, cash discounts, national contract rebates, and corporate owned life insurance benefits.

A breakout of land and lot sales is set forth below:

	Year Ended		
	October	October	October
	31, 1998	31, 1997	31, 1996
	-----	-----	-----
	(In Thousands)		
Land and lot sales.....	\$ 8,636	\$22,855	\$13,998
Cost of sales.....	8,070	17,005	12,548
	-----	-----	-----
Land and lot sales gross margin.....	\$ 566	\$ 5,850	\$ 1,450
	=====	=====	=====

Land and lot sales are incidental to the Company's residential housing operations and are expected to continue in the future but may significantly fluctuate up or down.

Financial Services

Financial services consists primarily of originating mortgages from the Company's homebuyers, as well as from third parties, selling such mortgages in the secondary market, and title insurance activities. During the year ended October 31, 1998 financial services provided a \$2.1 million pretax profit, up from break even the prior year and up from a pretax profit of \$.5 million in 1996. In the market areas served by the Company's wholly-owned mortgage banking subsidiaries, approximately 58%, 51%, and 51% of the Company's non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 1998, 1997, 1996, respectively. The Company's mortgage banking goals are to improve profitability by increasing the capture rate of its homebuyers and expanding its business to include originations from unrelated mortgages. The Company has initiated efforts to originate mortgages from unrelated third parties and expects these third party loans to increase as a percentage of the Company's total loan volume over the next few years. During the year ended October 31, 1998, third party loans amounted to 40% of total

mortgage closings. Most servicing rights on new mortgages originated by the Company will be sold as the loans are closed.

Investment Properties

Investment Properties consist of rental properties, property management, and gains or losses from sale of such property. See "Capital Resources and Liquidity" for information on the Company's decision to sell its investment properties. The Company plans to liquidate all properties except for its senior rentals. At October 31, 1998, all properties had been liquidated except various parcels of land. These parcels are under contract and are expected to close during 1999. During the year ended October 31, 1998 one of these contracted parcels was written down \$1.0 million due to increased land development costs. During the years ended October 31, 1998 and 1997, investment property revenues included a \$6.5 million pretax gain and a \$4.9 million pretax gain, respectively, from the sale of its commercial facilities and land. Investment properties' expenses do not include interest expense (see "Interest" below).

Collateralized Mortgage Financing

In the years prior to February 29, 1988 the Company pledged mortgage loans originated by its mortgage banking subsidiaries against collateralized mortgage obligations ("CMOs"). Subsequently, the Company discontinued its CMO program. As a result, CMO operations are diminishing as pledged loans are decreasing through principal amortization and loan payoffs, and related bonds are reduced. In recent years, as a result of bonds becoming callable, the Company has also sold a portion of its CMO pledged mortgages.

Corporate General and Administrative

Corporate general and administrative expenses includes the operations at the Company's headquarters in Red Bank, New Jersey. As a percentage of total revenues, such expenses were 2.2%, 1.9%, and 1.7% for the years ended October 31, 1998, 1997, and 1996, respectively. In 1998, the increase was primarily attributed to increased bonus accruals (there were no bonus accruals based on the Return on Equity incentive program in 1997), increased depreciation from the amortization of capitalized process redesign costs in prior years and increased expenditures for long term improvement initiatives. The Company's long term improvement initiatives include total quality, process redesign (net of capitalized expenses), and training. Such initiatives resulted in additional expenses for the years ended October 31, 1998, 1997, and 1996 amounting to \$3.8 million, \$2.2 million, and \$1.6 million, respectively.

Interest

Interest expense includes housing, land and lot, and rental properties interest. Interest expense is broken down as follows:

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
	(In Thousands)		
Sale of homes.....	\$ 31,499	\$ 29,505	\$ 25,992
Land and lot sales.....	652	962	657
Rental properties.....	2,272	5,308	5,508
Total.....	\$ 34,423	\$ 35,775	\$ 32,157

Housing interest as a percentage of sale of home revenues amounted to 3.5%, 4.0%, and 3.4% for the years ended October 31, 1998, 1997, and 1996, respectively. The decrease in the percentage for the year ended October 31, 1998 was primarily due to decreased levels of debt during the year compared to 1997. This decrease was the result of the Company delivering a more even flow of homes during 1998. The increase in the percentage for the year ended October 31, 1997 was primarily the result of the Company discontinuing the capitalization of interest on communities in planning which were not under active development. As a result, interest expense increased approximately \$2.8 million for the year ended October 31, 1997.

Other Operations

Other operations consist primarily of miscellaneous residential housing operations, amortization of subordinated note issuance expenses, and corporate

owned life insurance loan interest.

Total Taxes

Total taxes as a percentage of income before income taxes amounted to 36.7% and 30.9% for the years ended October 31, 1998 and 1996, respectively. Net tax benefits as a percentage of the loss before income taxes amounted to 42.5% for the year ended October 31, 1997. Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years. (See "Notes to Consolidated Financial Statements - Note 9" for an additional explanation of taxes.)

Extraordinary Loss

In October 1998, the Company redeemed \$44,551,000 of its outstanding 11 1/4% Subordinated Notes due 2002 at an average price of 101.6% of par which resulted in an extraordinary loss of \$748,000 net of income taxes of \$403,000.

Year 2000 Issues

The Company has assessed and formulated a plan to resolve its information technology ("IT") and non-IT system year 2000 issues. The Company has designated a full-time year 2000 project leader, engaged consultants to review and evaluate its plan, completed the identification of Company IT and non-IT noncompliant systems and is in the process of evaluating subcontractors' and suppliers' state of readiness. The Company's plan has prioritized its efforts on its software systems and computer hardware equipment. The Company has upgraded, fixed or retired 80% of its noncompliant systems. The Company expects to have substantially all critical IT software year 2000 capable and tested by June 30, 1999. All other Company IT and non-IT systems are not considered critical to Company operations, and if noncapable for year 2000, would only be an inconvenience. The Company does not anticipate the costs of implementation of its plan to have a material impact on future earnings and is expected to be funded through operations.

The Company is concerned about the readiness of its subcontractors and suppliers. The Company is in the process of communicating with these third parties. If the Company finds third parties whose lack of readiness as to year 2000 issues would have a substantial impact on the Company's operations, the Company will look to replace such subcontractors and suppliers. In most cases, the Company uses more than one subcontractor and supplier so it believes finding replacements will not be difficult.

The Company believes it is on track to solve its year 2000 issues. It does not believe it will have material lost revenues due to the year 2000 issues. Based on the above, it sees no need to develop a worst-case year 2000 scenario. However, the Company is in the process of developing year 2000 contingency plans which are approximately 75% complete.

Inflation

Inflation has a long-term effect on the Company because increasing costs of land, materials and labor result in increasing sales prices of its homes. In general, these price increases have been commensurate with the general rate of inflation in the Company's housing markets and have not had a significant adverse effect on the sale of the Company's homes. A significant inflationary risk faced by the housing industry generally is that rising housing costs, including land and interest costs, will substantially outpace increases in the income of potential purchasers. In recent years, in the price ranges in which it sells homes, the Company has not found this risk to be a significant problem.

Inflation has a lesser short-term effect on the Company because the Company generally negotiates fixed price contracts with its subcontractors and material suppliers for the construction of its homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between four to twelve months. Construction costs for residential buildings represent approximately 55% of the Company's homebuilding cost of sales.

Item 7(A) - Quantitative and Qualitative Disclosures About Market Risk.

The primary market risk facing the Company is interest rate risk on its long term debt. In connection with the Company's mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit are subject to interest rate risk; however, such obligations repriced frequently and are short-term in duration and accordingly the risk is not material. The Company does not hedge interest rate risk using financial instruments. The Company is also subject to foreign currency risk but this risk is not material.

The following table sets forth as of October 31, 1998, the Company's long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value ("FMV").

	Year Ended October 31,						Total	FMV @ 10/31/98
	1999	2000	2001	2002	2003	Thereafter		
(Dollars in Thousands)								
Long Term Debt(1):								
Fixed Rate.....	\$ 115	\$ 119	\$ 132	\$50,804	\$2,581	\$100,685	\$154,436	\$145,186
Average interest rate.....	7.59%	7.62%	7.60%	10.70%	7.04%	9.74%	10.01%	-
Variable Rate....	\$1,932	\$ 600	\$ 926	\$ 0	\$ 0	\$ 0	\$ 3,458	\$ 3,458
Average interest rate.....	9.22%	8.00%	8.64%	-	-	-	8.85%	-

(1) Does not include bonds collateralized by mortgages receivable.

Item 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements of Hovnanian Enterprises, Inc. and its consolidated subsidiaries are set forth herein beginning on Page F-1.

Item 9 - CHANGES IN OR DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

During the years ended October 31, 1998, 1997, and 1996, there have not been any changes in or disagreements with accountants on accounting and financial disclosure.

PART III

Item 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10, except as set forth below under the heading "Executive Officers of the Registrant", is incorporated herein by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A, in connection with the Company's annual meeting of shareholders to be held on March 23, 1999, which will involve the election of directors.

Executive Officers of the Registrant

The executive officers of the Company are listed below and brief summaries of their business experience and certain other information with respect to them are set forth following the table. Each executive officer holds such office for a one year term.

Name	Age	Position	Year Started With Company
Kevork S. Hovnanian	75	Chairman of the Board and Director of the Company.	1967
Ara K. Hovnanian	41	Chief Executive Officer, President and Director of the Company.	1979
Paul W. Buchanan	48	Senior Vice President-Corporate Controller and Director of the Company.	1981
William L. Carpitella	44	Senior Vice President, Organizational Development	1997
Peter S. Reinhart	48	Senior Vice President and General Counsel and Director of the Company.	1978
John D. Roberts	36	Vice President Process Redesign	1998
J. Larry Sorsby	43	Senior Vice President, Treasurer and Chief Financial Officer and Director of the Company	1988

Mr. K. Hovnanian founded the predecessor of the Company in 1959 (Hovnanian Brothers, Inc.) and has served as Chairman of the Board of the Company since its incorporation in 1967. Mr. K. Hovnanian was also Chief Executive Officer of the Company from 1967 to July 1997.

Mr. A. Hovnanian was appointed President in April 1988, after serving as Executive Vice President from March 1983. He has also served as Chief Executive Officer since July 1997. Mr. A. Hovnanian was elected a Director of the Company in December 1981. Mr. A. Hovnanian is the son of Mr. K. Hovnanian.

Mr. Buchanan has been Senior Vice President-Corporate Controller since May 1990. Mr. Buchanan was elected a Director of the Company in March 1982.

Mr. Carpitella joined the Company in September 1997 as Senior Vice President, Organizational Development. Prior to joining the Company Mr. Carpitella was Vice President, Human Resources for a division of Pulte Home Corp. from April 1995 to August 1997. From February 1992 Mr. Carpitella was Vice President Human Resources for Geo. J. Ball Co.

Mr. Reinhart has been Senior Vice President and General Counsel since April 1985. Mr. Reinhart was elected a Director of the Company in December 1981.

Mr. Roberts joined the Company in January 1998 as Vice President Process Redesign. Prior to joining the Company Mr. Roberts worked for Deloitte & Touche Consulting Group ("D & T") from August 1993. At D & T Mr. Roberts was Senior Consultant until August 1994, then Manager until August 1995 and then Senior Manager until he joined the Company.

Mr. Sorsby was appointed Senior Vice President, Treasurer and Chief Financial Officer of the Company in February, 1996 after serving as Senior Vice President-Finance/Treasurer of the Company since March 1991.

Item 11 - EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A, in connection with the Company's annual meeting of shareholders to be held on March 5, 1999, which will involve the election of directors.

Item 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 12 is incorporated herein by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A, in connection with the Company's annual meeting of shareholders to be held on March 5, 1999, which will involve the election of directors.

Item 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 13 is incorporated herein by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A, in connection with the Company's annual meeting of shareholders to be held on March 5, 1999, which will involve the election of directors.

PART IV

Item 14 - EXHIBITS, FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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All other schedules are either not applicable to the Company or have been omitted because the required information is included in the financial statements or notes thereto.

Exhibits:

- 3(a) Certificate of Incorporation of the Registrant.(1)
- 3(b) Certificate of Amendment of Certificate of Incorporation of the Registrant.(6)
- 3(c) Bylaws of the Registrant.(6)

- 4(a) Specimen Class A Common Stock Certificate.(6)
- 4(b) Specimen Class B Common Stock Certificate.(6)
- 4(c) Indenture dated as of April 29, 1992, relating to 11 1/4% Subordinated Notes between the Registrant and First Fidelity Bank, including form of 11 1/4% Subordinated Notes due April 15, 2002.(2)
- 4(d) Indenture dated as of May 28, 1993, relating to 9 3/4% Subordinated Notes between Registrant and First Fidelity Bank, National Association, New Jersey, as Trustee, including form of 9 3/4% Subordinated Note due 2005.(4)
- 10(a) Amended and Restated Credit Agreement dated July 29, 1998 among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., certain Subsidiaries Thereof, PNC Bank, National Association, First Union National Bank, NationsBank, National Association, First National Bank of Boston, Bank of America National Trust and Savings Association, The First National Bank of Chicago, Comerica Bank, Credit Lyonnais New York Branch and Guaranty Federal F.S.B.
- 10(b) Description of Management Bonus Arrangements.(6)
- 10(c) Description of Savings and Investment Retirement Plan.(1)
- 10(d) Stock Option Plan.
- 10(e) Management Agreement dated August 12, 1983 for the management of properties by K. Hovnanian Investment Properties, Inc.(1)
- 10(f) Agreement dated July 8, 1981 between Hovnanian Properties of Atlantic County, Inc. and Kevork S. Hovnanian.(2)
- 10(g) Management Agreement dated December 15, 1985, for the management of properties by K. Hovnanian Investment Properties, Inc.(3)
- 10(h) Description of Deferred Compensation Plan.(5)
- 22 Subsidiaries of the Registrant.
- 23 Consent of Independent Auditors
- 27 Financial Data Schedules
- (1) Incorporated by reference to Exhibits to Registration Statement (No. 2-85198) on Form S-1 of the Registrant.
- (2) Incorporated by reference to Exhibits to Registration Statement (No. 33-46064) on Form S-3 of the Registrant.
- (3) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended February 28, 1986 of the Registrant.
- (4) Incorporated by reference to Exhibits to Registration Statement (No. 33-61778) on Form S-3 of the Registrant.
- (5) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended February 28, 1990 of the Registrant.
- (6) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended February 28, 1994 of the Registrant.

Reports on Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended October 31, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Hovnanian Enterprises, Inc.
By:

/S/KEVORK S. HOVNIANIAN
Kevork S. Hovnanian
Chairman of the Board

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

/S/KEVORK S. HOVNIANIAN Kevork S. Hovnanian	Chairman of The Board and Director	1/15/99
--	---------------------------------------	---------

/S/ARA K. HOVNIANIAN Ara K. Hovnanian	Chief Executive Officer, President and Director	1/15/99
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/S/PAUL W. BUCHANAN Paul W. Buchanan	Senior Vice President Corporate Controller and Director	1/15/99
---	---	---------

/S/PETER S. REINHART Peter S. Reinhart	Senior Vice President and General Counsel and Director	1/15/99
/S/J. LARRY SORSBY J. Larry Sorsby	Senior Vice President, Treasurer, Chief Financial Officer and Director	1/15/99
/S/WILLIAM L. CARPITELLA William L. Carpitella	Senior Vice President, Organizational Development	1/15/99

HOVNANIAN ENTERPRISES, INC.

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All other schedules have been omitted because the required information of such other schedules is not present, is not present in amounts sufficient to require submission of the schedule or because the required information is included in the financial statements and notes thereto.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and
Board of Directors of
Hovnanian Enterprises, Inc.

We have audited the accompanying consolidated balance sheets of Hovnanian Enterprises, Inc. and subsidiaries as of October 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1998. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hovnanian Enterprises, Inc. and subsidiaries at October 31, 1998 and 1997 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

New York, New York
December 15, 1998

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

ASSETS	October 31, 1998	October 31, 1997
	-----	-----
Homebuilding:		
Cash and cash equivalents(Note 4).....	\$ 13,306	\$ 7,952
	-----	-----
Inventories - At cost, not in excess of fair value (Notes 6 and 10):		
Sold and unsold homes and lots under development.....	332,225	363,592
Land and land options held for future development or sale.....	43,508	46,801
	-----	-----
Total Inventories.....	375,733	410,393
	-----	-----
Receivables, deposits, and notes (Notes 5 and 11).	29,490	35,723
	-----	-----
Property, plant, and equipment - net (Note 3).....	16,831	18,027
	-----	-----
Prepaid expenses and other assets.....	32,650	36,708
	-----	-----
Total Homebuilding.....	468,010	508,803
	-----	-----
Financial Services:		
Cash.....	1,486	2,598
Mortgage loans held for sale (Note 5).....	71,611	48,382
Other assets.....	3,717	2,518
	-----	-----
Total Financial Services.....	76,814	53,498
	-----	-----
Investment Properties:		
Held for sale:		
Rental property - net (Notes 3 and 10).....		23,920
Land and improvements (Notes 3 and 10).....	17,832	15,026
Other assets.....	295	1,397
Held for investment:		
Cash.....	762	763
Rental property - net (Note 3).....	10,794	11,412
Other assets.....	868	1,072
	-----	-----
Total Investment Properties.....	30,551	53,590
	-----	-----
Collateralized Mortgage Financing:		
Collateral for bonds payable (Note 5).....	5,970	7,999
Other assets.....	426	627
	-----	-----
Total Collateralized Mortgage Financing.....	6,396	8,626
	-----	-----
Income Taxes Receivable - Including deferred tax benefits (Note 9).....	7,331	12,565
	-----	-----
Total Assets.....	\$589,102	\$637,082
	=====	=====

See notes to consolidated financial statements.

(In Thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	October 31, 1998	October 31, 1997
Homebuilding:		
Nonrecourse land mortgages (Note 6).....	\$ 11,846	\$20,625
Accounts payable and other liabilities.....	53,765	45,521
Customers' deposits (Note 4).....	23,857	22,422
Nonrecourse mortgages secured by operating properties (Note 6).....	3,770	3,830
Total Homebuilding.....	93,238	92,398
Financial Services:		
Accounts payable and other liabilities.....	2,422	1,522
Mortgage warehouse line of credit (Note 5).....	66,666	45,823
Total Financial Services.....	69,088	47,345
Investment Properties:		
Accounts payable and other liabilities.....	1,373	502
Nonrecourse mortgages secured by rental property....		19,241
Total Investment Properties.....	1,373	19,743
Collateralized Mortgage Financing:		
Accounts payable and other liabilities.....	6	10
Bonds collateralized by mortgages receivable(Note 5)	5,652	7,855
Total Collateralized Mortgage Financing.....	5,658	7,865
Notes Payable:		
Revolving credit agreement (Note 6).....	68,000	95,000
Subordinated notes (Note 7).....	145,449	190,000
Accrued interest.....	4,904	5,969
Total Notes Payable.....	218,353	290,969
Total Liabilities.....	387,710	458,320
Commitments and Contingent Liabilities (Notes 4 and 13)		
Stockholders' Equity (Notes 11 and 12):		
Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued		
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares; issued 15,803,297 shares (including 1,937,374 shares in 1998 and 1,530,274 shares in 1997 held in Treasury).....	157	156
Common Stock, Class B, \$.01 par value (convertible to Class A at time of sale) -authorized 13,000,000 shares; issued 8,040,171 shares (including 345,874 shares held in Treasury).....	80	81
Paid in Capital.....	34,561	33,935
Retained Earnings (Note 7).....	183,182	157,779
Treasury Stock - at cost.....	(16,588)	(13,189)
Total Stockholders' Equity.....	201,392	178,762
Total Liabilities and Stockholders' Equity.....	\$589,102	\$637,082

See notes to consolidated financial statements.

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

Year Ended		
October 31, 1998	October 31, 1997	October 31, 1996

Revenues:
Homebuilding:

Sale of homes.....	\$895,644	\$731,807	\$764,682
Land sales and other revenues.....	15,411	26,983	18,612
	-----	-----	-----
Total Homebuilding.....	911,055	758,790	783,294
Financial Services.....	19,098	10,735	11,216
Investment Properties.....	11,111	13,757	10,919
Collateralized Mortgage Financing.....	683	854	2,035
	-----	-----	-----
Total Revenues.....	941,947	784,136	807,464
	-----	-----	-----
Expenses:			
Homebuilding:			
Cost of sales.....	748,941	634,317	651,492
Selling, general and administrative.....	68,170	62,475	60,704
Inventory impairment loss (Note 10).....	3,994	14,019	1,608
	-----	-----	-----
Total Homebuilding.....	821,105	710,811	713,804
	-----	-----	-----
Financial Services.....	17,010	10,780	10,669
	-----	-----	-----
Investment Properties:			
Operations.....	3,395	5,909	6,388
Provision for impairment loss (Note 10)...	1,038	14,446	
	-----	-----	-----
Total Investment Properties.....	4,433	20,355	6,388
	-----	-----	-----
Collateralized Mortgage Financing.....	672	878	2,076
	-----	-----	-----
Corporate General and Administration(Note 2)	21,048	15,088	14,002
	-----	-----	-----
Interest.....	34,423	35,775	32,157
	-----	-----	-----
Other operations.....	1,964	2,573	3,362
	-----	-----	-----
Total Expenses.....	900,655	796,260	782,458
	-----	-----	-----
Income(Loss) Before Income Taxes and Extraordinary Loss.....	41,292	(12,124)	25,006
	-----	-----	-----
State and Federal Income Taxes:			
State (Note 9).....	3,572	1,796	1,336
Federal (Note 9).....	11,569	(6,950)	6,383
	-----	-----	-----
Total Taxes.....	15,141	(5,154)	7,719
	-----	-----	-----
Extraordinary Loss From Extinguishment of Debt, Net of Income Taxes.....	(748)		
	-----	-----	-----
Net Income (Loss).....	\$ 25,403	\$ (6,970)	\$ 17,287
	=====	=====	=====
Per Share Data:			
Basic:			
Income (Loss) Per Common Share Before Extraordinary Loss.....	\$ 1.20	\$ (0.31)	\$ 0.75
Extraordinary Loss.....	(.03)		
	-----	-----	-----
Income (Loss).....	\$ 1.17	\$ (0.31)	\$ 0.75
	=====	=====	=====
Assuming Dilution:			
Income (Loss)Per Common Share Before Extraordinary Loss.....	\$ 1.19	\$ (0.31)	\$ 0.75
Extraordinary Loss.....	(.03)		
	-----	-----	-----
Income (Loss).....	\$ 1.16	\$ (0.31)	\$ 0.75
	=====	=====	=====

See notes to consolidated financial statements.

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

	A Common Stock		B Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount				
Balance, October 31, 1995...	15,038,483	\$154	7,998,570	\$83	\$33,935	\$147,462	(\$5,299)	\$176,335

Conversion of Class B to Class A common stock....	96,865	1	(96,865)	(1)				
Net Income.....						17,287		17,287
Balance, October 31, 1996...	15,135,348	155	7,901,705	82	33,935	164,749	(5,299)	193,622
Conversion of Class B to Class A common stock.....	146,893	1	(146,893)	(1)				
Treasury stock purchases....	(1,184,400)						(7,890)	(7,890)
Net Loss.....						(6,970)		(6,970)
Balance, October 31, 1997...	14,097,841	156	7,754,812	81	33,935	157,779	(13,189)	178,762
Sale of Common Stock Under Employee Stock Option Plan.....	114,667					626		626
Conversion of Class B to Class A common stock.....	60,515	1	(60,515)	(1)				
Treasury stock purchases....	(407,100)						(3,399)	(3,399)
Net Income.....						25,403		25,403
Balance, October 31, 1998...	13,865,923	\$157	7,694,297	\$80	\$34,561	\$183,182	(\$16,588)	\$ 201,392

See notes to consolidated financial statements.

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

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
Cash Flows From Operating Activities:			
Net Income (Loss).....	\$ 25,403	\$ (6,970)	\$ 17,287
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation.....	4,293	5,032	5,246
Loss (gain) on sale and retirement of property and assets.....	(6,189)	(4,760)	(1,998)
Deferred income taxes.....	1,987	(4,568)	(820)
Impairment losses.....	5,032	28,465	1,608
Decrease (increase) in assets:			
Receivables, prepaids and other assets....	6,828	(6,830)	(4,297)
Mortgage notes receivable.....	(19,485)	2,858	(10,966)
Inventories.....	30,666	(48,105)	26,498
Increase (decrease) in liabilities:			
State and Federal income taxes.....	3,248	(7,325)	6,509
Customers' deposits.....	1,490	10,007	774
Interest and other accrued liabilities....	2,235	3,726	(3,366)
Post development completion costs.....	4,438	(8,746)	4,062
Accounts payable.....	2,233	5,034	(3,681)
Net cash provided by (used in) operating activities.....	62,179	(32,182)	36,856
Cash Flows From Investing Activities:			
Net proceeds from sale of property and assets...	30,436	14,997	10,308
Purchase of property.....	(3,135)	(3,156)	(5,882)
Investment in and advances to unconsolidated affiliates.....	243	195	3,792
Investment in income producing properties.....	(3,844)	(11,099)	(2,134)
Net cash provided by (used in) investing activities.....	23,700	937	6,084
Cash Flows From Financing Activities:			
Proceeds from mortgages and notes.....	632,531	1,139,780	1,142,106
Principal payments on mortgages and notes....	(668,987)	(1,101,969)	(1,188,449)
Principal payments on subordinated debt.....	(44,551)	(10,000)	
Investment in mortgage notes receivable.....	2,142	1,474	8,941
Purchase of treasury stock.....	(3,399)	(7,890)	
Proceeds from sale of stock.....	626		
Net cash provided by (used in) financing activities.....	(81,638)	21,395	(37,402)
Net Increase (Decrease) In Cash.....	4,241	(9,850)	5,538

Cash and Cash Equivalent Balance, Beginning Of Period.....	11,313	21,163	15,625
	-----	-----	-----
Cash and Cash Equivalent Balance, End Of Period.....	\$ 15,554	\$ 11,313	\$ 21,163
	=====	=====	=====
Supplemental Disclosures Of Cash Flow:			
Cash paid during the year for:			
Interest (net of amount capitalized).....	\$ 35,315	\$ 35,869	\$ 32,194
	=====	=====	=====
Income Taxes.....	\$ 12,303	\$ 6,809	\$ 6,875
	=====	=====	=====
Non-cash Investing and Finance Activities:			
Debt assumed on sale of property and assets....	\$ 13,530		
	=====		

See notes to consolidated financial statements

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED OCTOBER 31, 1998, 1997, AND 1996.

1. SUMMARY OF ACCOUNTING POLICIES

Operations - The Company, a Delaware Corporation, principally develops housing communities in New Jersey, Pennsylvania, New York, Florida, North Carolina, Virginia, California and Poland. In addition, the Company provides financial services to its homebuilding customers and third parties. The Company also developed and held for investment income producing properties but has exited from this business.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company and all wholly-owned or majority-owned subsidiaries after elimination of all significant intercompany balances and transactions. The Company's investments in joint ventures in which the Company's interest is 50% or less are accounted for by the equity method of accounting.

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

Income Recognition - Income from sales is recorded when title is conveyed to the buyer, subject to the buyer's financial commitment being sufficient to provide economic substance to the transaction.

Cash - Cash includes cash deposited in checking accounts, overnight repurchase agreements, certificates of deposit, Treasury bills and government money market funds with original maturities of less than 90 days at date of issuance.

Fair Value of Financial Instruments - The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Company's financial instruments consist of cash equivalents, mortgages and notes receivable, mortgages and notes payable, and the subordinated notes payable. Unless otherwise disclosed, the fair value of financial instruments approximates their recorded values.

Inventories - For inventories of communities under development, a loss is recorded when events and circumstances indicate impairment and the undiscounted future cash flows generated are less than the related carrying amounts. The impairment loss is based on expected revenue, cost to complete including interest, and selling costs. Inventories and long-lived assets held for sale are recorded at the lower of cost or fair value less selling costs. Fair value is defined in Statement of Financial Accounting Standard No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("FAS 121") as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Construction costs are accumulated during the period of construction and charged to cost of sales under specific identification methods. Land, land development, and common facility costs in a community are amortized equally based upon the number of homes to be constructed in each housing community.

Interest costs related to properties in progress are capitalized during the construction period and expensed along with the associated cost of sales as the related inventories are sold (see Note 6).

The cost of land options is capitalized when incurred and either included as part of the purchase price when the land is acquired or charged to operations when the Company determines it will not exercise the option.

Property - Rental operations of the Company arise primarily from rental of commercial properties. In addition, the Company has, from time to time, rented under short-term leases condominium homes not yet under contract of sale. Such homes are reclassified from inventory and depreciated after a reasonable selling period not to exceed one year.

Post Development Completion Costs - In those instances where a development is substantially completed and sold and the Company has additional construction work to be incurred, an estimated liability is provided to cover the cost of such work.

Deferred Income Tax - Deferred income taxes or income tax benefits are provided for temporary differences between amounts recorded for financial reporting and for income tax purposes.

Common Stock - Each share of Class A Common Stock entitles its holder to one vote per share and each share of Class B Common Stock entitles its holder to ten votes per share. The amount of any regular cash dividend payable on a share of Class A Common Stock will be an amount equal to 110% of the corresponding regular cash dividend payable on a share of Class B Common Stock. If a shareholder desires to sell shares of Class B Common Stock, such stock must be converted into shares of Class A Common Stock.

On December 10, 1998, the Company's Board of Directors approved an increase in the stock repurchase plan to purchase up to 3 million shares. The 3 million shares equals 13.0% of the Company's total and outstanding shares as of December 16, 1996 when the initial repurchase plan was approved by the Board. As of October 31, 1998, 1,591,500 shares have been repurchased under this program.

Depreciation - The straight-line method is used for both financial and tax reporting purposes for all assets except office furniture and equipment which are depreciated using the declining balance method over their estimated useful lives.

Prepaid Expense - Prepaid expenses which relate to specific housing communities (marketing materials, model setup, architectural fees, homeowner warranty, etc.) are amortized to costs of sales as the applicable inventories are sold. All other prepaid expenses are amortized over a specific time period or as used and charged to overhead expense.

Stock Options - Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" establishes a fair value-based method of accounting for stock-based compensation plans, including stock options. Registrants may elect to continue accounting for stock option plans under Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," but are required to provide proforma net income and earnings per share information "as if" the new fair value approach had been adopted. The Company intends to continue accounting for its stock option plan under APB 25. Under APB 25, no compensation expense was recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant (see Note 12).

Per Share Calculations - New Accounting Pronouncement - Statement of Financial Accounting Standards No. 128 ("FAS 128") "Earnings Per Share" requires the presentation of basic earnings per share and diluted earnings per share, and is effective for annual periods ending after December 15, 1997. The Company has adopted FAS 128 for the year ending October 31, 1998. Basic earnings per common share is computed using the weighted average number of shares outstanding and is the same calculation as reported in prior years. Diluted earnings per common share has been presented for prior years and is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock of 235,000, 97,000, and 83,000 for the years ended October 31, 1998, 1997, and 1996, respectively.

New Accounting Pronouncement - Statement of Financial Accounting Standards No. 131 ("FAS 131") "Disclosures About Segments of an Enterprise and Related Information" requires disclosure about operating segments and is effective for fiscal years beginning after December 15, 1997. At October 31, 1998, the Company has not adopted FAS 131. The Company believes the requirements of FAS 131 is not expected to materially impact the Company.

2. CORPORATE INITIATIVES

The Company has embarked on long term improvement initiatives of total quality, process redesign, and training. Included in Corporate General and Administration is \$3,756,000, \$2,216,000, and \$1,601,000 for the years ended October 31, 1998, 1997, and 1996, respectively, related to such initiatives.

3. PROPERTY

Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture and equipment used by the Company and its subsidiaries to conduct day to day business. Homebuilding accumulated depreciation related to these assets at October 31, 1998 and October 31, 1997 amounted to \$15,088,000 and \$15,338,000, respectively. At October 31, 1997, held for sale - rental property consisted of two office buildings, three office warehouse facilities and one retail shopping center. All held for sale - rental property was sold during the year ended October 31, 1998 for \$33,442,000 resulting in a pretax gain of \$6,475,000. In addition at October 31, 1998 and 1997, two senior residential rental properties were classified as held for investment - rental property. Accumulated depreciation on rental property at October 31, 1998 and October 31, 1997 amounted to \$1,826,000 and \$10,450,000, respectively. The Company owned and held for sale three parcels of commercial land at October 31, 1998. All three parcels are under contract and are expected to close during the year ended October 31, 1999 for \$20,955,000. During the year ended October 31, 1998 a 50%-owned partnership also sold its retail center resulting in the Company recording a pretax gain of \$1,418,000.

4. ESCROW CASH

The Company holds escrow cash amounting to \$4,775,000 and \$3,248,000 at October 31, 1998 and October 31, 1997, respectively, which primarily represents customers' deposits which are restricted from use by the Company. The Company is able to release escrow cash by pledging letters of credit. At October 31, 1998 and October 31, 1997, \$14,000,000 and \$13,500,000 was released from escrow and letters of credit were pledged, respectively. Escrow cash accounts are substantially invested in short-term certificates of deposit or time deposits.

5. MORTGAGES AND NOTES RECEIVABLE

The Company's wholly-owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of the Company's homes. Such mortgage loans are sold in the secondary mortgage market servicing released, or prior to February 28, 1987 pledged against, collateralized mortgage obligations ("CMOs"). At October 31, 1998 and October 31, 1997, respectively, \$71,002,000 and \$47,660,000 of such mortgages were pledged against, the Company's mortgage warehouse line (see "Notes to Consolidated Financial Statements - Note 6"). The Company may incur risk with respect to mortgages that are delinquent and not pledged against CMOs, but only to the extent the losses are not covered by mortgage insurance or resale value of the home. Historically, the Company has incurred minimal credit losses. The mortgage loans held for sale are carried at the lower of cost or market value, determined on an aggregate basis. There was no valuation adjustment at October 31, 1998.

6. MORTGAGES AND NOTES PAYABLE

Substantially all of the nonrecourse land mortgages are short-term borrowings. Nonrecourse mortgages secured by operating properties are installment obligations having annual principal maturities in the following years ending October 31, of approximately \$115,000 in 1999, \$119,000 in 2000, \$132,000 in 2001, \$138,000 in 2002, \$2,581,000 in 2003, and \$685,000 after 2003. The interest rates on these obligations range from 7.000% to 8.375%.

The Company has an unsecured Revolving Credit Agreement ("Agreement") with a group of banks which provides up to \$280,000,000 through July 2001. Interest is payable monthly and at various rates of either the prime rate or LIBOR plus 1.45%. In addition, the Company pays .325% per annum on the weighted average unused portion of the line.

Interest costs incurred, expensed and capitalized were:

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
	----- ----- ----- (Dollars in Thousands)		
Interest incurred (1):			
Residential(3).....	\$26,675	\$29,469	\$30,058
Commercial(4).....	2,272	5,308	5,493
	-----	-----	-----
Total incurred.....	\$28,947	\$34,777	\$35,551
	=====	=====	=====
Interest expensed:			
Residential(3).....	\$32,151	\$30,467	\$26,649
Commercial(4).....	2,272	5,308	5,508

Total expensed.....	\$34,423	\$35,775	\$32,157
	=====	=====	=====
Interest capitalized at			
beginning of year.....	\$35,950	\$39,152	\$36,182
Plus interest incurred.....	28,947	34,777	35,551
Less interest expensed.....	34,423	35,775	32,157
Less impairment adjustments.....	--	275	424
Less property written off.....	460	945	--
Less sale of assets.....	4,469	984	--
	-----	-----	-----
Interest capitalized at			
end of year.....	\$25,545	\$35,950	\$39,152
	=====	=====	=====
Interest capitalized at			
end of year (5):			
Residential(3).....	\$23,868	\$29,804	\$32,669
Commercial(2).....	1,677	6,146	6,483
	-----	-----	-----
Total interest			
capitalized.....	\$25,545	\$35,950	\$39,152
	=====	=====	=====

- (1) Data does not include interest incurred by the Company's mortgage and finance subsidiaries.
- (2) Data does not include a reduction for depreciation.
- (3) Represents acquisition interest for construction, land and development costs which is charged to interest expense when land is not under active development and when homes are delivered.
- (4) Represents interest allocated to or incurred on long term debt for investment properties and charged to interest expense.
- (5) Commercial interest for October 31, 1997 includes \$832,000 reported at October 31, 1996 as capitalized residential interest. This reclassification was the result of the transfer of two parcels of land and related capitalized interest from homebuilding to investment properties.

Average interest rates and average balances outstanding for short-term debt are as follows:

	October 31, 1998	October 31, 1997	October 31, 1996
	-----	-----	-----
	(Dollars In Thousands)		
Average outstanding			
borrowings.....	\$ 98,090	\$133,760	\$127,770
Average interest rate during			
period.....	8.4%	8.2%	8.5%
Average interest rate at end			
of period(1).....	6.9%	7.8%	7.6%
Maximum outstanding at any			
month end.....	\$125,325	\$184,550	\$157,125

- (1) Average interest rate at the end of the period excludes any charges on unused loan balances.

7. SUBORDINATED NOTES

On April 29, 1992, the Company issued \$100,000,000 principal amount of 11 1/4% Subordinated Notes due April 15, 2002. Interest is payable semi-annually. In November and December 1996, the Company redeemed \$10,000,000 principal amount at an average price of 100.3% of par. In October 1998, the Company also redeemed \$44,551,000 principal amount at an average price of 101.6% of par. The funds for this redemption were provided by the Revolving Credit Agreement and resulted in an extraordinary loss of \$748,000 net of an income tax benefit of \$403,000. The remaining principal amount is due April 2002.

On June 7, 1993, the Company issued \$100,000,000 principal amount of 9 3/4% Subordinated Notes due June 1, 2005. Interest is payable semi-annually. The notes are redeemable in whole or in part at the Company's option, initially at 104.875% of their principal amount on or after June 1, 1999 and reducing to 100% of their principal amount on or after June 1, 2002.

The indentures relating to the subordinated notes and the Revolving Credit Agreement contain restrictions on the payment of cash dividends. At October 31, 1998, \$42,995,000 of retained earnings were free of such restrictions.

The fair value of the Subordinated Notes is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The combined fair value of the Subordinated Notes is estimated at \$136,329,000 as of October 31, 1998.

8. RETIREMENT PLAN

In December 1982, the Company established a defined contribution savings and investment retirement plan. Under such plan there are no prior service costs. All associates are eligible to participate in the retirement plan and employer contributions are based on a percentage of associate contributions. Plan costs charged to operations amount to \$1,523,000, \$1,520,000, and \$1,406,000 for the years ended October 31, 1998, 1997, and 1996, respectively.

9. INCOME TAXES

Income Taxes payable (receivable) including deferred benefits, consists of the following:

	October 31, 1998	October 31, 1997
----- (In Thousands)		
State income taxes:		
Current.....	\$ 2,897	\$ 1,387
Deferred.....	(1,495)	(1,586)
Federal income taxes:		
Current.....	36	(1,611)
Deferred.....	(8,769)	(10,755)
	-----	-----
Total.....	\$ (7,331)	\$(12,565)
	=====	=====

The provision for income taxes is composed of the following charges (benefits):

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
----- (In Thousands)			
Current income tax expense:			
Federal(1).....	\$ 9,177	\$ (2,381)	\$ 7,205
State.....	3,484	2,051	1,768
	-----	-----	-----
	12,661	(330)	8,973
	-----	-----	-----
Deferred income tax expense:			
Federal.....	1,989	(4,569)	(822)
State.....	88	(255)	(432)
	-----	-----	-----
	2,077	(4,824)	(1,254)
	-----	-----	-----
Total.....	\$ 14,738	\$ (5,154)	\$ 7,719
	=====	=====	=====

- (1) The current federal income tax expense includes a tax benefit of \$403,00 in the year ended October 31, 1998 relating to the loss on the redemption of Subordinated Notes that was reported as an extraordinary item in the "Statement of Operations."

The deferred tax liabilities or assets have been recognized in the consolidated balance sheets due to temporary differences as follows:

	October 31, 1998	October 31, 1997
----- (In Thousands)		
Deferred tax assets:		
Deferred income.....	\$ 40	\$ 321
Maintenance guarantee reserves.....	701	481
Provision to reduce inventory to net realizable value.....	136	95
Inventory impairment loss.....	6,077	8,621
Uniform capitalization of overhead...	2,967	3,972
Post development completion costs....	1,379	509
State net operating loss carryforwards.....	27,205	22,227
Other.....	843	639
	-----	-----
Total.....	39,348	36,865
Valuation allowance(2).....	(27,205)	(22,227)
	-----	-----

Deferred tax assets.....	12,143	14,638
	-----	-----
Deferred tax liabilities:		
Deferred interest.....	31	31
Installment sales.....	137	208
Accelerated depreciation.....	1,711	2,058
	-----	-----
Total.....	1,879	2,297
	-----	-----
Net deferred tax assets.....	\$ 10,264	\$ 12,341
	=====	=====

- (2) The net change in the valuation allowance of \$4,978,000 results from an increase in the separate company state net operating losses that may not be fully utilized.

The effective tax rates varied from the expected rate. The sources of these differences were as follows:

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
	-----	-----	-----
Computed "expected" tax rate.....	35.0 %	(35.0)%	35.0 %
State income taxes, net of Federal income tax benefit.....	6.0 %	11.6 %	3.2 %
Company owned life insurance.....	(1.6)%	(6.2)%	(2.9)%
Low income housing tax credit.....	(3.4)%	(11.2)%	(5.3)%
Other.....	.7 %	(1.9)%	.9 %
	-----	-----	-----
Effective tax rate.....	36.7 %	(42.7)%	30.9 %
	=====	=====	=====

The Company has state net operating loss carryforwards for financial reporting and tax purposes of \$359,000,000 due to expire between the years October 31, 1999 and October 31, 2013.

10. REDUCTION OF INVENTORY TO FAIR VALUE

In accordance with FAS 121, the Company records impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and the undiscounted cashflows estimated to be generated by those assets are less than their related carrying amounts. As of October 31, 1998, 1997 and 1996, inventory with a carrying amount of \$3,077,000, \$33,143,000 and \$2,240,000, respectively, was written down by \$353,000, \$9,258,000 and \$1,289,000, respectively, to its fair value. This was based on the Company's evaluation of the expected revenue, cost to complete including interest and selling cost. The writedown during the year ended October 31, 1998 was attributed to one community in Florida where homes are being discounted to accelerate sales. The writedowns during the year ended October 31, 1997 were attributable to numerous communities in Florida after the Company decided to reduce its investment in that state and two communities in New Jersey resulting from a product type change and unforeseen development costs.

Also in accordance with FAS 121, the Company records impairment losses on inventories and long-lived assets held for sale when the related carrying amount exceeds the fair value less the selling cost. As of October 31, 1998, 1997 and 1996, inventory and commercial properties with a carrying amount of \$4,629,000, \$32,008,000 and \$12,031,000, respectively, was written down by \$2,588,000, \$12,690,000 and \$3,795,000, respectively, to its fair value. The writedowns during the year ended October 31, 1998 were attributed to one parcel of land being sold as lots and a commercial retail center parcel of land which incurred higher land development costs, both in New Jersey. The writedowns during the year ended October 31, 1997 were attributable to four residential parcels of land in Florida, one residential parcel of land in New Jersey, one multi-use commercial parcel of land in New Jersey and two Florida commercial facilities with expansion land attached to one facility. During the year ended October 31, 1998, when these commercial facilities were liquidated, the Company recovered the carrying value. During the years ended October 31, 1998, 1997 and 1996, the Company recovered the carrying value or recognized nominal losses on the land held for sale which was subsequently liquidated.

The total aggregate impairment losses, which are presented in the consolidated statements of operations, on the inventory held for development and the land or commercial facilities held for sale were \$2,941,000, \$21,948,000, and \$1,608,000 for the years ended October 31, 1998, 1997 and 1996, respectively.

On the statement of operations the lines entitled "Homebuilding - Inventory impairment loss" and "Investment Properties - Provision for impairment loss"

also include writeoffs of options including approval, engineering and capitalized interest costs. During the year ended October 31, 1998, the writeoffs amounted to \$2,091,000 and zero, respectively. During the year ended October 31, 1997, the writeoffs amounted to \$4,761,000 and \$1,756,000, respectively. During 1998, the Company did not exercise three residential options because of changes in local market conditions and difficulties in obtaining government approvals. During 1997, the Company decided not to exercise three residential options due to environmental problems or the property's proforma did not produce an adequate return on investment commensurate with the risk and one commercial property option because an anchor tenant with an acceptable credit rating could not be found.

11. TRANSACTIONS WITH RELATED PARTIES

The Company's Board of Directors has adopted a general policy providing that it will not make loans to officers or directors of the Company or their relatives at an interest rate less than the interest rate at the date of the loan on six month U.S. Treasury Bills, that the aggregate of such loans will not exceed \$3,000,000 at any one time, and that such loans will be made only with the approval of the members of the Company's Board of Directors who have no interest in the transaction. At October 31, 1998 and 1997 included in receivables, deposits and notes are related party receivables from officers and directors amounted to \$2,117,000 and \$1,889,000, respectively. Notwithstanding the policy stated above, the Board of Directors of the Company concluded that the following transactions were in the best interests of the Company.

The Company provides property management services to various limited partnerships including one partnership in which Mr. A. Hovnanian, Chief Executive Officer, President and a Director of the Company, is a general partner, and members of his family and certain officers and directors of the Company are limited partners. At October 31, 1998, no amounts were due the Company by these partnerships.

12. STOCK OPTION PLAN

The Company has a stock option plan for certain officers and key employees. Options are granted by a Committee appointed by the Board of Directors. The exercise price of all stock options must be at least equal to the fair market value of the underlying shares on the date of the grant. Options granted prior to May 14, 1998 vest in three equal installments on the first, second and third anniversaries of the date of the grant. Options granted on or after May 14, 1998 vest in four equal installments on the third, fourth, fifth and sixth anniversaries of the date of the grant. All options expire after ten years after the date of the grant. In addition, during the year ended October 31, 1997 each of the three outside directors of the Company were granted options to purchase 5,000 shares at the same price and terms as those granted to officers and key employees. Stock option transactions are summarized as follows:

	October 31, 1998	Weighted Average Exercise Price	October 31, 1997	Weighted Average Exercise Price	October 31, 1996	Weighted Average Exercise Price
	-----	-----	-----	-----	-----	-----
Options outstanding at beginning of period.	1,336,500	\$7.83	1,156,000	\$8.04	1,176,000	\$8.00
Granted.....	291,500	\$9.09	190,500	\$6.47		
Exercised.....	114,667	\$5.45				
Forfeited.....	98,333	\$9.98	10,000	\$5.81	20,000	\$5.81
	-----		-----		-----	
Options outstanding at end of period.....	1,415,000	\$8.13	1,336,500	\$7.83	1,156,000	\$8.04
	=====		=====		=====	
Options exercisable at end of period.....	1,013,166		1,069,333		996,000	
Price range of options outstanding.....	\$5.13- \$11.50		\$5.13- \$11.50		\$5.13- \$11.50	
Weighted-average remaining contractual life.....	5.4 yrs.		5.4 yrs.		5.8 yrs.	

Pro forma information regarding net income and earnings per share is required under the fair value method of Financial Accounting Standards No. 123 ("FAS 123") "Accounting for Stock-Based compensation" and is to be calculated as if the Company had accounted for its stock options under the fair value method of FAS 123. The fair value for these options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-

average assumptions for 1998 and 1997: risk-free interest rate of 4.5% and 5.8%, respectively; dividend yield of zero; volatility factor of the expected market price of the Company's common stock of 0.46 and 0.47, respectively; and a weighted-average expected life of the option of 7.5 and 7.0 years, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and are not likely to be representative of the effects on reported net income for future years, if applicable.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands except for earnings per share information):

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996(1)
Pro forma net income (loss).....	\$ 25,107	\$ (7,131)	\$ 17,287
Pro forma basic earnings (loss) per share.....	\$ 1.15	\$ (0.32)	\$ 0.75
Pro forma diluted earnings (loss) per share.....	\$ 1.14	\$ (0.32)	\$ 0.75

(1) No options were granted in 1996, as a result pro forma amounts equal actual per the income statement.

13. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is 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 the Company.

As of October 31, 1998 and 1997, respectively, the Company is obligated under various performance letters of credit amounting to \$6,934,000 and \$6,834,000.

14. UNAUDITED SUMMARIZED CONSOLIDATED QUARTERLY INFORMATION

Summarized quarterly financial information for the years ended October 31, 1998, 1997, and 1996 is as follows:

	Three Months Ended			
	October 31, 1998	July 31, 1998	April 30, 1998	January 31, 1998
(In Thousands Except Per Share Data)				
Revenues.....	\$267,542	\$248,125	\$212,320	\$213,960
Expenses.....	\$255,268	\$235,735	\$204,710	\$204,942
Income before income taxes and extraordinary loss.....	\$ 12,274	\$ 12,390	\$ 7,610	\$ 9,018
State and Federal income tax.....	\$ 4,762	\$ 4,677	\$ 2,597	\$ 3,105
Extraordinary loss from extinguish- ment of debt, net of income taxes	\$ (748)			
Net income.....	\$ 6,764	\$ 7,713	\$ 5,013	\$ 5,913
Per Share Data:				
Basic:				
Income per common share before extraordinary loss.....	\$ 0.35	\$ 0.35	\$ 0.23	\$ 0.27
Extraordinary loss.....	\$ (.03)			
Net Income.....	\$ 0.32	\$ 0.35	\$ 0.23	\$ 0.27
Weighted average number of common shares outstanding.....	21,661	21,785	21,848	21,834
Assuming Dilution:				
Income per common share before extraordinary loss.....	\$ 0.34	\$ 0.35	\$ 0.23	\$ 0.27
Extraordinary loss.....	\$ (.03)			

Net Income.....	\$ 0.31	\$ 0.35	\$ 0.23	\$ 0.27
Weighted average number of common shares outstanding.....	21,896	22,018	22,042	21,985

Three Months Ended(1)

October 31, 1997	July 31, 1997	April 30, 1997	January 31, 1997
---------------------	------------------	-------------------	---------------------

(In Thousands Except Per Share Data)

Revenues.....	\$315,150	\$205,107	\$143,526	\$120,353
Expenses.....	\$302,494	\$196,105	\$173,453	\$124,208
Income before income taxes and extraordinary loss.....	\$ 12,656	\$ 9,002	\$(29,927)	\$(3,855)
State and Federal income tax.....	\$ 4,930	\$ 2,782	\$(10,785)	\$(2,081)
Net income (loss).....	\$ 7,726	\$ 6,220	\$(19,142)	\$(1,774)

Per Share Data:

Basic:

Net income (loss) per common share.....	\$ 0.35	\$ 0.27	\$ (0.83)	\$ (.08)
Weighted average number of common shares outstanding.....	22,098	22,409	22,925	23,037

Assuming dilution:

Net income (loss) per common share.....	\$ 0.35	\$ 0.27	\$ (0.83)	\$ (.08)
Weighted average number of common shares outstanding.....	22,195	22,485	22,999	23,121

Three Months Ended(1)

October 31, 1996	July 31, 1996	April 30, 1996	January 31, 1996
---------------------	------------------	-------------------	---------------------

(In Thousands Except Per Share Data)

Revenues.....	\$342,049	\$195,812	\$152,464	\$117,139
Expenses.....	\$323,474	\$191,280	\$150,881	\$116,823
Income before income taxes.....	\$ 18,575	\$ 4,532	\$ 1,583	\$ 316
State and Federal income tax.....	\$ 6,146	\$ 1,422	\$ 335	\$(184)
Net income.....	\$ 12,429	\$ 3,110	\$ 1,248	\$ 500

Per Share Data:

Basic:

Net income per common share.....	\$ 0.54	\$ 0.13	\$ 0.06	\$ 0.02
Weighted average number of common shares outstanding.....	23,037	23,037	23,037	23,037

Assuming dilution:

Net income per common share.....	\$ 0.54	\$ 0.13	\$ 0.06	\$ 0.02
Weighted average number of common shares outstanding.....	23,120	23,115	23,112	23,093

(1) The earnings per share for the years ended October 31, 1997 and 1996 have been restated as required to comply with FAS 128. For further discussion of earnings per share and the impact of FAS 128, see Note 1.

SCHEDULE XI
HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
REAL ESTATE AND ACCUMULATED DEPRECIATION
OCTOBER 31, 1998

Description	Gross Amounts (A)(B)(C)			Tax Basis	Accumulated Depreciation
	Land	Building/ Improvements	Total		
1 Hidden Meadows Ocean Twp, NJ Senior Rentals	\$ 544,000	\$ 5,750,000	\$ 6,294,000	\$ 6,294,000	\$854,000
2 Norfolk Village Mahwah, NJ Senior Rentals	640,000	5,573,000	6,213,000	6,213,000	618,000
3 Hovnanian Corp. Center North Brunswick, NJ Land/Land Improvement Approval & Flex Building Under Construction	0	9,127,000	9,127,000	12,143,000	0
4 Land Improvement and Approval Costs Merrimack Commercial Merrimack, NH	75,000	100,000	175,000	300,000	0

	Land/Land Improvement Costs					
5	NB Theatre North Brunswick, NJ	3,000	5,372,000	5,375,000	8,314,000	0
6	Allaire Wall, NJ	50,000	56,000	106,000	106,000	0
7	Wall Town Center Wall, NJ	3,200,000	645,000	2,807,000	4,883,000	0
	Land/Land Improvement					
		<u>\$ 4,512,000</u>	<u>\$ 26,623,000</u>	<u>\$30,097,000</u>	<u>\$38,253,000</u>	<u>\$1,472,000</u>

- (A) Fiscal Year Construction Completed:
1 - 1993
2 - 1995
3 through 7 - not completed

SCHEDULE XI (CONCLUDED)

- (B) Depreciable Life:
40 years - Depreciation expense was \$446,000 for the year ended October 31, 1998.
Depreciation expense was \$1,854,000 for the year ended October 31, 1997.
Depreciation expense was \$2,665,000 for the year ended October 31, 1996.
Depreciation expense was \$1,973,000 for the year ended October 31, 1995.
- (C) Items marked 4 through 7 consist of land improvement, building construction, and approval costs on land held for future development.

Balance - October 31, 1995	84,119,000
Additions: Improvements	1,115,000
Deletions: Cost of rental condominiums sold	(152,000)
Cost of commercial center sold	(8,457,000)
Cost of commercial land sold	(114,000)
Cost of inventory sold	(9,000)

Balance - October 31, 1996	76,502,000
Additions: Improvements	193,000
Land purchase and development	11,100,000
Deletions: Transfer to inventory	(258,000)
Cost of commercial center sold	(12,283,000)
Provision for impairment loss	(14,446,000)

Balance - October 31, 1997	60,808,000
Additions: Land purchase and development	5,466,000
Deletions: Cost of commercial properties sold	(33,522,000)
Cost of inventory sold	(1,617,000)
Provision for impairment loss	(1,038,000)

Balance - October 31, 1998	<u>\$ 30,097,000</u>

Balance at October 31, 1998 is reported on the consolidated balance sheet as investment properties held for sale and held for investment.

EXHIBIT 21
SUBSIDIARY LISTING

K. Hovnanian Equities, Inc.
EXC, Inc.
K. Hovnanian Companies of North Carolina, Inc.
KHL, Inc.
Hovnanian Texas, Inc.
Hovnanian Georgia, Inc.
Hovnanian Financial Services III, Inc.
K. Hovnanian Mortgage USA, Inc.
Hovnanian Financial Services IV, Inc.
K. Hovnanian Developments of New Jersey, Inc.
KHE Finance, Inc.
K. Hov International, Inc.
Hovnanian Financial Services II, Inc.
New Fortis Investment
Hovnanian Financial Services I, Inc.
K. Hovnanian Enterprises, Inc.
Hovnanian Pennsylvania, Inc.
Recreational Development Co., Inc.
K. Hovnanian Marine, Inc.
K. Hovnanian Aviation, Inc.
K. Hovnanian Companies of North Jersey, Inc.
K. Hovnanian at Montville, Inc.
K. Hovnanian at Wayne, Inc.
K. Hovnanian at Mahwah IV, Inc.
K. Hovnanian at Morris II, Inc.
K. Hovnanian at Mahwah II, Inc.
K. Hovnanian at Mahwah III, Inc.
K. Hovnanian @ Northern Westchester, Inc.
K. Hovnanian at Hanover, Inc.
K. Hovnanian at Montville II, Inc.
K. Hovnanian @ Newark Urban Renewal Corp.I, Inc.
K. Hovnanian @ Newark I, Inc.
K. Hovnanian @ Newark Urban Renewal Corp.II, Inc.
Jersey City Danforth CSO
K. Hovnanian @ Newark Urban Renewal Corp.III, Inc.
K. Hovnanian @ Newark Urban Renewal Corp. IV, Inc.
K. Hovnanian @ Newark Urban Renewal Corp. V, Inc.
K. Hovnanian at Jersey City I, Inc.
K. Hovnanian at Jersey City II, Inc.(Phase 2A)
K. Hovnanian at Jersey City III, Inc.
K. Hovnanian at Mahwah VI, Inc.
K. Hovnanian at Jersey City II, Inc.(Phase 2B)
K. Hovnanian at Mahwah VII, Inc.
K. Hovnanian at Montclair, N.J., Inc.
K. Hovnanian at Horizon Heights, Inc.
K. Hovnanian at Reservoir Ridge, Inc.
K. Hovnanian at Mahwah V, Inc.
K. Hovnanian at Mahwah VIII, Inc.
K. Hovnanian of North Jersey, Inc. (Hudson River)
Montego Bay I Acquisition Corp., Inc.
Montego Bay Associates Limited I, LP (MBAI)
Montego Bay II Acquisition Corp., Inc.
Montego Bay Associates Limited II, LP (MBAII)
0515 Co., Inc.
K. Hovnanian at North Brunswick IV, Inc.
K. Hovnanian Properties of North Brunswick IV, Inc.
Arrow Properties, Inc.
KHIPE, Inc.
Pine Brook Company, Inc.
K. Hovnanian Properties of North Brunswick II, Inc.
K. Hovnanian Properties of Galloway, Inc.
K. Hovnanian @ Cedar Grove I, Inc.
K. Hovnanian @ Cedar Grove II, Inc.
K. Hovnanian Properties of Piscataway, Inc.
K. Hovnanian Properties of North Brunswick I, Inc.
Molly Pitcher Renovations, Inc.
K. Hovnanian Properties of East Brunswick II, Inc.
K. Hovnanian Investment Properties of N.J., Inc.
K. Hovnanian Investment Properties, Inc.
Hovnanian Properties of Atlantic County, Inc.
K. Hovnanian Properties of Newark Urban Renewal Corporation, Inc.
K. Hovnanian Properties of Hamilton, Inc.
K. Hovnanian Properties of Franklin, Inc.
K. Hovnanian Properties of North Brunswick III, Inc.
K. Hovnanian Properties of Franklin II, Inc.
K. Hovnanian at Jacksonville, Inc.
K. Hovnanian Properties of North Brunswick V, Inc.
K. Hovnanian Properties of Wall, Inc.
K. Hovnanian at Pompano Beach, Inc.

Hovnanian Properties of Lake Worth, Inc.
Landarama, Inc.
K. Hovnanian Companies Northeast, Inc.
Parthenon Group
Minerva Group
K. Hovnanian Companies of Central Jersey, Inc.
K. Hovnanian Real Estate Investment, Inc.
K. Hovnanian at Princeton, Inc.
K. Hovnanian at South Brunswick III, Inc.
K. Hovnanian at South Brunswick IV, Inc.
K. Hovnanian at Plainsboro I, Inc.
K. Hovnanian at Plainsboro II, Inc.
K. Hovnanian at Klockner Farms, Inc.
K. Hovnanian at South Brunswick II, Inc.
K. Hovnanian at Hopewell III, Inc.
K. Hovnanian at Hopewell I, Inc.
K. Hovnanian at South Brunswick, Inc.
K. Hovnanian at East Windsor I, Inc.
K. Hovnanian at North Brunswick II, Inc.
K. Hovnanian at North Brunswick III, Inc.
K. Hovnanian at Hopewell II, Inc.
K. Hovnanian at Somerset VIII, Inc.
K. Hovnanian at Lawrence Square, Inc.
Dryer Associates, Inc.
K. Hovnanian at East Brunswick V, Inc.
K. Hovnanian at Bernards II, Inc.
K. Hovnanian at Bridgewater III, Inc.
K. Hovnanian at Plainsboro III, Inc.
K. Hovnanian at Somerset V, Inc.
K. Hovnanian at Somerset VI, Inc.
Eastern Title Agency, Inc.
K. Hovnanian Mortgage, Inc.
Governors Abstract
Eastern National Title Insurance Agency, Inc.
Founders Title Agency, Inc.
K. Hovnanian Companies North Central Jersey, Inc.
K. Hovnanian at Bedminster, Inc.
K. Hovnanian at Bridgewater IV, Inc.
K. Hovnanian at Branchburg III, Inc.
K. Hovnanian at Spring Ridge, Inc.
K. Hovnanian at Bridgewater V, Inc.
K. Hovnanian at Readington, Inc.
K. Hovnanian at Branchburg II, Inc.
K. Hovnanian at Bridgewater II, Inc.
K. Hovnanian at Branchburg I, Inc.
K. Hovnanian Companies Jersey Shore, Inc.
K. Hovnanian at Wall Township, Inc.
K. Hovnanian at Galloway VIII, Inc.
K. Hovnanian at Dover Township, Inc.
K. Hovnanian at Galloway VII, Inc.
K. Hovnanian at Tinton Falls II, Inc.
K. Hovnanian at Ocean Township, Inc.
K. Hovnanian at Wall Township II, Inc.
K. Hovnanian at Wall Township III, Inc.
K. Hovnanian at Holmdel Township, Inc.
K. Hovnanian at Wall Township IV, Inc.
K. Hovnanian at Wall Township V, Inc.
K. Hovnanian at Atlantic City, Inc.
K. Hovnanian at Ocean Township II, Inc.
K. Hovnanian at Ocean Township, Inc.
K. Hovnanian at Marlboro Township, Inc.
K. Hovnanian at Howell Township, Inc.
K. Hovnanian at Howell Township II, Inc.
K. Hovnanian at Woodbury Oaks, Inc.
K. Hovnanian at Freehold Township, Inc.
K. Hovnanian at Lakewood, Inc.
K. Hovnanian Companies of the Delaware Valley, Inc.
K. Hovnanian Co. of Delaware Valley, Inc. Brokerage Company
K. Hovnanian at Lower Saucon, Inc.
K. Hovnanian at Perkiomen I, Inc.
K. Hovnanian at Montgomery I, Inc.
K. Hovnanian at Upper Merion, Inc.
K. Hovnanian at Perkiomen II, Inc.
K. Hovnanian Companies of South Jersey, Inc.
K. Hovnanian at Valleybrook, Inc.
Kings Grant Evesham Corp.
K. Hovnanian at Burlington, Inc.
K. Hovnanian at Medford I, Inc.
K. Hovnanian at The Reserve @ Medford, Inc.
K. Hovnanian at Kings Grant I, Inc.
K. Hovnanian at Valleybrook II, Inc.
K. Hovnanian Real Estate of Florida, Inc.
Hovnanian Developments of Florida, Inc.

K. Hovnanian Companies of Florida, Inc.
Hovnanian of Palm Beach II, Inc.
Hovnanian of Palm Beach III, Inc.
Hovnanian of Palm Beach IV, Inc.
Hovnanian of Palm Beach V, Inc.
Hovnanian of Palm Beach VI, Inc.
Hovnanian of Palm Beach VII, Inc.
Hovnanian of Palm Beach VIII, Inc.
Hovnanian of Palm Beach IX, Inc.
Hovnanian at Tarpon Lakes I, Inc.
Hovnanian at Tarpon Lakes II, Inc.
Hovnanian at Tarpon Lakes III, Inc.
K. Hovnanian at Pasco I, Inc.
K. Hovnanian at Ft. Myers I, Inc.
K. Hovnanian at Palm Beach XI, Inc.
K. Hovnanian at Jensen Beach, Inc.
Hovnanian of Palm Beach X, Inc.
K. Hovnanian at Martin Downs I, Inc.
K. Hovnanian at Jacksonville I, Inc.
K. Hovnanian at Ft. Myers II, Inc.
K. Hovnanian at Lawrence Grove, Inc.
K. Hovnanian at Jacksonville II, Inc.
K. Hovnanian of Palm Beach XIII, Inc.
Hovnanian of Palm Beach, Inc.
K. Hovnanian at Half Moon Bay, Inc.
K. Hovnanian at Woodridge Estates, Inc.
Pike Utilities, Inc.
Tropical Service Builders, Inc.
K. Hovnanian at Embassy Lakes, Inc.
K. Hovnanian at Delray Beach II, Inc.
K. Hovnanian at Orlando I, Inc.
K. Hovnanian at Orlando II, Inc.
K. Hovnanian at Orlando III, Inc.
K. Hovnanian at Martin Downs II, Inc.
K. Hovnanian at Orlando IV, Inc.
K. Hovnanian Properties of Orlando, Inc.
K. Hovnanian at Delray Beach I, Inc.
K. Hovnanian at Pasco II, Inc.
K. Hovnanian at Port St. Lucie I, Inc.
K. Hovnanian at Delray Beach, Inc.
Eastern National Title Insurance Agency, Inc.
K. Hovnanian Mortgage of Florida, Inc.
South Florida Residential Title Agency, Inc.
Eastern National Title Insurance Agency I, Inc.
Western Financial Services, Inc.
r. e. Scott Mortgage co. of Florida, Inc.
New K. Hovnanian Developments of Florida, Inc.
New K. Hovnanian Companies of Florida, Inc.
K. Hovnanian at Fairway Views, Inc.
K. Hovnanian at Lake Charleston, Inc.
K. Hovnanian at Carolina Country Club I, Inc.
K. Hovnanian at Chapel Trail, Inc.
K. Hovnanian at Winston Trails, Inc.
K. Hovnanian at Lakes of Boca Raton, Inc.
K. Hovnanian at Lake Charleston II, Inc.
K. Hovnanian at Lake Charleston III, Inc.
K. Hovnanian at Carolina Country Club II, Inc.
K. Hovnanian at Winston Trails, Inc.
K. Hovnanian at Pembroke Isles, Ins.
K. Hovnanian at Carolina Country Club III, Inc.
K. Hovnanian at Coconut Creek, Inc.
K. Hovnanian at Polo Trace, Inc.
K. Hovnanian Companies of New York, Inc.
K. Hovnanian at Westchester, Inc.
K. Hovnanian at Peekskill, Inc.
K. Hovnanian at Washingtonville, Inc.
K. Hovnanian at Mahopac, Inc.
K. Hovnanian at Carmel, Inc.
K. Hovnanian Developments of New York, Inc.
Cedar Hill Water Corporation
Cedar Hill Sewer Corporation
R.C.K. Community Management Co., Inc.
K. Hovnanian Companies of Massachusetts, Inc.
K. Hovnanian at Merrimack, Inc.
K. Hovnanian at Merrimack II, Inc.
K. Hovnanian at Taunton, Inc.
New England Community Management Co., Inc.
K. Hovnanian Cos. of Metro Washington, Inc.
K. Hovnanian at Ashburn Village, Inc.
K. Hovnanian at Woodmont,, Inc.
K. Hovnanian at Sully Station, Inc.
K. Hovnanian at Bull Run, Inc.
K. Hovnanian at Montclair, Inc.

K. Hovnanian at River Oaks, Inc.
K. Hovnanian at Holly Crest, Inc.
K. Hovnanian at Woodmont, Inc.
K. Hovnanian at Montclair, Inc.(Montclair Condos)
K. Hovnanian at Fair Lakes, Inc.
K. Hovnanian at Ashburn Village, Inc.
K. Hovnanian at Park Ridge, Inc.
K. Hovnanian at Belmont, Inc.
K. Hovnanian at Fair Lakes Glen, Inc.
K. Hovnanian Developments of Metro Washington, Inc.
K. Hovnanian at River Oaks, Inc.
K. Hovnanian at Montclair, Inc. (Montclair Laing)
K. Hovnanian Companies of California, Inc.
K. Hovnanian at Clarkstown, Inc.
K. Hovnanian at West Orange, Inc.
K. Hovnanian at Wayne III, Inc.
K. Hovnanian at Wayne IV, Inc.
K. Hovnanian at Wayne V, Inc.
K. Hovnanian at Hackettstown, Inc.
K. Hovnanian at Spring Mountain, Inc.
K. Hovnaian at East Windsor II, Inc.
K. Hovnanian Treasure Coast, Inc.
K. Hovnanian at La Terraza, Inc.
K. Hovnanian at Highland Vineyards, Inc.
K. Hovnanian Companies of Southern California II, Inc.
K. Hovnanian at Vail Ranch, Inc.
K. Hovnanian at Carmel Del Mar, Inc.
K. Hovnanian at Calabria, Inc.
K. Hovnanian Developments of California, Inc.
K. Hovnanian at Ballantrae, Inc.
Ballantrae Home Sales, Inc.
K. Hovnanian at Hunter Estates, Inc.
K. Hovnanian Developments of Maryland, Inc.
K. Hovnanian Companies of Maryland, Inc.
K. Hovnanian at Seneca Crossing, Inc.
K. Hovnanian at Exeter Hills, Inc.
K. Hovnanian Southeast Florida, Inc.
K. Hovnanian Florida Region, Inc.
K. Hovnanian at East Brunswick VI, Inc.
K. Hovnanian at Berlin, Inc.
K. Hovnanian at Bedminster II, Inc.
K. Hovnanian at Marlboro Township II, Inc.
K. Hovnanian at Inverrary I, Inc.
K. Hovnanian at Mahwah IX, Inc.
K. Hovnanian at Hopewell IV, Inc.
K. Hovnanian at Northlake, Inc.
K. Hovnanian at Castile, Inc.
K. Hovnanian at Tierrasanta, Inc.
K. Hovnaian at Bridgewater VI, Inc.
K. Hovnanian at Preston, Inc.
K. Hovnanian at Bernards III, Inc.
K. Hovnanian at Wayne VI, Inc.
K. Hovnanian at Rancho Cristianitos, Inc.
K. Hovnanian at La Trovata, Inc.
K. Hovnanian at Watchung Reserve, Inc.
K. Hovnanian at Windsong East Brunswick, Inc.
K. Hovnanian at South Brunswick V, Inc.
K. Hovnanian at Wall Township III, Inc.
K. Hovnanian at Tannery Hill, Inc.
K. Hovnanian at Upper Freehold Township I, Inc.
K. Hovnanian at Jefferson, Inc.
K. Hovnanian at Hershey's Mill, Inc.
K. Hovnanian at Bernards VI, Inc.
K. Hovnanian at Port Imperial North, Inc.
K. Hovnanian at Hopewell V, Inc.
K. Hovnanian at Hopewell VI, Inc.
K. Hovnanian at Manalapan II, Inc.
K. Hovnanian at Union Township, Inc.
K. Hovnanian at Wayne VII, Inc.
K. Hovnanian at Scotch Plains II, Inc.
K. Hovnanian at Thornbury, Inc.
K. Hovnanian at Cameron Chase, Inc.
K. Hovnanian at Marlboro Township IV, Inc.
K. Hovnanian at Port Imperial Urban Renewal, Inc.
K. Hovnanian at East Whiteland, Inc.
K. Hovnanian at Stonegate, Inc.
K. Hovnanian Companies of Southern California, Inc.
K. Hovnanian at Crestline, Inc.
K. Hovnanian at Sycamore, Inc.
K. Hovnanian at Saratoga, Inc.
K. Hovnanian at Sone Canyon, Inc.
K. Hovnanian at Chaparral, Inc.
K. Hovnanian at Ocean Walk, Inc.

K. Hovnanian at Maplewood, Inc.
K. Hovnanian at Tuxedo, Inc.
K. Hovnanian at Bridgeport, Inc.
K. Hovnanian at Stonegate, Inc. (California)
K. Hovnanian at Lower Saucon II, Inc.
K. Hovnanian at Barrington, Inc.
K. Hovnanian at The Glen, Inc.
K. Hovnanian at Hampton Oaks, Inc.
K. Hovnanian at Summerwood, Inc.
K. Hovnanian at Chester I, LLC
K. Hovnanian at West Windsor, LLC
K. Hovnanian at Barnards V, LLC
K. Hovnanian's Four Seasons of the Palm Beaches, Inc.

	12-MOS	
OCT-31-1998	OCT-31-1998	
		14,792
		0
	29,490	0
	375,733	
536,618		31,919
	15,088	
232,839	589,102	
		154,871
		237
0		0
		201,155
589,102		
		904,280
	941,947	
		748,941
	866,232	
	0	
	0	
	34,423	
	41,292	
	15,141	
25,403		
	0	
	(748)	0
	25,403	
	1.17	
	1.16	

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement Form S-3 No. 333-51991 of Hovnanian Enterprises, Inc. and K. Hovnanian Enterprises, Inc. of our report dated December 15, 1998, with respect to the consolidated financial statements and schedules of Hovnanian Enterprises, Inc. included in this Annual Report Form 10-K for the year ended October 31, 1998.

/S/ ERNST & YOUNG LLP
Ernst & Young LLP

New York, New York
January 14, 1999

1989 Stock Option Plan

(As amended and restated May 4, 1990,
and amended through May 14, 1998)

The purpose of the 1983 Stock Option Plan (the "Plan") is to make stock options for Common Stock of Hovnanian Enterprises, Inc. (the "Company") available to certain officers and key employees of the Company and its subsidiaries to give them a greater personal interest in the success of the enterprise and an added incentive to continue and advance in their employment.

1. AMOUNT AND SOURCE OF STOCK: Except as otherwise permitted pursuant to paragraph 8 hereof, the total number of shares of the Company's Common Stock which may be issued under the Plan shall not exceed 1,000,000. These shares may be authorized and unissued shares or issued and reacquired shares, as the Board of Directors of the Company (the "Board of Directors") may from time to time determine. The number of shares of the Company's Common Stock available for grant of options under the Plan shall be decreased by the sum of the number of shares with respect to which options have been issued and are then outstanding and the number of shares issued upon exercise of options, and shall be increased due to the expiration or termination of options which have not been exercised.

2. EFFECTIVE DATE AND TERM OF PLAN: This Plan (as amended and restated) shall, subject to shareholder approval, be effective May 4, 1990. Options may be granted under the Plan on or before May 3, 2000.

3. ADMINISTRATION: The Plan shall be administered by a committee of the Board of Directors (the "Committee") consisting of not less than three directors of the Company to be appointed by, and to serve at the pleasure of, the Board of Directors. The Committee shall have full power to interpret the Plan and to establish and amend rules and regulations for its administration. The Board of Directors may from time to time appoint members of the Board of Directors in substitution for or in addition to members previously appointed and may fill vacancies in the Committee. The Board of Directors or the Committee may establish a subcommittee (the "Subcommittee") to award options to such key employees (other than executive officers) as the Subcommittee shall determine subject to such limitations as may be set by the Board of Directors. The Subcommittee shall consist of one or more directors of the Company who shall be appointed by the Board of Directors or by the Committee and who may but need not be members of the Committee.

4. SELECTION: From time to time the Committee shall determine, from among the key employees of the Company or its subsidiaries, which of such employees shall be granted options under the Plan (the "Optionees"), the number of shares subject to each option, and whether each option shall comply with the provisions of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code") and be designated an Incentive Stock Option.

5. TERMS OF OPTIONS: (a) Option Period and Exercise of Options: The Committee shall determine in its discretion the dates after which each option granted under the Plan (an "Option") may be exercised in whole or in part and the date after which such Option may no longer be exercised (the "Termination Date"), which date shall not be later than the day preceding the tenth anniversary of the date when granted. The Committee may, in its sole discretion, accelerate the date after which an Option may be exercised in whole or in part. In exercising an Option, the Optionee may exercise less than the full installment available to the Optionee, but the Optionee must exercise the Option in full shares of Common Stock of the Company. An Option which has not been exercised on or prior to its Termination Date shall be cancelled.

(b) Option Price: The purchase price per share of Common Stock purchased under Options granted pursuant to the Plan (the "Option Price") shall be determined by the Committee and shall not be less than the Fair Market Value of the Common Stock of the Company on the date the Option is granted. The "Fair Market Value" of the Common Stock of the Company on the date of the Company's initial public offering of Common Stock shall be the public offering price. On any subsequent date, the "Fair Market Value" shall be deemed, for all purposes under this Plan, to be the mean between the high and low sale prices of the Common Stock of the Company reported as having occurred on any Stock Exchange on which the Company's Common Stock may be listed and traded on the date the Option is granted, or if there is no such sale on that date, then on the last preceding date on which such a sale was reported. The Option Price shall be paid in full upon the exercise of the Option be certified or bank cashier's check payable to the order of the Company, by the surrender or delivery to the Company of shares of its Common Stock or by any other means acceptable to the Committee, and the stock purchased shall thereupon be promptly delivered, provided, however, that the

Committee may, in its discretion, require that an Optionee pay to the Company at the time of exercise, or at such later date as the Company shall specify, such amount as the Committee deems necessary to satisfy the Company's obligation to withhold Federal, state or local income or other taxes incurred by reason of the exercise or the transfer of shares thereupon. No Optionee or his legal representatives, legatees or distributees, as the case may be, will be deemed to be a holder of any shares pursuant to exercise of an Option until the date of the issuance of a stock certificate to him for such shares. Any cash proceeds of the sale of stock subject to Options are to be added to the general funds of the Company and used for its general corporate purposes. In no event shall the Option Price be less than the par value of a share of Common Stock of the Company.

(c) Special Rules Regarding Incentive Stock Options Granted to Certain Employees: Notwithstanding the provisions of subsections (a) and (b) of this section, no Incentive Stock Option shall be granted to any employee who, at the time the Option is granted, owns (directly, or within the meaning of Section 425(d) of the Code) more than ten percent of the total combined voting power of all classes of stock of the Company or any subsidiary corporation, unless (a) the Option Price under them Option is at least 110 percent of the Fair Market Value of the stock subject to the Option at the time of the grant and (b) the Option by its terms is not exercisable after the expiration of five years from the date it is granted.

(d) Escrow Account and Special Rules Regarding Incentive Stock Options Granted Prior to May 4, 1990: Notwithstanding the foregoing paragraphs, the Optionee may, in the sole discretion of the Committee, purchase the full number of shares of Common Stock with respect to which the Option has been granted, subject to the condition that any shares of Common Stock transferred to the Optionee under installments of the Option which would not have been currently exercisable (in accordance with the terms of the preceding paragraph) shall be placed in an escrow account ("Escrow Account"). Shares held in the Escrow Account shall be registered in the name of the Optionee, and all dividend, voting, liquidation and other rights of ownership with respect to shares held in the Escrow Account shall belong to the Optionee, except that the Optionee may not sell, pledge, or otherwise transfer such shares. As shares held in the Escrow Account would have become exercisable (in accordance with the terms of the preceding paragraph) they shall be withdrawn from the Escrow Account. The Optionee shall have free and clear title to all shares withdrawn from the Escrow Account, including the right to sell, pledge or otherwise transfer the shares. Upon termination of the Optionee's employment with the Company or a subsidiary thereof, all shares held in the Escrow Account on the date of termination of employment shall be subject to a right of repurchase in favor of the Company. The period of the right of repurchase shall run for 30 days commencing with the date the Optionee's employment with the Company or a subsidiary thereof terminates. During the period of the right of repurchase the Company shall have the right to repurchase from the Optionee at the Option Price all shares held in the Escrow Account.

Notwithstanding the foregoing paragraphs, Incentive Stock Options granted prior to May 4, 1990 shall, by their terms, not be exercisable while there is outstanding any Incentive Stock Option which was granted, before the granting of such option, to such Optionee to purchase stock in the Company or in a corporation which at the time of the granting of such option is a subsidiary corporation of the Company or in a predecessor corporation of the Company or any such subsidiary. For the purpose of this paragraph an Incentive Stock Option is outstanding until it is exercised in full or expires by reason of lapse of time. For the purposes of this paragraph the term "predecessor corporation" means a corporation which was a party to a transaction described in Section 425(a) of the Code (irrespective of whether a substitution or assumption under such section was in fact effected) with the Company or a corporation which at the time the new Incentive Stock Option is granted is a related corporation of the Company or a predecessor corporation of any such corporations.

(e) Nontransferability of Options: Each Option shall, during the Optionee's lifetime, be exercisable only by the Optionee, and neither it nor any right hereunder shall be transferable otherwise than by will or the laws of descent and distribution or be subject to attachment, execution or other similar process. In the event of any attempt by the Optionee to alienate, assign, pledge, hypothecate or otherwise dispose of his Option or of any right hereunder, except as provided for herein, or in the event of any levy or any attachment, execution or similar process upon the rights or interest hereby conferred, the Company may terminate his Option by notice to the Optionee and it shall thereupon become null and void.

(f) Cessation of Employment of Optionee: If, prior to the Termination Date, the Optionee ceases to be employed by the Company or a subsidiary thereof (otherwise than by reason of death or disability within the meaning of Code section 22(e)(3)), each Option to the extent not previously exercised shall immediately terminate together with all other rights hereunder.

(g) Death or Disability of Optionee: In the event of the death of the

Optionee, prior to the Termination Date, while employed by the Company or a subsidiary thereof, each Option shall remain exercisable prior to the Termination Date for a period of one year after the date of the Optionee's death by the person or persons to whom the Optionee's rights under each Option shall pass by will or by the applicable laws of descent and distribution to the extent that the Optionee was entitled to exercise the Option on the date of his death, and thereafter all Options to the extent not previously exercised shall terminate together with all other rights hereunder. If prior to the Termination Date the Optionee ceases to be employed by the Company or a subsidiary thereof by reason of disability within the meaning of Code section 22(e)(3), each Option to the extent not previously exercised shall remain exercisable prior to the Termination Date for a period of one year from the date of cessation of employment, and thereafter all Options to the extent not previously exercised shall terminate together with all other rights hereunder.

6. LIMITATION ON GRANTS OF INCENTIVE STOCK OPTIONS: With respect to Incentive Stock Options granted prior to May 4, 1990, the aggregate fair market value (determined as of the date the Option is granted) of the Common Stock for which any employee may be granted Incentive Stock Options in any calendar year under this and any other stock option plan maintained by the Company and/or its subsidiaries shall not exceed (a) \$100,000 plus (b) the "carryover amount" for that calendar year. The "carryover amount" with respect to a calendar year shall equal (a) one-half of the sum of the excess, for each of the preceding three calendar years (excluding years prior to 1981) of \$100,000 over the fair market value (determined as of the time the option is granted) of the Common Stock for which the employee was granted incentive stock options under this and any other stock option plan maintained by the Company and/or its subsidiaries, minus (b) the amount of any such excess used as a carryover amount in the grant of incentive stock options in any preceding calendar year. For purposes of this paragraph, the amount of options granted in any calendar year shall be treated as first using up the \$100,000 limitation for that year and any additional grants shall be treated as using up unused carryover amounts in the order of the calendar years in which the carryover amounts arose.

With respect to Incentive Stock Options granted subsequent to December 31, 1986, the aggregate fair market value (determined as of the date the Option is granted) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time in any calendar year under this and any other stock option plan maintained by the Company and/or its subsidiaries shall not exceed \$100,000.

7. INSTRUMENT OF GRANT: The terms and conditions of each Option granted under the Plan shall be set forth in an instrument designated "Incentive Stock Option Agreement" substantially in the form of Exhibit 1 attached hereto and made a part hereof if the Committee determines that such Option shall be an Incentive Stock Option under the provisions of section 422A of the Code. Otherwise, the terms and conditions of each Option granted under the Plan shall be set forth in an instrument designated "Stock Option Agreement" substantially in the form of Exhibit 2 attached hereto and made a part hereof. The Committee may make such modifications in the provisions of the instrument of grant as it shall deem advisable or as may be required by any provision of the Code.

8. ADJUSTMENTS UPON CHANGES IN STOCK: If (a) the Company shall at any time be involved in a transaction to which subsection (a) of section 425 of the Code is applicable; (b) the Company shall declare a dividend payable in, or shall subdivide or combine, its Common Stock; or (c) any other event shall occur which in the judgment of the Board of Directors necessitates action by way of adjusting the terms of the outstanding Options, the Board of Directors shall forthwith take any such action as in its judgment shall be necessary to preserve for the Optionees rights substantially proportionate to the rights existing prior to such event and to the extent that such action shall include an increase or decrease in the number of shares of Common Stock subject to outstanding Options, the number of shares available under paragraph 1 above shall be increased or decreased, as the case may be, proportionately. The judgment of the Board of Directors with respect to any matter referred to in this paragraph shall be conclusive and binding upon each Optionee.

9. AMENDMENTS AND TERMINATION: The Board of Directors may amend or terminate the Plan but may not (i) without the consent of the Optionee alter or impair any rights or obligations under any Option theretofore granted or (ii) without the approval of the holders of a majority of the shares of the Company voting thereon make any alteration in the Plan, except as provided in paragraph 8 hereof, which operates:

(a) to increase the total number of shares which may be issued under the Plan;

(b) to extend the term during which Options may be granted under the Plan;

(c) to permit the exercise of an Option after the date on which such Option would otherwise terminate pursuant to the terms hereof;

(d) to reduce the Option Price per share to less than the Fair Market Value of the Common Stock on the date the Option is granted; or

(e) to change the class of persons eligible to receive Options under the Plan.

10. PLAN DOES NOT CONFER EMPLOYMENT OR STOCKHOLDER RIGHTS: The right of the Company or any subsidiary thereof to terminate (whether by dismissal, discharge, retirement or otherwise) the Optionee's employment with it at any time at will, or as otherwise provided by any agreement between the Company and the Optionee, is specifically reserved. Neither the Optionee nor any person entitled to exercise the Optionee's rights in the event of the Optionee's death shall have any rights of a stockholder with respect to the shares subject to each Option, except to the extent that a certificate for such shares shall have been issued upon the exercise of each Option as provided for herein.

11. DEFINITION: As used in the Plan the term "subsidiary" shall have the meaning assigned to such term in Section 425 of the Code and in addition shall include both foreign and domestic subsidiaries and any corporation which becomes a subsidiary after the date of adoption of the Plan.

Amended and Restated
Credit Agreement

Dated as of July 29, 1998

among

K. Hovnanian Enterprises, Inc.,
Hovnanian Enterprises, Inc. and Certain
Subsidiaries Thereof Named Herein,

The Financial Institutions Named Herein,

and

PNC Bank, National Association
as Agent
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Amended And Restated
Credit Agreement

THIS AGREEMENT dated as of the 29th day of July, 1998 among K. HOVNIANIAN ENTERPRISES, INC., a New Jersey corporation, (the "Company"), HOVNIANIAN ENTERPRISES, INC., a Delaware corporation ("Hovnianian"), the subsidiaries of Hovnianian listed on the signature pages hereto (each, together with Hovnianian, a "Guarantor", and collectively, the "Guarantors"), and PNC Bank, National Association ("PNC"), First Union National Bank ("First Union"), NationsBank, National Association ("NationsBank"), First National Bank of Boston ("Bank of Boston"), Bank of America National Trust and Savings Association ("B of A"), The First National Bank of Chicago ("First of Chicago"), Comerica Bank ("Comerica") and Credit Lyonnais New York Branch ("Credit Lyonnais"), and Guaranty Federal Bank F.S.B. ("Guaranty Federal"), (each such banking institution individually referred to as a "Bank" and collectively as the "Banks"), and PNC Bank, National Association, as Agent for the Banks ("Agent").

In consideration of the premises, covenants and representations contained herein, and for other good and valuable consideration, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

1.1. Defined Terms. As used in this Agreement the following terms shall have the following meanings, unless the context otherwise requires:

"Adjusted Base Rate Margin" means the Initial Base Rate Margin as adjusted by 10 basis points in the case of each negative Rating Change to the fourth tier or the fifth tier and each positive Rating Change to the fourth tier or the third tier by one of the Rating Agencies in such agency's Implied Senior Debt Rating applicable to the Company.

"Adjusted Commitment Fee" shall mean the Initial Commitment Fee as adjusted, up or down, by 2 basis points for each Rating Change (other than, if applicable, a Rating Change between the first and second tiers, in which case the adjustment shall be 1-1/4 basis points) by one of the Rating Agencies in such agency's Implied Senior Debt Rating applicable to the Company.

"Adjusted Letter of Credit Fee" shall mean the Initial Letter of Credit Fee as adjusted, up or down, by 10 basis points for each Rating Change by one of the Rating Agencies in such agency's Implied Senior Debt Rating applicable to the Company.

"Adjusted Labor Margin" means the Initial Labor Margin as adjusted, up or down, by 10 basis points for each Rating Change by one of the Rating Agencies in such agency's Implied Senior Debt Rating applicable to the Company.

"Adjusted Operating Income" shall mean, at any time, Consolidated Net Income before (i) Income Taxes, (ii) any Interest Expense, (iii) Letter of Credit Fees, (iv) depreciation, (v) amortization of assets, and without duplication (vi) Net Income attributable to the Mortgage Subsidiaries, (vii) Net Income from Income Producing Property Subsidiaries, and (viii) Net Income attributable to the Finance Subsidiaries, plus (a) cash Distributions received from Mortgage Subsidiaries, (b) cash Distributions received from Income Producing Property Subsidiaries, (c) cash Distributions received from Finance Subsidiaries, and (d) non-cash valuation reserves.

"Adjusted Tangible Net Worth" shall mean, at any time, the excess, if any, of (i) Shareholders' Equity of Hovnianian and the Consolidated Subsidiaries (excluding any Consolidated Subsidiary which has initiated a relevant event covered by Subsection 7(f) hereof) at such date plus the outstanding principal amount of Subordinated Debt, over (ii) all amounts carried on the books of Hovnianian and its Consolidated Subsidiaries (without duplication) for (a) any write-up in the Book Value of any assets of Hovnianian or any of the Consolidated Subsidiaries resulting from a revaluation thereof subsequent to the Starting Date, (b) the Cost of Investments in excess of the Market Value at time of acquisition of assets acquired by Hovnianian or any Consolidated Subsidiaries,

(c) all Intangibles of Hovnanian and the Consolidated Subsidiaries, (d) all Investments in Finance Subsidiaries, (e) all Investments in Mortgage Subsidiaries (including, but not limited to, the Permitted Guarantee of a Warehouse Line of Credit for such Subsidiaries and loans by Hovnanian or a Consolidated Subsidiary to any Mortgage Subsidiary), (f) the amount by which the Cost of securities held as Investments exceeds the Market Value of such securities, (g) all equity in residential Inventory Properties encumbered by non-recourse mortgages, (h) Investments in Income Producing Property Subsidiaries, including, but not limited to, Permitted Guarantees of Indebtedness on Income Producing Properties, and (i) Investments in Joint Ventures.

"Affiliate" of any Person shall mean any other Person controlling, controlled by or under common control with such Person. For purposes of this definition, "control" shall include the ownership of 10% or more of the voting securities or interests of such Person.

"Agent" shall mean PNC Bank, National Association, in its capacity as Agent for the Banks hereunder pursuant to Section 9 and not in its capacity as a Bank, and any successor Agent appointed pursuant to Section 9.

"Agreement" shall mean this Amended and Restated Credit Agreement, as the same may from time to time be further amended or supplemented.

"Alternate Minimum Equity" shall mean the lesser of (i) Minimum Equity as of the end of the most recent Equity Issuance Quarter (taking into account the proceeds realized from the Minimum Equity Securities Issuance) and (ii) Adjusted Tangible Net Worth as of the end of the most recent Equity Issuance Quarter less Subordinated Debt less \$25,000,000.

"Alternative Interest Rates" shall mean the Base Rate and the Libor Based Rate.

"Applicable Base Rate Margin" means the Initial Base Rate Margin or, as the case may be, the Adjusted Base Rate Margin.

"Applicable Commitment Fee" shall mean the Initial Commitment Fee or, as the case may be, the Adjusted Commitment Fee.

"Applicable Letter of Credit Fee" shall mean the Initial Letter of Credit Fee or, as the case may be, the Adjusted Letter of Credit Fee.

"Applicable Libor Margin" means the Initial Libor Margin or, as the case may be, the Adjusted Libor Margin.

"Bank" shall mean each of the Banks identified at the beginning of this Agreement as a "Bank" and each Additional Bank and their respective successors and their respective assigns pursuant to the provisions of Subsection 8.7 hereof; all of which are referred to herein collectively as the "Banks."

"Base Minimum Equity" shall mean (i) Adjusted Tangible Net Worth less Subordinated Debt each as of the Starting Date, less (ii) \$25,000,000.

"Base Rate" shall mean that rate of interest per annum which is equal to the Index Rate, plus the Applicable Base Rate Margin. Notwithstanding anything to the contrary contained in, or any calculation otherwise resulting from, the definition of Adjusted Base Rate Margin, the Base Rate shall at no time be less than the Index Rate.

"Bona Fide Sales Contract" shall mean any binding sales agreement with a third party where all conditions precedent and contingencies have been satisfied and where the purchaser has paid a non-refundable deposit in an amount equal to or exceeding the standard deposit in the particular market area.

"Book Value" shall mean the amount carried on the books and records of Hovnanian and its Consolidated Subsidiaries determined in accordance with GAAP consistently applied.

"Borrowing Base" shall mean, at any date, an amount equal to the sum of (i) 30% (or (a) 45% if outstanding Other Senior Homebuilding Indebtedness exceeds \$50,000,000 but is less than \$100,000,000 and the Company has repaid the Indebtedness referenced in clause (i) of the definition of Subordinated Debt and (b) 55% if outstanding Other Senior Homebuilding Indebtedness equals or exceeds \$100,000,000 and the Company has repaid the Indebtedness referenced in clause (i) of the definition of Subordinated Debt) of Unencumbered Land Under Development; (ii) 70% of Unencumbered Unsold Lots/Homes Under Construction, and (iii) 100% of Unencumbered Sold Land/Lots/Homes, excluding, in each case, the cost of any land upon which Hovnanian holds a purchase option until such time as Hovnanian actually exercises the option and takes title to the property. In the event of any dispute as to the amount of the Borrowing Base at any time, the determination of the Banks shall be conclusive and binding on the Company, absent manifest error.

"Business Day" shall mean, with respect to each Bank, a day other than a Saturday, Sunday or other day on which commercial banks in the State of New Jersey are required or authorized by law to close.

"Capital Stock Retirement" shall mean any redemption, acquisition, purchase or other retirement of any capital stock or ownership interest of Hovnanian (including preferred stock) or of any warrants, rights or other options to purchase such capital stock or ownership interest, other than upon any conversion thereof into or exchange thereof for other shares of Hovnanian's capital stock.

"Capitalized Lease" shall mean a lease under which the obligations of the lessee would, in accordance with GAAP consistently applied, be included in determining total liabilities as shown on the liability side of a balance sheet of the lessee.

"Capitalized Lease Obligations" shall mean the amount of the liability reflecting the aggregate discounted amount of future payments under all Capitalized Leases calculated in accordance with GAAP consistently applied and Statement of Financial Accounting Standards No. 13.

"Cash Flow" means Adjusted Operating Income plus any decrease in Inventory which is not the result of a valuation reserve (or minus any increase in Inventory).

"Cash Flow Coverage Ratio" shall mean, as of the end of any fiscal quarter of Hovnanian, the ratio of the last twelve months of Cash Flow divided by four times the Fixed Charges for the last quarter of such twelve-month period.

"Commitment Fee" shall mean the fee payable by the Company pursuant to Subsection 3.5 hereunder.

"Commitment Termination Date" shall mean, with respect to each Bank, July 31, 2001, provided, however, that on or before April 30 of each year, each Bank will review its respective commitment and, in its sole discretion, may extend the Commitment Termination Date for a period of twelve months, provided, that in no event shall the Commitment Termination Date be so extended unless and until all Banks agree to such extension in writing.

"Compliance Letter" shall mean a letter submitted to each Bank periodically in accordance with this Agreement which shall be certified by the principal financial officer or principal accounting officer of the Company and shall indicate that (i) the Company, Hovnanian and all Consolidated Subsidiaries are in compliance with the covenants of this Agreement, (ii) all advances have been utilized only for the purposes allowed by this Agreement, and (iii) there are no new Consolidated Subsidiaries, or if there are new Consolidated Subsidiaries, list those and, unless they have already done so, or are not required to do so, have them execute an agreement joining in the guarantee ("Joinder Agreement") and enclose said Joinder Agreement. Each Compliance Letter shall also include a list of all outstanding Letters of Credit, setting forth the issuance date, the issuing LOC Bank, the face amount, the beneficiary and expiration date for each Letter of Credit. Each Compliance Letter shall be accompanied by the relevant financial statements required by Subsection 6.1(a) hereof and shall be in the form of Exhibit F attached hereto.

"Consolidated Net Income" means the aggregate Net Income of Hovnanian and all Consolidated Subsidiaries.

"Consolidated Subsidiaries" shall mean, at any date, the Subsidiaries and other entities whose assets and liabilities are consolidated with those of Hovnanian in its consolidated financial statements as of such date in accordance with GAAP. A list of all Consolidated Subsidiaries as of the date hereof is attached as Schedule 1 to this Agreement.

"Contingent Obligation" shall mean, as to any Person, any obligation of such Person guaranteeing or in effect guaranteeing any Indebtedness, leases, Distributions or other obligations ("primary obligations") of any other Person (other than Hovnanian or any Restricted Consolidated Subsidiary) (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any primary obligation of the ability of the primary obligor to make payment of such primary obligation or (d) otherwise to assure or to hold harmless the owner of such primary obligation against loss in respect thereof; provided, however, that Contingent Obligation shall not include (A) endorsements of instruments for deposit or collection in the ordinary course of business or (B) guarantees of surety, maintenance and performance bonds, and letters of credit delivered in

lieu of surety guarantees or maintenance and performance bonds by Hovnanian or any Consolidated Subsidiary in the ordinary course of business and consistent with past practice.

"Controlled Group" shall mean the "controlled group of corporations", as that term is defined in Section 414 of the Internal Revenue Code, of which Hovnanian and the Consolidated Subsidiaries are a part from time to time.

"Core States" shall mean (i) New Jersey, (ii) Pennsylvania, (iii) North Carolina, (iv) Florida, (v) New York, (vi) Virginia/Washington DC, (vii) California, (viii) Poland, and (ix) any additional state in which Hovnanian and the Consolidated Subsidiaries have sales (evidenced by Bona Fide Sales Contracts) after the Starting Date aggregating at least \$4,000,000.

"Cost" shall mean the cost of any asset used for the purposes of determining Book Value, determined in accordance with GAAP consistently applied.

"Defaulting Bank" shall mean any Bank which has defaulted in its obligation to make any Loan or issue any Letter of Credit hereunder or make any payment to an LOC Bank.

"Default Rate" shall have the meaning set forth in Section 3.4 hereof.

"Distribution" shall mean any dividend or distribution by a corporation or other entity with respect to its capital stock or other ownership interests, whether in cash, securities (including common and preferred stock) or other property.

"Distributions from Income Producing Property Subsidiaries" shall mean any and all cash that is transferred from an Income Producing Property Subsidiary to a Restricted Subsidiary, Hovnanian, EXC, Inc. or to the Company.

"Distributions from Mortgage Subsidiaries" shall mean any and all cash that is transferred from a Mortgage Subsidiary to a Restricted Subsidiary, Hovnanian, EXC, Inc. or the Company.

"Elected Interest Rate" shall mean, with respect to each Interest Period, the Alternative Interest Rate designated pursuant to Section 3 hereof with respect to such Interest Period.

"Encumbrance" shall mean any security interest, lien, pledge, bailment (in the nature of a pledge or for purposes of security), mortgage, deed of trust, the grant of a power to confess judgment, conditional sales and title retention agreement (including any lease in the nature thereof), charge, encumbrance, assignment, trust, or other similar arrangement or interest in real or personal property.

"ERISA" shall mean, at any time, the Employment Retirement Security Act of 1974 and the regulations thereunder, all as in effect at such time.

"ERISA Affiliate" as applied to any entity shall mean any Person which is a member of a Controlled Group of which that entity is a member.

"Equity Issuance Quarter" shall mean any fiscal quarter of Hovnanian in which a Minimum Equity Securities Issuance has occurred.

"Equity Securities" shall mean (i) common stock, (ii) preferred stock, and (iii) options, warrants, and rights to acquire common stock or preferred stock.

"Event of Default" shall mean any of the events specified in Section 7 hereof, provided that there has been satisfied any requirement, if applicable thereunder, in connection with such event for the giving of notice or the lapse of time, or both.

"Excess Other Senior Homebuilding Indebtedness" shall mean the amount, if any, from time to time by which the aggregate Other Senior Homebuilding Indebtedness exceeds \$100,000,000.

"Excluded Subsidiary" shall mean, for the purpose of Subsections 7(f) and (g) hereof, any Consolidated Subsidiary the sole tangible asset of which is an Income Producing Property which is subject to a non-recourse mortgage.

"Facility Commitments" shall mean the Revolving Credit Commitments and the Swing Line Commitment.

"Facility Fee" shall mean the fee payable by the Company pursuant to Subsection 3.6 herein.

"Facility Percentage" shall mean, with respect to any Bank at any time, the amount of such Bank's Facility Commitment divided by the aggregate amount of the Facility Commitments of all of the Banks, as set forth on Schedule 9 attached hereto.

"Federal Funds Rate" means on any one day the weighted average of the rate on overnight Federal Funds Transactions with members of the Federal Reserve System only arranged by Federal Funds Brokers as published as of such day by the Federal Reserve Bank of New York or if not so published, the rate then used by first class banks in extending overnight loans to other first class banks.

"Finance Subsidiary(ies)" shall mean each and every Consolidated Subsidiary other than Mortgage Subsidiaries engaged in the business of financing the sales of properties made by other Consolidated Subsidiaries. All Consolidated Subsidiaries which are Finance Subsidiaries as of the date hereof are noted on Schedule 1 attached hereto.

"Fixed Charges" shall mean, as of the end of any fiscal quarter of Hovnanian, an amount equal to the sum of (i) Interest Incurred on the Loans over such fiscal quarter, (ii) Interest Incurred on the Subordinated Debt over such fiscal quarter, (iii) 50% of the Interest Incurred on all Purchase Money Mortgages over such fiscal quarter, (iv) Interest Incurred over such fiscal quarter on all Other Senior Homebuilding Indebtedness, (v) Letter of Credit Fees accrued over such fiscal quarter, and (vi) Interest Incurred on all Capitalized Leases over such fiscal quarter.

"Fixed Charge Coverage Ratio" shall mean, as of the end of any fiscal quarter of Hovnanian, the ratio of the last twelve months of Adjusted Operating Income divided by four times the Fixed Charges for the last quarter of such twelve-month period.

"GAAP" shall mean generally accepted accounting principles in the United States of America as in effect from time to time and applicable to Hovnanian and the Consolidated Subsidiaries.

"Governmental Authority" shall mean any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guarantee" shall mean any guarantee of the payment or performance of any Indebtedness or other obligation and any other arrangement whereby credit is extended to one obligor on the basis of any promise of another Person, whether that promise is expressed in terms of an obligation to pay the Indebtedness of such obligor, or to purchase an obligation owed by such obligor, or to purchase goods and services from such obligor pursuant to a contract, or to maintain the capital, working capital, solvency or general financial condition of such obligor, whether or not any such arrangement is listed on the balance sheet of such other Person, or referred to in a footnote thereto, but shall not include endorsements of items for collection in the ordinary course of business.

"Guaranties" shall mean, collectively, the joint and several guaranties of the Guarantors to the Banks substantially in the respective forms of guaranties attached hereto as Exhibits E-1 through E-4; each of which is also sometimes referred to herein individually as a "Guaranty."

"Guarantors" shall mean Hovnanian and all Homebuilding Subsidiaries, all Operating Property Subsidiaries and all Other Corporate Subsidiaries as specified in Schedule 1 attached hereto, as such Schedule 1 may be supplemented from time to time in accordance with Subsection 6.1(i) to include Homebuilding Subsidiaries, Operating Property Subsidiaries and Other Corporate Subsidiaries of Hovnanian created or acquired after the date of this Agreement, each of which is also sometimes referred to herein individually as a "Guarantor."

"Homebuilding Indebtedness" shall mean, at any time, an amount equal to the sum of (i) Senior Homebuilding Indebtedness, and (ii) the unpaid principal balance of Subordinated Debt. Homebuilding Indebtedness shall not include (i) non-recourse Indebtedness on Income Producing Properties, (ii) Indebtedness of any Mortgage Subsidiary, (iii) Indebtedness of any Finance Subsidiary, and (iv) non-recourse Purchase Money Mortgages.

"Homebuilding Subsidiary(ies)" shall mean each and every Consolidated Subsidiary whose business is the construction or management of residential housing for sale. Notwithstanding anything to the contrary herein, K. Hovnanian Mortgage, USA, Inc., shall be deemed to be a Homebuilding Subsidiary (and not a member of any other Subsidiary Group) for the purposes of this Agreement. All Consolidated Subsidiaries which are Homebuilding Subsidiaries as of the date hereof are noted on Schedule 1 attached hereto.

"Implied Senior Debt Rating" means the rating, if any, designated by one of the Rating Agencies as its Implied Senior Debt Rating for the Company.

"Income Producing Property(ies)" shall mean, at any date, any residential or commercial property owned by Hovnanian or any Consolidated Subsidiary of which 50% or more of the total square feet is leased or held for purposes of leasing primarily to unaffiliated third parties; each of which is also sometimes referred to herein individually as an "Income Producing

Property."

"Income Producing Property Subsidiary(ies)" shall mean each and every Consolidated Subsidiary whose business is the owning of Income Producing Property. All Consolidated Subsidiaries which are Income Producing Property Subsidiaries as of the date hereof are noted on Schedule 1 attached hereto.

"Income Taxes" shall mean the amount required by GAAP to be recorded as a current or deferred expense for federal, state and local income taxes, whether or not actually paid.

"Indebtedness" of any Person as of any date shall mean without duplication, (i) all obligations, unconditional, contingent or otherwise, of such Person for borrowed money or for the deferred purchase price of property or services (including, without limitation, all obligations, unconditional, contingent or otherwise, of such Person in connection with any letters of credit, letter of credit facilities, acceptance facilities or other similar facilities and in connection with any agreement to purchase, redeem, exchange, convert or otherwise acquire for value any capital stock of such Person, or any warrants, rights or options to acquire such capital stock, now or hereafter outstanding), except any such obligation that constitutes a trade payable arising in the ordinary course of business not overdue by more than 90 days or that is being contested in good faith by appropriate proceedings, if and to the extent any of the foregoing "indebtedness" would appear as a liability upon a balance sheet of such Person prepared on a consolidated basis in accordance with GAAP, (ii) all obligations of such Person evidenced by bonds, notes, debentures or other similar instruments, (iii) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), except any such indebtedness that constitutes a trade payable arising in the ordinary course of business not overdue by more than 90 days or that is being contested in good faith by appropriate proceedings, if and to the extent any of the foregoing indebtedness would appear as a liability upon a balance sheet of such Person prepared on a consolidated basis in accordance with GAAP, (iv) all Capitalized Lease Obligations of such Person, (v) all indebtedness of the types referred to in clause (i), (ii), (iii) or (iv) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any lien, upon or in property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, and (vi) any Contingent Obligation (including any obligation which is the economic equivalent of a Contingent Obligation) with respect to any item of this definition (regardless of whether such item would appear on a balance sheet); provided, however, that Indebtedness shall not include

guarantees of surety, maintenance and performance bonds, and letters of credit delivered in lieu of surety guarantees or maintenance and performance bonds by Hovnanian or any Consolidated Subsidiary in the ordinary course of business consistent with past practice.

"Indentures" shall mean, collectively, the Indentures described in clauses (i) and (ii) of the definition of "Subordinated Debt."

"Index Rate" shall mean the higher of (i) the Prime Rate of Agent or (ii) the Federal Funds Rate plus 25 basis points.

"Initial Commitment Fee" shall mean 32 basis points as of the date of this Agreement.

"Initial Letter of Credit Fee" shall mean 132 basis points as of the date of this Agreement.

"Initial Libor Margin" shall mean 145 basis points as of the date of this Agreement.

"Initial Base Rate Margin" shall mean 0 basis points as of the date of this Agreement.

"Intangibles" shall mean all patents, patent applications, copyrights, trademarks, trade names, goodwill, experimental or organizational expenses and other like items of Hovnanian and the Consolidated Subsidiaries treated as intangibles under GAAP.

"Interest Expense" shall mean, with respect to any fiscal period of Hovnanian, the amount reported in accordance with GAAP as a current expense for interest for Hovnanian and the Consolidated Subsidiaries. Interest Expense shall be calculated as (i) Interest Incurred on any Indebtedness in the fiscal period, less (ii) the amount of Interest capitalized during the period with respect to Inventory, plus (iii) the amount of previously capitalized interest which was expensed during the period in conjunction with the sale of Inventory, each in accordance with GAAP.

"Interest Incurred" shall mean, with respect to any Indebtedness and any fiscal period of Hovnanian, the amount of interest, fees or other related payments (other than repayments of principal) determined, in accordance with GAAP, as a cost attributable to the period.

"Interest Payment Date" shall mean the first day of each month except, in the case of the Libor Based Rate, it shall mean the final day of the applicable Interest Period.

"Interest Period" shall mean each period ascertained in accordance with Section 3 hereof.

"Interim Compliance Letter" shall mean a letter to be submitted to each Bank as required by Subsection 6.1(a)(ix) hereof and in the form of Exhibit I attached hereto.

"Internal Revenue Code" shall mean the Internal Revenue Code of 1986, as amended.

"Inventory or Inventory Property(ies)" shall mean, at any date, the sum of (i) Land in Planning, (ii) Land Under Development, (iii) Unsold Lots/Homes Under Construction and (iv) Sold Land/Lots/Homes.

"Investments" shall mean amounts paid or agreed to be paid by way of investment in or purchase of stock, securities, liabilities, properties, or assets of, or contributed to, other Persons, determined in accordance with GAAP consistently applied. An Investment in any Consolidated Subsidiary shall be equal to the Shareholders' Equity of such Subsidiary determined on a consolidating basis plus any outstanding loans or advances by the Company, Hovnanian or another Guarantor to such Consolidated Subsidiary plus any guarantees by the Company, Hovnanian or another Guarantor of the Indebtedness of such Subsidiary. An Investment in any Joint Venture shall be equal to the sum of (i) outstanding loans and advances to said Joint Venture by the Company, Hovnanian and any other Guarantor, (ii) guarantees of Indebtedness of such Joint Venture by the Company, Hovnanian or any other Guarantor, and (iii) the product of (a) the percent ownership interest in said Joint Venture held by Hovnanian and the Consolidated Subsidiaries and (b) Shareholder's Equity of such Joint Venture.

"Joinder Agreement" shall mean the agreement substantially in the form of Exhibit G hereto pursuant to which each Homebuilding Subsidiary, Operating Property Subsidiary or Other Corporate Subsidiary formed after the date hereof becomes a Guarantor hereunder and under the Guaranties.

"Joint Venture" shall mean any entity in which Hovnanian and/or any Consolidated Subsidiary has an ownership interest and whose assets and liabilities are not consolidated with those of Hovnanian (but excluding any issuer referred to in Subsection 6.2(d)(v)). A list of all Joint Ventures as of the date hereof is attached as Schedule 2.

"KHL" shall mean KHL, Inc., a Delaware corporation and a wholly-owned subsidiary of Hovnanian, which is not a Guarantor but is a Restricted Subsidiary.

"Land in Planning" shall mean, at any date, an amount equal to the lower of Cost or Market Value (determined in accordance with GAAP consistently applied) of any land which has not been granted "Preliminary Approvals" for residential development. For purposes of this calculation, Cost shall include only land cost and all capitalized expenses.

"Land Under Development" shall mean, at any date, an amount equal to the lower of Cost or Market Value (determined in accordance with GAAP consistently applied) of any land that has been granted "Preliminary Approvals" for residential development but neither the slab nor foundation is complete nor has a third party purchaser paid a cash deposit. For purposes of this calculation, Cost shall include land cost and all capitalized expenses.

"Letter(s) of Credit" shall have the meaning ascribed to such term in Subsection 2.8 hereof.

"Letter of Credit Fees" shall mean all fees and similar payments paid in connection with the issuance of Letters of Credit which under GAAP are required to be recorded as a current expense.

"Libor" shall mean, with respect to a specified Interest Period, that rate of interest per annum determined by the Agent (whose determination shall be final and conclusive save for any manifest error) to be equal to the average of the rates per annum (set forth on Telerate display page 3750 or such other display page on the Telerate System as may replace such page to evidence the average of rates quoted by banks designated by the British Bankers' Association (or appropriate successor or, if the British Bankers' Association or its successor ceases to provide such quotes, a comparable replacement determined by the Agent) at which deposits of United States Dollars of an amount comparable to

the amount of the borrowing hereunder or the outstanding principal amount, as the case may be, from the Banks, and for a period equal to the duration of the specified Interest Period, are offered to the Agent in the London Interbank Eurodollar Market at or about eleven a.m. (London time) on the second Business Day immediately preceding the first day of such Interest Period for delivery on the first day of such Interest Period.

"Libor Based Rate" shall mean, with respect to a specified Interest Period, that rate of interest per annum which is equal to Libor as determined by the Agent plus the Applicable Libor Margin, plus, the cost (as determined by the Agent whose determination shall be final and conclusive save for manifest error) of maintaining the Reserve Percentage required for Eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Regulations of the Board of Governors of the Federal Reserve System).

"Loan Percentage" shall mean, as of the date a remittance is to be made by the Agent to the Banks hereunder, the aggregate principal amount outstanding under all Notes held by a Bank divided by the aggregate principal amount outstanding under all Notes held by all Banks.

"Loans" shall mean the aggregate of all outstanding Revolving Credit Loans and the Swing Loan.

"LOC Bank" shall mean each of the Banks and any successors thereto or assigns thereof, all of which are also referred to herein sometimes collectively as the "LOC Banks."

"Losses" shall have the meaning set forth in Section 9.5 hereof.

"Managing Agent" shall mean B of A.

"Mandatory Principal Payments" shall mean at any time, the principal payments scheduled to be paid on Subordinated Debt. The Mandatory Principal Payments for Subordinated Debt outstanding on the date hereof are set forth on Schedule 3 attached hereto.

"Market Value" shall mean the fair market value of any asset used for purposes of determining Book Value (where such value is less than Cost), determined in accordance with GAAP consistently applied.

"Material Adverse Effect" shall mean (i) any material adverse change in the business, properties, assets, liabilities, financial condition, operations, results of operations, or business prospects, of Hovnanian and its Consolidated Subsidiaries as a whole, (ii) a material adverse effect on the ability of the Company to pay or perform its obligations hereunder and under the Notes or on the ability of the Guarantors taken as a whole to pay or perform their respective obligations hereunder and under the Guaranties, or (iii) a material adverse effect on the validity or enforceability of this Agreement, Notes or Guaranties.

"Minimum Equity" shall mean, at any time, the sum of the following: (i)(x) (as of the Starting Date) Base Minimum Equity and (y) (for the period following the Starting Date) Minimum Equity as of the last day of the immediately preceding fiscal year (or for each fiscal quarter following and in the same fiscal year as an Equity Issuance Quarter, the Alternate Minimum Equity as of the end of such preceding Equity Issuance Quarter), (ii) 50% of each fiscal quarter's Consolidated Net Income, if such quarter's Consolidated Net Income is positive, earned since the end of the immediately preceding fiscal year (or if Alternate Minimum Equity is used in clause (i) above, then earned after the end of such preceding Equity Issuance Quarter), and (iii) 50% of all proceeds realized by Hovnanian from the issuance of any Equity Securities after the immediately preceding fiscal year-end (or if Alternate Minimum Equity is used in clause (i) above, then realized after the end of such preceding Equity Issuance Quarter), except that at the end of any Equity Issuance Quarter, Minimum Equity shall be equal to Alternate Minimum Equity. Notwithstanding the provisions of clause (ii) above, the calculation under such clause (ii) for the final quarter of each fiscal year shall take into account 50% of all Consolidated Net Income (but only if such amount is positive) earned in such fiscal year.

"Minimum Equity Securities Issuance" shall mean the issuance by Hovnanian of Equity Securities pursuant to which Hovnanian receives at least \$10,000,000 of net proceeds.

"Moody's" means Moody's Investors Service, Inc., or any successor.

"Mortgage Receivables" shall mean all present and future individual residential mortgage receivables held by Hovnanian or any Consolidated Subsidiary.

"Mortgage Subsidiary(ies)" shall mean each and every Consolidated Subsidiary whose business is the making of mortgage loans. All Consolidated Subsidiaries which are Mortgage Subsidiaries as of the date hereof are noted on

Schedule 1 (as supplemented) attached hereto.

"Multiemployer Plan" shall mean any Plan which is a "multiemployer plan" as defined in Section 3(37) of ERISA.

"Net Income" shall mean for any period the net income (or loss) after Income Taxes for such period determined in accordance with GAAP consistently applied.

"Net Income From Income Producing Property(ies)" shall mean Net Income of any Income Producing Property Subsidiary.

"Net Worth Amount" shall mean Adjusted Tangible Net Worth less Subordinated Debt.

"Notes" shall mean the Revolving Credit Notes and the Swing Line Note, each of which is also sometimes referred to herein individually as a "Note."

"Operating Lease" shall mean for any Person any lease of property which would not be classified as a Capitalized Lease under GAAP consistently applied, other than a lease under which such Person is the lessor.

"Operating Property" shall mean any property owned by Hovnanian or any Consolidated Subsidiary of which more than 50% of the total square feet is occupied by Hovnanian and/or a Consolidated Subsidiary.

"Operating Property Subsidiary(ies)" shall mean each and every Consolidated Subsidiary which owns Operating Property. All Operating Property Subsidiaries as of the date hereof are noted on Schedule 1 attached hereto.

"Optional Sinking Fund Payment(s)" shall mean any amount of money paid to reduce the amount due on the Subordinated Debt made in excess of or prior to the due date of Mandatory Principal Payments. If Hovnanian or the Company, as the case may be, prepays in full an issue of Subordinated Debt and refinances the issue no more than 60 days after such prepayment, then such prepayment shall not be an Optional Sinking Fund Payment provided the new issue shall be equally subordinated and shall contain terms and conditions that are equal or more favorable to Hovnanian or the Company, as the case may be, with respect to interest, maturity and payment schedule. For any period for which Optional Sinking Fund Payments are to be determined for any purpose under this Agreement, a credit shall be given in such calculation equal to that portion of any Mandatory Principal Payment due during such period which was not required to be made as a result of the prior payment (during or prior to such period) of any Optional Sinking Fund Payment(s). Notwithstanding the foregoing, no prepayment of the Indebtedness referenced in clause (i) of the definition of Subordinated Debt shall be treated as an Optional Sinking Fund Payment.

"Other Corporate Subsidiary(ies)" shall mean each and every Consolidated Subsidiary which is not a Homebuilding Subsidiary, a Finance Subsidiary, an Income Producing Property Subsidiary, a Mortgage Subsidiary, an Operating Property Subsidiary, the Company or KHL. All Other Corporate Subsidiaries as of the date hereof are noted on Schedule 1 attached hereto.

"Other Senior Homebuilding Indebtedness" shall mean, at any time, the aggregate amount of unsecured Senior Homebuilding Indebtedness which is either (x) term indebtedness having a maturity date subsequent to the Commitment Termination Date or (y) committed revolving credit indebtedness with a maturity date of less than 365 days from its date of issuance less (i) the outstanding principal balance of the Loans, (ii) the aggregate face amount of Letters of Credit issued under the Revolving Credit Commitment, and (iii) Guarantees made by Hovnanian or any Restricted Subsidiary in the ordinary course of business.

"Out of Compliance Period" shall mean any fiscal quarter as of the end of which the Fixed Charge Coverage Ratio is lower than 1.25 and the Cash Flow Coverage Ratio is lower than 1.35.

"Out of Compliance Period Adjustments" shall mean (i) for three (3) or more consecutive Out of Compliance Periods, a reduction of .25 in the Total Debt Multiplier, (ii) for more than three (3) consecutive Out of Compliance Periods, an additional reduction in the Total Debt Multiplier equal to .10 times the number of consecutive Out of Compliance Periods in excess of three, and (iii) if an Out of Compliance Period occurs and as of the end of any one or more subsequent fiscal quarters either the Fixed Charge Coverage Ratio exceeds 1.25 or the Cash Flow Coverage Ratio exceeds 1.35, an increase of .25 in the Total Debt Multiplier for each such fiscal quarter.

"Outstanding Letters of Credit" shall mean those letters of credit issued under the Prior Credit Agreement and outstanding as of the date hereof as listed on Schedule 12 attached hereto.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA, or any other governmental agency, department or instrumentality succeeding to the functions of such corporation.

"Performance Letters of Credit" shall mean Letters of Credit described in clause (ii) of the first sentence of Subsection 2.8(a).

"Permitted Encumbrances" shall mean the Encumbrances permitted to be created, assumed or suffered by Company, Hovnanian or the Consolidated Subsidiaries in accordance with Subsection 6.2(b) herein.

"Permitted Guarantees" shall mean the Contingent Obligations permitted in accordance with Subsection 6.2 (c) herein.

"Permitted Indebtedness" shall mean the Indebtedness permitted to be incurred by Company, Hovnanian and/or Consolidated Subsidiaries in accordance with Subsection 6.2(a) herein.

"Permitted Investments" shall mean Investments permitted in accordance with Subsection 6.2(d) herein.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, limited liability company or partnership, joint venture, Governmental Authority or other entity.

"Plan" shall mean any plan, including single employer, multiple employer and multiemployer plans, subject to Title IV of ERISA and established, maintained or contributed by Hovnanian or any member of the Controlled Group at any time during the two-year period ending on the date hereof or at any time hereafter.

"Pledge Agreement" shall mean the pledge agreement of Hovnanian substantially in the form of Exhibit H attached hereto and made a part hereof, pledging to the Banks all of the issued and outstanding shares of stock of KHL as collateral security for the obligations of Hovnanian pursuant to the Guaranties.

"Potential Event of Default" shall mean any occurrence, condition, act or omission which with the passage of time or the giving of notice or both would result in an Event of Default hereunder.

"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.

"Prime Rate" shall mean the fluctuating rate of interest announced from time to time by the Agent as its "prime rate," "prime lending rate," "base rate" or "base lending rate." This rate of interest is determined from time to time by the Agent as a means of pricing some loans to customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by the Agent or any Bank to any particular class or category of customers of the Agent or any Bank.

"Prior Credit Agreement" shall mean that certain Credit Agreement dated as of July 30, 1993 among Hovnanian, the Company, certain Subsidiaries thereof named therein, the financial institutions named therein and PNC Bank, National Association, as Agent, as amended.

"Purchase Money Mortgages" shall mean non-recourse mortgages granted to secure Indebtedness incurred for the acquisition of Inventory Property.

"Rating Agency" means each of S&P and Moody's.

"Rating Change" means a change in the applicable rating among the five tiers on the following chart assigned by one of the respective Rating Agencies as its Implied Senior Debt Rating for the Company (the present assigned rating by each Rating Agency being at (or in the case of Moody's deemed at) the third tier shown below), or if no Implied Senior Debt Rating is then assigned, then at the fifth tier shown below:

S & P Moody's Tiers BB+ (or better) Ba1 (or better) First BBBa2 Second BB-Ba3 Third B+B1 Fourth B (or worse) B2 (or worse) Fifth

"Related Businesses" shall mean non-publicly owned companies, partnerships and other entities whose business is residential housing for sale.

"Reportable Event" shall mean any of the events which are reportable under Section 4043 of ERISA and the regulations thereunder.

"Requisite Banks" shall mean Banks having or holding 66-2/3%, or a greater percentage, of the aggregate Facility Commitments of all Banks.

"Reserve Percentage" shall mean, for any day, that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for

determining the reserve requirement for a member bank of the Federal Reserve System in the Second District with deposits exceeding one billion dollars in respect of new time deposits in dollars having a maturity comparable to the applicable Interest Period and in an amount of \$100,000 or more. For purposes of this computation under the provisions of Regulation D, it shall be assumed that such bank's reserve ratio on such time deposits shall be adjusted automatically on and as of the effective date of any change in the Reserve Percentage.

"Restricted Investments" shall mean (i) Investments in Related Businesses, (ii) Investments in Joint Ventures, and (iii) loans by Hovnanian to any Mortgage Subsidiary.

"Restricted Payments" shall mean (i) Distributions by Hovnanian, (ii) Capital Stock Retirements, and (iii) Optional Sinking Fund Payments.

"Restricted Subsidiary(ies)" shall mean, at any time, the Company, all Homebuilding Subsidiaries, and KHL, Inc.

"Revolving Credit Commitments" means the collective commitments of all the Banks to make Revolving Credit Loans to the Company pursuant to this Agreement in an aggregate principal amount not to exceed, at any time outstanding, \$270,000,000, as such amount may be increased pursuant to Subsection 8.7(c) hereof up to a maximum collective amount of \$285,000,000, provided, however, that the Revolving Credit Commitment of each Bank shall at all times be reduced by an amount equal to each such Bank's Revolving Credit Commitment Percentage of any then outstanding Excess Other Senior Homebuilding Indebtedness and the "Revolving Credit Commitment" of any Bank at any particular time means the respective commitment of such Bank to make Revolving Credit Loans to the Company pursuant to this Agreement in an amount equal to its Revolving Credit Commitment Percentage multiplied by the aggregate principal amount of the Revolving Credit Commitments, all as set forth on Schedule 9 attached hereto.

"Revolving Credit Commitment Percentage" shall mean, with respect to any Bank at any time, the amount of such Bank's Revolving Credit Commitment divided by the aggregate amount of the Revolving Credit Commitments of all the Banks, as set forth on Schedule 9 attached hereto.

"Revolving Credit Facility" shall have the meaning specified in Subsection 2.1 hereof.

"Revolving Credit Loan(s)" shall have the meaning specified in Subsection 2.1 hereof.

"Revolving Credit Notes" shall mean the promissory notes of the Company described in Subsection 2.2 hereof, each of which is also sometimes referred to herein individually as a "Revolving Credit Note."

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., or any successor.

"Senior Homebuilding Indebtedness" shall mean, at any time, the sum of the following: (i) outstanding Letters of Credit, (ii) Guarantees made by Hovnanian or any Restricted Subsidiary in the normal course of business, (iii) outstanding principal balance of the Loans, (iv) all other Indebtedness not included above, for which the obligor is Hovnanian and/or a Restricted Subsidiary. Specifically excluded from Senior Homebuilding Indebtedness are the following: (i) Indebtedness on or Hovnanian's Guarantee of Indebtedness on Income Producing Properties, (ii) Indebtedness of any Mortgage Subsidiary, (iii) Indebtedness of the Finance Subsidiaries, (iv) Indebtedness secured by non-recourse Purchase Money Mortgages, (v) Indebtedness incurred pursuant to Subsection 6.2(a)(v), (vi) Permitted Guarantees of indebtedness of any Consolidated Subsidiary, and (vii) Subordinated Debt.

"Shareholders Equity" shall mean the stockholders' equity (excluding redeemable preferred stock) of Hovnanian, determined in accordance with GAAP consistently applied, except that there shall be deducted from stockholders' equity any amount reflected as treasury stock.

"Sold Land/Lots/Homes" shall mean, at any time, the capitalized construction costs (determined in accordance with GAAP consistently applied) of any home/unit upon which a third party purchaser has paid a cash deposit. This shall include the proportional costs of the land under the unit, site improvements, and soft costs incurred to date as well as direct construction costs.

"Starting Date" shall mean January 31, 1998.

"Subordinated Debt" shall mean (i) the Company's 11.25% Subordinated Notes due April 15, 2002 in an original principal amount of \$100,000,000, issued pursuant to an Indenture dated as of April 15, 1992 between the Company and First Fidelity Bank, National Association, New Jersey (having since merged into First Union National Bank), as Trustee, having a outstanding principal balance

of \$90,000,000 as of the Starting Date, (ii) the Company's 9-3/4% Subordinated Notes due June 1, 2005 in an original principal amount of \$100,000,000, issued pursuant to an Indenture dated as of May 28, 1993 between the Company and First Fidelity Bank, National Association, New Jersey (having since merged into First Union National Bank), as Trustee, having a current outstanding principal balance of \$100,000,000, and (iii) any other unsecured indebtedness of Hovnanian, the Company or any Consolidated Subsidiary which is subordinated by its terms to the prior payment in full of the Indebtedness evidenced by this Agreement, the Notes and the Letters of Credit, 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) or (ii) above and which contains covenants that are not materially less favorable to Hovnanian, the Company or any Consolidated Subsidiary than those contained in the Subordinated Debt described in clause (i) or (ii) above.

"Subsidiary" shall mean any corporation more than 50 percent of the voting stock power of which at the time is owned or controlled (whether now existing or hereafter authorized or acquired) directly by Hovnanian or any Subsidiary or by any combination of Hovnanian and any one or more Subsidiaries.

"Subsidiary Groups" shall mean Homebuilding Subsidiaries, Mortgage Subsidiaries, Finance Subsidiaries and Income Producing Property Subsidiaries.

"Swing Loan" shall have the meaning specified in Subsection 2.2 hereof.

"Swing Loan Commitment" shall mean the commitment of the Swing Loan Lender to make Swing Loans to the Company pursuant to this Agreement in an aggregate principal amount not to exceed, at any time outstanding, \$10,000,000.

"Swing Loan Lender" shall mean PNC Bank, National Association.

"Swing Loan Note" shall mean the promissory note of the Company described in Subsection 2.3(b) hereof.

"Total Debt Multiplier" shall mean 2.75, subject to Out of Compliance Period Adjustments which cannot, in any event, cause the Total Debt Multiplier to exceed 2.75.

"Unencumbered" shall mean, with respect to Inventory Properties and Income Producing Properties, such Properties on which there is no Encumbrance of any kind except (i) liens for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges, (ii) liens of mechanics, materialmen and laborers for work or services performed or materials furnished in connection with such Properties, which, or the amount or validity of which, are being contested in good faith and on which execution is stayed or which have been due for less than 30 days, and (iii) easements, restrictions and other similar encumbrances which do not materially affect the value or use of such Properties.

"Unsold Lots/Homes Under Construction" shall mean, at any time, the capitalized construction costs (determined in accordance with GAAP consistently applied) of any home/unit being built for which construction of slab or foundation has been completed and upon which no cash deposit has been paid. This shall include the proportional costs of the land under the unit, site improvements and soft costs incurred to date.

"Warehouse Line of Credit" shall mean a line of credit provided to any Mortgage Subsidiary for the purpose of financing Mortgage Receivables.

1.2. Use of Defined Terms. All terms defined in this Agreement shall have the defined meanings when used in the Schedules and Exhibits hereto, and in the Notes, the Guaranties and the Pledge Agreement, and any certificates, reports or other documents made or delivered pursuant to this Agreement, unless the context otherwise requires.

1.3. Accounting Terms. Each accounting term not defined in this Agreement, and each accounting term partly defined in this Agreement to the extent not defined, shall have the meaning given to it under GAAP consistent with those principles utilized in preparing the audited financial statements of Hovnanian dated the Starting Date.

SECTION 2. AMOUNT AND TERMS OF LOANS

2.1. Revolving Credit Commitments. Subject to the terms and conditions of this Agreement, each Bank severally agrees to make cash advances in the nature of revolving credit loans (each a "Revolving Credit Loan" and collectively the "Revolving Credit Loans") to the Company, from time to time from the date hereof until the Commitment Termination Date, in an aggregate principal amount at any one time outstanding not to exceed the amount of its respective Revolving Credit Commitment. During the aforesaid period, the Company may borrow, prepay in whole or in part and re-borrow, all in accordance with the terms and conditions hereof. Each Revolving Credit Loan hereunder shall be in the minimum lending group aggregate principal amount of \$100,000 or any larger integral multiple of

\$100,000 (except that any such Revolving Credit Loan may be in the aggregate amount of the unused Revolving Credit Commitments) and shall be made ratably from the several Banks in proportion to their respective Revolving Credit Commitment Percentages. All outstanding Revolving Credit Loans, unless otherwise due and payable under the terms hereof, shall be due and payable on the Commitment Termination Date. Except as may be expressly stated in this Agreement, no Bank shall at any time be liable for or have any duty to provide funding for all or any portion of Revolving Credit Loans to be made by or any other undertaking to be performed by, any other Bank hereunder.

2.2. Swing Loan Commitment. Subject to the terms and conditions of this Agreement, the Swing Loan Lender agrees to make certain temporary loans (each a "Swing Loan" and collectively the "Swing Loans") to the Company, from time to time from the date hereof until the Commitment Termination Date, in an aggregate principal amount at any one time outstanding not to exceed the amount of the Swing Loan Commitment. During the aforesaid period, the Company may borrow, prepay in whole or part and reborrow, all in accordance with the terms and conditions hereof. In the event that Swing Loans are outstanding for any period of nine (9) consecutive Business Days, the Company shall repay to the Swing Loan Lender the unpaid principal balance of all outstanding Swing Loans on the following Business Day up to an amount representing the difference, on such Business Day, between the aggregate Revolving Credit Commitments and the aggregate outstanding principal amount of the Revolving Credit Loans and the Letters of Credit. All outstanding Swing Loans, unless otherwise due and payable under the terms hereof, shall be due and payable on the Commitment Termination Date.

2.3. Notes.

(a) The Revolving Credit Loans from each Bank pursuant to Subsection 2.1 hereof shall be evidenced by a separate promissory note substantially in the respective forms attached hereto as Exhibits A-1 through A-4 hereto, payable to the order of such Bank in a principal amount equal to the amount of its Revolving Credit Commitment, (each individually, a "Revolving Credit Note", and collectively, the "Revolving Credit Notes"). The Revolving Credit Notes shall each (i) be dated the date hereof, (ii) be stated to mature on the Commitment Termination Date, and (iii) bear interest on the unpaid principal amount thereof from the date thereof at a rate per annum determined in accordance with the provisions of Section 3 of this Agreement, payable on the Interest Payment Dates as specified in Section 3 of this Agreement until payment in full of the principal balance thereof.

(b) The Swing Loans from the Swing Loan Lender pursuant to Subsection 2.2 hereof shall be evidenced by a separate promissory note substantially in the form attached hereto as Exhibit "B" payable to the order of the Swing Loan Lender in a principal amount equal to the Swing Loan Commitment (the "Swing Loan Note"). The Swing Loan Note shall (a) be dated the date hereof, (b) be stated to mature on the Commitment Termination Date, and (c) bear interest on the unpaid principal balance thereof from the date thereof at a rate per annum determined in accordance with the provisions of Section 3 of this Agreement, payable on the Interest Payment Date as specified in Section 3 of this Agreement until payment in full of the principal balance thereof.

2.4. Drawdowns.

(a) Prior to each Revolving Credit Loan hereunder, the Company shall give the Agent not less than three (3) Business Days' irrevocable notice thereof (if the Libor Based Rate is specified) or irrevocable notice thereof on the day the Revolving Credit Loan is to be made (if the Prime Based Rate is specified), in each case by telephone, followed by written notice substantially in the form of the Notice of Drawdown set forth as Exhibit "C-1" attached hereto and made a part hereof. Each such Revolving Credit Loan shall be effected by transferring the amount thereof to the Company in accordance with the payment instructions set forth in the Notice of Drawdown on the date specified in such Notice of Drawdown.

(b) Prior to each Swing Loan hereunder, the Company shall give the Swing Loan Lender irrevocable notice thereof in each case by telephone, followed by written notice substantially in the form of the Notice of Drawdown set forth as Exhibit "C-2" attached hereto and made a part hereof. Each such Swing Loan shall be effected by transferring the amount thereof to the Company in accordance with the payment instructions set forth in the Notice of Drawdown on the date specified in such Notice of Drawdown.

(c)(i) All requests by the Company for Revolving Credit Loans shall be made by 11:00 a.m., New Jersey time, on the day specified in subparagraph (a) hereof. Upon receiving a request for a Revolving Credit Loan in accordance with subparagraphs (a) and (c) hereof, Agent shall notify all Banks of the request as soon as practical thereafter in writing by facsimile transmission, but no later than twelve o'clock (12:00) noon, New Jersey time or as soon as is reasonably practicable thereafter. Each Bank shall remit its applicable Revolving Credit Commitment Percentage of the requested Revolving Credit Loan to Agent by remitting federal funds immediately available, to Agent pursuant to Agent's

instructions prior to two-thirty (2:30) p.m. New Jersey time on the date the Revolving Credit Loan is to be made. Subject to the satisfaction of the terms and conditions hereof, Agent shall make the requested Revolving Credit Loan available to the Company (to the extent of those portions of the Revolving Credit Loan actually received from the Banks) by crediting such amount to the Company's operating account with Agent as soon as reasonably practicable after two-thirty (2:30) p.m. New Jersey time on the day the requested Revolving Credit Loan is to be made. If any Bank fails to make available to the Agent on a timely basis, as provided above, its applicable share of the requested Revolving Credit Loan, the Agent shall also be entitled to advance on behalf of such Bank, at the sole discretion of the Agent, the share of such Bank and then recover from such Bank (together with the amount so advanced) interest at the Federal Funds Rate on such unpaid share for each day such amount is not so remitted to the Agent.

(ii) All requests by the Company for Swing Line Loans shall be made by two o'clock (2:00) p.m. New Jersey time, on the day such Loan is to be made and, subject to the terms and conditions of this Agreement, the Swing Line Lender shall make the requested Swing Line Loan available to the Company by crediting such amount to the Company's operating account with Agent as soon as reasonably practicable thereafter.

2.5. Payments of Principal and Interest; Computation of Interest. All payments (including prepayments) by the Company of the principal of and interest on the Notes shall be made at the offices of the Agent, for the benefit of each Bank, as set forth in this Agreement, or at such other place as the Agent may from time to time designate, in lawful money of the United States of America and, in the case of principal payments, in immediately available funds and, in the case of interest payments, except as otherwise provided in any of the Notes, by check subject to collection. Interest shall be calculated on the basis of actual days elapsed in a year of 360 days. Each Bank shall have the right to charge any deposit account of the Company or any Guarantor with such Bank for the amount of any obligation then due and owing hereunder to such Bank. If any payment hereunder becomes payable on a day which is not a Business Day, such due date shall be extended to the next succeeding Business Day and interest thereon shall be payable at the then applicable rate during such extended period.

2.6. Use of Loan Proceeds. The proceeds of the borrowings hereunder shall be used by the Company for general corporate purposes of Hovnanian and the Restricted Subsidiaries or to make Investments in other Subsidiaries as allowed hereunder.

2.7. Prepayments. The Company may, at any time or from time to time, prepay the Notes, in whole or in part, without premium or penalty; provided, however, that any prepayment of the Notes shall be made first (if no Event of Default is then outstanding) to accrued and unpaid interest ratably to the Banks in proportion to the accrued interest on their respective Notes, next to any accrued and unpaid fees provided for herein, next to the unpaid principal balance of the Swing Loan Note, and then ratably to the several Banks in proportion to the principal amounts outstanding on the respective Revolving Credit Notes. Any prepayment of any Revolving Credit Loan for which the Company has specified the Libor Based Rate as the Elected Interest Rate made on any day other than the final day of an Interest Period with respect thereto shall be accompanied by any amounts owing pursuant to Subsection 3.9 hereof. All prepayments of the Notes other than in respect of Loans bearing interest at the Prime Based Rate shall be made upon at least two (2) Business Days' notice in each case by telephone, followed by written notice to the Agent specifying the date and the amount of prepayment and upon the payment of accrued interest on the amount of principal prepaid. All partial prepayments shall be in the minimum amount of \$100,000 or any integral multiple thereof.

2.8. Letter of Credit Line.

(a) Subject to the terms and conditions of this Subsection 2.8 and Section 5, the Company may utilize a portion of the amounts available under the Revolving Credit Commitments of the Banks, in an aggregate amount not to exceed \$40,000,000 with respect to all of the LOC Banks and not to exceed a maximum amount for each LOC Bank at any time as set forth on Schedule 11 attached hereto and made part hereof, in the form of letters of credit (each a "Letter of Credit" and, collectively, the "Letters of Credit") (i) to secure payment of customer escrow deposits, (ii) to serve as performance bonds, or to serve as collateral, directly or indirectly, to support performance bonds, and (iii) to serve as collateral for outstanding non-recourse notes. All Outstanding Letters of Credit shall be deemed issued under this Agreement. The Letters of Credit shall be issued by a LOC Bank for the joint and several account of the Company and the Consolidated Subsidiary of Hovnanian requesting issuance of the Letter of Credit upon at least three (3) Business Days' prior written notice from the Company or such Consolidated Subsidiary to such LOC Bank requesting such issuance and specifying the stated amount of the Letter of Credit requested, the requested date of issuance, the expiration date thereof and the beneficiary thereof. No Letter of Credit shall be issued hereunder with an expiration date on or after one (1) Business Day immediately preceding the Commitment Termination Date. Unless the LOC Bank has received notice from any Bank on or

before the Business Day immediately preceding the date the LOC Bank is to issue the requested Letter of Credit that one or more of the conditions specified in Subsection 5.2 are not then satisfied, then subject to the terms and conditions of this Subsection 2.8 and provided that the applicable conditions set forth in Subsection 5.2 hereof have been satisfied, the LOC Bank shall, on the requested date, issue such Letter of Credit in accordance with the LOC Bank's usual and customary business practices; provided, however, that the LOC Bank shall not be under any obligation to issue any Letter of Credit if:

(i) any order, judgment or decree of any Governmental Authority or arbitrator shall purport by its terms to enjoin or restrain the LOC Bank from issuing such Letter of Credit or any requirement of any law applicable to the LOC Bank or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the LOC Bank shall prohibit, or request that the LOC Bank refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the LOC Bank with respect to such Letter of Credit any restriction or reserve or capital requirement (for which the LOC Bank is not otherwise compensated) not in effect on the date hereof, or any unreimbursed loss, cost or expense which was not applicable, in effect or known to the LOC Bank as of the date hereof, and which the LOC Bank in good faith deems material to it; or

(ii) the LOC Bank shall have received written notice from any Bank or the Company on or before the Business Day immediately preceding the requested date of issuance of such Letter of Credit that one or more of the conditions contained in Subsection 5.2 is not then satisfied. The beneficiary of any Letter of Credit issued shall be authorized to draw upon the LOC Bank on the terms and subject to the conditions set forth in such Letter of Credit. When requesting a Letter of Credit from any LOC Bank, the Company shall simultaneously supply a copy of such request to the Agent.

(b) All Letters of Credit shall be issued in accordance with and subject to the LOC Bank's then current application and reimbursement agreement for, and policies relating to, its letters of credit and, to the extent not otherwise provided for in such application, shall be issued subject to and shall be governed by the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce ("UCP") as in effect from time to time and, as to matters not governed by the UCP, shall be governed by Article 5 of the Uniform Commercial Code as in effect and as construed in the jurisdiction of the LOC Bank. With respect to each Letter of Credit, the Company for itself and on behalf of the Consolidated Subsidiary requesting such Letter of Credit shall provide to the LOC Bank, at least three (3) Business Days prior to the requested issuance date, a completed application, signed on a joint and several basis by the Company and such Consolidated Subsidiary, for such Letter of Credit in such form as the LOC Bank shall require, together with such other documents or items as may be required pursuant to the terms thereof. Any Letters of Credit outstanding at the time of acceleration of any Note shall be either fully collateralized by cash, United States government securities or replaced by the Company with letters of credit issued by another banking institution acceptable to the beneficiaries of such outstanding Letters of Credit. Notwithstanding the provisions of Section 2.8(b) of this Agreement to the contrary, a completed Letter of Credit application signed only by a Consolidated Subsidiary located in and with its principal business activities conducted in the State of California, and not by the Company as well, shall be acceptable to the LOC Bank to which such application is submitted (subject to the satisfactory completion or fulfillment of all other conditions to the issuance of Letters of Credit set forth in this Agreement), provided, however, that by reason hereof, without further consent, agreement or document from the Company, the Company shall automatically be deemed to have unconditionally guaranteed, as surety, the reimbursement obligations of such Consolidated Subsidiary to the LOC Bank with respect to any such Letter(s) of Credit. All other provisions of this Agreement, specifically including without limitation Sections 2.8 and 2.9, shall be applicable to all Letters of Credit issued pursuant to this paragraph as if the application had been signed by both such Consolidated Subsidiary and the Company.

(c) The amount paid by a LOC Bank pursuant to any draw on a Letter of Credit shall create an immediate reimbursement obligation on the part of the Company which obligation shall bear interest at the Base Rate; provided, however, that in the event that at the time of such drawing all of the conditions set forth in Subsection 5.2 have been met, then, at the Company's request in accordance with the provisions of Subsection 2.4, the amount to be reimbursed to a LOC Bank may be advanced as a Revolving Credit Loan or a Swing Line Loan hereunder and treated by the Banks as a borrowing by the Company in accordance with Section 2 of this Agreement, except that any such Loan shall not be subject to the minimum borrowing amounts specified in Subsection 2.1 of this Agreement. The stated amount of all outstanding Letters of Credit issued under this Subsection shall also be treated by the Banks as borrowings by the Company for purposes of determining the aggregate amount remaining available under the Revolving Credit Commitments and for all other purposes under this Agreement.

(d) With respect to any Letter of Credit issued pursuant to this Subsection

the Company shall pay a letter of credit fee (computed on the basis of a 360 day year) on the face amount of each Letter of Credit, payable on a quarterly basis in arrears on the last day of each quarter, as follows: twelve and one half (12-1/2) basis points shall be payable to the Agent solely for the benefit of the issuing LOC Bank and the Applicable Letter of Credit Fee shall be payable to the Agent for the pro rata benefit of each of the Banks (including the issuing LOC Bank) in an amount equal to such Bank's Revolving Credit Commitment Percentage of such portion of the letter of credit fee payment. With respect to each Letter of Credit, the Company shall also pay to the LOC Bank issuing such Letter of Credit such LOC Bank's standard issuance, administrative and drawing fees payable in connection with letters of credit.

(e)With respect to each Letter of Credit issued pursuant to this Subsection, the Company agrees to all risks of acts or omissions of any beneficiary or transferee of any Letter of Credit. In furtherance of, and not in limitation of, the rights and powers of the LOC Bank under the UCP, but subject to all other provisions of this Subsection 2.8(f), it is understood and agreed with respect to each Letter of Credit, that the LOC Bank shall not have any liability for and the Company assumes all responsibility for: (i) the genuineness of any signature; (ii) the form, correctness, validity, sufficiency, genuineness, falsification and legal effect of any draft, certification or other document required by any Letter of Credit or the authority of the person signing the same; (iii) the failure of any instrument to bear any reference or adequate reference to any Letter of Credit or the failure of any person to note the amount of any instrument on the reverse of any Letter of Credit or to surrender any Letter of Credit or to forward documents in the manner required by any Letter of Credit or otherwise to comply with the terms and conditions of the Letter of Credit; (iv) the good faith or acts of any Person other than the LOC Bank and its agents and employees; (v) the existence, form, sufficiency or breach of or default under any agreement or instrument of any nature whatsoever; (vi) any delay in giving or failure to give any notice, demand or protest; and (vii) any error, omission, delay in or nondelivery of any notice or other communication, however sent. The determination as to whether the required documents are presented prior to the expiration of any Letter of Credit and whether such other documents are in proper and sufficient form for compliance with any Letter of Credit shall be made by the LOC Bank in its sole discretion, which determination shall be conclusive and binding upon the Company. Any action, inaction or omission on the part of a LOC Bank under or in connection with any Letter of Credit or related instruments or documents, if in good faith and in conformity with such laws, regulations or commercial or banking customs as the LOC Bank may deem to be applicable, shall be binding upon the Company, shall not place the LOC Bank under any liability to the Company, and shall not affect, impair or prevent the vesting of any of the rights or powers of the LOC Bank hereunder or the Company's obligation to make reimbursements of any amount paid on any Letters of Credit. If the Company and the beneficiary under any Letter of Credit, in writing or orally, request or consent to any modification or extension of any Letter of Credit or waive failure of any draft, certificate or other document to comply with the terms of any Letter of Credit, the LOC Bank shall be deemed to have relied and be entitled to rely on such request, consent or waiver with respect to any action taken or omitted by the LOC Bank pursuant to any such request, consent or waiver, and such extension, modification, increase or waiver shall be binding upon the Company.

(f) If, after the date hereof, the adoption of, or any change (other than a change in the rate of tax on net income) in, (1) any law, executive order, or regulation, (2) any request or directive of any administrative or Governmental Authority (whether or not having the force of law) or (3) interpretation of any of the foregoing by any court or administrative or Governmental Authority charged with the administration thereof shall either (i) impose, modify or deem applicable any reserve, special deposit or similar requirement against any Letters of Credit issued pursuant hereto, or (ii) impose on a LOC Bank any other condition regarding this Agreement and any Letters of Credit issued pursuant hereto, and the effect of any such change shall be to increase the cost to the LOC Bank of issuing or maintaining any Letters of Credit, then the LOC Bank shall immediately notify the Company of such change and calculate and advise the Company of the additional amounts which would compensate the LOC Bank for such increased cost; provided, however, that the Company shall not pay any such increased cost for any period prior to the next anniversary date of this Agreement following the date of such change. Effective as of the next such anniversary date of this Agreement, the LOC Bank may increase the letter of credit fee payable by the Company pursuant to Subsection 2.8(d) by the additional amount necessary to compensate the LOC Bank for such increased costs for periods subsequent to such anniversary date of this Agreement. The LOC Bank's determination of the amount of such costs and the allocation, if any, of such costs among the Company and other customers which have arrangements with the LOC Bank similar to those contained herein relating to letters of credit, if done in good faith and if such allocation is made on an equitable basis shall, in the absence of manifest error, be conclusive. Upon request from the Company, the LOC Bank shall provide an explanation of the basis for such allocation.

(g)The Company shall provide to the Agent a copy of each application submitted to an LOC Bank for the issuance of a Letter of Credit,

contemporaneously with the submission thereof to such LOC Bank. The LOC Bank shall provide to the Agent a copy of each Letter of Credit, and each amendment to a Letter of Credit, upon issuance thereof.

(h) The original of each bill from an LOC Bank for administrative or amendment fees with respect to Letters of Credit shall be forwarded to the Agent which shall provide the Company not later than the fifth day of each month, with a monthly bill covering administrative and amendment fees as well as commissions for new and renewed Letters of Credit (based upon Letter of Credit documentation and bills provided to the Agent). For the purposes of such billing procedure, the Agent shall use a commission period equal to the lesser of six (6) months or the term of the Letter of Credit. Payments by the Company of such billings shall be made not later than the last day of the month in which it receives the above described billing.

2.9. Participation in Letters of Credit.

(a) Immediately upon the issuance by a LOC Bank of each Letter of Credit in accordance with the terms and conditions of this Agreement, the LOC Bank shall be deemed to have sold and transferred to each Bank, and each Bank shall be deemed irrevocably and unconditionally to have purchased and received from the LOC Bank, without recourse or warranty, an undivided interest and participation, to the extent of such Bank's Revolving Credit Commitment Percentage, in such Letter of Credit issued by the LOC Bank and the joint and several obligations of the Company and the Restricted Consolidated Subsidiary requesting issuance of such Letter of Credit with respect thereto and in each case any security therefor and guarantee pertaining thereto.

(b) In determining whether to pay under any Letter of Credit, a LOC Bank shall not have any obligation relative to the Banks other than to confirm that any documents required to be delivered under such Letter of Credit appear to have been delivered and that they appear to comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by a LOC Bank under or in connection with any Letter of Credit, if taken or omitted in the absence of gross negligence or willful misconduct, shall not put the LOC Bank under any resulting liability to any Bank.

(c) A LOC Bank shall promptly notify the Agent upon receipt by the LOC Bank of a draft under any Letter of Credit, which notice shall specify the amount being drawn and the payment date of such drawing. In the event that a LOC Bank makes any payment under any Letter of Credit and the Company shall not have reimbursed such amount in full to the LOC Bank, the LOC Bank shall promptly notify the Agent of such failure, and each Bank upon notice by Agent shall promptly and unconditionally pay to the Agent the amount of such Bank's Revolving Credit Commitment Percentage of such unreimbursed payment in same day funds. If the LOC Bank so notifies, prior to 1:00 P.M. (New York time) on any Business Day, any Bank, such Bank shall make available to the LOC Bank an amount equal to its Revolving Credit Commitment Percentage of the amount of such payment on such Business Day in same day funds. If and to the extent any Bank shall not have so made an amount equal to its Revolving Credit Commitment Percentage of the amount of such payment available to the LOC Bank, such Bank agrees to pay to the LOC Bank forthwith after notice such amount, together with interest thereon, for each day from the date of notice until the date such amount is paid to the LOC Bank, at the Federal Funds Rate. The LOC Bank is hereby authorized, at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits at any time held and other indebtedness at any time owing by the LOC Bank to or for the credit or the account of any Bank against any amounts unpaid by such Bank to the LOC Bank pursuant to this clause (c). The failure of any Bank to make available to the LOC Bank an amount equal to its Revolving Credit Commitment Percentage of any payment under any Letter of Credit shall not relieve any other Bank of its obligation hereunder to make available to the LOC Bank an amount equal to its Revolving Credit Commitment Percentage of any payment under the Letter of Credit on the date required, as specified above, and, in the event of such failure of any Defaulting Bank to make available to the LOC Bank an amount equal to such Defaulting Bank's Revolving Credit Commitment Percentage of any such payment (the "Shortfall"), the other Banks shall reimburse and indemnify such LOC Bank in an amount equal to each other Bank's proportionate share of the Shortfall; provided, however, that (i) in no event shall any Bank be required to fund any amount in respect of the Shortfall if and to the extent that such amount, together with all other amounts advanced by such Bank under its Revolving Credit Commitment, would exceed the aggregate principal amount of such Bank's Revolving Credit Commitment; and (ii) any payment by a Bank with respect to a Shortfall shall reduce that Bank's Revolving Credit Commitment accordingly.

(d) Whenever a LOC Bank receives a payment in reimbursement of a draw under a Letter of Credit as to which the LOC Bank has received any payments from the Banks pursuant to clause (c) above, the LOC Bank shall pay to each Bank which has paid an amount equal to its Revolving Credit Commitment Percentage thereof, in same day funds, an amount equal to such Percentage thereof. If the LOC Bank receives payment prior to 1:00 p.m. on a Business Day and does not make payment as provided above to each Bank on the same Business Day, each such Bank shall be

entitled to receive interest thereon from the LOC Bank at the Federal Funds Rate for each day until the date such payment is made.

(e) Upon the request of any Bank, a LOC Bank shall furnish to such Bank copies of any letter of credit application and reimbursement agreement to which the LOC Bank is party and such other documentation relating thereto and available to the LOC Bank as may reasonably be requested by such Bank.

(f) The obligations of the Banks to make payments to the LOC Banks with respect to Letters of Credit shall be irrevocable and not subject to any qualification, exception, deduction or setoff whatsoever and shall be made in accordance with the terms and conditions of this Agreement under all circumstances (except as expressly provided in clause (b) above), including, without limitation, any of the following circumstances:

(i) any lack of validity or enforceability of this Agreement, any of the Notes or any of the Guaranties;

(ii) the existence of any claim, set-off, defense or other right which the Company or any Guarantor may have at any time against a beneficiary named in a Letter of Credit, any transferee of any Letter of Credit (or any Person for whom any such transferee may be acting), the Agent, the LOC Bank, any Bank, or any other Person, whether in connection with this Agreement or any Letter of Credit, the transactions contemplated hereby or any unrelated transactions (including any underlying transaction between the Company or any Guarantor and the beneficiary named in any such Letter of Credit);

(iii) any draft, certificate or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(iv) the surrender or impairment of any security for the performance or observance of any of the terms of any Letter of Credit, this Agreement, any Note or any Guaranty;

(v) any failure by the LOC Bank to give notice to the Banks of the amount of any Letter of Credit or of any payment required by the Banks with respect thereto; or

(vi) the occurrence of any Default or Event of Default.

SECTION 3. INTEREST AND FEES

3.1. Elected Interest Rate.

(a) Each Revolving Credit Loan shall bear interest on the outstanding principal amount thereof at the Elected Interest Rate with respect to such Revolving Credit Loan. With respect to each Revolving Credit Loan, and subject to the terms of this Section 3 (including without limitation Subsection 3.2), the Company shall have the right to specify, to the extent available under the terms hereof, which Alternative Interest Rate shall be the Elected Interest Rate by giving the Agent notice thereof by telephone (a) at least three (3) Business Days before the first day of such Interest Period if the Libor Based Rate is specified or (b) the first day of such Interest Period if the Base Rate is specified, followed in each instance by written confirmation mailed the same day and if the Alternative Interest Rate is the Libor Based Rate, specifying in such notice whether the duration of the Interest Period during which the election of such Elected Interest Rate applies shall be thirty (30) days, sixty (60) days, ninety (90) days, or one hundred eighty (180) days. The written confirmation of notice given by the Company pursuant to this Subsection 3.1 shall be substantially in the form of the Notice of Election set forth as Exhibit D hereto and made a part hereof. No Bank shall in any event be obligated to make a Libor Based Rate available to the Company if an Event of Default is outstanding. At no time shall the Banks be obligated to advance more than six (6) Revolving Credit Loans in any calendar month, provided however that if such monthly maximum has been reached, the Company may nevertheless request additional Revolving Credit Loans from the Banks (subject to the conditions precedent specified in Subsection 5.2 hereof), only to the extent necessary to satisfy its obligation set forth in the next to last sentence of Subsection 2.2 hereof.

(b) Each Swing Line Loan shall bear interest on the outstanding principal amount thereof at the Base Rate.

(c) If there is a discrepancy between telephone notice and written notice, written notice shall govern. Notwithstanding anything to the contrary contained in this Subsection 3.1, the Company's right to select the Libor Based Rate as the Elected Interest Rate shall be conditioned (as determined by such Bank) upon the availability to such Bank on the London Interbank Eurodollar Market of deposits in United States Dollars of an amount equal to the amount of the borrowing or the outstanding principal amount, as the case may be, for the applicable Interest Period. If such deposits are not available to a Bank or

Banks, its/their obligation to make the Libor Based Rate available to Company shall be suspended until such deposits once again become available. With respect to any Revolving Credit Loan, if the Company fails at any time to specify the Elected Interest Rate and/or the duration of any Interest Period in accordance with the foregoing, then the Company shall be deemed to have specified the Base Rate.

(d) Interest on all Loans shall be payable on each applicable Interest Payment Date. Notwithstanding anything to the contrary in this Subsection 3.1, whenever any unpaid principal amount of any Revolving Credit Note shall become due and payable (whether at maturity, by acceleration or otherwise), interest on all unpaid Revolving Credit Loans outstanding thereunder shall thereafter be payable, until such amount shall be paid, at the rate per annum elected by the Agent from among the Alternative Interest Rates available to the Company from the Agent.

3.2. [INTENTIONALLY OMITTED]

3.3. Computation of Interest Period. With respect to each Revolving Credit Loan, the first Interest Period shall commence on the day such Revolving Credit Loan pursuant to Subsection 2.4 hereof is first made and each subsequent and successive Interest Period shall commence on the day after the last day of the immediately preceding Interest Period. Notwithstanding the foregoing:

(a) If the final Interest Period would otherwise end on a day other than the Commitment Termination Date, such Interest Period shall end on such Date;

(b) If the Company shall have specified or be deemed to have specified the Base Rate as the Elected Interest Rate, the Company shall be deemed automatically to have specified one (1) day as the Interest Period in conjunction therewith.

3.4. Default Rate. Following acceleration of the obligations of the Company hereunder, and notwithstanding any other provision hereof (except Subsection 3.8 below), the Elected Interest Rate shall be automatically increased by three (3) percentage points above the rate otherwise applicable under the terms hereof.

3.5. Commitment Fee. The Company shall pay to the Agent, for the benefit of each Bank, a fee (calculated on a per annum basis, based on a year of 360 days) equal to the Applicable Commitment Fee computed against the average daily amount by which the Facility Commitment of such Bank exceeds the sum of the aggregate principal amounts outstanding on the Revolving Credit Note to such Bank (and as to the Swing Loan Lender, also on the Swing Loan Note) and such Bank's Revolving Credit Commitment Percentage of the aggregate face amount of outstanding Letters of Credit. Such fee shall be payable in arrears on the fifteenth day of each calendar quarter, commencing July 1, 1998, and also on the Commitment Termination Date. The Agent shall provide the Company with a bill for such fee within five (5) days of the end of each quarter.

3.6. Facility Fee. Contemporaneously with the execution hereof, the Company shall pay to the Agent, for the benefit of the Banks, a facility fee in consideration of the creation of the credit facilities described herein as follows:

(a) to each Bank hereunder who was a party to the Prior Credit Agreement immediately prior to the execution hereof, a facility fee in an amount equal to five (5) basis points of the amount of its Facility Commitment in effect under the Prior Credit Agreement prior to the execution hereof and (if applicable) ten (10) basis points of the amount of any increase in its Facility Commitment as a result hereof (as reflected on Schedule 9); and

(b) to each Bank hereunder who was not a party to the Prior Credit Agreement, a facility fee in an amount equal to ten (10) basis points of the amount of its Facility Commitment hereunder.

3.7. Illegality. In the event that, as a result of the adoption of, or any change in, any applicable law or regulation or the interpretation thereof, it becomes unlawful for a Bank to maintain Eurodollar liabilities sufficient to fund any Loan subject to the Libor Based Rate, then such Bank shall immediately notify Agent and the Company thereof and such Bank's obligation to make, convert to, or maintain a Loan subject to the Libor Based Rate shall be suspended until such time as such Bank may again cause the Libor Based Rate to be applicable to its share of any Loans and such Bank's share of the Loans subject to the Libor Based Rate shall accrue interest at the Base Rate. Promptly after becoming aware that it is no longer unlawful for such Bank to maintain such Eurodollar liabilities, such Bank shall notify Agent and the Company thereof and such suspension shall cease to exist. In the event that it becomes unlawful for a Bank, other than PNC, to maintain Eurodollar liabilities as described in this paragraph, the Company shall have the option to replace such Bank with another financial institution (acceptable to Agent) who will purchase all (but not part) of such Bank's Revolving Credit Loans and assume such Bank's Revolving Credit Commitment. Such Bank shall be required to assign and transfer to the financial

institution obtained by Company, pursuant to an agreement reasonably satisfactory to such Bank, its respective Revolving Credit Loans in exchange for a full payment of the outstanding balance thereof, with accrued interest and unpaid fees.

3.8.Applicable Interest Limitations: In no contingency or event whatsoever shall the aggregate of all amounts deemed interest hereunder and charged or collected pursuant to the terms of this Agreement exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such court determines Banks have charged or received interest hereunder in excess of the highest applicable rate, each Bank shall, in its sole discretion, apply and set off such excess interest received by such Bank against other indebtedness due or to become due hereunder and such rate shall automatically be reduced to the maximum rate permitted by such law.

3.9.Libor Indemnification. The Company and each Guarantor shall indemnify, defend and hold harmless Agent and Banks against any and all loss, liability, cost or expense which Agent and any Bank or Banks may sustain or incur as a consequence of (a) any failure of Company to obtain, convert or extend any Loan subject to a Libor Based Rate after notice thereof has been given to the relevant Bank(s) or (b) any payment, prepayment, termination or conversion of a Loan subject to a Libor Based Rate made for any reason on a date other than the last day of the applicable Interest Period. Company and each Guarantor shall pay on demand the full amount thereof to the relevant Bank(s). Without limiting the foregoing, such loss shall equal the present value (using as the discount rate an interest rate equal to the rate determined under (2) below) of the excess, if any of (1) the amount of interest which otherwise would have accrued on the Loan so paid, prepaid, terminated or converted (or not borrowed, converted or extended) for the period from the date of such payment, prepayment, termination or conversion (or failure to borrow, convert or extend) to the last day of the then current applicable Interest Period for the Loan (or in the case of a failure to borrow, convert or extend, to the last day of the applicable Interest Period for the Loan which would have commenced on the date specified in the relevant notice) at the applicable rate of interest for the Loan provided for herein (excluding any margin above Libor), over (2) the amount of interest (as reasonably determined by the Bank(s)) which would have accrued to the Bank(s) on the principal amount of such Loan by placing such amount on deposit for a comparable period with leading banks in the interbank Eurodollar market. A determination by the Bank(s) as to the amounts payable pursuant to this section shall be conclusive absent manifest error.

3.10.Capital Adequacy: If after the date hereof, the adoption of, or any change in, any law, governmental rule, regulation, policy, guideline, directive or similar requirement (whether or not having the force of law) imposes, modifies, or deems applicable any capital adequacy, capital maintenance or similar requirement which affects the manner in which any Bank allocates capital resources to its commitments (including any commitments hereunder), and as a result thereof, in the opinion of such Bank, the rate of return on such Bank's capital with regard to the Loans and/or its obligations hereunder is reduced to a level below that which such Bank could have achieved but for such circumstances taking into account such Bank's policies regarding capital adequacy, then in such case and upon notice from Agent to Company, Company shall pay such Bank such additional amount or amounts as shall compensate such Bank for such reduction in its rate of return. Such notice shall contain the statement of such Bank with regard to any such amount or amounts which shall, in the absence of manifest error, be binding upon Company. In determining such amount, such Bank may use any reasonable method of averaging and attribution that it deems applicable. In the event that a Bank, other than PNC, exercises its rights under this Subsection 3.10, Company shall have the option to replace such Bank with another financial institution (acceptable to Agent) who will purchase all (but not part) of such Bank's Revolving Credit Loans and assume such Bank's Revolving Credit Commitment. Such Bank shall be required to assign and transfer to the financial institution obtained by Company, pursuant to an agreement reasonably satisfactory to such Bank, its respective Revolving Credit Loans in exchange for full payment of the outstanding balance thereof, with accrued interest, unpaid fees and all amounts owing under this Subsection 3.10.

3.11.Taxes:

(a)All payments made by the Company under the Credit Agreement and the Revolving Credit Notes issued from time to time thereunder shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes (imposed in lieu of net income taxes) imposed on the Agent or any Bank as a result of a present or former connection between the Agent or such Bank and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Agent or such Bank having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or the Revolving Credit Notes). If

any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Agent or any Bank hereunder or under the Revolving Credit Notes, the amounts so payable to the Agent or such Bank shall be increased to the extent necessary to yield to the Agent or such Bank (after payment of all Non- Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in the Credit Agreement and the Revolving Credit Notes, provided, however, that the Company shall not be required to increase any such amounts payable to any Bank that is not organized under the laws of the United States of America or a state thereof if (i) such Bank fails to comply with the requirements of paragraph (b) of this subsection or (ii) either of the certifications made by such Bank as set forth in such paragraph is not true and correct with respect to such Bank. Whenever any Non-Excluded Taxes are payable by the Company, as promptly as possible thereunder the Company shall send to the Agent for its own account or for the account of such Bank, as the case may be, a certified copy of an original official receipt received by the Company showing payment thereof. If the Company fails to pay any Non- Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Company shall indemnify the Agent and the Banks for any incremental taxes, interest or penalties that may become payable by the Agent or any Bank as a result of any such failure. The agreements in this subsection shall survive the termination of the Credit Agreement and the payment of the Revolving Credit Notes and all other amounts payable hereunder.

(b) Each Bank that is not incorporated under the laws of the United States of America or a state thereof shall:

(i) deliver to the Company and the Agent (A) two duly completed copies of United States internal Revenue Service Form 1001 or 4224, or successor applicable form, as the case may be, and (B) an Internal Revenue Service Form W-8 or W-9, or successor applicable form, as the case may be;

(ii) deliver to the Company and the Agent two further copies of any such form or certification on or before the date that such form or certification expires or becomes obsolete and after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Company; and

(iii) obtain such extensions of time for filing and complete such forms or certifications as may reasonably be requested by the Company or the Agent; unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank so advises the Company and the Agent. Such Bank shall certify (i) in the case of a Form W-8 or W-9, that it is entitled to an exemption from United States backup withholding tax. Each Person that shall become a Bank or a participant pursuant to subsection 8.7 of the Credit Agreement shall, upon the effectiveness of the related transfer, be required to provide all of the forms and statements required pursuant to this subsection, provided that in the case of a participant such participant shall furnish all such required forms and statements to the Bank from which the related participation shall have been purchased.

SECTION 4. REPRESENTATIONS AND WARRANTIES

In order to induce the Banks to enter into this Agreement and to extend credit as herein provided, the Company and each of the Guarantors represents and warrants to the Banks that:

(a) The Company and each of the Guarantors is a corporation or other entity duly organized, validly existing and in good standing under the laws of the state of its incorporation or organization, has the corporate power to transact the business in which it is engaged and presently intends to be engaged, and is duly qualified and in good standing as a foreign corporation (or organization) under the laws of any other jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification except where the failure to so qualify is not likely to have a Material Adverse Effect.

(b) The Company has full power, authority and legal right (i) to execute and deliver this Agreement and the Notes, (ii) to borrow under this Agreement, and (iii) to perform and observe the terms and provisions of this Agreement and the Notes. The execution, delivery and performance by the Company of this Agreement and the Notes have been duly authorized by all necessary corporate (or other approved) action and are in furtherance of its business purposes.

(c) The Guarantors each have full power, authority and legal right (i) to execute and deliver this Agreement and the Guaranties, and (ii) to perform and observe the terms and provisions of this Agreement and the Guaranties. The execution, delivery and performance by each Guarantor of this Agreement and its Guaranty have been duly authorized by all necessary corporate action and are in furtherance of its respective corporate purposes.

(d) No consent of any other Person (including shareholders of the Company or of any of the Guarantors) and no consent, license, approval or authorization of, or registration or declaration with, any governmental body, authority, bureau or agency is required in connection with the execution, delivery and performance by the Company and the Guarantors of this Agreement, the Notes, or the Guaranties.

(e) Neither the Company nor any of the Guarantors or KHL is in violation of any term of (i) its certificate of incorporation (or organization) or bylaws (or operating agreement), (ii) any agreement, indenture, mortgage, lease, assignment, note or other instrument to which it is a party or which purports to be binding upon it or upon any of its properties or assets, or (iii) any judgment, decree, order, law, statute, ordinance, rule or governmental regulation applicable to it, except to the extent that any such violations, in the aggregate, could not reasonably be expected to have a Material Adverse Effect; and the execution, delivery and performance of and compliance with this Agreement and the Notes, in the case of the Company, and with this Agreement and the Guaranties, in the case of each Guarantor, will not result in any violation of or be in conflict with or constitute a default under any such term, or result in the creation of Encumbrance upon any of its properties or assets pursuant to any such term. All judgments, decrees and orders to which the Company and/or any Guarantor is subject as of the date hereof are listed on Schedule 4 attached hereto.

(f) There is no action, suit, investigation (of which the Company or any Guarantor has received notice) or proceeding (whether or not purportedly on behalf of the Company or any Guarantor) pending or, to the knowledge of the Company or any Guarantor, threatened (or any basis thereof known to the Company or any Guarantor) which (i) questions the validity of this Agreement, the Notes, the Guaranties or the Pledge Agreement or any action taken or to be taken pursuant hereto or thereto, or (ii) could reasonably be expected to result, either in any case or in the aggregate, in a Material Adverse Effect. All material pending litigation and investigations (of which the Company or any Guarantor has received notice) to which the Company and/or any Guarantor is subject as of the date hereof are listed on Schedule 5 attached hereto.

(g) Each of the Company, each Guarantor and KHL has filed all tax returns and reports required by law to be filed, and has paid all material taxes, assessments, fees and other governmental charges levied upon it or upon any of its properties, assets, income or franchises which are due and payable, other than those presently payable without penalty or interest or which are being contested in good faith by appropriate legal proceedings and for which appropriate reserves in accordance with GAAP are being maintained. There are no known material contingent liabilities or liabilities for taxes of Hovnanian and the Consolidated Subsidiaries as of October 31, 1997 which are not reflected in the consolidated balance sheet of Hovnanian and the Consolidated Subsidiaries as of October 31, 1997.

(h) The Company, each of the Guarantors and KHL have obtained all licenses, permits and approvals necessary to operate their respective businesses and own their respective properties, the absence of which could reasonably be expected to have a Material Adverse Effect.

(i) As of the date hereof, the Company has no Subsidiaries, and Hovnanian has no Subsidiaries except those specified on Schedule 1 attached hereto, and all Joint Ventures to which the Company or any Guarantor is a party are listed on Schedule 2 attached hereto.

(j) Neither the Company nor any Guarantor or KHL is a party to or bound by any agreement, indenture, mortgage, lease, assignment or any other instrument, nor is it subject to any charter or corporate restriction or any judgment, decree, order, law, statute, ordinance, rule or regulation of any court, arbitrator, grand jury or governmental agency or instrumentality, which has, or in the future (so far as it can reasonably foresee) could reasonably be expected to have, a Material Adverse Effect or a material adverse effect on the ability of Hovnanian to perform its obligations under the Pledge Agreement.

(k) The Company has furnished to the Banks copies of the consolidated balance sheet of Hovnanian and the Consolidated Subsidiaries as of October 31, 1997, and the related consolidated statements of income and of cash flows for the year ended on such date, all as certified by Ernst & Young LLP. Such balance sheet and statements (including the related schedules and notes) are complete and correct and present fairly, in accordance with generally accepted accounting principles consistently applied throughout the periods provided, the financial position of Hovnanian and the Consolidated Subsidiaries as of October 31, 1997 and the income, and cash flows for the fiscal year ended October 31, 1997. Except as disclosed or reflected in such October 31, 1997 balance sheet or statements, as of October 31, 1997, Hovnanian and the Consolidated Subsidiaries had no material liabilities, contingent or otherwise.

(l) Since October 31, 1997, there has occurred no Material Adverse Effect.

(m) Each Plan maintained by the Company or any of the Consolidated Subsidiaries or any Guarantor or to which any of them makes any contributions is in compliance with the applicable provisions of ERISA, except for instances of noncompliance which, singly or in the aggregate, do not and will not have a Material Adverse Effect. The Company, each of the Consolidated Subsidiaries and each of the Guarantors has met all of the funding standards applicable to its Plans in all material respects, and there exists no event or condition which is reasonably likely to result in the imposition of a lien upon the assets or properties of the Company or any of the Consolidated Subsidiaries or the termination of any such Plan under Section 4042 of ERISA.

(n) All financial statements, reports, prospectuses, proxy statements and other documents and information furnished to the Banks by or on behalf of the Company or any Guarantor were, at the time the same were so furnished, complete and correct in all material respects to the extent necessary to give the Banks a true and accurate knowledge of the subject matter. No fact is currently known to the Company or any Guarantor which has a Material Adverse Effect or in the future could reasonably be expected to (so far as the Company or any Guarantor can reasonably foresee) have a Material Adverse Effect or a material adverse effect on the ability of Hovnanian to perform its obligations under the Pledge Agreement which has not been set forth or referred to herein or in such documents or otherwise specifically disclosed in writing to the Banks.

(o) All of the issued and outstanding stock of the Company and each Guarantor (other than Hovnanian) has been duly authorized and issued, is fully paid and non-assessable and is owned by Hovnanian or another Guarantor, free and clear of any Encumbrance not permitted hereby.

(p) KHL is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has the corporate power to transact the business in which it is engaged and presently intends to be engaged, and is duly qualified and in good standing as a foreign corporation under the laws of any other jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification, except where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect. All of the issued and outstanding stock of KHL has been duly authorized and issued, is fully paid and nonassessable and is owned, beneficially and of record, by Hovnanian, free and clear of any Encumbrance, or rights under any agreement of sale, option or other conditional agreement or undertaking. KHL has no Subsidiaries.

(q) Hovnanian has full power, authority and legal right to execute and deliver, and to perform and observe the terms and provisions of, the Pledge Agreement. The execution, delivery and performance by Hovnanian of the Pledge Agreement has been duly authorized by all necessary corporate action and is in furtherance of its corporate purposes.

(r) No consent of any other party and no consent, license, approval or authorization of, or registration or declaration with, any governmental body, authority, bureau or agency is required in connection with the execution, delivery and performance by Hovnanian of the Pledge Agreement, and such execution, delivery and performance will not result in any violation of or be in conflict with or constitute a default under any term of (i) its certificate of incorporation or by-laws, (ii) agreement, indenture, mortgage, lease, assignment or other instrument to which it is a party or which purports to be binding upon it or upon any of its properties or assets, or (iii), any judgment, decree, order, law, statute, ordinance, rule or governmental regulation applicable to it, or, except as contemplated by the Pledge Agreement, result in the creation of any Encumbrance upon any of its properties or assets pursuant to any such term.

(s) The Company has conducted a comprehensive review and assessment of the computer applications of the Company and the Guarantors with respect to the "year 2000 problem" (that is, the risk that computer applications may not be able to properly recognize and process date-sensitive data and perform date-sensitive functions after December 31, 1999), and based on that review and inquiry, the Company does not reasonably believe the year 2000 problem will have a Material Adverse Effect.

SECTION 5. CONDITIONS

5.1. Initial Conditions. The agreement of each Bank to make the initial extension of credit requested to be made by it is subject to the satisfaction, immediately prior to or concurrently with the making of such extension of credit, of the following conditions precedent:

(a) The Agreement, the Notes, the Guaranties and all documents incidental thereto shall have been executed and delivered by the Company and/or the Guarantors, as the case may be, to the Banks.

(b) Each Bank shall have received the opinion of Peter S. Reinhart, Esquire,

counsel for the Company and the Guarantors, dated the date hereof. Such opinion shall also cover such other matters incident to the transactions contemplated by this Agreement as the Banks or their counsel may reasonably request.

(c)Hovnanian shall have duly executed and delivered to the Banks the Pledge Agreement, and all documents and instruments incidental thereto.

(d)The Company and each of the Guarantors shall have delivered to the Banks a copy of the resolutions of their respective boards of directors authorizing the execution, delivery and performance of this Agreement and the Notes, in the case of the Company, this Agreement and the Guaranties, in the case of each of the Guarantors, and the Pledge Agreement, in the case of Hovnanian, in each case certified by their respective secretaries.

(e)The Banks who are parties to this Agreement as of the date hereof shall have received full payment of the Facility Fee.

(f)Hovnanian and the Company shall have delivered to the Banks copies of their respective Articles and Certificates of Incorporation and ByLaws.

(g)All legal matters incident to the transactions contemplated by this Agreement, the Notes and the Guaranties shall be satisfactory to counsel to the Banks.

5.2. Continuing Conditions. The Banks shall not be required to make any Revolving Credit Loans (and the Swing Loan Lender shall not be required to make any Swing Loan) to the Company hereunder, and the LOC Banks shall not be required to issue any Letters of Credit hereunder, unless on the date of any borrowing or issuance:

(a)This Agreement, the Notes, the Guaranties and the Pledge Agreement shall be in full force and effect and no Event of Default or Potential Event of Default (expressly including without limitation any violation of Subsection 6.2(aa) herein) shall have occurred and be continuing hereunder or thereunder or would be caused by the making of any such Revolving Credit Loans or Swing Loans or the issuance of any such Letter(s) of Credit;

(b) The respective representations and warranties of the Company and each of the Guarantors contained herein shall be true and complete and correct in all material respects (or as to any representation or warranty which is expressly qualified by reference to the term "Material Adverse Effect", then in all respects) as if made on and as of such date.

(c) Each Bank and Agent shall have received a certificate executed by the chief executive officer or the principal financial officer or the principal accounting officer or other duly authorized representative of Hovnanian certifying that the Borrowing Base as of the date of the most recent financial statements of Hovnanian and the Consolidated Subsidiaries required to be furnished pursuant to Subsection 6.1(a)(ii), (ix) and (x) of this Agreement (or if no financial statement is yet required thereunder, then as of May 31, 1998) is sufficient to enable the Company to incur the relevant Loan or become obligated in respect of the relevant Letter of Credit.

(d)Each Bank shall have received such additional certificates, documents, information or legal opinions as it may reasonably require.

SECTION 6. COVENANTS

6.1. Affirmative Covenants. The Company and each of the Guarantors covenants and agrees that so long as any Note or any Letter of Credit is outstanding and the Banks remain obligated under the Facility Commitments:

(a) Hovnanian will furnish to each Bank (i) as soon as available, and in any event within ninety (90) days after the end of each fiscal year of Hovnanian, a consolidated balance sheet of Hovnanian and the Consolidated Subsidiaries as of the end of such fiscal year and consolidated statements of income and of cash flows of Hovnanian and the Consolidated Subsidiaries for such fiscal year, all in reasonable detail, prepared in accordance with GAAP applied on a basis consistently maintained throughout the period involved, except for such changes in accounting principles as may be disclosed therein, and certified by independent public accountants of recognized standing selected by Hovnanian and acceptable to the Requisite Banks; (ii) as soon as available, and in any event within fifty-five (55) days after the end of each of the first three quarters of each fiscal year of Hovnanian, a consolidated balance sheet of Hovnanian and the Consolidated Subsidiaries as of the end of each of such quarters and consolidated statements of income and of cash flows of Hovnanian and the Consolidated Subsidiaries for each of such quarters, all in reasonable detail, prepared in accordance with GAAP applied on a basis consistently maintained throughout the period involved, except for such changes in accounting principles as may be disclosed therein, and certified by the principal financial or accounting officer of Hovnanian, (subject to normal year-end audit adjustments); (iii) concurrently with the delivery of the financial

statements referred to in clauses (i) and (ii) above separate financial statements (or separate figures as part of the financial statements referred in clauses (i) and (ii) above) containing consolidated summary figures for each of the Subsidiary Groups on a form substantially similar to Exhibit J attached hereto; (iv) concurrently with the delivery of the financial statements referred to in clauses (i) and (ii) above, financial statements for each Joint Venture, all in reasonable detail and prepared in accordance with GAAP applied on a basis consistently maintained throughout the period involved; (v) concurrently with or promptly following the delivery of the financial statements referred to in clause (i) above, a certificate of the independent public accountants who certified such statements, stating that in making the examination necessary for the audit of such financial statements they obtained no knowledge of the existence of any Potential Event of Default or Event of Default, or if they shall have obtained knowledge thereof, specifying the same; (vi) concurrently with the delivery of the financial statements referred to in clauses (i) and (ii) above, a certificate of the principal executive officer or the principal financial officer or the principal accounting officer of Hovnanian and the Company to the effect that no Event of Default or Potential Event of Default has occurred and is continuing (or, if any Event of Default or Potential Event of Default shall exist, specifying the nature and status thereof) and a Compliance Letter substantially in the form of Exhibit F attached hereto and made a part hereof signed by the principal executive officer or the principal financial officer or the principal accounting officer of Hovnanian and the Company; (vii) promptly after the same are available, (1) all proxy statements, financial statements and reports as Hovnanian shall send or make available generally to the holders of its securities, (2) all regular and periodic reports which Hovnanian may be required to file with the Securities and Exchange Commission or any other governmental department, commission, board, bureau or agency, or with any securities exchange, and (3) any analysts' reports with respect to Hovnanian received by the principal accounting officer of Hovnanian or the Company from brokerage firms or rating agencies; (viii) as long as Hovnanian is required under GAAP to prepare financial statements on a consolidated basis with Subsidiaries which are not Restricted Subsidiaries, concurrently with or promptly following the delivery of the financial statements referred to in clause (i) and (ii) above, a consolidated balance sheet which reflects accurately the financial position at such date on a consolidated basis of the Company, the Guarantors and KHL (together with, to the extent not otherwise included, the management companies and immediate parent holding companies of the Homebuilding Subsidiaries) of Hovnanian only; (ix) within fifty-five (55) days after the end of each month which is not the last month of a fiscal quarter, a written report signed by the principal financial officer or principal accounting officer of Hovnanian and the Company certifying whether or not the Company was in compliance with Subsection 6.2(aa) hereof as of such month-end and setting forth the aggregate principal balance of Loans then owing to each Bank as well as a detailed calculation (as of such month-end) showing compliance or noncompliance, as the case may then be, with such Subsection 6.2(aa), on a form substantially similar to Exhibit I attached hereto; (x) within fifty-five (55) days after each fiscal year-end, a certificate containing the calculations to determine the Borrowing Base as well as the calculations to determine compliance or noncompliance, as the case may then be, with Subsection 6.2(aa), in each case as of such fiscal year-end; and (xi) from time to time, such additional financial and other information as any Bank or Agent may reasonably request, including without limitation a copy of any actual Letter(s) of Credit to any Bank requesting such document(s).

(b) The Company and each of the Guarantors will, and Hovnanian will cause KHL to, pay and discharge, when due, all of its obligations and liabilities where the failure to do so could reasonably be expected to have a Material Adverse Effect except where the same may be contested in good faith and the Company, such Guarantor or KHL, as the case may be, maintains, in accordance with GAAP, appropriate reserves for the accrual of the same.

(c) The Company and each of the Guarantors will, and Hovnanian will cause KHL to, promptly give written notice to the Banks of (i) any event of default known to it with respect to any of its obligations for borrowed money or for the deferred purchase price of property, in each case in a principal amount in excess of \$250,000, other than nonrecourse Indebtedness, including an Event of Default under this Agreement, (ii) any event of default known to it under, or any other material notice received concerning, any of the Indentures or with respect to any of the Subordinated Debt, (iii) any legal, judicial or regulatory proceedings affecting it or any of its properties or assets in which the amount involved is more than \$500,000 and such amount is not fully covered by insurance, and (iv) any dispute between it and any governmental regulatory body or any other party which, if adversely determined, could reasonably be expected to have a Material Adverse Effect.

(d) The Company and each of the Guarantors, at its expense, will, and Hovnanian will cause KHL to, maintain insurance with respect to its properties and assets and its business with financially sound and reputable insurers against loss or damage of the kinds customarily insured against by corporations of established reputation engaged in the same or a similar business and similarly constituted, in such types and amounts as are customarily carried under similar circumstances by such other corporations. The Company and each of

the Guarantors will furnish to the Banks such evidence of insurance as the Banks may reasonably require.

(e) Except as otherwise expressly permitted by Subsection 6.2(e), the Company and each of the Guarantors will, and Hovnanian shall cause KHL to, preserve and maintain its corporate existence and qualify and remain qualified as a foreign corporation authorized to do business in each jurisdiction in which the character of its properties or the nature of its operations requires such qualification or authorization except where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect, and preserve and maintain those of its rights, franchises and privileges the loss of which, singly or in the aggregate, would have Material Adverse Effect.

(f) The Company and each of the Guarantors will maintain or cause to be maintained in good repair, working order and condition all material properties used or useful in its business (whether owned or held under lease), and from time to time make or cause to be made all needed and appropriate repairs, renewals, replacements, additions, betterments and improvements thereto, so that the business carried on in connection herewith may be properly and advantageously conducted at all times.

(g) The Company and each of the Guarantors will permit any authorized representatives designated by the Agent or any of the Banks, at that Bank's expense (or in the case of Agent, at the Banks' expense), to visit and inspect its properties, inspect its books of account, and to discuss its affairs, finances and accounts with its officers, all at such times during normal business hours and as often as any of the Banks may reasonably request.

(h) Hovnanian at all times will maintain accurate and complete records of the status of the real property that makes up Inventory Properties and the Income Producing Properties. The Banks shall have the right to make test verifications of the properties which are the components of the Borrowing Base at any time, in any manner and through any medium the Banks reasonably consider advisable, and the Company and each of the Guarantors shall render any necessary assistance to the Banks in this regard.

(i) The Company and each of the Guarantors will, upon the creation or acquisition by it after the date hereof of a Homebuilding Subsidiary, an Operating Property Subsidiary or Other Corporate Subsidiary, cause such Subsidiary to deliver to each of the Banks (i) an executed Joinder Agreement substantially in the form of Exhibit G attached hereto, pursuant to which such Subsidiary shall become a Guarantor hereunder and under the Guaranties, (ii) the opinion of counsel to the Company, dated the date of such Joinder Agreement and satisfactory in form and substance to the Banks and their counsel, which shall cover the matters contained in Annex A to the form of Joinder Agreement attached hereto as Exhibit G, (iii) a copy of the resolutions of the board of directors of such Subsidiary authorizing the execution, delivery and performance of the Joinder Agreement, certified by its Secretary, and (iv) a copy of the certificate of incorporation of such Subsidiary, certified by the Secretary of State of the state of incorporation, and the bylaws of such Subsidiary, certified by its secretary.

(j) Hovnanian will cause the Consolidated Subsidiaries to pay to the Company, by way of repayment of any loan owing to the Company, or to Hovnanian (for Hovnanian to loan or otherwise provide to the Company) by way of repayment of any loan owing to Hovnanian or by dividend, or otherwise, all amounts necessary to permit the Company to meet, as and when due, its obligations hereunder and under the Notes.

(k) Hovnanian will cause KHL to pay to Hovnanian, at least annually, by way of dividends, all net income of KHL.

(l) Hovnanian and its Consolidated Subsidiaries will promptly (but in any event within thirty (30) days) notify each Bank of any modification to their existing accounting policies and reporting procedures (which notice shall explain in reasonable detail the nature of and reason for the modification).

(m) The Company shall take all action necessary to assure that computer-based systems of the Company and the Guarantors are able to operate and effectively process data and perform functions, including dates on and after January 1, 2000, in a manner so that the year 2000 problem will not have a Material Adverse Effect. At the request of the Agent, the Company shall provide the Banks information reasonably acceptable to the Banks as to the year 2000 compatibility of the Company and the Guarantors.

6.2. Negative Covenants. The Company and each of the Guarantors covenants that so long as any Note or any Letter of Credit is outstanding or the Banks remain obligated under the Facility Commitments, unless written consent from the Requisite Banks is first obtained:

(a) The Company and each of the Guarantors will not, and Hovnanian will not permit any of the Consolidated Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Indebtedness, except the following

("Permitted Indebtedness"): (i) the Indebtedness described in Schedule 6 attached hereto; (ii) the Indebtedness evidenced by the Notes and the Letters of Credit; (iii) any Indebtedness secured by Permitted Encumbrances; (iv) Subordinated Debt; (v) any Indebtedness of Hovnanian to any Consolidated Subsidiary or of any Consolidated Subsidiary to Hovnanian or any other Consolidated Subsidiary; (vi) non-recourse Purchase Money Mortgage Indebtedness; (vii) to the extent not prohibited by Subsection 6.2(s) hereof, permanent financing Indebtedness secured only by a non-recourse mortgage on an Income Producing Property; (viii) to the extent not prohibited by Subsection 6.2(j) hereof, Warehouse Lines of Credit obtained in the ordinary course of business by any Mortgage Subsidiary; (ix) Indebtedness constituting Permitted Guarantees; and (x) Other Senior Homebuilding Indebtedness not prohibited by Subsection 6.2(q) hereof.

(b) The Company and each of the Guarantors will not, and Hovnanian will not permit any of the Consolidated Subsidiaries to, directly or indirectly, create, assume or suffer to exist any Encumbrance of any kind upon any of its properties or assets, whether now owned or hereafter acquired, except the following ("Permitted Encumbrances") (i) the liens described in Schedule 7 attached hereto; (ii) deposits or pledges to secure the payment of workmen's compensation, unemployment insurance or other social security benefits or obligations, or to secure the performance of trade contracts, leases, public or statutory obligations, surety or appeal bonds or other obligations of a like general nature incurred in the ordinary course of business; (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) 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; (v) Purchase Money Mortgages securing purchase money Indebtedness; (vi) non-recourse mortgages on Income Producing Properties securing Indebtedness not prohibited by Subsection 6.2(s) hereof; (vii) liens on assets of a Mortgage Subsidiary to secure only a Warehouse Line of Credit provided to such Subsidiary which is not prohibited by Subsection 6.2(j) hereof; and (viii) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of Hovnanian, the Company and the Consolidated Subsidiaries, or (ix) liens in connection with capital leases or sale leaseback transactions permitted hereby not securing any other indebtedness.

(c) The Company and each of the Guarantors will not, and Hovnanian will not permit any of the Consolidated Subsidiaries to, directly or indirectly, become or remain liable, directly or indirectly, in connection with any Contingent Obligation except the following ("Permitted Guarantees"): (i) guarantees listed on Schedule 8 attached hereto; (ii) guarantees as of the date hereof of Indebtedness of Income Producing Property Subsidiaries permitted under Subsection 6.2(a)(vii); (iii) guarantees by Hovnanian or the Company serving as credit support for obligations of Mortgage Subsidiaries in respect of Warehouse Lines of Credit permitted under Subsection 6.2(a)(viii) above so long as the aggregate outstanding amount of such guarantees does not exceed \$10,000,000 at any one time; (iv) the Guaranties provided to the Banks; (v) guarantees by Hovnanian and/or any Consolidated Subsidiary of Other Senior Homebuilding Indebtedness; (vi) guarantees by Hovnanian and/or any Consolidated Subsidiary of any Subordinated Debt so long as such guarantees are subordinated by their terms to the prior payment in full of the Indebtedness evidenced by this Agreement, the Notes and the Letters of Credit outstanding from time to time in a manner and under an agreement acceptable to the Requisite Banks; and (vii) other guarantees given by the Company, Hovnanian or a Consolidated Subsidiary in the ordinary course of its business so long as no Event of Default is then outstanding.

(d) The Company and each of the Guarantors will not, and Hovnanian will not permit any of the Consolidated Subsidiaries to, directly or indirectly, make or suffer to exist any Investment in, or, except as otherwise provided in Subsection 6.2(g) below, make or suffer to exist any advances or loans to, any Person except the following ("Permitted Investments"): (I) Investments and loans listed on Schedule 10 attached hereto; (ii) advances to employees in the ordinary course of business; (iii) Investments in or purchases of cash, marketable direct obligations of the United States of America or any agency thereof, and certificates of deposit 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 and repurchase agreements have a maturity of less than one year from the date of purchase; (iv) purchases of investment grade commercial paper or debt having a maturity date of one year or less from the date of purchase; (v) purchases of marketable securities of issuers in the residential real estate development industry or similar industries, provided such securities are traded on a national securities exchange or in the over-the-counter market on the NASDAQ National Market System and have a cost not exceeding \$3,000,000 in the aggregate; (vi) Investments in the Company or in

Guarantors, provided however that the aggregate amount of all Investments in Poland shall not exceed \$10,000,000 outstanding at any one time; (vii) Investments in wholly-owned Finance Subsidiaries; (viii) to the extent not prohibited by Subsection 6.2(k) hereof, Investments by Hovnanian or the Company in Related Businesses and/or Joint Ventures; (ix) Investments in Income Producing Properties if at the time of the Investment the total Investment, including the Investment to be made, in such Properties since the Starting Date would not exceed (1) \$15,000,000, plus (2) 25% of increases in Adjusted Tangible Net Worth since the Starting Date plus (3) cumulative Distributions from Income Producing Property Subsidiaries since the Starting Date; (x) promissory notes issued in connection with any disposition of assets made in accordance with Subsection 6.2(e); (xi) Investments by Mortgage Subsidiaries in Joint Ventures; (xii) Investments by Hovnanian or the Company in any Mortgage Subsidiary so long as there is then no outstanding violation of Subsection 6.2(j) hereof; and (xiii) Investments in funds holding assets primarily consisting of those described in clause (iii) hereof.

(e) The Company and each of the Guarantors will not, and Hovnanian will not permit any of the Consolidated Subsidiaries to, directly or indirectly, enter into any transaction of merger or consolidation, or liquidate or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease or otherwise dispose of all or any substantial part of its property, assets or business, except (i) the sale or lease of Inventory Properties in the ordinary course of business, (ii) the sale or lease of Income Producing Properties in the ordinary course of business, (iii) the sale of Mortgage Receivables by any Mortgage Subsidiary, (iv) any sale-leaseback not prohibited by Subsection 6.2(f), (v) any sale of capital stock not prohibited by Subsection 6.2(x), (vi) any other sale of assets by the Company or a Consolidated Subsidiary to the Company or another Consolidated Subsidiary so long as any such sale by the Company or a Guarantor shall only be made to another Guarantor or the Company, and (vii) any merger of any Consolidated Subsidiary or KHL into the Company or any other Consolidated Subsidiary, so long as (1) if such merger involves a Guarantor, a Guarantor or the Company is the surviving entity and (2) no Material Adverse Effect will result from such transaction.

(f) The Company and each of the Guarantors will not, and Hovnanian will not permit any of the Consolidated Subsidiaries to, 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 (ii) a sale and leaseback of its Red Bank, New Jersey office building and/or a sale and leaseback of its West Palm Beach, Florida office building, if the terms of any such sale/leaseback arrangement(s) are comparable to those which could be obtained in an arm's length transaction with an independent third party and the lease payments pursuant thereto do not exceed fair market rental for such property.

(g) The Company and each of the Guarantors will not, and Hovnanian will not permit any of the Consolidated Subsidiaries to, directly or indirectly, lend money to or for the benefit of any officers or directors of the Company, any of the Consolidated Subsidiaries or any Guarantor, or any relatives of such officers or directors, (i) at an interest rate less than the interest rate on the date of any such loan of six-month U.S. Treasury Bills and (ii) in any event in an aggregate amount at any time outstanding for all such loans in excess of \$3,000,000.

(h) The Company and each of the Guarantors will not, and Hovnanian will not permit any of the Consolidated Subsidiaries to, directly or indirectly, declare or pay any Distributions (other than dividends payable solely in shares of its capital stock), or purchase, redeem, retire or otherwise acquire any shares of its capital stock, except that (i) any of the Restricted Subsidiaries or Guarantors may pay cash dividends out of legally available funds in any amount solely to Hovnanian or to other Restricted Subsidiaries or Guarantors; (ii) Consolidated Subsidiaries (other than Restricted Subsidiaries or Guarantors) may pay cash dividends to any Consolidated Subsidiary or to Hovnanian; (iii) if no Event of Default exists hereunder, or would be caused thereby, Hovnanian may pay cash dividends out of legally available funds in an aggregate amount not to exceed \$10,000,000 in any period of twelve (12) consecutive months; and (iv) if no Event of Default exists hereunder, or would be caused thereby, Capital Stock Retirements may be made at any time in an aggregate amount not to exceed \$15,000,000 after the Starting Date.

(i) Adjusted Tangible Net Worth less Subordinated Debt shall not be less than Minimum Equity.

(j) No Mortgage Subsidiary shall, and Hovnanian will not permit any Mortgage Subsidiary to, incur Indebtedness if the ratio of all Indebtedness of such Subsidiary (including the Indebtedness to be incurred) to such Subsidiary's equity is greater than 12 to 1. For the purposes hereof, the outstanding balance of Indebtedness of such Mortgage Subsidiary covered by a Permitted Guarantee made by Hovnanian or the Company and the outstanding balance of loans made by Hovnanian or the Company to such entity shall be added to and deemed part of such entity's equity.

(k) The aggregate of Restricted Payments and Restricted Investments after the Starting Date shall not exceed (i) \$36,000,000, plus (ii) 50% of all Consolidated Net Income (on a cumulative basis) earned after the Starting Date, plus (iii) 50% of all proceeds realized by Hovnanian from the issuance of Equity Securities after the Starting Date.

(l) Land in Planning shall not at any time exceed twenty percent (20%) of Adjusted Tangible Net Worth.

(m) The sum of Land under Development and Land in Planning shall not at any time exceed Adjusted Tangible Net Worth.

(n) Unsold Lots/Homes Under Construction, excluding the Book Value of model homes, shall not at any time exceed thirty percent (30%) of Adjusted Tangible Net Worth.

(o) Units representing Unsold Lots/Homes Under Construction shall not at any time exceed the greater of (i) forty-five percent (45%) of total units then under construction (beyond the slab or foundation stage of construction) and (ii) twenty-five percent (25%) of total units delivered to customers within the twelve (12) month period preceding the date of calculation.

(p) [INTENTIONALLY OMITTED]

(q) Other Senior Homebuilding Indebtedness shall not exceed \$200,000,000.

(r) Homebuilding Indebtedness shall not exceed the product of (1) the Total Debt Multiplier times (2) the Net Worth Amount.

(s) No Consolidated Subsidiary shall, and Hovnanian shall not permit any Consolidated Subsidiary to, incur Indebtedness related to Income Producing Properties except Indebtedness incurred at a time when the aggregate Indebtedness related to Income Producing Properties (including the Indebtedness to be incurred) is less than seventy (70%) percent of the aggregate Book Value (before accumulated depreciation) of all Income Producing Properties.

(t) Investments after the Starting Date in states which are not Core States shall not exceed in the aggregate ten percent (10%) of Adjusted Tangible Net Worth.

(u) The Company and each of the Guarantors and any Plan of any of them will not (i) engage in any "Prohibited Transaction" (as such term is defined in Section 406 or Section 2003(a) of ERISA), or incur any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) whether or not waived, except to the extent that the foregoing, individually or in the aggregate, do not have or could not reasonably be expected to have a Material Adverse Effect or (ii) terminate any such Plan in a manner which results in or could reasonably be expected to result in the imposition of a lien on any property of the Company or any Guarantor pursuant to Section 4068 of ERISA.

(v) [INTENTIONALLY OMITTED]

(w) Neither the Company nor any of the Guarantors shall purchase, redeem, retire, defease, or otherwise prepay, all or any portion of the Subordinated Debt, except if no Event of Default is then outstanding (i) Mandatory Principal Payments may be made in respect of the Subordinated Debt; (ii) unless the Indebtedness referenced in clause (iv) hereof has been paid in its entirety without issuance of \$100,000,000 of new Subordinated Debt, Optional Sinking Fund Payments may be made in any fiscal year up to an aggregate amount equal to the lesser of (1) \$15,000,000 plus 100% of the amount permitted to be applied to make Optional Sinking Fund Payments in the immediately preceding fiscal year but not in fact so applied and (2) \$25,000,000; (iii) Subordinated Debt may be refinanced in the manner contemplated by the second sentence of the definition of "Optional Sinking Fund Payment;" and (iv) the Company may purchase, in whole or in part, the Subordinated Debt referenced in clause (i) of the definition thereof.

(x) Neither the Company nor any of the Guarantors shall sell, transfer, convey or dispose of any shares of capital stock of any Subsidiary except for sales, transfers or conveyances to the Company or a Guarantor or sales of Income Producing Property Subsidiaries in the ordinary course of business.

(y) Neither the Company nor any of the Guarantors (except Hovnanian) shall authorize or issue any additional shares of its capital stock other than to the Company or another Guarantor.

(z) Hovnanian shall not permit KHL to, and shall take all appropriate action to insure that KHL does not, directly or indirectly, create, incur, assume or suffer to exist (i) any Indebtedness, or (ii) any Encumbrance of any kind upon any of KHL's properties or assets, whether now owned or hereafter acquired (other than Encumbrances imposed by operation of law).

(aa) Neither the Company nor the Guarantors will allow the aggregate principal amount at any time outstanding of Senior Homebuilding Indebtedness, less the aggregate face amount of all outstanding Performance Letters of Credit, to exceed the Borrowing Base.

(bb) Hovnanian's (or as the case may be, the Company's or any Consolidated Subsidiary's) share of the Indebtedness of all Joint Ventures, (calculated by multiplying the ownership interest of the applicable entity by the aggregate Indebtedness of such Joint Venture) shall not exceed \$35,000,000.

(cc) No Joint Venture shall have aggregate Indebtedness in excess of seventy percent (70%) of the aggregate Book Value (measured as of the date financing is obtained with respect to each such asset without deduction for accumulated depreciation) of the fixed assets of such entity.

(dd) During any fiscal quarter which is the third consecutive fiscal quarter as of the last day of which the Fixed Charge Coverage Ratio is lower than 1.00 and the Cash Flow Coverage Ratio is lower than 1.10, Hovnanian and the Consolidated Subsidiaries will not make in the aggregate purchases of land in excess of the lesser of (i) fifty percent (50%) of the average cost of land sold (land component of cost with respect to each sale) for the immediately prior four (4) fiscal quarters and (ii) the cost of land sold (as determined above) for the immediately prior fiscal quarter.

SECTION 7. EVENTS OF DEFAULT

If any of the following events (herein called "Events of Default") shall occur and shall not have been remedied:

(a) Failure to pay any monetary obligation(s) owing to any Bank or Banks pursuant to this Agreement, including principal of or interest on any Note, when due (in the case of payments of principal), or within three (3) Business Days after the date due (in the case of payments of other obligations);

(b) Any representation or warranty made by the Company or any Guarantor in this Agreement, or in any certificate, financial or other statement furnished by the Company or any Guarantor pursuant hereto or thereto, is untrue in any material respect (or as to any representation or warranty which is expressly qualified by reference to the term "Material Adverse Effect", then in any respect) at the time when made;

(c) Default by the Company or any Guarantor in the observance or performance of any of the covenants or agreements contained in this Agreement (except Subsection 6.2(aa) hereof), and the continuance of the same unremedied for a period of thirty (30) days after notice thereof shall have been given to the Company or such Guarantor, as the case may be, by Agent or any of the Banks (provided, however, that any such remedy shall be deemed effective only if the Company has given written notice to Agent and each Bank prior to the end of such 30 day period describing such remedy and certifying that such remedy has been effected);

(d) Default by the Company in the observance of the covenant contained in Subsection 6.2(aa) hereof, and the continuance of the same unremedied for a period of five (5) days after notice thereof shall have been given to the Company by Agent or any of the Banks;

(e) The Company or any of the Consolidated Subsidiaries or any Guarantor shall (I) default in the payment of any obligation for borrowed money (other than the Notes), including but not limited to any Subordinated Debt, or for the deferred purchase price of property (other than Indebtedness relating to any nonrecourse Purchase Money Mortgages or any non-recourse mortgages on any Income Producing Properties) beyond the period of grace, if any, provided with respect thereto or (ii) default in the performance or observance of any other term, condition or agreement relating thereto, including but not limited to the Indentures or any other instrument with respect to any Subordinated Debt, if the effect of such default is to cause, or permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due prior to its stated maturity; provided, however, that the aggregate dollar amount of the obligation with respect to which the default has occurred at any time exceeds \$500,000;

(f) Filing by the Company, any of the Consolidated Subsidiaries (other than an Excluded Subsidiary) or any Guarantor (other than an Excluded Subsidiary) of a voluntary petition or other proceeding in bankruptcy or a voluntary petition, answer or other proceeding seeking reorganization, arrangement, readjustment of its debts or for any other relief under any bankruptcy, insolvency or other similar act or law, state or federal, now or hereafter existing, or any action by the Company, any of the Consolidated Subsidiaries (other than an Excluded Subsidiary) or any Guarantor (other than an Excluded Subsidiary) indicating its consent to, approval of, or acquiescence in, any such petition or proceeding; the application by the Company, any of the

Consolidated Subsidiaries (other than an Excluded Subsidiary) or any Guarantor (other than an Excluded Subsidiary) for or the appointment by consent or acquiescence of a receiver or trustee for itself or for all or a substantial part of its property; the making by the Company, any of the Consolidated Subsidiaries (other than an Excluded Subsidiary) or any Guarantor (other than an Excluded Subsidiary) of an assignment for the benefit of creditors; the inability of the Company, any of the Consolidated Subsidiaries (other than an Excluded Subsidiary) or any Guarantor (other than an Excluded Subsidiary), or the admission by the Company, any of the Consolidated Subsidiaries (other than an Excluded Subsidiary) or any Guarantor (other than an Excluded Subsidiary) in writing of its inability, to pay its debts as they mature, provided however, that so long as Agent receives prior notice of each relevant event covered hereby no Event of Default shall have occurred under this Subsection 7(f) unless and until a relevant event covered hereby occurs with respect to either (1) the Company, (2) Hovnanian, or (3) those Consolidated Subsidiaries owning (as of the date of the relevant event covered hereby) three percent (3%) or more of the assets of the Consolidated Subsidiaries taken as a whole;

(g) Filing of an involuntary petition or other proceeding against the Company, any of the Consolidated Subsidiaries (other than an Excluded Subsidiary) or any Guarantor (other than an Excluded Subsidiary) in bankruptcy or seeking reorganization, arrangement, readjustment of its debts or for any other relief under any bankruptcy, insolvency or other similar act or law, state or federal, now or hereafter existing; or the involuntary appointment of a receiver or trustee of the Company, any of the Consolidated Subsidiaries (other than an Excluded Subsidiary) or any Guarantor (other than an Excluded Subsidiary) or for all or a substantial part of its property; or the issuance of a warrant of attachment, execution or similar process against any substantial part of the property of the Company, any of the Consolidated Subsidiaries (other than an Excluded Subsidiary) or any Guarantor (other than an Excluded Subsidiary), and the continuance of any of such events for 30 days as to the Company or Hovnanian or 60 days as to any Consolidated Subsidiary (other than the Company) undismissed, unbonded or undischarged;

(h) All or any material part of the property of the Company, the Consolidated Subsidiaries and the Guarantors, taken as a whole, shall be condemned, seized or otherwise appropriated, or custody or control of such property shall be assumed by any governmental agency or any court of competent jurisdiction at the instance of any governmental agency, and shall be retained for a period of 30 days;

(i) Members of the Hovnanian family shall at any time cease to own, of record or beneficially, shares representing at least fifty-one percent (51%) of the total voting power of the common stock of Hovnanian. "Members of the Hovnanian family" shall mean Kevork S. Hovnanian, Ara K. Hovnanian, the members of their immediate families, the respective estates, spouses, heirs, ancestors, lineal descendants, legatees and legal representatives of any of the foregoing and the trustee of any bona fide trust of which one or more of the foregoing are the sole beneficiaries or the grantors thereof;

(j) Any amendment, modification or waiver, including for the purpose of curing a default, of any term or provision of any of the Indentures (other than amendments, modifications or waivers which are of a technical or clarifying nature, or which extend the due date or reduce the amount of any payment owing thereunder, so long as they do not in any event change the subordination language of such Indenture) shall have been made without the written consent of the Requisite Banks, which consent shall not be unreasonably withheld;

(k) Any Guaranty shall, at any time after its execution and delivery and for any reason, cease to be in full force and effect, or shall be declared null and void, or the validity or enforceability of this Agreement, any of the Notes or any of the Guarantees shall be contested by the Company or any Guarantor, or the Company or any Guarantor shall deny it has any further liability or obligation under any of such agreements (other than, in the case of any Guaranty, as a result of the sale, liquidation or merger of any Guarantor permitted by this Agreement);

(l) The Pledge Agreement shall, at any time, after its execution and delivery and for any reason, cease to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by Hovnanian, or Hovnanian shall deny it has any further liability or obligation under the Pledge Agreement; or

(m) Company or any Guarantor shall be indicted for or convicted of engaging in any type of criminal activity, or any investigation shall be undertaken with respect to the engaging in of any type of criminal activity by the Company or any Guarantor which investigation results in or shall be reasonably likely to result in a Material Adverse Effect; then, and in any such event (except the events described in Subsections 7(f) or (g) with respect to the Company or Hovnanian) the Requisite Banks may, without notice to the Company, direct the Agent to declare the Notes to be forthwith due and payable (and upon the

occurrence of any event described in Subsection 7(f) or (g) with respect to the Company or Hovnanian, the Notes shall be automatically due and payable), whereupon the then outstanding aggregate principal amount of the Notes, together with accrued interest thereon, and all other obligations of any nature thereunder and hereunder, whether due or to become due, direct or indirect, matured or contingent, shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything contained herein or in any Note to the contrary notwithstanding. To the extent a default described in Subsection 7(a) above with respect to a payment of principal or interest owing to any Bank but not as to all Banks has occurred and continued for at least thirty (30) days past its due date, then such Bank affected thereby may, without notice to the Company, direct the Agent to declare the Note (or Notes in the case of the Swing Loan Lender) issued to such Bank to be forthwith due and payable with the same force and effect hereunder as to such Note(s) as would be applicable hereunder upon an acceleration of all Notes, which right of any such Bank shall be independent of and shall not limit the right of the Requisite Banks described above to cause an acceleration of all Notes upon the occurrence of such Event of Default (whether exercised by the Requisite Banks before or after any such Bank affected thereby has exercised its right hereunder).

SECTION 8. THE BANKS

8.1. Non-reliance; Notice of Default. Each of the Banks acknowledges that it is acting on its own behalf with respect to the transactions herein contemplated, no other Bank is acting as agent or representative for it except as and to the extent expressly provided herein, and neither any of the other Banks nor the Agent has made any representations or warranties with respect to, and shall in no way be responsible for, the accuracy or any information given or to be given to it by the Company or any of the Guarantors, or the validity, enforceability or legal effect of this Agreement, the Notes, the Guaranties, the Pledge Agreement, or of any other documents delivered in connection herewith, or be bound to ascertain or inquire as to the performance or observance of any of the terms hereof or thereof. Neither the Agent nor any Bank shall be liable to any other Bank for any action taken or omitted by it hereunder so long as it has acted in good faith unless grossly negligent. Each of the Banks agrees to give to the Agent and the other Banks prompt notice of the occurrence of any Event of Default or Potential Event of Default or of any other matter which in its judgment materially affects the interests of the Banks.

8.2. Enforcement of Remedies. If the Notes shall have become due and payable pursuant to Section 7 hereof, Agent shall, on behalf of the Banks, proceed to accelerate (unless, pursuant to Section 7, acceleration is automatic) payment of the Notes and Guaranties, and, in such manner and order and using such procedures as it may determine, shall enforce any other right or remedy available to it and Banks, or any of them, against the Company and/or any one or more of the Guarantors to protect, preserve and defend the interests of the Banks and collect the obligations of the Company and the Guarantors, and each Bank shall be entitled to exercise any right of setoff available at law or equity to enforce its rights against the Company or any or all of the Guarantors.

8.3. Payments Prior to Acceleration. Notwithstanding any provision to the contrary contained in this Agreement, the Notes or any related agreements, all payments of principal, premium (if any), interest and fees due and payable to any Bank under this Agreement, the Notes and all related agreements and documents shall be paid to the Agent which shall promptly remit all such payments to each Bank in accordance with the respective Loan Percentage of each Bank. Any payment received by the Agent in good funds prior to twelve o'clock (12:00) noon on a Business Day shall be remitted to the Banks on the same Business Day and any payment thereafter received shall be remitted on the next Business Day. The Banks shall each be entitled to recover from the Agent interest at the Federal Funds Rate on any amount not timely remitted to them as provided above for each day such amount is not so remitted.

8.4. Payments After Acceleration. In the event of receipt of any payments (whether voluntary or involuntary) by the Agent or a Bank, whether by set-off, collection or otherwise, from the Company or any of the Guarantors after acceleration of all of the Notes, such payments shall not be applied by any Bank to its Loans but instead shall be held in trust by the Agent (as and when received by the Agent) or, as the case may be, by each Bank directly receiving any such payment, each such Bank being obligated to remit any such payments promptly to the Agent. Agent shall promptly remit all such payments, subject only to deduction of expenses incurred by Agent for the benefit of the Banks, to each Bank who shall then apply the same pro rata to payment of the Notes in accordance with the respective Loan Percentage of each Bank. To the extent required by applicable law to carry out the terms hereof, the Bank(s) receiving payment(s) shall purchase, forthwith upon notice from the Agent, from the other Banks participations in the Loans owing to such other Banks in the same manner and under the same terms as set forth in Subsection 8.5 for the purchase of

participations.

8.5. Sharing of Payments. In the event that, after acceleration of all of the Notes, any Bank shall obtain and retain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, collection or otherwise) on account of any amounts owing to it in excess of its Loan Percentage on the day of acceleration, whether as a result of a violation of Subsection 8.4 above or otherwise, such Bank shall forthwith purchase from the other Banks such participations in the Loans owing to such other Banks as shall be necessary to cause such purchasing Bank to share the excess payment ratably (in accordance with their respective Loan Percentages) with each of them, provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Bank, such purchase from each Bank shall be rescinded and such Bank shall repay to the purchasing Bank the purchase price to the extent of such recovery together with an amount equal to such Bank's ratable share (according to the proportion of (a) the amount of such Bank's required payment to (b) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. The Company and each Guarantor agree that any Bank so purchasing a participation from another Bank pursuant to this Subsection 8.5 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Bank were the direct creditor of the Company and the Guarantor in the amount of such participation.

8.6. Pro Rata Sharing of Revolving Credit Loan Losses. In the event that, after acceleration of all of the Notes, the principal amount of Revolving Credit Loans outstanding under the Revolving Credit Note of any Bank exceeds an amount equal to such Bank's Revolving Credit Commitment Percentage of the aggregate outstanding Revolving Credit Loans, such Bank shall be entitled to sell, and all of the other Banks shall, forthwith purchase, ratably in accordance with their respective Revolving Credit Commitment Percentages, such participations in such selling Bank's Revolving Credit Loans as shall be necessary to cause the outstanding principal amount of such selling Bank's Revolving Credit Loans to equal its Revolving Credit Commitment Percentage of the aggregate outstanding Revolving Credit Loans, for the purpose of insuring that all losses hereunder with respect to the Revolving Credit Loans shall be borne ratably by the Banks in accordance with their respective Revolving Credit Commitment Percentages. The Company and each Guarantor agree that any Bank so purchasing a participation from another Bank pursuant to this Subsection 8.6 may, to the fullest extent permitted by law, exercise all of its rights of payment (including the right of set-off) with respect to the participation as fully as if such Bank were the direct creditor of the Company and the Guarantor in the amount of such participation.

8.7. Participations; Assignments of Commitments; Additional Banks; Substitution of Banks.

(a) Each Bank shall have the right, in its sole discretion, to sell or assign participating interests in any portion of its Facility Commitment, its interest in the Loans, and any of its other rights hereunder or under its Note and Guaranty or the Pledge Agreement, to one or more participants in such amounts and under such terms and conditions as such Bank shall determine. In the event of any such sale by any Bank of participating interests to a participant, such Bank's obligations under this Agreement shall remain unchanged, such Bank shall remain solely responsible for the performance thereof, such Bank shall remain the holder of its Note for all purposes under this Agreement, and the Company and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Notwithstanding the foregoing, the Company agrees that each participant shall be entitled to the benefits of Subsection 3.5 hereof with respect to its participation in the Loans outstanding from time to time to the extent the same are granted to such participant in its participation agreement. Each Bank agrees that any agreement between such Bank and any such participant in respect of such participating interests shall not restrict or impair such Bank's right to agree to amendments, modifications or waivers (or direct the taking of actions) with respect to the provisions of this Agreement, its Note or Guaranty or the Pledge Agreement except provisions relating to interest rate, maturity and principal amount.

(b) Subject to the prior written approval of the Company and of the Requisite Banks (other than a sale by PNC of up to \$10,000,000 of its Facility Commitment to another Bank as to which sale approval of the Requisite Banks is not required), each Bank shall have the right to sell or assign up to fifty percent (50%) of the original amount of its Facility Commitment and a like portion of its interest in the Loans and its other rights and obligations hereunder and under its Note, Guaranty and Pledge Agreement, to another lending institution. If an Event of Default is outstanding, each Bank may sell up to one hundred percent (100%) of the original amount of its Facility Commitment without the necessity of obtaining the approval of any other Person. In each such case, the Bank a portion of whose Facility Commitment is being assigned and assumed and the lending institution assuming such portion of such Bank's Facility Commitment shall execute such instruments and documents of assignment

and assumption and shall furnish such certificates and opinions as counsel for the Agent may deem necessary or advisable and thereafter such lending institution should be deemed to be a Bank hereunder, subject to all of the terms, provisions and obligations relating to the Banks and entitled to all of the benefits to which a Bank is entitled hereunder and the Bank a portion of whose Facility Commitment was sold or assigned shall thereafter be discharged with respect to any obligations and rights relating to the portion of its Facility Commitment so assigned. Nothing herein contained shall prevent any Bank from transferring its Revolving Credit Loans, Revolving Credit Note and Revolving Credit Commitment to another branch of the same institution.

(c)The Company shall have the option, exercisable so long as no Event of Default is outstanding hereunder, to have one or more additional banking institution(s) acceptable to Agent join in, and assume a Revolving Credit Commitment under, this Agreement and thereby become an additional "Bank(s)" under this Agreement ("Additional Bank(s)"), provided, however, that (i) the Revolving Credit Commitment of each Additional Bank shall not be less than \$10,000,000, (ii) each Additional Bank shall execute a joinder agreement acceptable to the Company and the Agent under which such Additional Bank assumes and agrees to be bound by its Revolving Credit Commitment, joins in this Agreement as a "Bank" and thereby obtains all benefits and rights of and agrees to perform all duties and obligations of a Bank hereunder, (iii) the Company executes and delivers to such Additional Bank a Revolving Credit Note in the amount of the Revolving Credit Commitment of such Additional Bank and the Guarantors each execute and deliver their Guaranty to the Additional Banks, and (iv) this Agreement shall be automatically deemed to be amended to the extent necessary to give effect to the modifications to the Facility Percentages, Loan Percentages and Revolving Credit Commitment Percentages of each Bank caused by the joinder of the Additional Bank into this Agreement.

(d)Subject to the prior written approval of the Requisite Banks, the Company shall have the right to require any Bank to sell its Facility Commitment, together with its interest in the Loans and its other rights and obligations hereunder and under its Note, Guaranty and Pledge Agreement, to another lending institution. In each case, the Bank whose Facility Commitment is being sold and the lending institution assuming such Bank's Facility Commitment shall execute such instruments and documents of assignment and assumption and shall furnish such certificates and opinions as counsel for the Agent may deem necessary or advisable, and thereafter such lending institution shall be deemed to be a Bank hereunder, subject to all of the terms, provisions and obligations relating to the Banks and entitled to all of the benefits to which a Bank is entitled hereunder, and the Bank whose Facility Commitment was sold shall thereafter be discharged with respect to any obligations and rights relating to its Commitment so sold.

SECTION 9. THE AGENTS

9.1.Appointment. Each Bank hereby designates and appoints PNC as the Agent of such Bank under this Agreement, and each Bank hereby irrevocably authorizes, and each holder of any Note by the acceptance thereof will be deemed irrevocably to authorize, the Agent to take such action on its behalf under the provisions of this Agreement and to exercise such powers as are set forth herein, together with such other powers as are reasonably incidental thereto. The Agent agrees to act as such on the express conditions contained in this Section 9. The Agent may perform any of its duties hereunder by or through its agents, representatives or employees.

9.2.Nature of Duties.

(a) The Agent shall have no duties or responsibilities except those expressly set forth in this Agreement. The duties of the Agent shall be mechanical and administrative in nature and Agent shall carry out and satisfy such duties with the same degree of care as Agent would employ with regard to a similar facility in which it was the only lender. The Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Bank. Nothing in this Agreement, expressed or implied, is intended to or shall be construed to impose upon the Agent any obligations in respect of this Agreement except as expressly set forth herein. Each Bank agrees to make its own independent investigation of the financial condition and affairs of the Company and the Guarantors in connection with the making and the continuance of the Loans hereunder and shall make its own appraisal of the creditworthiness of the Company and the Guarantors, and 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 the Loans or at any time or times thereafter.

(b) The Agent's duties under this Agreement shall include the following:

(i) If the Agent obtains actual knowledge of any Event of Default or Potential Event of Default under this Agreement, any Note, any Guaranty or the Pledge Agreement, the Agent shall promptly report (to the extent the officer obtaining such knowledge knows of the obligation to report same to the Banks)

such occurrence to the Banks;

(ii) The Agent shall be responsible for coordinating any actions (including extensions of the Commitment Termination Date as may be considered in accordance with the definition of "Commitment Termination Date" and the granting of waivers and/or amendments pursuant to Subsection 10.1 hereof) among the Banks and between the Banks and the Company and/or any Guarantor; and

(iii) The Agent shall, subject to the terms hereof, be responsible for enforcing the rights and claims of the Banks hereunder, or under the Notes, Guaranties or Pledge Agreement, following an acceleration of any Note or Notes.

9.3.Rights, Exculpation, Etc. Neither the Agent nor any of its officers, directors, employees, representatives or agents shall be liable to any Bank for any action taken or omitted by it hereunder, or in connection herewith, unless caused by its gross negligence or willful misconduct. The Agent shall not be responsible to any Bank for any recitals, statements, representations or warranties herein or for the execution, effectiveness, genuineness, validity, enforceability, collectibility, or sufficiency of this Agreement or any other agreement relating to the transactions contemplated hereby or the financial condition of the Company or any Guarantor. The Agent shall not be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement or the financial condition of the Company or any Guarantor or the existence of any noncompliance or Event of Default. The Agent may at any time request instructions from the Banks with respect to any actions or approvals which by the terms of this Agreement the Agent is permitted or required to take or to grant, and if such instructions are promptly requested, the Agent shall be absolutely entitled to refrain from taking any action or to withhold any approval and shall not be under any liability whatsoever to any Person for refraining from any action or withholding any approval until it shall have received such instructions from the Requisite Banks. Without limiting the foregoing, no Bank shall have any right of action whatsoever against the Agent as a result of the Agent acting or refraining from acting under this Agreement, the Notes, the Guaranties, or the Pledge Agreement in accordance with the terms of this Agreement.

9.4.Reliance. The Agent shall be entitled to rely upon any written notice, statement, certificate, order or other document or any telephone message believed by it to be genuine and correct and to have been signed, sent or made by a proper Person, and with respect to all matters pertaining to this Agreement and its duties hereunder or thereunder, upon advice of counsel selected by it.

9.5.Indemnification. To the extent that the Agent is not promptly reimbursed and indemnified by the Company or the Guarantors, the Banks will reimburse and indemnify the Agent for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including reasonable attorneys' fees and expenses) or disbursements of any kind or nature whatsoever (collectively, "Losses") which may be imposed on, incurred by, or asserted against the Agent, acting pursuant hereto, in any way relating to or arising out of this Agreement or the Notes or Guarantees or any action taken or omitted by the Agent under this Agreement in proportion to each Bank's Facility Percentages (or Loan Percentages with respect to Losses imposed, incurred or asserted after an acceleration of the Notes); provided that no Bank shall be liable for any portion of such Losses resulting from Agent's gross negligence or willful misconduct. The obligations of the Banks under this Subsection 9.5 shall survive the payment in full of the Notes and the termination of this Agreement.

9.6.The Agent Individually. With respect to its pro rata share of the Facility Commitments hereunder, the Loans made by it, and any Note or Guaranty issued to or held by it, the Agent shall have and may exercise the same rights and powers hereunder and is subject to the same obligations and liabilities as and to the extent set forth herein for any other Bank or holder of a Note. The term "Banks" or any similar term shall, unless the context clearly otherwise indicates, include the Agent in its individual capacity as a Bank. The Agent may accept deposits from, lend money to, and generally engage in any kind of banking, trust or other business with the Company and the Guarantors as if it were not acting as Agent pursuant hereto.

9.7.Successor Agent.

(a) The Agent may resign from the performance of all its functions and duties hereunder at any time by giving at least thirty (30) days' prior written notice to the Company and the Banks and may be removed by direction of the Requisite Banks upon commission by the Agent of any wilful misconduct or gross negligence. Such resignation or removal shall take effect upon the acceptance by a successor Agent or appointment pursuant to clauses (b) and (c) below or as otherwise provided below.

(b) Upon any such notice of resignation or removal, the Requisite Banks shall appoint a successor Agent who shall be satisfactory to the Company and

shall be an incorporated bank or trust company.

(c) If a successor Agent shall not have been so appointed within said 30 day period, the retiring Agent, with the consent of the Company, shall then appoint a successor Agent who shall serve as Agent until such time, if any, as the Requisite Banks, with the consent of the Company, appoint a successor Agent as provided above.

9.8.Managing Agents. The parties hereto covenant and agree that B of A shall be a managing agent (the "Managing Agent") who shall perform such duties and responsibilities as the Company, the Agent and the Banks may hereafter request and the Managing Agent shall accept. Without the prior written consent of the Agent, no duty, responsibility, right or option granted to the Agent shall be delegated to the Managing Agent and no compensation payable to the Agent shall be shared with the Managing Agent. Except as limited by this paragraph, each disclaimer, exculpation provision, indemnity and other provision contained in Section 9 of the Credit Agreement provided for the benefit of the Agent shall likewise be deemed given to and provided for the Managing Agent.

SECTION 10. MISCELLANEOUS

10.1. Amendments.

(a) Neither this Agreement nor the Pledge Agreement can be changed or terminated orally. Any term, covenant, agreement or condition of this Agreement or the Pledge Agreement may, with the consent of the Company, be amended, or compliance therewith may be waived (either generally or in any particular instance and either retroactively or prospectively), by one or more substantially concurrent written instruments signed by the Requisite Banks; provided, however, that

(i) no such amendment or waiver shall, without the consent of all Banks, increase the amount of any Bank's Facility Commitment or Revolving Credit Commitment, or extend or waive any payment due and payable on the Commitment Termination Date, or modify the definition of Requisite Banks;

(ii)no such amendment or waiver shall, without the consent of the Bank affected thereby, reduce the interest rate on, or extend the time of payment of principal or interest under, any Note (without limiting clause (i) above as it applies to extensions of or waivers with respect to payments due and payable on the Commitment Termination Date);

(iii)no such amendment shall modify any of the terms and provisions hereof with respect to the Letters of Credit without the consent of the LOC Banks; and

(iv)no such amendment may modify the rights or duties of the Agent without the Agent's consent.

Any amendment or waiver pursuant to this Subsection 10.1 shall apply equally to all of the holders of the Notes and shall be binding upon them, upon each future holder of any Note, upon the Company and the Guarantors.

10.2. No Waiver; Cumulative Remedies. No failure or delay on the part of any Bank or the Agent in exercising any right, power or privilege under this Agreement, under any Note or Guaranty, or under the Pledge Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein and therein provided are cumulative and not exclusive of any rights or remedies provided by law.

10.3. Notices. All notices, requests and demands to or upon any party hereto shall be in writing and shall be delivered or mailed, certified mail, return receipt requested, or forwarded by nationally recognized overnight courier, addressed to such party as follows or to such other address as may be hereafter designated in writing by such party to the other party hereto:

The Company:K. Hovnanian Enterprises, Inc.
10 Route 35
Red Bank, New Jersey 07701
Attn: General Counsel

The Guarantors: c/o K. Hovnanian Enterprises, Inc.
10 Route 35
Red Bank, New Jersey 07701
Attn: General Counsel

The Agent: PNC Bank, National Association
Real Estate Group
Two Tower Center/18th Floor

Attn: Douglas G. Paul, Vice President

With copies to: Blank Rome Comisky & McCauley LLP
One Logan Square
Philadelphia, PA 19103
Attn: Harvey I. Forman, Esquire

The Banks: At the addresses for the respective Banks provided in Schedule 9.

10.4. Payment of Expenses and Taxes. The Company and each of the Guarantors jointly and severally agree to pay all reasonable costs and expenses of the Agent in connection with the preparation, execution, delivery and administration of this Agreement, the Notes, the Guaranties and the Pledge Agreement, and any amendments thereto (including, without limitation, the reasonable fees and disbursements of one law firm acting as counsel to the Agent and to the Banks), and to pay all costs and expenses of the Agent and the Banks in connection with the enforcement of this Agreement, the Notes, the Guaranties and the Pledge Agreement, as well as all costs and expenses incurred by the Agent and the Banks in protecting, preserving and defending their respective interests under this Agreement, the Notes, the Guaranties or the Pledge Agreement, including enforcement, protection, preservation and defense in any bankruptcy or insolvency proceeding, including, in each case, legal fees and disbursements arising in connection therewith. The Company and each of the Guarantors jointly and severally also agree to pay all recording and filing fees, as well as all stamp and other taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or the consummation of any of the transactions contemplated by, this Agreement, the Notes, the Guaranties and the Pledge Agreement, or any modifications thereof, and to indemnify, defend and hold the Agent and the Banks harmless from and against any and all Losses with respect to or resulting from any delay in paying such fees and taxes.

10.5. Set-Off. Upon the occurrence and during the continuance of any Event of Default, each Bank is hereby authorized, at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of the Company or any Guarantor (a) against any and all of the obligations under this Agreement, the Notes and the Guaranties then due and payable (whether at stated maturity, acceleration or otherwise) or (b) at the direction or with the consent of the Requisite Banks, against any and all of the outstanding obligations under this Agreement, the Notes and the Guaranties whether or not then due and payable and irrespective of whether or not maturity or acceleration has occurred under this Agreement or any Note(s) or Guaranty and whether such obligations may be unmatured or contingent. Each Bank agrees promptly to notify the Company or Guarantor, as the case may be, after any such set-off and application. The rights of each Bank under this Subsection 10.5 are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Bank may have, but are subject (regardless of whether acceleration has occurred) to the sharing provisions of Subsection 8.4 hereof.

10.6. Counterparts; Effective Date. This Agreement may be executed by one or more of the parties hereto on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the counterparts of this Agreement signed by all parties shall be lodged with the Company and the Agent. This Agreement shall become effective upon the receipt by the Agent of executed counterparts (or telex, telecopy or telephonic confirmation of the execution of counterparts) of this Agreement by each of the parties hereto.

10.7. Incorporation of Exhibits and Schedules. The Exhibits and Schedules attached hereto are hereby incorporated in this Agreement.

10.8. Titles and Headings. The Table of Contents, titles and headings of sections of this Agreement are intended for convenience only and shall not in any way affect the meaning of construction of any provision of this Agreement.

10.9. No Third Party Beneficiaries. This Agreement is solely for the benefit of the Banks, the Company and the Guarantors and nothing contained in this Agreement shall be deemed to confer upon any Person other than the Company, the Guarantors and the Banks (and the Agent on their behalf) any right to insist upon or to enforce the performance or observance of any of the obligations contained herein. All conditions to the obligations of the Banks to make loans or extend credit hereunder are imposed solely and exclusively for the benefit of the Banks and no other Person shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume the Banks will refuse to make loans or extend credit in the absence of strict compliance with any or all thereof and no other Person shall under any circumstances be deemed to be a beneficiary of such conditions, any or all of which may be freely waived in whole or in part by the

Banks at any time if, in each Bank's sole discretion, the Banks deem it advisable or desirable to do so.

10.10. Construction. The parties acknowledge that each party and its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto.

10.11. Entire Agreement. This Agreement, taken together with the Notes, the Guaranties and the Pledge Agreement, and all certificates and other documents delivered by the Company or any Guarantor to the Banks, embody the entire agreement and supersede all prior agreements, written and oral, relating to the subject matter hereof (except to the extent expressly referenced herein or therein).

10.12. Survival of Representations and Warranties, etc. All representations and warranties made in this Agreement and in all certificates delivered pursuant hereto, shall survive the execution and delivery of this Agreement, the Notes and the Guaranties, and performance hereunder and thereunder, and the provisions of Subsections 2.8, 2.10, 3.5 and 10.4 hereof shall survive payment of the Notes.

10.13. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Company, each of the Guarantors, Agent and each Bank, and their respective successors and assigns, except that the Company and the Guarantors may not assign or transfer their respective rights hereunder without the prior written consent of the Banks and a Bank may transfer its respective rights and obligations hereunder only in accordance with the provisions of Subsection 8.7 hereof, as a result of a sale or merger of such Bank, or otherwise by operation of law.

10.14. Governing Law. This Agreement, the Notes, the Guaranties and the Pledge Agreement and the rights and obligations of the parties hereunder and thereunder, shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of New Jersey, without regard to principles of conflict of laws.

10.15. Waiver of Jury Trial: Company, Each Guarantor, the Banks and Agent Hereby Each Waive Any and All Rights Each May Have to a Jury Trial in Connection with Any Litigation Commenced by or Against Agent or Any Bank or Banks or the Company or Any Guarantor or Guarantors with Respect to Rights and Obligations of the Parties Hereto or under the Notes, the Guaranties or the Pledge Agreement.

In Witness Whereof, the parties have caused this Agreement to be duly executed and delivered as of the date first above written.