

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10Q

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

For quarterly period ended JULY 31, 2002 or

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

Commission file number 1-8551

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

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

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

732-747-7800
(Registrant's telephone number, including area code)

Same
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 23,159,119 Class A Common Shares and 7,444,430 Class B Common Shares were outstanding as of September 3, 2002

HOVNANIAN ENTERPRISES, INC.

FORM 10Q

INDEX

PAGE NUMBER

PART I. Financial Information

Item 1. Consolidated Financial Statements:

Consolidated Balance Sheets at July 31, 2002 (unaudited) and October 31, 2001	3
Consolidated Statements of Income for the three and nine months ended July 31, 2002 and 2001 (unaudited)	5
Consolidated Statements of Stockholders' Equity for the nine months ended July 31, 2002 (unaudited)	6
Consolidated Statements of Cash Flows for the nine months ended July 31, 2002 and 2001 (unaudited)	7
Notes to Consolidated Financial Statements (unaudited)	8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
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PART II. Other Information

Item 6(a). Exhibits

- (i) Exhibit 10(a) Amended and Restated Credit Agreement dated June 21, 2002.
- (ii) Exhibit 10(b) \$110,000,000 K. Hovnanian Mortgage,

- (iii) Exhibit 10(c) First Amendment to K. Hovnanian Mortgage, Inc. Revolving Credit Agreement dated July 25, 2002.
- (iv) Exhibit 99(a) Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (v) Exhibit 99(b) Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Item 6(b). No reports on Form 8K have been filed during the quarter for which this report is filed.

Signatures	31
Certifications	32

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

ASSETS	July 31, 2002	October 31, 2001
	-----	-----
	(unaudited)	
Homebuilding:		
Cash and cash equivalents.....	\$ 97,366	\$ 10,173
	-----	-----
Inventories - At the lower of cost or fair value:		
Sold and unsold homes and lots under development.....	890,942	593,149
Land and land options held for future development or sale.....	173,900	146,965
	-----	-----
Total Inventories.....	1,064,842	740,114
	-----	-----
Receivables, deposits, and notes.....	56,675	75,802
	-----	-----
Property, plant, and equipment - net.....	17,634	30,756
	-----	-----
Senior residential rental properties - net.....	9,600	9,890
	-----	-----
Prepaid expenses and other assets.....	79,953	46,178
	-----	-----
Goodwill.....	82,441	32,618
	-----	-----
Total Homebuilding.....	1,408,511	945,531
	-----	-----
Financial Services:		
Cash and cash equivalents.....	6,271	5,976
Mortgage loans held for sale.....	62,572	105,567
Other assets.....	10,162	6,465
	-----	-----
Total Financial Services.....	79,005	118,008
	-----	-----
Income Taxes Receivable - Including deferred tax benefits.....	2,327	719
	-----	-----
Total Assets.....	\$1,489,843	\$1,064,258
	=====	=====

See notes to consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY	July 31, 2002	October 31, 2001
	-----	-----

(unaudited)

Homebuilding:			
Nonrecourse land mortgages.....	\$ 8,950	\$ 10,086	
Accounts payable and other liabilities.....	187,522	124,125	
Customers' deposits.....	43,542	39,114	
Nonrecourse mortgages secured by operating properties.....	3,299	3,404	
	-----	-----	
Total Homebuilding.....	243,313	176,729	
	-----	-----	
Financial Services:			
Accounts payable and other liabilities.....	4,998	5,264	
Mortgage warehouse line of credit.....	57,238	98,305	
	-----	-----	
Total Financial Services.....	62,236	103,569	
	-----	-----	
Notes Payable:			
Term loan.....	115,000		
Senior notes.....	396,270	296,797	
Senior Subordinated notes.....	150,000		
Subordinated notes.....		99,747	
Accrued interest.....	15,388	11,770	
	-----	-----	
Total Notes Payable.....	676,658	408,314	
	-----	-----	
Total Liabilities.....	982,207	688,612	
	-----	-----	
Stockholders' Equity:			
Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued			
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares; issued 27,186,408 shares at July 31, 2002 and 24,599,379 shares at October 31, 2001 (including 4,295,621 shares at July 2002 and 4,195,621 in October 2001 held in Treasury).....	272	246	
Common Stock, Class B, \$.01 par value-authorized 13,000,000 shares; issued 7,792,394 shares at July 31, 2002 and 7,818,927 shares at October 31, 2001 (including 345,874 shares at July 2002 and October 2001 held in Treasury)....	78	78	
Paid in Capital.....	150,666	100,957	
Retained Earnings.....	393,364	310,106	
Deferred Compensation.....	(41)	(127)	
Treasury Stock - at cost.....	(36,703)	(35,614)	
	-----	-----	
Total Stockholders' Equity.....	507,636	375,646	
	-----	-----	
Total Liabilities and Stockholders' Equity.....	\$1,489,843	\$1,064,258	
	=====	=====	

See notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Revenues:				
Homebuilding:				
Sale of homes.....	\$ 681,329	\$ 497,291	\$1,656,813	\$1,173,997
Land sales and other revenues.....	12,651	2,477	34,564	9,012
	-----	-----	-----	-----
Total Homebuilding.....	693,980	499,768	1,691,377	1,183,009
Financial Services.....	10,656	9,482	28,319	21,769
	-----	-----	-----	-----
Total Revenues.....	704,636	509,250	1,719,696	1,204,778
	-----	-----	-----	-----
Expenses:				
Homebuilding:				
Cost of sales.....	539,676	398,601	1,327,685	938,498
Selling, general and administrative	52,882	38,808	138,177	101,908
Inventory impairment loss.....	426	412	2,755	1,350
	-----	-----	-----	-----
Total Homebuilding.....	592,984	437,821	1,468,617	1,041,756
Financial Services.....	5,694	6,050	16,156	14,546
Corporate General and Administrative.	12,195	10,647	33,700	29,926

Interest.....	15,849	13,485	42,353	36,939
Other Operations.....	3,953	4,358	12,644	6,488
Restructuring Charges/Asset Writeoff.	12,000	500	12,000	2,980
Goodwill Amortization.....		1,104		2,731
Total Expenses.....	642,675	473,965	1,585,470	1,135,366
Income Before Income Taxes and Extraordinary Loss.....	61,961	35,285	134,226	69,412
State and Federal Income Taxes:				
State.....	1,679	2,246	5,086	3,673
Federal.....	21,095	12,027	45,300	23,744
Total Taxes.....	22,774	14,273	50,386	27,417
Extraordinary Loss from Extinguishment Of Debt, Net of Income Taxes.....			(582)	
Net Income.....	\$ 39,187	\$ 21,012	\$ 83,258	\$ 41,995

Per Share Data:

Basic:				
Income per common share before				
Extraordinary loss.....	\$ 1.27	\$ 0.74	\$ 2.78	\$ 1.60
Extraordinary loss.....			(.02)	
Net Income.....	\$ 1.27	\$ 0.74	\$ 2.76	\$ 1.60
Weighted average number of common shares outstanding.....	30,877	28,375	30,188	26,312
Assuming dilution:				
Income per common share before				
Extraordinary loss.....	\$ 1.20	\$ 0.71	\$ 2.63	\$ 1.54
Extraordinary loss.....			(.02)	
Net Income.....	\$ 1.20	\$ 0.71	\$ 2.61	\$ 1.54
Weighted average number of common shares outstanding.....	32,703	29,623	31,902	27,309

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	Deferred Comp	Treasury Stock	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
Balance, October 31, 2001.	20,403,758	\$ 246	7,473,053	\$ 78	\$100,957	\$310,106	\$ (127)	\$(35,614)	\$375,646
Shares issued in connection with acquisitions.....	2,208,738	22			45,691				45,713
Sale of common stock under Employee stock option plan.....	288,550	3			3,036				3,039
Stock bonus plan.....	63,208	1			982				983
Conversion of Class B to Class A Common Stock....	26,533		(26,533)						
Deferred compensation.....							86		86
Treasury stock purchases..	(100,000)							(1,089)	(1,089)
Net Income.....						83,258			83,258
Balance, July 31, 2002.... (Unaudited)	22,890,787	\$ 272	7,446,520	\$ 78	\$150,666	\$393,364	\$ (41)	\$(36,703)	\$507,636

See notes to consolidated financial statements.

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

Nine Months Ended

July 31,

	2002	2001
Cash Flows From Operating Activities:		
Net Income.....	\$ 83,258	\$ 41,995
Adjustments to reconcile net income to net cash Provided by (used in) operating activities:		
Depreciation.....	5,003	5,901
Amortization of goodwill.....	-	2,731
Loss (gain) on sale and retirement of property and assets.....	11,858	(248)
Extraordinary loss from extinguishment of debt net of income taxes.....	582	
Deferred income taxes.....	(5,742)	(597)
Impairment losses.....	2,755	1,350
Decrease (increase) in assets:		
Mortgage notes receivable.....	43,162	(44,163)
Receivables, prepaids and other assets.....	8,617	(7,602)
Inventories.....	(80,489)	(26,482)
Increase (decrease) in liabilities:		
State and Federal income taxes.....	5,521	2,932
Tax effect from exercise of stock options....	(1,074)	(566)
Customers' deposits.....	4,102	7,462
Interest and other accrued liabilities.....	17,960	2,915
Post development completion costs.....	(901)	4,440
Accounts payable.....	7,769	7,639
Net cash provided by (used in) operating activities.....	102,381	(2,293)
Cash Flows From Investing Activities:		
Net Proceeds from sale of property and assets.....	611	3,127
Purchase of property, equipment and other fixed assets.....	(2,730)	(3,439)
Acquisition of homebuilding companies.....	(140,130)	(37,741)
Investment in and advances to unconsolidated affiliates.....	(8,679)	(462)
Net cash (used in) investing activities.....	(150,928)	(38,515)
Cash Flows From Financing Activities:		
Proceeds from mortgages and notes.....	1,587,017	1,153,357
Proceeds from senior debt.....	99,152	
Proceeds from senior subordinated debt.....	150,000	
Principal payments on mortgages and notes.....	(1,603,320)	(1,095,433)
Principal payments on subordinated debt.....	(99,747)	
Purchase of treasury stock.....	(1,089)	(2,267)
Proceeds from sale of stock and employee stock plan.	4,022	3,210
Net cash provided by financing activities...	136,035	58,867
Net Increase In Cash and Cash Equivalents.....	87,488	18,059
Cash and Cash Equivalents Balance, Beginning Of Period.....	16,149	43,253
Cash and Cash Equivalents Balance, End Of Period.....	\$ 103,637	\$ 61,312

See notes to consolidated financial statements.

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

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

2. Interest costs incurred, expensed and capitalized were:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2002	2001	2002	2001
----- (Dollars in Thousands) -----				
Interest Capitalized at				
Beginning of Period.....	\$ 24,876	\$ 29,749	\$ 25,124	\$ 25,694
Plus Acquired Entity Interest.				3,604
Plus Interest Incurred(1)(2)..	15,746	11,903	42,002	35,808
Less Interest Expensed(2).....	15,849	13,485	42,353	36,939
	-----	-----	-----	-----
Interest Capitalized at				
End of Period (2).....	\$ 24,773	\$ 28,167	\$ 24,773	\$ 28,167
	=====	=====	=====	=====

(1) Data does not include interest incurred by our mortgage and finance subsidiaries.

(2) Represents acquisition interest for construction, land and development costs which is charged to interest expense when homes are delivered and when land is not under active development.

3. Homebuilding accumulated depreciation at July 31, 2002 and October 31, 2001 amounted to \$17,278,000 and \$18,367,000, respectively. Rental property accumulated depreciation at July 31, 2002 and October 31, 2001 amounted to \$2,952,000 and \$2,688,000, respectively.

4. In accordance with Financial Accounting Standards No. 144 ("SFAS 144") "Accounting for the Impairment of or Disposal of Long Lived Assets", we record impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. During the three months ended July 31, 2001 we recorded a \$131,000 impairment loss on land in North Carolina. In addition, from time to time, we will write off certain residential land options including approval, engineering and capitalized interest costs for land management decided not to purchase. During the three and nine months ended July 31, 2002 we wrote off costs in New Jersey, North Carolina, Metro D. C., and Poland amounting to \$426,000 and \$2,755,000, respectively. Costs in the amount of \$281,000 and \$1,219,000 were written off during the three and nine months ended July 31, 2001, respectively, in New Jersey, North Carolina, Metro D. C., and California. Residential inventory SFAS 144 impairment losses and option write offs are reported in the Consolidated Statements of Income as "Homebuilding-Inventory Impairment Loss."

5. We are involved from time to time in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on us. As of July 31, 2002 and October 31, 2001, respectively, we are obligated under various performance letters of credit amounting to \$81,071,000 and \$51,647,000.

6. Our credit facility has been amended as of June 21, 2002. Pursuant to the amendment, our credit line was extended through July 2005. Interest is payable monthly and at various rates of either the prime rate plus .40% or Libor plus 1.85%. In addition, we pay a fee equal to 0.375% per annum on the weighted average unused portion of the line. As of July 31, 2002 and October 31, 2001, there was no outstanding balance.

Our mortgage warehouse line of credit has been amended as of June 7, 2002. Pursuant to the amendment, our credit line was extended through June 2003 and we have the option to borrow up to \$150,000,000. Interest is payable monthly at the Federal Funds Rate plus 1.375%. As of July 31, 2002 and October 31, 2001 borrowings were \$57,238,000 and \$98,305,000, respectively.

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

8. On January 22, 2002 we entered into a \$165,000,000 Term Loan with a group of banks which is due January 22, 2007. Interest is payable monthly at either the prime rate plus 1.25% or LIBOR plus 2.5%. The proceeds from the issuance of the Term Loan were primarily used to partially fund the acquisition of the California operations of The Forecast Group, L.P. ("Forecast"). See Note 11 below. On March 27, 2002 we paid down the Term Loan by \$50,000,000.

9. Per Share Calculations - Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share" requires the presentation of basic earnings per share and diluted earnings per share. Basic earnings per share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the basic weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock.

10. Recent Accounting Pronouncements - In May 2002, the Financial Accounting Standards Board issued (SFAS) No. 145, "Reporting Gains and Losses from Extinguishment of Debt", which rescinded SFAS No. 4, No. 44, and No. 64 and amended SFAS No. 13. The new standard addresses the income statement classification of gains or losses from the extinguishment of debt and criteria for classification as extraordinary items. We will adopt SFAS No. 145 effective for our fiscal year beginning November 1, 2002. We do not anticipate that the adoption of the new statement will have a material effect on the financial position or results of operations of our Company.

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

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

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

	January 10, 2002

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

Total Assets	\$ 300,102
	=====
Accounts payable and other liabilities.....	\$ 35,028
Revolving credit agreement.....	219,574
Stockholders' equity.....	45,500

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

The merger with Washington Homes, Inc. and acquisition of Forecast were accounted for as purchases with the results of operations of these entities included in our consolidated financial statements as of the date of the merger and acquisition. The purchase price was allocated based on estimated fair value at the date of the merger and acquisition. An intangible asset equal to the excess purchase price over the fair value of the net assets of \$12.8 million and \$49.8 for Washington Homes and Forecast, respectively, were recorded as goodwill on the consolidated balance sheet. The Washington Homes amount was being amortized on a straight line basis over a period of ten years during fiscal 2001. On November 1, 2001 we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). As a result of adopting SFAS No. 142, goodwill is no longer amortized, but reviewed for impairment. The following unaudited pro forma financial data for the three and nine months ended July 31, 2002 and 2001 has been prepared as if the merger with Washington Homes, Inc. on January 23, 2001 and the acquisition of Forecast on January 10, 2002 had occurred on November 1, 2000. Unaudited pro forma financial data is presented for information purposes only and may not be indicative of the actual amounts had the events occurred on the dates listed above, nor does it purport to represent future periods (in thousands).

	July 31,		July 31,	
	2002	2001	2002	2001
Revenues.....	\$704,636	\$636,958	\$1,784,045	\$1,606,745
Expenses.....	642,675	585,109	1,644,455	1,502,298
Income Taxes.....	22,774	20,915	52,484	40,722
Extraordinary Loss from Extinguishment Of Debt, Net of Taxes.....			(582)	
Net Income.....	\$ 39,187	\$ 30,934	\$ 86,524	\$ 63,725
Diluted Net Income Per Common Share	\$ 1.20	\$ 0.97	\$ 2.66	\$ 2.03

12. Restructuring Charges - Restructuring charges are estimated expenses associated with the merger of our operations with those of Washington Homes, Inc. as a result of the merger on January 23, 2001. Under our merger plan, administration offices in Maryland, Virginia, and North Carolina were either closed, relocated, or combined. The merger of administration offices was completed by July 31, 2001. At January 31, 2001, expenses were accrued for salaries, severance and outplacement costs for the involuntary termination of associates, costs to close and/or relocate existing administrative offices, and lost rent and leasehold improvements. During the year ended October 31, 2001 our estimate for restructuring charges was increased to a total of \$3.2 million. We have provided for the termination of 65 associates. We accrued approximately \$2.0 million to cover termination and related costs. Associates being terminated were primarily administrative. In addition, we accrued approximately \$1.2 million to cover closing and/or relocation of various administrative offices in these three states. Such amounts are included in accounts payable and other liabilities in the accompanying financial statements. \$94,000 and \$671,000 was charged against the reserve during the three and nine months ended July 31, 2002. At July 31, 2002 \$1.8 million has been charged against termination costs relating to the termination of 63 associates and \$0.9 million has been charged against closing and relocation costs.

13. Asset Write Off - We wrote off costs during the three months ended July 31, 2002 associated with SAP, our enterprise-wide operating software, totaling \$12.0 million pretax included in Restructuring Charges/Asset Write Off in the accompanying Consolidated Statements of Income or \$7.6 million after taxes equal to \$0.23 per fully diluted share. These unamortized costs are those associated with the development of the SAP system. We were not successful implementing SAP, due to the complexities and limitations in the software program. We have \$2.5 million initiative costs remaining, all of which will be amortized over the remaining life of the communities using SAP software, which are scheduled to be substantially complete by the end of 2003.

14. Intangible Assets - As reported on the balance sheet we have goodwill totaling \$82.4 million. We have no other intangible assets. During the nine months ended July 31, 2002 we added \$49.8 million of goodwill as a result of the Forecast acquisition. Goodwill amortization deductible for income tax purposes is approximately \$1,426,000 and \$3,383,000 for the three and nine months ended July 31, 2002, respectively. After income taxes the goodwill amortization for the three and nine months ended July 31, 2001, amounted to approximately \$679,000 and \$1,680,000, which if eliminated from net income would have increased earnings per share approximately \$0.02 and \$0.06, respectively.

In accordance with SFAS No. 142 we no longer amortize goodwill but instead we review goodwill for impairment. The impairment test uses a fair value approach rather than the undiscounted cash flows approach. We have determined that goodwill was not impaired as of July 31, 2002.

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

The Subsidiary Issuer acts as a finance and management entity that as of July 31, 2002 had issued and outstanding \$400,000,000 face value senior notes, \$150,000,000 senior subordinated notes, a revolving credit agreement with an outstanding balance of zero, and a term loan with an outstanding balance of \$115,000,000. The senior subordinated notes, senior notes, the revolving credit agreement, and term loan are fully and unconditionally guaranteed by the Parent.

Each of the wholly owned subsidiaries of the Parent (collectively the "Guarantor Subsidiaries"), with the exception of various subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a mortgage lending subsidiary, a subsidiary holding and licensing the "K. Hovnanian" trade name, a subsidiary engaged in homebuilding activity in

Poland, our title subsidiaries, and joint ventures (collectively the "Non-guarantor Subsidiaries"), have guaranteed fully and unconditionally, on a joint and several basis, the obligation to pay principal and interest under the senior notes, the senior subordinated notes, the term loan, and the revolving credit agreement of the Subsidiary Issuer.

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

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

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
 CONSOLIDATING CONDENSED BALANCE SHEET
 JULY 31, 2002
 (Thousands of Dollars)

Elimin- ations	Consol- idated	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries

ASSETS					
	Homebuilding.....	\$ 13	\$ 124,067	\$1,276,891	\$ 7,540
	\$1,408,511				
	Financial Services.....			(583)	79,588
	79,005				
	Income Taxes (Payables)Receivables	(6,613)	3,494	7,666	(2,220)
	2,327				
	Investments in and amounts due to and from consolidated subsidiaries.....	514,236	563,917	(784,438)	866
	(294,581)				

	Total Assets.....	\$507,636	\$ 691,478	\$ 499,536	\$ 85,774
	\$(294,581) \$1,489,843				
=====					
LIABILITIES AND STOCKHOLDERS' EQUITY					
	Homebuilding.....	\$	\$ 30,991	\$ 212,266	\$ 56
	\$ 243,313				
	Financial Services.....				62,236
	62,236				
	Notes Payable.....		661,270	15,388	
	676,658				
	Income Taxes Payable.....				
	Stockholders' Equity.....	507,636	(783)	271,882	23,482
	(294,581) 507,636				

	Total Liabilities and Stockholders' Equity.....	\$507,636	\$ 691,478	\$ 499,536	\$ 85,774
	\$(294,581) \$1,489,843				
=====					

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONSOLIDATING CONDENSED BALANCE SHEET
 OCTOBER 31, 2001
 (Thousands of Dollars)

Elimin- ations	Consol- idated	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries

Assets				
Homebuilding.....	\$ 2,022	\$ 50,565	\$ 882,715	\$ 10,229
\$ 945,531				
Financial Services.....			205	117,803
118,008				
Income Taxes (Payables)Receivables.	(5,067)	(3,658)	11,893	(2,449)
719				
Investments in and amounts due to and from consolidated subsidiaries.....	378,691	375,514	(668,285)	14,513
(100,433)				

Total Assets.....	\$375,646	\$ 422,421	\$ 226,528	\$ 140,096
\$(100,433) \$1,064,258				
=====				

Liabilities				
Homebuilding.....	\$	\$ 14,679	\$ 161,759	\$ 291
\$ 176,729				
Financial Services.....				103,569
103,569				
Notes Payable.....		408,206	108	
408,314				
Stockholders' Equity.....	375,646	(464)	64,661	36,236
(100,433) 375,646				

Total Liabilities and Stockholders' Equity.....	\$375,646	\$ 422,421	\$ 226,528	\$ 140,096
\$(100,433) \$1,064,258				
=====				

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
THREE MONTHS ENDED JULY 31, 2002
(Thousands of Dollars)

Elimin- ations	Consol- idated	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries

Revenues:					
	Homebuilding.....	\$	\$ 295	\$ 693,357	\$ 7,807
	(7,479) \$ 693,980				
	Financial Services.....			2,270	8,386
	10,656				
	Intercompany Charges.....		54,869	(10,326)	
	(44,543)				
	Equity In Pretax Income of Consolidated Subsidiaries.....	61,961			
	(61,961)				

	Total Revenues.....	\$61,961	\$ 55,164	\$ 685,301	\$ 16,193
	\$(113,983) \$ 704,646				

Expenses:					
	Homebuilding.....		55,164	644,464	322
	(62,969) 636,981				
	Financial Services.....			683	5,266
	(255) 5,694				

	Total Expenses.....		55,164	645,147	5,588
	(63,224) 642,675				

	Income Before Income Taxes.....	61,961	-	40,154	10,605
	(50,759) 61,961				
	State and Federal Income Taxes.....	22,774	(26)	14,971	3,908
	(18,853) 22,774				

Extraordinary Loss from Extinguishment of Debt, Net of Income Taxes.....						

Net Income	\$39,187	\$	26	\$	25,183	\$
(31,906) \$ 39,187						6,697 \$
	=====	=====	=====	=====	=====	=====
=====	=====					

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
THREE MONTHS ENDED JULY 31, 2001
(Thousands of Dollars)

Elimin- ations	Consol- idated	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	

Revenues:						
	Homebuilding.....	\$	\$	17	\$	498,857
	(8,943) \$ 499,768				\$	9,837
	Financial Services.....					4,175
	9,482					5,307
	Intercompany Charges.....			31,456		2,665
	(34,121)					
	Equity In Pretax Income of Consolidated Subsidiaries.....	35,285				
	(35,285)					

	Total Revenues.....	\$35,285	\$	31,473	\$	505,697
	(78,349) \$ 509,250				\$	15,144
						\$

Expenses:						
	Homebuilding.....			30,857		476,021
	(39,996) 467,915					1,033
	Financial Services.....					2,574
	(804) 6,050					4,280

	Total Expenses.....			30,857		478,595
	(40,800) 473,965					5,313

	Income Before Income Taxes.....	35,285		616		27,102
	(37,549) 35,285					9,831
	State and Federal Income Taxes.....	14,273		257		11,139
	(15,095) 14,273					3,699

	Net Income	\$21,012	\$	359	\$	15,963
	(22,454) \$ 21,012				\$	6,132
		=====	=====	=====	=====	=====
=====	=====					

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
NINE MONTHS ENDED JULY 31, 2002
(Thousands of Dollars)

Elimin- ations	Consol- idated	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	

Revenues:						
	Homebuilding.....	\$	\$	565	\$	1,689,257
	(18,920) \$1,691,377				\$	20,475
	Financial Services.....					4,956
						23,363

28,319				
Intercompany Charges.....	119,275	(3,663)		
(115,612)				
Equity In Pretax Income of Consolidated Subsidiaries.....	134,226			
(134,226)				

Total Revenues.....	\$134,226	\$119,840	\$1,690,550	\$ 43,838
\$(268,758)	\$1,719,696			

Expenses:				
Homebuilding.....	119,840	1,587,610	1,981	
(140,117)	1,569,314			
Financial Services.....		1,768	15,437	
(1,049)	16,156			

Total Expenses.....	119,840	1,589,378	17,418	
(141,166)	1,585,470			

Income Before Income Taxes.....	134,226	101,172	26,420	
(127,592)	134,226			
State and Federal Income Taxes.....	50,386	(180)	37,982	10,058
(47,860)	50,386			
Extraordinary Loss From Extinguishment of Debt, Net of Income Taxes.....	(582)	(582)		
582	(582)			

Net Income.....	\$83,258	\$ (402)	\$ 63,190	\$ 16,362
(79,150)	\$ 83,258			
=====				

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
NINE MONTHS ENDED JULY 31, 2001
(Thousands of Dollars)

Elimin- ations	Consol- idated	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries

Revenues:					
			\$ 446	\$1,178,977	\$ 20,369
	\$1,183,009				
				9,410	12,359
	21,769		91,675	3,098	
	(94,773)				
	Equity In Pretax Income of Consolidated Subsidiaries.....	69,412			
	(69,412)				

	Total Revenues.....	\$69,412	\$ 92,121	\$1,191,485	\$ 32,728
	\$(180,968)	\$1,204,778			

Expenses:					
			90,354	1,135,160	3,422
	(108,116)	1,120,820			
				5,962	9,582
	(998)	14,546			

	Total Expenses.....		90,354	1,141,122	13,004
	(109,114)	1,135,366			

	Income Before Income Taxes.....	69,412	1,767	50,363	19,724
	(71,854)	69,412			

State and Federal Income Taxes.....	27,417	774	20,020	7,510
(28,304) 27,417				

Net Income.....	\$41,995	\$ 993	\$ 30,343	\$ 12,214
(43,550) \$ 41,995				
	=====	=====	=====	=====
=====				

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2002
(Thousands of Dollars)

Elimin- ations	Consol- idated	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries

Cash Flows From Operating Activities:					
Net Income.....	\$ 83,258	\$ (402)	\$ 63,190	\$ 16,362	\$
(79,150) \$ 83,258					
Adjustments to reconcile net income to net cash (Used In) Provided					
By operating activities.....	99,463	11,817	(182,793)	11,486	
79,150 19,123					

Net Cash (Used In) Provided By Operating Activities.....	182,721	11,415	(119,603)	27,848	
102,381					
Net Cash (Used In) Investing Activities.....	(46,087)	(1,929)	(103,096)	184	
(150,928)					
Net Cash (Used In) Provided By Financing Activities.....	(1,089)	264,726	(85,867)	(41,735)	
136,035					
Intercompany Investing and Financing Activities - Net.....	(135,545)	(188,403)	310,301	13,647	

Net Increase (Decrease) In Cash and Cash Equivalents.....		85,809	1,735	(56)	
87,488					
Cash and Cash Equivalents Balance, Beginning of Period.....	10	(5,840)	15,616	6,363	
16,149					

Cash and Cash Equivalents Balance, End of Period.....	\$ 10	\$ 79,969	\$ 17,351	\$ 6,307	\$
\$ 103,637					
	=====	=====	=====	=====	
=====					

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2001
(Thousands of Dollars)

Elimin- ations	Consol- idated	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries

Cash Flows From Operating Activities:					
Net Income.....	\$ 41,995	\$ 993	\$ 30,343	\$ 12,214	\$
(43,550) \$ 41,995					
Adjustments to reconcile net income					

to net cash (Used In) Provided				
By operating activities.....	95,870	88,304	(224,079)	(47,933)
43,550 (44,288)				

Net Cash (Used In) Provided By				
Operating Activities.....	137,865	89,297	(193,736)	(35,719)
(2,293)				
Net Cash (Used In)				
Investing Activities.....	(48,453)	(2,657)	11,697	898
(38,515)				
Net Cash Provided By(Used In)				
Financing Activities.....	(1,667)	78,943	(59,409)	41,000
58,867				
Intercompany Investing and Financing				
Activities - Net.....	(87,672)	(190,125)	278,852	(1,055)

Net Increase (Decrease) In Cash and				
Cash Equivalents.....	73	(24,542)	37,404	5,124
18,059				
Cash and Cash Equivalents Balance,				
Beginning of Period.....	(63)	17,629	22,506	3,181
43,253				

Cash and Cash Equivalents Balance,				
End of Period.....	\$ 10	\$ (6,913)	\$ 59,910	\$ 8,305
\$ 61,312				
=====				

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

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

Business Combinations - When we make an acquisition of another company, we use the purchase method of accounting in accordance with Financial Accounting Standards No. 141 ("SFAS 141") "Business Combinations". Under SFAS No. 141 we record as our cost the acquired assets less liabilities assumed. Any difference between the cost of an acquired company and the sum of the fair values of tangible and identified intangible assets less liabilities is recorded as goodwill. The reported income of an acquired company includes the operations of the acquired company after acquisition, based on the acquisition costs.

Income Recognition from Home Sales - Income from home sales is recorded when each home is closed, title is conveyed to the buyer, and the sales price has been paid.

Income Recognition from Mortgage Loans - Profits and losses relating to the sale of mortgage loans are recognized when all indications of legal control pass to the buyer and the sales price is collected.

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 (SFAS)No. 144 "Accounting for the Impairment of or Disposal of Long-Lived Assets" 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. SFAS No. 144 provides accounting guidance for financial accounting and reporting for impairment or disposal of long-lived assets. 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 are allocated based on buildable acres to product types within each community, then amortized equally based upon the number of homes to be constructed in the community.

Interest costs related to properties under development are capitalized during the land development and home construction period and expensed along with the associated cost of sales as the related inventories are sold.

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 we determine we will not exercise the option.

Intangible Assets - The intangible asset recorded on our balance sheet is goodwill resulting from company acquisitions. In accordance with the Financial Accounting Standards No. 142 ("SFAS No. 142") "Goodwill and Other Intangible Assets", we no longer amortize goodwill, but instead review goodwill for impairment. The impairment test uses a fair value approach rather than the undiscounted cash flows approach.

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

CAPITAL RESOURCES AND LIQUIDITY

Our cash uses during the nine months ended July 31, 2002 were for operating expenses, seasonal increases in housing inventories, construction, income taxes, interest, the repurchase of common stock, the acquisition of the California operations of the Forecast Group, L.P. ("Forecast"), and the acquisition of a land portfolio from another building company. We provided for our cash requirements from housing and land sales, the revolving credit facility, the issuance of a term loan, the issuance of \$150,000,000 Senior Subordinated Notes, the issuance of \$100,000,000 Senior Notes, financial service revenues, and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements and other needs.

At July 31, 2002 we had approximately \$90.0 million of excess cash. Management anticipates using the excess cash to pay down long term debt, grow existing operations, and fund future acquisitions.

On December 31, 2000, our stock repurchase program to purchase up to 4 million shares of Class A Common Stock expired. As of December 31, 2000, 3,391,047 shares had been purchased under this program. On July 3, 2001, our Board of Directors authorized a revision to our stock repurchase program to purchase up to an additional 2 million shares of Class A Common Stock. As of July 31, 2002, 558,700 have been purchased under this program of which 100,000 were repurchased during the nine months ended July 31, 2002.

Our homebuilding bank borrowings are made pursuant to a revolving credit agreement (the "Agreement") that provides a revolving credit line and letter of credit line of up to \$440,000,000 through July 2005. Interest is payable monthly and at various rates of either the prime rate plus .40% or Libor plus 1.85%. We believe that we will be able either to extend the Agreement beyond July 2005 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We currently are in compliance and intend to maintain compliance with the covenants under the Agreement. As of July 31, 2002, there were no borrowings under the Agreement.

On March 26, 2002, we issued \$100,000,000 8% Senior Notes due 2012 and \$150,000,000 8 7/8% Senior Subordinated Notes due 2012. On April 29, 2002, we redeemed our 9 3/4% Subordinated Notes due 2005. The early retirement of these notes resulted in an extraordinary loss of \$582,000 net of income taxes of \$313,000. The remaining proceeds were used to repay a portion of our Term Loan Facility, repay the current outstanding indebtedness under our Revolving Credit Facility, and the remainder for general corporate purposes. Other senior indebtedness issued by us and outstanding as of July 31, 2002 was \$150,000,000 10 1/2% Senior Notes due 2007 and \$150,000,000 9 1/8% Senior Notes due 2009.

On January 22, 2002 we issued a \$165,000,000 Term Loan to a group of banks which is due January 22, 2007. Interest is payable monthly at either the prime rate plus 1.25% or LIBOR plus 2.5%. The proceeds from the issuance of the Term Loan were primarily used to partially fund the acquisition of the California operations of Forecast. As of July 31, 2002 borrowings under the Term Loan were \$115,000,000.

Our mortgage banking subsidiary borrows up to \$150,000,000 under a bank warehousing arrangement that expires in June 2003. Interest is payable monthly at the Federal Funds Rate plus 1.375%. We believe that we will be able either to extend this agreement beyond June 2003 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. As of July 31, 2002 borrowings under the agreement were \$57,238,000.

Total inventory increased \$324,728,000 during the nine months ended July 31, 2002. The increase in inventory was primarily due to the acquisition of Forecast and the purchase of a land portfolio from a builder in our Northeast Region. In addition, inventory levels increased slightly in most of our housing markets except in the Mid-South where we are liquidating our operations. Substantially all homes under construction or completed and included in inventory at July 31, 2002 are expected to be closed during the next twelve months. Most inventory completed or under development is financed through our line of credit, subordinated indebtedness, and cash flow generated from operations.

The following table summarizes housing lots included in our total residential real estate. The July 31, 2002 numbers excluded lots owned and options in locations that we have ceased development.

Total Lots Controlled	Active Communities	Active	Contracted	Active	Proposed
		Selling Lots	Not Delivered	Lots Available	Developable Lots

July 31, 2002:					
Northeast Region.. 18,168	28	5,972	1,548	4,424	12,196
North Carolina.... 7,728	64	5,785	564	5,221	1,943
Metro D.C..... 10,216	28	3,301	920	2,381	6,915
California..... 8,458	41	5,660	1,007	4,653	2,798
Texas..... 3,149	37	2,415	295	2,120	734
Mid South..... 393	1	393	39	354	--

	199	23,526	4,373	19,153	24,586
48,112	=====	=====	=====	=====	=====
Owned..... 13,812		11,308	3,512	7,796	2,504
Optioned..... 34,300		12,218	861	11,357	22,082

Total..... 48,112		23,526	4,373	19,153	24,586
=====					
Total Lots Controlled	Active Communities	Active	Contracted	Active	Proposed
		Selling Lots	Not Delivered	Lots Available	Developable Lots

October 31, 2001:					
Northeast Region.. 15,875	23	5,561	1,136	4,425	10,314
North Carolina.... 6,576	54	4,264	534	3,730	2,312
Metro D.C..... 7,568	34	2,622	779	1,843	4,946
California..... 1,670	8	1,499	172	1,327	171
Texas..... 2,828	35	1,788	263	1,525	1,040
Mid South..... 1,279	18	1,279	122	1,157	--
Other..... 1,009	--	17	3	14	992

	172	17,030	3,009	14,021	19,775

36,805	=====	=====	=====	=====	=====
Owned.....		6,918	2,525	4,393	4,035
10,953					
Optioned.....		10,112	484	9,628	15,740
25,852					
-					
Total.....		17,030	3,009	14,021	19,775
36,805					
	=====	=====	=====	=====	=====

The following table summarizes our started or completed unsold homes and models:

	July 31, 2002			October 31, 2001		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region....	39	48	87	69	48	117
North Carolina.....	173	20	193	205	41	246
Metro D.C.....	32	25	57	27	27	54
California.....	181	54	235	60	11	71
Texas.....	252	10	262	215	15	230
Mid South.....	21	2	23	54	22	76
Other.....	--	--	--	7	--	7
Total	698	159	857	637	164	801

Financial Services - Mortgage loans held for sale consist of residential mortgages receivable of which \$62,457,000 and \$105,174,000 at July 31, 2002 and October 31, 2001, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of such mortgages is being held as an investment by us. We 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, we have incurred minimal credit losses.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2002
COMPARED TO THE THREE AND NINE MONTHS ENDED JULY 31, 2001

Our operations consist primarily of residential housing development and sales in our Northeast Region (New Jersey, southern New York State and eastern Pennsylvania), North Carolina, Metro D. C. (northern Virginia and Maryland), California, Texas, and the Mid South (Tennessee, Alabama, and Mississippi). Currently we are liquidating our operations in the Mid South and will be substantially out of this market by fiscal year end. In addition, we provide financial services to our homebuilding customers.

Total Revenues:

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

	Three Months Ended			
	July 31, 2002	July 31, 2001	Dollar Change	Percentage Change
	(Dollars In Thousands)			
Homebuilding:				
Sale of homes.....	\$ 681,329	\$ 497,291	\$184,038	37.0%
Land sales and other revenues.....	12,651	2,477	10,174	410.7%
Financial Services...	10,656	9,482	1,174	12.4%
Total Revenues...	\$ 704,636	\$ 509,250	\$195,386	38.4%

	Nine Months Ended			
	July 31, 2002	July 31, 2001	Dollar Change	Percentage Change
	(Dollars In Thousands)			
Homebuilding:				

Homebuilding:

Sale of homes.....	\$1,656,813	\$1,173,997	\$482,816	41.1%
Land sales and other revenues.....	34,564	9,012	25,552	283.5%
Financial Services...	28,319	21,769	6,550	30.1%
	-----	-----	-----	-----
Total Revenues...	\$1,719,696	\$1,204,778	\$514,918	42.7%
	=====	=====	=====	=====

Homebuilding:

Revenues from the sale of homes increased \$184.0 million or 37.0% during the three months ended July 31, 2002, and increased \$482.8 million or 41.1% during the nine months ended July 31, 2002 compared to the same periods last year. Revenues from the sale of homes 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:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2002	2001	2002	2001

	(Dollars in Thousands)			
Northeast Region:				
Housing Revenues.....	\$177,153	\$156,366	\$ 455,171	\$ 406,692
Homes Delivered.....	570	499	1,469	1,346
North Carolina(2):				
Housing Revenues.....	\$ 72,437	\$ 85,887	\$ 193,902	\$ 178,142
Homes Delivered.....	393	487	1,044	1,022
Metro D. C.(2):				
Housing Revenues.....	\$110,030	\$109,535	\$ 258,755	\$ 221,343
Homes Delivered.....	386	439	944	938
California(1):				
Housing Revenues.....	\$242,631	\$ 61,830	\$ 535,961	\$ 171,483
Homes Delivered.....	926	168	2,094	460
Texas:				
Housing Revenues.....	\$ 65,432	\$ 62,360	\$ 172,778	\$ 146,604
Homes Delivered.....	286	286	746	691
Mid South(2):				
Housing Revenues.....	\$ 13,646	\$ 18,774	\$ 39,793	\$ 33,697
Homes Delivered.....	86	123	252	226
Other:				
Housing Revenues.....	\$ --	\$ 2,539	\$ 453	\$ 16,036
Homes Delivered.....	--	19	6	112
Totals:				
Housing Revenues.....	\$681,329	\$497,291	\$1,656,813	\$1,173,997
Homes Delivered.....	2,647	2,021	6,555	4,795

(1) July 31, 2002 includes Forecast deliveries beginning on January 10, 2002.

(2) July 31, 2001 includes Washington Homes deliveries beginning on January 24, 2001.

The increase in housing revenues was primarily due to the acquisition of Forecast for the third quarter 2002 and the acquisition of Forecast and a full nine months of operations from Washington Homes for the nine months ended July 31, 2002. In addition, these increases were due to increased deliveries in the Northeast Region resulting from a land portfolio acquisition in late March 2002 and increased average sales prices in all our markets except California. California's average sales price is down due to the Forecast Group product being mostly lower priced, first time buyer homes.

Important indicators of our future results are recently signed contracts and home contract backlog for future deliveries. Our sales contracts and homes in contract (using base sales prices) by market area is set forth below:

Sales Contracts for the Nine Months Ended July 31,		Contract Backlog as of July 31,	
2002	2001	2002	2001

(Dollars in Thousands)			

Northeast Region:				
Dollars.....	\$ 423,227	\$ 400,199	\$ 442,037	\$354,132
Homes.....	1,478	1,483	1,578	1,286
North Carolina:				
Dollars.....	\$ 198,848	\$ 211,007	\$ 108,502	\$125,823
Homes.....	1,074	1,174	564	669
Metro D.C.:				
Dollars.....	\$ 341,919	\$ 248,219	\$ 292,044	\$224,171
Homes.....	1,085	984	920	866
California:				
Dollars.....	\$ 634,009	\$ 220,961	\$ 286,876	\$118,981
Homes.....	2,394	658	1,007	349
Texas:				
Dollars.....	\$ 171,409	\$ 165,160	\$ 69,556	\$ 85,693
Homes.....	778	781	295	372
Mid South:				
Dollars.....	\$ 26,521	\$ 36,499	\$ 6,456	\$ 18,725
Homes.....	169	239	39	112
Other:				
Dollars.....	\$ 340	\$ 1,578	\$ --	\$ 1,009
Homes.....	3	46	--	18
Totals:				
Dollars.....	\$1,796,273	\$1,283,623	\$1,205,471	\$928,534
Homes.....	6,981	5,365	4,403	3,672

The following pro forma information for the nine months ended July 31, 2002 and 2001 has been prepared as if the merger with Washington Homes, Inc. on January 23, 2001 and the acquisition of Forecast on January 10, 2002 had occurred on November 1, 2000. Total sales contracts were \$1,882,706 and \$1,688,912 and total homes were 7,379 and 7,303 for the nine months ended July 31, 2002 and 2001, respectively. Total contract backlog was \$1,205,471 and \$1,050,432 and total homes in backlog were 4,403 and 4,215 as of July 31, 2002 and 2001, respectively.

During August 2002 we signed an additional 782 contracts compared to 414 in the same month last year.

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:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2002	2001	2002	2001
(Dollars in Thousands)				
Sale of Homes.....	\$681,329	\$497,291	\$1,656,813	\$1,173,997
Cost of Sales.....	530,154	397,622	1,303,637	933,690
Housing Gross Margin.....	\$151,175	\$ 99,669	\$ 353,176	\$ 240,307
Gross Margin Percentage.....	22.2%	20.0%	21.3%	20.5%

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2002	2001	2002	2001
Sale of Homes.....	100.0%	100.0%	100.0%	100.0%
Cost of Sales:				
Housing, land & development costs....	70.7%	72.3%	71.0%	71.6%
Commissions.....	2.2%	2.3%	2.2%	2.3%
Financing concessions..	0.9%	1.1%	1.0%	0.9%
Overheads.....	4.0%	4.3%	4.5%	4.7%
Total Cost of Sales.....	77.8%	80.0%	78.7%	79.5%
Gross Margin.....	22.2%	20.0%	21.3%	20.5%

We sell a variety of home types in various local communities, each

yielding a different gross margin. As a result, depending on the mix of both communities and of home types delivered, consolidated quarterly gross margin will fluctuate up or down and may not be representative of the consolidated gross margin for the year. We achieved higher gross margins during the three and nine months ended July 31, 2002 compared to the same period last year. The consolidated gross margin increased 2.2% and 0.8% for the three and nine months ended July 31, 2002. Gross margins increased in our Metro D. C. market, California markets (excluding Forecast communities), and in our highest margin market, the Northeast Region. These increased margins are primarily the result of higher sales prices and increased national contract rebates, while housing costs remained relatively stable.

Selling, general, and administrative costs as a percentage of total homebuilding revenues decreased to 7.6% for the three months ended July 31, 2002 from 7.8% for the prior year's three months, and decreased to 8.2% for the nine months ended July 31, 2002 from 8.6% for the prior year's nine months. Such expenses increased during the three and nine months ended July 31, 2002 by \$14.1 million and \$36.3 million, respectively, compared to the same periods last year. The percentage decline for the three and nine months ended July 31, 2002 was due to the increased deliveries. The dollar increase in selling, general, and administrative was primarily due to a full nine months of expenses from Washington Homes, Inc., increased administrative staff in the Northeast Region, and the addition of Forecast Homes.

Land Sales and Other Revenues:

Land sales and other revenues consist primarily of land and lot sales. A breakout of land and lot sales is set forth below:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2002	2001	2002	2001
Land and Lot Sales.....	\$ 10,587	\$ 1,160	\$29,127	\$ 5,398
Cost of Sales.....	9,522	979	24,048	4,808
Land and Lot Sales Gross Margin...	1,065	181	5,079	590
Interest Expense.....	112	58	760	347
Land and Lot Sales Profit Before Tax.....	\$ 953	\$ 123	\$ 4,319	\$ 243

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

Financial Services

Financial services consist primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. For the three and nine months ended July 31, 2002 financial services provided a \$5.0 million and \$12.2 million profit before income taxes compared to a profit of \$3.4 million and \$7.2 million for the same period in 2001. These increases are primarily due to reduced costs, increased mortgage loan amounts, and the addition of mortgage operations from the merger with Washington Homes for a full nine months and the acquisition of Forecast Homes. In addition to our wholly-owned mortgage subsidiaries, customers obtained mortgages from our mortgage joint ventures in our Texas division in 2001 and our Forecast division in 2002.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. Such expenses include our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality, and safety. As a percentage of total revenues, such expenses decreased to 1.7% for the three months ended July 31, 2002 from 2.1% for the prior year's three months and decreased to 2.0% for the nine months ended July 31, 2002 from 2.5% for the prior year's nine months. Corporate general and administrative expenses increased \$1.5 million and \$3.8 million during the three and nine months ended July 31, 2002, respectively, compared to the same periods last year. The percentage decline is primarily attributed to the increase in housing operations. Increases in corporate general and administrative dollar expenses are primarily attributed to higher employee incentives due to a higher return on equity.

Interest

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2002	2001	2002	2001
Sale of Homes.....	\$ 15,737	\$13,427	\$41,593	\$36,592
Land and Lot Sales.....	112	58	760	347
Total.....	\$ 15,849	\$13,485	\$42,353	\$36,939

Housing interest as a percentage of sale of homes revenues decreased to 2.3% and 2.5% for the three and nine months ended July 31, 2002, respectively, compared to 2.7% and 3.1% for the three and nine months ended July 31, 2001, respectively. These decreases are primarily the result of quicker inventory turnover. Inventory turnover is up as a result of the acquisition of Forecast and the merger with Washington Homes where a larger portion of their purchases are finished lots requiring shorter holding periods until homes are delivered.

Other Operations

Other operations consist primarily of miscellaneous residential housing operations expenses, senior residential property operations, amortization of senior and senior subordinated note issuance expenses, earnout payments from homebuilding company acquisitions, employee stock bonus program, amortization of the Forecast consultant's agreements and the right of first refusal agreement, expenses related to exiting our Mid South market, and corporate owned life insurance loan interest. For the nine months ended July 31, 2002, other operations increased primarily due to the amortization of the Forecast consulting and right of first refusal agreements (starting in 2002), increased amortization of senior and subordinated note issuance expenses, and increased expenses from the employee stock bonus program.

Restructuring Charges

Restructuring charges are estimated expenses associated with the merger of our operations with those of Washington Homes, Inc. as a result of the merger on January 23, 2001. Under our merger plan, administration offices in Maryland, Virginia, and North Carolina were either closed, relocated, or combined. The merger of administration offices was completed by July 31, 2001. At January 31, 2001, expenses were accrued for salaries, severance and outplacement costs for the involuntary termination of associates, costs to close and/or relocate existing administrative offices, and lost rent and leasehold improvements. During the year ended October 31, 2001 our estimate for restructuring charges was increased to a total of \$3.2 million. We have provided for the termination of 65 associates. We accrued approximately \$2.0 million to cover termination and related costs. Associates being terminated were primarily administrative. In addition, we accrued approximately \$1.2 million to cover closing and/or relocation of various administrative offices in these three states. Such amounts are included in accounts payable and other liabilities in the accompanying financial statements. \$94,000 and \$671,000 was charged against the reserve during the three and nine months ended July 31, 2002, respectively. At July 31, 2002 \$1.8 million has been charged against termination costs relating to the termination of 63 associates and \$0.9 million has been charged against closing and relocation costs.

Asset Write Off

We wrote off costs during the three months ended July 31, 2002 associated with SAP, our enterprise-wide operating software, totaling \$12.0 million pretax included in Restructuring Charges/Asset Write Off in the accompanying Consolidated Statements of Income or \$7.6 million after taxes equal to \$0.23 per fully diluted share. These unamortized costs are those associated with the development of the SAP system. We were not successful in implementing SAP, due to the complexities and limitations in the software program. We have \$2.5 million initiative costs remaining, all of which will be amortized over the remaining life of the communities using SAP software, which are scheduled to be substantially complete by the end of 2003. We have recently identified an alternative software package that will offer us the information system functionality we need. We are planning to have our first pilot community on line by the end of this

calendar year, which will utilize this alternative software package.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. This impairment test uses a fair value approach rather than the undiscounted cash flows approach. We adopted SFAS 142 on November 1, 2001. As a result, goodwill amortization of \$1,104,000 and \$2,731,000 which was incurred in the three and nine months ended July 31, 2001, respectively, is no longer incurred in fiscal 2002.

In May 2002, the Financial Accounting Standards Board issued (SFAS) No. 145, "Reporting Gains and Losses from Extinguishment of Debt", which rescinded SFAS No. 4, No. 44, and No. 64 and amended SFAS No. 13. The new standard addresses the income statement classification of gains or losses from the extinguishment of debt and criteria for classification as extraordinary items. We will adopt SFAS No. 145 effective for our fiscal year beginning November 1, 2002. We do not anticipate that the adoption of the new standard will have a material effect on the financial position or results of operations of our Company.

Total Taxes

Total taxes as a percentage of income before taxes amounted to approximately 37.6% and 39.5% for the nine months ended July 31, 2002 and 2001, respectively. The decrease in this percentage from 2001 to 2002 is primarily attributed to a lower state income tax percentage and a decrease in the effective federal income tax rate. The decrease in the state tax percentage was primarily the result of reduced taxes in New Jersey and Maryland which were partially offset by increases in California and Virginia. The decreased federal effective rate is due primarily to a reserve set up in 2001 for potential adjustments. 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 as an offset against future taxable income. If for some reason the combination of future years income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years to recover the deferred tax assets. As a result, management is confident such deferred tax assets are recoverable regardless of future income.

Inflation

Inflation has a long-term effect on us because increasing costs of land, materials, and labor result in increasing sale prices of our homes. In general, these price increases have been commensurate with the general rate of inflation in our housing markets and have not had a significant adverse effect on the sale of our homes. A significant risk faced by the housing industry generally is that rising house 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 our homes sell, we have not found this risk to be a significant problem.

Inflation has a lesser short-term effect on us because we generally negotiate fixed price contracts with our subcontractors and material suppliers for the construction of our 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 58% of our homebuilding cost of sales.

Mergers and Acquisitions

On January 23, 2001 we merged with Washington Homes, Inc. for a total purchase price of \$87.4 million, of which \$38.5 was paid in cash and 6,352,900 shares of our Class A common stock were issued. On January 10, 2002 we acquired The Forecast Group, L.P. for an estimated purchase price of \$196.5 million, of which \$151.6 million was paid in cash and 2,208,738 shares of our Class A common stock were issued. The addition of Forecast operations for slightly more than three full quarters is expected to increase revenues approximately 30% in fiscal 2002 from fiscal 2001.

Safe Harbor Statement

All statements in this Form 10-Q that are not historical facts should be considered as "Forward-Looking Statements" within the meaning of the

Private Securities Litigation Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements expressed or implied by the forward looking statements. Such risks, uncertainties and other factors include, but are not limited to:

- . Changes in general and local economic and business conditions
- . Weather conditions
- . Changes in market conditions
- . Changes in home prices and sales activity in the markets where the Company builds homes
- . Government regulation, including regulations concerning development of land, the homebuilding process, and the environment
- . Fluctuations in interest rates and the availability of mortgage financing
- . Increases in raw materials and labor costs
- . The availability and cost of suitable land and improved lots
- . Levels of competition
- . Availability of financing to the Company
- . Terrorist acts and other acts of war

These risks, uncertainties, and other factors are described in detail in Item 1 and 2 Business and Properties in our Form 10-K for the year ended October 31, 2001.

Quantitative and Qualitative Disclosures About Market Risk.

The primary market risk facing us is interest rate risk on our long term debt. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from FNMA, FHLMC, GNMA securities and private investors. Accordingly the risk from mortgage loans is not material. We do not hedge interest rate risk other than on mortgage loans using financial instruments. We are also subject to foreign currency risk but this risk is not material. The following table sets forth as of July 31, 2002, our long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value ("FMV").

As of July 31, 2002 for the Nine Months Ended July 31,							
FMV @	2003	2004	2005	2006	2007	Thereafter	Total
7/31/02							
(Dollars in Thousands)							
Long Term Debt(1):							
Fixed Rate.....	\$11,549	\$ 75	\$ 81	\$ 88	\$ 96	\$ 550,360	\$562,249
\$552,749							
Average interest rate.....	6.71%	8.38%	8.38%	8.38%	8.38%	9.23%	9.17%
Variable rate...	--	--	--	--	\$115,000	--	\$115,000
\$115,000							
Average interest rate.....	--	--	--	--	(2)	--	--

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

(2) Libor plus 2.5%

Part II. Other Information

Item 6(a). Exhibits

- (i) Exhibit 10(a) Amended and Restated Credit Agreement dated June 21, 2002.
- (ii) Exhibit 10(b) \$110,000,000 K. Hovnanian Mortgage, Inc. Revolving Credit Agreement dated June 7, 2002.
- (iii) Exhibit 10(c) First Amendment to K. Hovnanian Mortgage Inc. Revolving Credit Agreement dated July 25, 2002.
- (iv) Exhibit 99(a) Certification of Chief Executive

Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (v) Exhibit 99(b) Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Item 6(b). No reports on Form 8K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements 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.
(Registrant)

DATE: September 13, 2002 /S/J. LARRY SORSBY
J. Larry Sorsby,
Executive Vice President and
Chief Financial Officer

DATE: September 13, 2002 /S/PAUL W. BUCHANAN
Paul W. Buchanan,
Senior Vice President
Corporate Controller

CERTIFICATION

I, Ara K. Hovnanian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Officer /S/ARA K. HOVNANIAN
Ara K. Hovnanian
President and Chief Executive

Date: September 13, 2002

CERTIFICATION

I, J. Larry Sorsby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

/S/J. LARRY SORSBY
J. Larry Sorsby
Executive Vice-President
And Chief Financial Officer

Date: September 13, 2002

AMENDED AND RESTATED CREDIT AGREEMENT

by and among
K. HOVNIANIAN ENTERPRISES, INC.
(as the Borrower)

HOVNIANIAN ENTERPRISES, INC.
(as a Guarantor)

and
THE BANKS PARTY HERETO
and
PNC BANK, NATIONAL ASSOCIATION, as Administrative Agent
Bank of America, N.A., as
Syndication Agent
Fleet National Bank, as
Documentation Agent
PNC Capital Markets, LLC
Banc of America Securities, LLC
as
Joint Lead Arrangers and Joint Book Runners

Amended and Restated June 21, 2002

1.	CERTAIN DEFINITIONS	1
1.1	Certain Definitions.	1
1.2	Construction.	21
1.2.1.	Number; Inclusion.	21
1.2.2.	Determination.	21
1.2.3.	Agent's Discretion and Consent.	21
1.2.4.	Documents Taken as a Whole.	21
1.2.5.	Headings.	22
1.2.6.	Implied References to this Agreement.	22
1.2.7.	Persons.	22
1.2.8.	Modifications to Documents.	22
1.2.9.	From, To and Through.	22
1.2.10.	Shall; Will.	22
1.3	Accounting Principles.	22
2.	REVOLVING CREDIT AND SWING LOAN FACILITIES	23
2.1	Revolving Credit Commitments.	23
2.1.1.	Revolving Credit Loans.	23
2.1.2.	Swing Loan Commitment.	23
2.1.3.	Increase in Commitments After Closing Date.	23
2.1.4.	Voluntary Reduction of Commitment.	24
2.2	Nature of Banks' Obligations with Respect to Revolving Credit Loans.	24
2.3	Commitment Fees.	24
2.4	Revolving Credit Loan Requests; Swing Loan Requests.	25
2.4.1.	Revolving Credit Loan Requests.	25
2.4.2.	Swing Loan Requests.	25
2.5	Making Revolving Credit Loans and Swing Loans.	25
2.5.1.	Generally.	25
2.5.2.	Making Swing Loans.	26
2.6	Swing Loan Note.	26
2.7	Use of Proceeds.	26
2.8	Borrowings to Repay Swing Loans.	26
2.9	Letter of Credit Subfacility.	27
2.9.1.	Issuance of Letters of Credit.	27
2.9.2.	Letter of Credit Fees.	27
2.9.3.	Disbursements, Reimbursement.	28
2.9.4.	Repayment of Participation Advances.	29
2.9.5.	Documentation.	29
2.9.6.	Determinations to Honor Drawing Requests.	29
2.9.7.	Nature of Participation and Reimbursement Obligations.	30
2.9.8.	Indemnity.	31
2.9.9.	Liability for Acts and Omissions.	31
2.9.10.	Sharing Letter of Credit Documentation.	32
2.10	Extension by Banks of the Expiration Date.	32
2.10.1.	Requests; Approval by All Banks.	32
2.10.2.	Approval by 80% Banks.	33
2.11	Designation of Subsidiaries and Release of Guarantors.	33
2.11.1.	Release of Guarantors.	33
2.11.2.	Designation of Non-Restricted Person.	34
2.11.3.	Automatic Designation of Non-Restricted Person.	34
2.11.4.	Designation of Restricted Subsidiary.	35
3.	INTEREST RATES	35
3.1	Interest Rate Options.	35
3.1.1.	Revolving Credit Interest Rate Options.	35
3.1.2.	Rate Quotations.	35
3.2	Interest Periods.	36
3.3	Interest After Default.	36
3.3.1.	Default Rate.	36
3.3.2.	Acknowledgment.	36
3.4	LIBO-Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available.	36
3.4.1.	Unascertainable.	36

3.4.2.	Illegality; Increased Costs; Deposits Not Available.	37
3.4.3.	Agent's and Bank's Rights.	37
3.5	Selection of Interest Rate Options.	38
4.	PAYMENTS	38
4.1	Payments.	38
4.2	Pro Rata Treatment of Banks.	38
4.3	Interest Payment Dates.	39
4.4	Voluntary Prepayments.	39
4.4.1.	Right to Prepay.	39
4.4.2.	Replacement of a Bank.	40
4.4.3.	Change of Lending Office.	40
4.5	Mandatory Payments.	40
4.6	Additional Compensation in Certain Circumstances.	41
4.6.1.	Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.	41
4.6.2.	Indemnity.	41
4.7	Notes.	42
4.8	Settlement Date Procedures.	42
5.	REPRESENTATIONS AND WARRANTIES	43
5.1	Representations and Warranties.	43
5.1.1.	Organization and Qualification.	43
5.1.2.	Subsidiaries.	43
5.1.3.	Power and Authority.	44
5.1.4.	Validity and Binding Effect.	44
5.1.5.	No Conflict.	44
5.1.6.	Litigation.	44
5.1.7.	Title to Properties.	45
5.1.8.	Financial Statements.	45
5.1.9.	Use of Proceeds; Margin Stock.	46
5.1.10.	Full Disclosure.	46
5.1.11.	Taxes.	46
5.1.12.	Consents and Approvals.	47
5.1.13.	No Event of Default; Compliance with Instruments.	47
5.1.14.	Patents, Trademarks, Copyrights, Licenses, Etc.	47
5.1.15.	Insurance.	47
5.1.16.	Compliance with Laws.	47
5.1.17.	Burdensome Restrictions.	47
5.1.18.	Investment Companies; Regulated Entities.	48
5.1.19.	Plans and Benefit Arrangements.	48
5.1.20.	Employment Matters.	49
5.1.21.	Environmental Matters.	49
5.1.22.	Senior Debt Status.	49
5.2	Continuation of Representations.	50
6.	CONDITIONS OF LENDING AND ISSUANCE OF LETTERS OF CREDIT	50
6.1	First Loans and Letters of Credit.	50
6.1.1.	Officer's Certificate.	50
6.1.2.	Incumbency Certificate.	50
6.1.3.	Delivery of Loan Documents .	51
6.1.4.	Opinion of Counsel.	51
6.1.5.	Legal Details.	51
6.1.6.	Payment of Fees.	51
6.1.7.	Consents.	51
6.1.8.	Officer's Certificate Regarding MACs.	52
6.1.9.	No Actions or Proceedings.	52
6.2	Each Additional Loan or Letter of Credit.	52
7.	COVENANTS	52
7.1	Affirmative Covenants.	52
7.1.1.	Preservation of Existence, Etc.	52
7.1.2.	Payment of Liabilities, Including Taxes, Etc.	53
7.1.3.	Maintenance of Insurance.	53
7.1.4.	Maintenance of Properties and Leases.	53
7.1.5.	Maintenance of Patents, Trademarks, Etc.	53
7.1.6.	Visitation Rights.	53
7.1.7.	Keeping of Records and Books of Account.	54
7.1.8.	Plans and Benefit Arrangements.	54
7.1.9.	Compliance with Laws.	54
7.1.10.	Use of Proceeds.	54
7.1.11.	Required Dividends of KHL.	55
7.2	Negative Covenants.	55
7.2.1.	Indebtedness.	55
7.2.2.	Liens.	55
7.2.3.	Loans and Investments.	55
7.2.4.	Liquidations, Mergers, Consolidations, Acquisitions.	55
7.2.5.	Dispositions of Assets or Subsidiaries; Sale and Leaseback.	57
7.2.6.	Restricted Payments; Restricted Investments.	57
7.2.7.	Subsidiaries, Partnerships and Joint Ventures.	58
7.2.8.	Continuation of or Change in Business.	58
7.2.9.	Plans and Benefit Arrangements.	58
7.2.10.	Borrowing Base.	58
7.2.11.	Minimum ATNW.	59
7.2.12.	Leverage Ratio.	59
7.2.13.	Inventory and Land Purchase Limits.	59
7.2.14.	Fiscal Year.	60
7.2.15.	Changes in Subordinated Debt Documents.	60

7.3	Reporting Requirements.	60
7.3.1.	Quarterly Financial Statements.	60
7.3.2.	Annual Financial Statements.	61
7.3.3.	Certificates of the Borrower.	61
7.3.4.	Notice of Default.	62
7.3.5.	Notice of Litigation.	62
7.3.6.	Notice of Change in Debt Rating.	62
7.3.7.	Budgets, Forecasts, Other Reports and Information.	62
7.3.8.	Notices Regarding Plans and Benefit Arrangements.	63
8.	DEFAULT	64
8.1	Events of Default.	64
8.1.1.	Payments Under Loan Documents.	64
8.1.2.	Breach of Warranty.	64
8.1.3.	Breach of Certain Negative Covenants.	64
8.1.4.	Breach of Other Covenants.	65
8.1.5.	Defaults in Other Agreements or Indebtedness.	65
8.1.6.	Final Judgments or Orders.	65
8.1.7.	Loan Document Unenforceable.	65
8.1.8.	Uninsured Losses; Proceedings Against Assets.	65
8.1.9.	Notice of Lien or Assessment.	65
8.1.10.	Insolvency.	66
8.1.11.	Events Relating to Plans and Benefit Arrangements.	66
8.1.12.	Cessation of Business.	66
8.1.13.	Change of Control.	67
8.1.14.	Involuntary Proceedings.	67
8.1.15.	Voluntary Proceedings.	67
8.2	Consequences of Event of Default.	67
8.2.1.	Events of Default Other Than Bankruptcy, Insolvency or Reorganization Proceedings.	67
8.2.2.	Bankruptcy, Insolvency or Reorganization Proceedings.	68
8.2.3.	Set-off.	68
8.2.4.	Suits, Actions, Proceedings.	68
8.2.5.	Application of Proceeds.	69
8.2.6.	Other Rights and Remedies.	69
9.	THE AGENT	69
9.1	Appointment.	69
9.2	Delegation of Duties.	70
9.3	Nature of Duties; Independent Credit Investigation.	70
9.4	Actions in Discretion of Agent; Instructions From the Banks.	70
9.5	Reimbursement and Indemnification of Agent by the Borrower.	71
9.6	Exculpatory Provisions; Limitation of Liability.	71
9.7	Reimbursement and Indemnification of Agent by Banks.	72
9.8	Reliance by Agent.	72
9.9	Notice of Default.	73
9.10	Notices.	73
9.11	Banks in Their Individual Capacities; Agents in its Individual Capacity.	73
9.12	Holder of Notes.	73
9.13	Equalization of Banks.	74
9.14	Successor Agent.	74
9.15	Agent's Fee.	75
9.16	Availability of Funds.	75
9.17	Calculations.	75
9.18	Beneficiaries.	75
10.	MISCELLANEOUS	76
10.1	Modifications, Amendments or Waivers.	76
10.1.1.	Increase of Commitment.	76
10.1.2.	Extension of Payment; Reduction of Principal, Interest or Fees; Modification of Terms of Payment.	76
10.1.3.	Miscellaneous	76
10.2	No Implied Waivers; Cumulative Remedies; Writing Required.	77
10.3	Reimbursement and Indemnification of Banks by the Borrower; Taxes.	77
10.4	Holidays.	78
10.5	Funding by Branch, Subsidiary or Affiliate.	78
10.5.1.	Notional Funding.	78
10.5.2.	Actual Funding.	78
10.6	Notices.	79
10.7	Severability.	79
10.8	Governing Law.	80
10.9	Prior Understanding.	80
10.10	Duration; Survival.	80
10.11	Successors and Assigns.	80
10.12	Confidentiality.	82
10.12.1.	General.	82
10.12.2.	Sharing Information With Affiliates of the Banks.	82
10.13	Counterparts.	83
10.14	Agent's or Bank's Consent.	83
10.15	Exceptions.	83
10.16	CONSENT TO FORUM; WAIVER OF JURY TRIAL.	83
10.17	Tax Withholding Clause.	84

10.18	Joinder of Guarantors.	84
10.19	Concerning Agent Terms.	85
10.20	Ratification of Notes and Loan Documents and Existing Obligations.	85

LIST OF SCHEDULES AND EXHIBITS

SCHEDULES

SCHEDULE 1.1(A)	-	APPLICABLE MARGIN
SCHEDULE 1.1(B)	-	COMMITMENTS OF BANKS AND ADDRESSES FOR NOTICES
SCHEDULE 1.1(C)	-	LISTING OF RESTRICTED SUBSIDIARIES, JOINT VENTURES, MORTGAGE SUBSIDIARIES AND NON-RESTRICTED PERSONS
SCHEDULE 1.1(E)	-	INCOME PRODUCING PROPERTIES
SCHEDULE 1.1(P)	-	PERMITTED LIENS
SCHEDULE 2.9.1	-	EXISTING LETTERS OF CREDIT
SCHEDULE 5.1.2	-	SUBSIDIARIES
SCHEDULE 5.1.12	-	CONSENTS AND APPROVALS
SCHEDULE 7.2.1	-	PERMITTED INDEBTEDNESS

EXHIBITS

EXHIBIT 1.1(A)	-	ASSIGNMENT AND ASSUMPTION AGREEMENT
EXHIBIT 1.1.(B)(1)	-	BANK JOINDER
EXHIBIT 1.1(G)	-	GUARANTOR JOINDER
EXHIBIT 1.1(R)	-	REVOLVING CREDIT NOTE
EXHIBIT 1.1(S)	-	SWING LOAN NOTE
EXHIBIT 2.4.1	-	LOAN REQUEST
EXHIBIT 2.4.2	-	SWING LOAN REQUEST
EXHIBIT 7.3.3.1	-	QUARTERLY COMPLIANCE CERTIFICATE
EXHIBIT 7.3.3.2	-	BORROWING BASE CERTIFICATE

AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDED AND RESTATED CREDIT AGREEMENT is dated June 21, 2002 and is made by and among K. HOVNIANIAN ENTERPRISES, INC., a New Jersey corporation (the "Borrower"), HOVNIANIAN ENTERPRISES, INC., a Delaware corporation ("Hovnianian" and a "Guarantor"), the BANKS (as hereinafter defined), and PNC BANK, NATIONAL ASSOCIATION, in its capacity as administrative agent for the Banks under this Agreement (hereinafter referred to in such capacity as the "Agent").

WITNESSETH:

WHEREAS, the Banks provided a \$440,000,000 revolving credit facility to the Borrower pursuant to a Credit Agreement dated August 28, 2001 among the parties hereto (the "Original Credit Agreement");

WHEREAS, the revolving credit shall be used to refinance existing indebtedness, provide for letters of credit and provide working capital and funds for general corporate purposes; WHEREAS, the Borrower and the Banks have agreed that the Original Credit Agreement be amended and restated as provided herein;

WHEREAS, the parties hereto intend that the Notes and other Loan Documents delivered in connection with the Original Credit Agreement be the "Loan Documents" hereunder and be of continued force and effect.

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

1. CERTAIN DEFINITIONS

1.1 Certain Definitions.

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

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

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

Adjusted Operating Income shall mean for any period the sum of (x) consolidated net income of Hovnianian for such period, (y) to the extent deducted in arriving at such net income, consolidated income taxes, consolidated interest expense, Letter of Credit Fees, depreciation, amortization, non-cash valuation charges or adjustments and (z) cash distributions received by any Loan Party from Non-Restricted Persons during such period. Adjusted Operating Income shall exclude net income or loss of Non-Restricted Persons.

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

Affiliate as to any Person shall mean any other Person (i) which directly or indirectly controls, is controlled by,

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

Agent shall mean PNC Bank, National Association, and its successors and assigns.

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

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

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

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

Applicable Commitment Fee Rate shall mean the percentage rate per annum at the indicated level of Debt Rating in the pricing grid on Schedule 1.1(A) below the heading "Commitment Fee." The Applicable Commitment Fee Rate shall be computed in accordance with the parameters set forth on Schedule 1.1(A).

Applicable Letter of Credit Fee Rate shall mean the percentage rate per annum at the indicated level of Debt Rating in the pricing grid on Schedule 1.1(A) below the heading "LOC Fee." The Applicable Letter of Credit Fee Rate shall be computed in accordance with the parameters set forth on Schedule 1.1(A).

Applicable Margin shall mean, as applicable:

(A) the percentage spread to be added to Base Rate under the Revolving Credit Base Rate Option at the indicated level of Debt Rating in the pricing grid on Schedule 1.1(A) below the heading "Base Rate Margin,"

(B) the percentage spread to be added to LIBO-Rate under the Revolving Credit LIBO-Rate Option at the indicated level of Debt Rating in the pricing grid on Schedule 1.1(A) below the heading "Libor Margin".

The Applicable Margin shall be computed in accordance with the parameters set forth on Schedule 1.1(A).

Assignee Bank shall have the meaning assigned to such term in Section 2.10.2 (Approval by 80% Banks).

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

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

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

Base Rate shall mean the greater of (i) the interest rate per annum announced from time to time by the Agent at its Principal Office as its then prime rate, which rate may not be the lowest rate then being charged commercial borrowers by the Agent, or (ii) the Federal Funds Effective Rate plus 1/2% per annum.

Base Rate Option shall mean the Revolving Credit Base Rate Option.

Benefit Arrangement shall mean at any time an "employee benefit plan," within the meaning of Section 3(3) of ERISA, which is neither a Plan nor a Multiemployer Plan and which is maintained, sponsored or otherwise contributed to by the Borrower.

Borrower shall mean K. Hovnanian Enterprises, Inc., a corporation organized and existing under the laws of the State of New Jersey and wholly-owned by Hovnanian.

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

- (i) 100% of Excess Cash;
- (ii) 95% of Sold Homes;

(iii) 70% of Unsold Homes; and
(iv) 55% of Finished Lots and Land Under Development;
provided however that the Borrowing Base shall exclude in all events the Dollar amount of

(i) p
roperty located outside of the United States of America in excess of \$10,000,000;

(ii) U
nimproved Land;

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

(iv) properties subject to any Purchase Money Mortgage.

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

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

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

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

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

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

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

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

Closing Date shall mean the Business Day on which the first Loan shall be made, which shall be June 21 2002. The closing shall take place at 11:00 a.m., Eastern time, on the Closing Date at the offices of Buchanan Ingersoll Professional Corporation, Philadelphia, Pennsylvania, or at such other time and place as the parties agree.

Commitment shall mean as to any Bank its Revolving Credit Commitment and, in the case of the Agent, its Revolving Credit Commitment and its Swing Loan Commitment; and Commitments shall mean the aggregate of the Revolving Credit Commitments of all of the Banks, including the Swing Loan Commitment of the Agent.

Commitment Fee shall have the meaning assigned to that term in Section 2.3 (Commitment Fees).

Compliance Certificate shall have the meaning assigned to such term in Section 7.3.3 (Certificates of the Borrower).

Contamination shall mean the presence or release or threat of release of Regulated Substances in, on, under or emanating to or from any of the Property, which pursuant to Environmental Laws requires notification or reporting to an Official Body, or which pursuant to Environmental Laws requires the investigation, cleanup, removal, remediation, containment, abatement of or other response action or which otherwise constitutes a violation of Environmental Laws.

Debt Rating shall mean the rating of Hovnanian's senior unsecured long-term debt by each of Standard & Poor's and Moody's.

Default Rate shall have the meaning assigned to that term in Section 3.3.1 (Default Rate).

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

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

Drawing Date shall mean each date that an amount is paid by the Letter of Credit Bank under any Letter of Credit.

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

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

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

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

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

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

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

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

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

Expiration Date shall mean, with respect to the Revolving Credit Commitments, July 30, 2005 as such may be extended pursuant to Section 2.10 (Extension by Banks of the Expiration Date).

Extending Bank shall have the meaning assigned to such term in Section 2.10.2 (Approval by 80% Bank).

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

Federal Funds Effective Rate for the last day on which such rate was announced.

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

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

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

Fixed Charges shall mean the sum of (i) interest cost incurred on all Senior Homebuilding Indebtedness over the past fiscal quarter; (ii) interest cost incurred on the Subordinated Debt over the past fiscal quarter; (iii) 50% of the interest cost incurred on all Purchase Money Mortgages over the past fiscal quarter; (iv) Letter of Credit Fees accrued over the past fiscal quarter; and (v) the interest component of capitalized leases over the past fiscal quarter.

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

Governmental Acts shall have the meaning assigned to that term in Section 2.9.8 (Indemnity).

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

Guaranty of any Person shall mean any obligation of such Person guaranteeing or in effect guaranteeing any Indebtedness of any other Person in any manner, whether directly or indirectly.

Guaranty Agreement shall mean the Amended and Restated Guaranty and Suretyship Agreement dated the Closing Date and executed and delivered by each of the Guarantors to the Agent for the benefit of the Banks.

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

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

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

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

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

Insolvency Proceeding shall mean, with respect to any Person, (a) a case, action or proceeding with respect to such Person (i) before any court or any other Official Body under any bankruptcy, insolvency, reorganization or other similar Law now or hereafter in effect, or (ii) for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of any Loan Party or otherwise

relating to the liquidation, dissolution, winding-up or relief of such Person, or (b) any general assignment for the benefit of creditors, composition, marshaling of assets for creditors, or other, similar arrangement in respect of such Person's creditors generally or any substantial portion of its creditors undertaken under any Law.

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

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

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

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

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

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

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

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

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

KHL Agreement shall mean KHL Agreement dated the Closing Date and executed and delivered by KHL in respect of its obligations to the Agent and the Banks.

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

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

Letter of Credit shall have the meaning assigned to that term in Section 2.9.1 (Issuance of Letters of Credit).

Letter of Credit Bank shall have the meaning assigned to that term in Section 2.9.1 (Issuance of Letters of Credit).

Letter of Credit Borrowing shall have the meaning assigned to such term in Section 2.9.3.4 (Disbursements, Reimbursement).

Letter of Credit Fee shall have the meaning assigned to that term in Section 2.9.2 (Letter of Credit Fees).

Letter of Credit Outstandings shall mean at any time the sum of (i) the aggregate undrawn face amount of outstanding Letters of Credit and (ii) the aggregate amount of all unpaid and outstanding Reimbursement Obligations and Letter of Credit Borrowings.

LIBO-Rate shall mean, with respect to the Loans comprising any Borrowing Tranche to which the LIBO-Rate Option applies for any Interest Period, the interest rate per annum determined by the Agent by dividing (the resulting quotient

rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (i) the rate of interest determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the average of the London interbank offered rates for U.S. Dollars quoted by the British Bankers' Association as set forth on Dow Jones Markets Service (formerly known as Telerate) (or appropriate successor or, if the British Bankers' Association or its successor ceases to provide such quotes, a comparable replacement determined by the Agent) display page 3750 (or such other display page on the Dow Jones Markets Service system as may replace display page 3750) two (2) Business Days prior to the first day of such Interest Period for an amount comparable to such Borrowing Tranche and having a borrowing date and a maturity comparable to such Interest Period by (ii) a number equal to 1.00 minus the LIBO-Rate Reserve Percentage. The LIBO-Rate may also be expressed by the following formula:

LIBO-Rate = Average of London interbank offered rates quoted

by BBA or appropriate successor as shown on Dow Jones Markets Service display page 3750

1.00 - LIBO-Rate Reserve Percentage

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

LIBO-Rate Option shall mean the Revolving Credit

LIBO-Rate Option.

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

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

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

Loan Documents shall mean this Agreement, the Agent's Letter, the Notes, the Stock Pledge, the Guaranty Agreement, the KHL Agreement, and any other instruments, certificates or documents delivered or contemplated to be delivered hereunder or thereunder or in connection herewith or therewith, as the same may be supplemented or amended from time to time in accordance herewith or therewith, and Loan Document shall mean any of the Loan Documents. Each of the Loan Documents under the Original Credit Agreement (except for the Revolving Credit Note of Credit Suisse First Boston) and the Revolving Credit Note of National City of Pennsylvania and the Guaranty Agreement shall be Loan Documents hereunder.

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

Loan Request shall have the meaning assigned to that term in Section 2.5 (Revolving Credit Loan Requests; Swing Loan Requests).

Loans shall mean collectively all Revolving Credit Loans and Swing Loans and Loan shall mean separately, any Revolving Credit Loan or Swing Loan.

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

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

Period is to end, the final month of such Interest Period shall be deemed to end on the last Business Day of such final month.

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

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

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

Non-approving Bank shall have the meaning assigned to such term in Section 2.10.2 (Approval by 80% Banks).

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

Notes shall mean the Revolving Credit Notes and the Swing Note.

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

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

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

Original Credit Agreement shall have the meaning assigned to such term in the preamble to this Agreement.

Participation Advance shall mean, with respect to any Bank, such Bank's payment in respect of its participation in a Letter of Credit Borrowing according to its Ratable Share pursuant to Section 2.9.4 (Repayment of Participation Advances).

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

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

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

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

(a) (i) cash, marketable direct obligations of the United States of America or any agency thereof, and certificates of deposit, demand deposits, time deposits, or repurchase agreements issued by any bank with a capital and surplus of at least \$25,000,000 organized under the laws of the United States of America or any state thereof, provided that such obligations, certificates of deposit, demand deposits, time deposits, and repurchase agreements have a maturity of less than one year from the date of purchase;

(ii) investment grade commercial paper or debt having a maturity date of one year or less from the date of purchase; and

(iii) funds holding assets primarily consisting of those described in clause (i) hereof;

(b) loans or advances to employees of a Loan Party in the ordinary course of business;

(c) any Person that is or concurrently becomes a Loan Party;

(d) purchase money notes not exceeding \$5,000,000 principal amount in the aggregate received incident to sales of property by a Restricted Subsidiary;

(e) trade credit extended on usual and customary terms in the ordinary course of business;

(f) loans to officers and directors to the extent permitted by Section 7.2.6.2 (Restricted Payment; Restricted Investments);

(g) marketable securities costing at the time of purchase no more than \$3,000,000 in the aggregate of any one or more residential real estate developers and which are registered under the Securities Exchange Act of 1934; and

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

Permitted Liens shall mean:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xi) Other Liens securing obligations not in excess of \$5,000,000 in the aggregate. Person shall mean any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, joint venture, government or political subdivision or agency thereof, or any other entity.

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

PNC Bank shall mean PNC Bank, National Association, its successors and assigns.

Potential Default shall mean any event or

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

Preliminary Approvals shall mean the following:

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

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

Prohibited Transaction shall mean any prohibited transaction as defined in Section 4975 of the Internal Revenue Code or Section 406 of ERISA for which neither an individual nor a class exemption has been issued by the United States Department of Labor.

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

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

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

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

Ratable Share shall mean the proportion that a Bank's Commitment (excluding the Swing Loan Commitment) bears to the Commitments (excluding the Swing Loan Commitment) of all of the Banks.

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

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

Reimbursement Obligation shall mean the obligation of the Borrower to reimburse a Letter of Credit Bank for draws under a Letter of Credit issued by such Bank under this Agreement, except to the extent such obligation is represented by a Revolving Credit Loan.

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

Required Banks shall mean

(i) if there are no Loans, Reimbursement Obligations or Letter of Credit Borrowings outstanding, Banks whose Commitments (excluding the Swing Loan Commitments) aggregate at least 66 2/3% of the Revolving Credit Commitments of all of the Banks, or

(ii) if there are Loans, Reimbursement Obligations, or Letter of Credit Borrowings outstanding, any Bank or group of Banks if the sum of the Loans (excluding the Swing Loans), Reimbursement Obligations and Letter of Credit Borrowings of such Banks then outstanding aggregates at least 66 2/3% of the total principal amount of all of the Loans (excluding the Swing Loans), Reimbursement Obligations and Letter of Credit Borrowings then outstanding.

Reimbursement Obligations and Letter of Credit Borrowings shall be deemed, for purposes of this definition, to be in favor of the Agent and not a participating Bank if such Bank has not made its Participation Advance in respect thereof and shall be deemed to be in favor of such Bank to the extent of its Participation Advance if it has made its Participation Advance in respect thereof.

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

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

Required Share shall have the meaning assigned

to such term in Section 4.8 (Settlement Date Procedures).
Restricted Investment shall mean a Loan Party's Investment that constitutes a Subsidiary Investment in any Non-Restricted Person or any Investment in Related Business.
Restricted Payments shall mean
(i) Dividends and Capital Stock Retirement payments after January 31, 2001 by Hovnanian or otherwise to the shareholders of Hovnanian; and
(ii) Payments (whether in the form of principal payments, note repurchases or similar items) to the holder of Subordinated Debt made on or after January 31, 2001; provided, however, with respect to this item (ii), a refinancing of the Subordinated Debt to the extent consisting of the repayment of the Subordinated Debt and the incurring of new "Subordinated Debt" within 60 days of such repayment shall not constitute a "Restricted Payment".
Restricted Subsidiaries shall mean any Subsidiary that has not been designated a Non-Restricted Person as of the Closing Date or in accordance with Section 2.11 [Designation of Subsidiaries and Release of Guarantors]. Each of the Restricted Subsidiaries as of the Closing Date is listed on Schedule 1.1(C).
Revolving Credit Base Rate Option shall mean the option of the Borrower to have Revolving Credit Loans bear interest at the rate and under the terms and conditions set forth in Section 3.1.1((i)) [Revolving Credit Base Rate Option].
Revolving Credit Commitment shall mean, as to any Bank at any time, the amount set forth opposite its name on Schedule 1.1(B) in the column labeled "Amount of Commitment for Revolving Credit Loans" or on Schedule I to the Assignment and Assumption Agreement pursuant to which such Bank became a party hereto, and Revolving Credit Commitments shall mean the aggregate Revolving Credit Commitments of all of the Banks. The Revolving Credit Commitments shall not exceed at any time \$440,000,000.
Revolving Credit LIBO-Rate Option shall mean the option of the Borrower to have Revolving Credit Loans bear interest at the rate and under the terms and conditions set forth in Section 3.1.1((ii)) (Revolving Credit LIBO-Rate Option).
Revolving Credit Loans shall mean collectively and Revolving Credit Loan shall mean separately all Revolving Credit Loans or any Revolving Credit Loan made by the Banks or one of the Banks to the Borrower pursuant to Section 2.1 (Revolving Credit Commitments) or 2.9.3 (Disbursements, Reimbursement).
Revolving Credit Note shall mean any Revolving Credit Note of the Borrower in the form of Exhibit 1.1(R) issued by the Borrower at the request of a Bank pursuant to Section 4.7 (Notes) evidencing the Revolving Credit Loans to such Bank, together with all amendments, extensions, renewals, replacements, refinancings or refundings thereof in whole or in part.
Revolving Facility Usage shall mean at any time the sum of the Revolving Credit Loans outstanding and the Letter of Credit Outstandings.
SEC shall mean the Securities and Exchange Commission or any governmental agencies substituted therefor.
Senior Homebuilding Indebtedness shall mean the sum (without duplication) of (a) outstanding principal amount of the Obligations, (b) letters of credit (whether or not issued under this Agreement), (c) Guaranties by any Loan Party of any obligation of any Person which is not a Restricted Subsidiary or Hovnanian, (d) Senior Notes, (e) surety bonds (or similar products) issued by bonding companies in lieu of cash payments or cash deposits on contracts for any Loan Party to acquire land inventory in respect of which a Loan Party is obligated and (f) other Indebtedness of Hovnanian or a Restricted Subsidiary which is permitted under this Agreement; provided however, that "Senior Homebuilding Indebtedness" shall not include (i) obligations of Hovnanian under the Keep-Well Guaranty dated July 16, 2001 previously provided to Bank One, NA, as agent for the benefit of K. Hovnanian Mortgage Inc., (ii) debt secured by Purchase Money Security Interests and Purchase Money Mortgages and (iii) Subordinated Debt.
Senior Notes shall mean the (i) \$150,000,000 principal amount 10 1/2% Senior Notes of the Borrower and guaranteed by Hovnanian due October 2007 and (ii) \$150,000,000 9 1/8% Senior Notes of the Borrower and guaranteed by Hovnanian due in April 2009 and (iii) other notes sold or guaranteed by Hovnanian or the Borrower from time to time after the Closing Date on terms not materially less favorable to the Banks (as determined by the Agent) as those described in clauses (i) and (ii) above
Settlement Date shall mean the date selected from time to time by the Agent (after consulting the Borrower) on which the Agents elects to effect settlement pursuant to Section 4.8 (Settlement Date Procedures).
Sold Homes shall mean the Dollar amount of the capitalized construction costs of any Dwelling Unit upon which a third party purchaser has paid a cash deposit pursuant to an enforceable agreement of sale. Such cost shall include the

proportional costs of the land under the Dwelling Unit, site improvements and soft costs incurred to date.

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

Stock Pledge shall mean the Stock Pledge Agreement dated the Closing Date pursuant to which Hovnanian pledges to the Agent on behalf of the Banks 100% of the capital stock of KHL as security for the Obligations.

Subordinated Debt shall mean (i) the \$100,000,000 principal amount 9 3/4% Subordinated Notes of the Borrower due June 1, 2005, and (ii) any other unsecured indebtedness of the Borrower, Hovnanian, or any other Loan Party which is subordinated by its terms to the prior payment in full of the Obligations evidenced by this Agreement, 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) above and which contain covenants that are not materially less favorable to Hovnanian, the Borrower or any other Loan Party than those contained in the Subordinated Debt described in clause (i) above.

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

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

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

Swing Loan Commitment shall mean PNC Bank's commitment to make Swing Loans to the Borrower pursuant to Section 2.1.2 (Swing Loan Commitment) hereof in an aggregate principal amount of up to \$10,000,000.

Swing Loan Note shall mean the Swing Loan Note of the Borrower in the form of Exhibit 1.1(S) evidencing the Swing Loans, together with all amendments, extensions, renewals, replacements, refinancings or refundings thereof in whole or in part.

Swing Loan Request shall mean a request for Swing Loans made in accordance with Section 2.4.2 (Swing Loan Requests) hereof.

Swing Loans shall mean collectively and Swing Loan shall mean separately all Swing Loans or any Swing Loan made by PNC Bank to the Borrower pursuant to Section 2.1.2 (Swing Loan Commitment) hereof.

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

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

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

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

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

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

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

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

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

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

1.2 Construction.

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

1.2.1. Number; Inclusion.

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

1.2.2. Determination.

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

1.2.3. Agent's Discretion and Consent.

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

1.2.4. Documents Taken as a Whole.

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

1.2.5. Headings.

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

1.2.6. Implied References to this Agreement.

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

1.2.7. Persons.

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

1.2.8. Modifications to Documents.

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

1.2.9. From, To and Through.

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

1.2.10. Shall; Will.

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

1.3 Accounting Principles.

Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate), and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP; provided, however, that all accounting terms used in Section 7.2 (Negative Covenants) (and all defined terms used in the definition of any accounting term used in Section 7.2 (Negative Covenants) shall have the meaning given to such terms (and defined terms) under GAAP as in effect on the date hereof applied on a basis consistent with those used in preparing the Annual Statements referred to in Section 5.1.8((i)) (Historical Statements). In the event of any change after the date hereof in GAAP, and if such change would result in the inability to determine compliance with the financial covenants set forth in

Section 7.2 (Negative Covenants) based upon the Loan Parties' regularly prepared financial statements by reason of the preceding sentence, then the parties hereto agree to endeavor, in good faith, to agree upon an amendment to this Agreement that would adjust such financial covenants in a manner that would not affect the substance thereof, but would allow compliance therewith to be determined in accordance with the Loan Parties' financial statements at that time.

2. REVOLVING CREDIT AND SWING LOAN FACILITIES

2.1 Revolving Credit Commitments.

2.1.1. Revolving Credit Loans.

Subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, each Bank severally agrees to make Revolving Credit Loans to the Borrower at any time or from time to time on or after the date hereof to the Expiration Date provided that after giving effect to such Loan the aggregate amount of Revolving Credit Loans from such Bank shall not exceed such Bank's Revolving Credit Commitment minus such Bank's Ratable Share of the Letter of Credit Outstandings. Within such limits of time and amount and subject to the other provisions of this Agreement, the Borrower may borrow, repay and reborrow pursuant to this Section 2.1.

2.1.2. Swing Loan Commitment.

Subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, PNC Bank shall make swing loans (the "Swing Loans") to the Borrower at any time or from time to time after the date hereof to, but not including, the Expiration Date, in an aggregate principal amount up to but not in excess of the Swing Loan Commitment. The Swing Loan Commitment is a sublimit of the Revolving Credit Commitments and the aggregate principal amount of the Swing Loans, the Revolving Credit Loans and the Letter of Credit Outstandings of all the Banks at any one time outstanding shall not exceed the Revolving Credit Commitments of all the Banks. Within such limits of time and amount and subject to the other provisions of this Agreement, the Borrower may borrow, repay and reborrow pursuant to this Section 2.1.2. Swing Loans shall, at the option of PNC Bank after consultation with the Borrower, be repaid by the proceeds of a Revolving Credit Loan deemed to have been made for such purpose pursuant to Section 2.8 (Borrowings to Repay Swing Loans) and shall be subject to the provisions of Section 4.8 (Settlement Date Procedures).

2.1.3. Increase in Commitments After Closing Date.

Borrower may request at any time after the Closing Date until June 21, 2003 that a new lender join this Agreement as a "Bank" so as to increase the Commitments outstanding hereunder. The selection of such new Bank shall be subject to the Borrower's and Agent's consent, which shall not be unreasonably withheld. The new Bank shall join this Agreement as a Bank pursuant to the procedures contained in Section 10.11(b) [Additional Bank]. The amount of such increase under this Section 2.1.3 shall not exceed \$5,000,000 and the Revolving Credit Commitments shall not exceed the Dollar limit set forth in the definition thereof.

2.1.4. Voluntary Reduction of Commitment.

The Borrower shall have the right at any time after the Closing Date (i) upon five (5) days' prior written notice to the Agent to permanently reduce the Revolving Credit Commitments, in a minimum amount of \$500,000 and whole multiples of \$100,000 (provided that in no event shall the aggregate Revolving Credit Commitments be reduced to an amount less than \$220,000,000) or (ii) at any time upon prepayment in full of the Obligations, terminate completely the Commitments, without penalty or premium except as hereinafter set forth, provided that any such reduction or termination shall be accompanied by prepayment of the Notes, together with outstanding Commitment Fees, and the full amount of interest accrued on the principal sum to be prepaid (and all amounts referred to in Section 4.6.2 [Indemnity] hereof), to the extent that the aggregate amount thereof then outstanding exceeds the Commitments as so reduced or terminated. Any notice to reduce the Revolving Credit Commitments under this Section 2.1. shall be irrevocable.

2.2 Nature of Banks' Obligations with Respect to Revolving Credit Loans.

Each Bank shall be obligated to participate in each request for Revolving Credit Loans pursuant to Section 2.4 [Revolving Credit Loan Requests; Swing Loan Requests] in accordance with its Ratable Share. The aggregate of each Bank's Revolving Credit Loans outstanding hereunder to the Borrower at any time shall never exceed its Revolving Credit Commitment minus its Ratable Share of the Letter of Credit Outstandings. The obligations of each Bank hereunder are several. The failure of any Bank to perform its obligations hereunder shall not affect the obligations of the Borrower to any other party nor shall any other party be liable for the failure of such Bank to perform its

obligations hereunder. The Banks shall have no obligation to make Revolving Credit Loans hereunder on or after the Expiration Date.

2.3 Commitment Fees.

Accruing from the date hereof until the Expiration Date, the Borrower agrees to pay to the Agent for the account of each Bank, as consideration for such Bank's Revolving Credit Commitment hereunder, a nonrefundable commitment fee (the "Commitment Fee") equal to the Applicable Commitment Fee Rate (computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed) on the average daily difference between the amount of (i) such Bank's Revolving Credit Commitment as the same may be constituted from time to time and the (ii) the sum of such Bank's Revolving Credit Loans outstanding (plus, in the case of PNC Bank, its Swing Loans outstanding) plus its Ratable Share of Letter of Credit Outstandings. All Commitment Fees shall be payable in arrears on the fifteenth (15) day of each calendar quarter after the date hereof and on the Expiration Date or upon acceleration of the Obligations.

2.4 Revolving Credit Loan Requests; Swing Loan Requests.

2.4.1. Revolving Credit Loan Requests.

Except as otherwise provided herein, the Borrower may from time to time prior to the Expiration Date request the Banks to make Revolving Credit Loans, or renew or convert the Interest Rate Option applicable to existing Revolving Credit Loans or pursuant to Section 3.2 (Interest Periods), by delivering to the Agent, not later than 11:00 a.m., Eastern time, (i) three (3) Business Days prior to the proposed Borrowing Date with respect to the making of Revolving Credit Loans to which the LIBO-Rate Option applies or the conversion to or the renewal of the LIBO-Rate Option for any Loans; and (ii) on the day of either the proposed Borrowing Date with respect to the making of a Revolving Credit Loan to which the Base Rate Option applies or the last day of the preceding Interest Period with respect to the conversion to the Base Rate Option for any Loan, of a duly completed request therefor substantially in the form of Exhibit 2.4.1 or a request by telephone promptly confirmed in writing by letter or facsimile in such form (each, a "Loan Request"), it being understood that the Agent may rely on the authority of any individual making such a telephonic request without the necessity of receipt of such written confirmation. Each Loan Request shall be irrevocable and shall specify (i) the proposed Borrowing Date; (ii) the aggregate amount of the proposed Loans comprising each Borrowing Tranche, which shall be in integral multiples of \$ 500,000 and not less than \$2,500,000 for each Borrowing Tranche to which the LIBO-Rate Option applies and which shall be in integral multiples of \$100,000 and not less than \$500,000 for Borrowing Tranches to which the Base Rate Option applies; (iii) whether the LIBO-Rate Option or Base Rate Option shall apply to the proposed Loans comprising the applicable Borrowing Tranche; and (iv) in the case of a Borrowing Tranche to which the LIBO-Rate Option applies, an appropriate Interest Period for the Loans comprising such Borrowing Tranche.

2.4.2. Swing Loan Requests.

Except as otherwise provided herein, the Borrower may from time to time prior to the Expiration Date request PNC Bank to make Swing Loans by delivery to PNC Bank not later than 2:00 p.m. Eastern time on the proposed Borrowing Date of a duly completed request therefor substantially in the form of Exhibit 2.4.2 hereto or a request by telephone promptly confirmed in writing by letter or facsimile (each, a "Swing Loan Request"), it being understood that the Agent may rely on the authority of any individual making such a telephonic request without the necessity of receipt of such written confirmation. Each Swing Loan Request shall be irrevocable and shall specify the proposed Borrowing Date and the principal amount of such Swing Loan, which shall be not less than \$100,000.

2.5 Making Revolving Credit Loans and Swing Loans.

2.5.1. Generally.

The Agent shall, promptly after receipt by it of a Loan Request pursuant to Section 2.4.1 [Revolving Credit Loan Requests], but not later than 12:00 noon, notify the Banks of its receipt of such Loan Request specifying: (i) the proposed Borrowing Date and the time and method of disbursement of the Revolving Credit Loans requested thereby; (ii) the amount and type of each such Revolving Credit Loan and the applicable Interest Period (if any); and (iii) the apportionment among the Banks of such Revolving Credit Loans as determined by the Agent in accordance with Section 2.2 (Nature of Banks' Obligations with Respect to Revolving Credit Loans). Each Bank shall remit the principal amount of each Revolving Credit Loan to the Agent such that the Agent is able to, and the Agent shall, to the extent the Banks have made funds available to it for such purpose and subject to Section 6.2 (Each Additional Loan or Letter of Credit), fund such Revolving Credit Loans to the Borrower in U.S. Dollars and immediately available funds at the Principal Office prior to 2:30 p.m., Eastern time, on the applicable Borrowing Date, provided that if any Bank fails to remit such funds to the Agent in a

timely manner, the Agent may elect in its sole discretion to fund with its own funds the Revolving Credit Loans of such Bank on such Borrowing Date, and such Bank shall be subject to the repayment obligation in Section 9.16 (Availability of Funds).

2.5.2. Making Swing Loans.

Subject to the other provisions of this Agreement, PNC Bank shall, after receipt by it of a Swing Loan Request pursuant to Section 2.4.2 (Swing Loan Requests), fund such Swing Loan to the Borrower in Dollars and immediately available funds at the Principal Office as soon as reasonably practicable after receipt by PNC Bank of said Swing Loan Request but in any event by the close of business on the same Business Day.

2.6 Swing Loan Note.

The obligation of the Borrower to repay the unpaid principal amount of the Swing Loans made to it by PNC Bank together with interest thereon shall, if requested by PNC Bank, be evidenced by the Swing Loan Note dated the Closing Date payable to the order of PNC Bank in a face amount equal to the Swing Loan Commitment.

2.7 Use of Proceeds.

The proceeds of the Revolving Credit Loans shall be used to refinance existing indebtedness and provide for Letters of Credit and provide working capital and funds for general corporate purpose for the Borrower, Hovnanian and the Restricted Subsidiaries, all in accordance with Section 7.1.10 (Use of Proceeds).

2.8 Borrowings to Repay Swing Loans.

PNC Bank may, at its option, and upon consultation with the Borrower, exercisable at any time for any reason whatsoever, demand that each Bank shall make a Revolving Credit Loan in an amount equal to such Bank's Ratable Share of the aggregate principal amount of the outstanding Swing Loans made in accordance with Section 2.5.2 (Making Swing Loans), plus, if PNC Bank so requests, accrued interest thereon, provided that no Bank shall be obligated in any event to make Revolving Credit Loans in excess of its Revolving Credit Commitment. Revolving Credit Loans made pursuant to the preceding sentence shall bear interest at the Base Rate Option and shall be deemed to have been properly requested in accordance with Section 2.4.1 (Revolving Credit Loan Requests) without regard to any of the requirements of that provision. PNC Bank shall provide notice to the Banks (which may be telephonic or written notice by letter, facsimile or telex) that such Revolving Credit Loans are to be made under this Section 2.8 and of the apportionment among the Banks, and the Banks shall be unconditionally obligated to fund such Revolving Credit Loans (whether or not the conditions specified in Section 2.4.1 (Revolving Credit Loan Requests) or Section 6.2 (Each Additional Loan or Letter of Credit) are then satisfied) by the time PNC Bank so requests, which shall not be earlier than three o'clock (3:00) p.m. Eastern time on the Business Day next after the date the Banks receive such notice from PNC Bank.

2.9 Letter of Credit Subfacility.

2.9.1. Issuance of Letters of Credit.

The Borrower may request the issuance of a letter of credit (each a "Letter of Credit") on behalf of itself or another Loan Party by the Agent or any Bank which issues a Letter of Credit hereunder (such Bank, with respect to the issuance of the Letter of Credit so requested by the Borrower, being a "Letter of Credit Bank") by delivering to the Agent and the Letter of Credit Bank a completed application and agreement for letters of credit in such form as the Letter of Credit Bank and the Agent may specify from time to time by no later than 10:00 a.m., Eastern time, at least three (3) Business Days, or such shorter period as may be agreed to by the Letter of Credit Bank, in advance of the proposed date of issuance. Each letter of credit issued hereunder, including those issued under the terms of the Original Credit Agreement and those issued or existing pursuant to the Second Amended and Restated Credit Agreement dated as of February 22, 2000 and thereafter made "Letters of Credit" under the terms of the Original Credit Agreement, is described on Schedule 2.9.1 and shall be deemed to be a "Letter of Credit" hereunder as of the Closing Date. Subject to the terms and conditions hereof and in reliance on the agreements of the other Banks set forth in this Section 2.9, the Letter of Credit Bank will issue a Letter of Credit provided that each Letter of Credit shall in no event expire later than one (1) Business Day prior to the Expiration Date and providing that in no event shall the Letter of Credit Outstanding exceed, at any one time, \$125,000,000.

2.9.2. Letter of Credit Fees.

The Borrower shall pay (i) to the Agent for the ratable account of the Banks a fee (the "Letter of Credit Fee") equal to the Applicable Letter of Credit Fee Rate (computed on the daily average Letter of Credit Outstandings) and (ii) to the Agent on behalf of each respective Letter of Credit Bank for its own account a fronting fee for Letters of Credit issued by such Letter of Credit Bank equal to .125% per annum (computed on the basis of

a year of 365 or 366 days, as the case may be, and actual days elapsed) and shall be payable quarterly in arrears commencing with the fifteenth (15) day of each calendar quarter following issuance of each Letter of Credit and on the Expiration Date. The Borrower shall also pay to the Letter of Credit Bank for the Letter of Credit Bank's sole account the Letter of Credit Bank's then in effect customary fees and administrative expenses payable with respect to the Letters of Credit as the Letter of Credit Bank may generally charge or incur from time to time in connection with the issuance, maintenance, modification (if any), assignment or transfer (if any), negotiation, and administration of Letters of Credit.

2.9.3. Disbursements, Reimbursement.

2.9.3.1 Immediately upon the issuance of each Letter of Credit, each Bank shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Letter of Credit Bank a participation in such Letter of Credit and each drawing thereunder in an amount equal to such Bank's Ratable Share of the maximum amount available to be drawn under such Letter of Credit and the amount of such drawing, respectively.

2.9.3.2 In the event of any request for a drawing on or before 11:00 a.m. under a Letter of Credit by the beneficiary or transferee thereof, the Letter of Credit Bank shall promptly notify the Agent upon such request. Provided that it shall have received such notice, the Agent will promptly notify the Borrower and each Bank thereof, and the Borrower shall be deemed to have requested that Revolving Credit Loans be made by the Banks in an amount equal to the amount so paid by the Letter of Credit Bank under the Base Rate Option to be disbursed on the Drawing Date under such Letter of Credit, subject to the amount of the unutilized portion of the Revolving Credit Commitment and not subject to the conditions set forth in Section 6.2 (Each Additional Loan or Letter of Credit). Any notice given by the Letter of Credit Bank or the Agent pursuant to this Section 2.9.3.2 may be oral if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

2.9.3.3 Each Bank shall upon any notice pursuant to Section 2.9.3.2 (Disbursements, Reimbursement) make available to the Agent on behalf of the Letter of Credit Bank an amount in immediately available funds equal to its Ratable Share of the amount of the drawing, whereupon the participating Banks shall (subject to Section 2.9.3.4 (Disbursements, Reimbursement)) each be deemed to have made a Revolving Credit Loan under the Base Rate Option to the Borrower in that amount. If any Bank so notified fails to make available to the Agent for the account of the Agent on behalf of the Letter of Credit Bank the amount of such Bank's Ratable Share of such amount by no later than two o'clock (2:00) p.m., Eastern time on the Drawing Date, then interest shall accrue on such Bank's obligation to make such payment from the Drawing Date to the date on which such Bank makes such payment (i) at a rate per annum equal to the Federal Funds Effective Rate during the first three days following the Drawing Date and (ii) at a rate per annum equal to the rate applicable to Loans under the Revolving Credit Base Rate Option on and after the fourth day following the Drawing Date. The Agent will promptly give notice of the occurrence of the Drawing Date, but failure of the Agent to give any such notice on the Drawing Date or in sufficient time to enable any Bank to effect such payment on such date shall not relieve such Bank from its obligation under this Section 2.9.3.3.

2.9.3.4 With respect to any unreimbursed drawing that is not converted into Revolving Credit Loans under the Base Rate Option to the Borrower in whole or in part as contemplated by Section 2.9.3.2 (Disbursements, Reimbursement), the Borrower shall be deemed to have incurred from the Agent a borrowing (each a "Letter of Credit Borrowing") in the amount of such drawing. Such Letter of Credit Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the rate per annum applicable to the Revolving Credit Loans under the Base Rate Option. Each Bank's payment to the Agent pursuant to Section 2.9.3.3 (Disbursements, Reimbursement) shall be deemed to be a payment in respect of its participation in such Letter of Credit Borrowing and shall constitute a "Participation Advance" from such Bank in satisfaction of its participation obligation under Section 2.9.3 (Disbursements, Reimbursement).

2.9.4. Repayment of Participation Advances.

2.9.4.1 Upon (and only upon) receipt by the Agent on behalf of the Letter of Credit Bank of immediately available funds from the Borrower (i) in reimbursement of any payment made by the on behalf of the Letter of Credit Bank under the Letter of Credit with respect to which any Bank has made a Participation Advance to the Agent on behalf of the Letter of Credit Bank or (ii) in payment of interest on such a payment made by the Agent under such a Letter of Credit, the Agent will pay to

each Bank, in the same funds as those received by the Agent, the amount of such Bank's Ratable Share of such funds, except the Agent shall retain the amount of the Ratable Share of such funds of any Bank that did not make a Participation Advance in respect of such payment by Agent. If the Letter of Credit Bank receives any such payment prior to 1:00 p.m. on a Business Day and does not make payment to any such Bank which has made such a Participation Advance on the same Business Day, then such Bank shall be entitled to receive such Letter of Credit Bank interest at the Federal Funds Effective Rate for each day until such payment is made to such Bank.

2.9.4.2 If the Agent or the Letter of Credit Bank is required at any time to return to any Loan Party, or to a trustee, receiver, liquidator, custodian, or any official in any Insolvency Proceeding, any portion of the payments made by any Loan Party pursuant to Section 2.9.4.1 (Repayment of Participation Advances) in reimbursement of a payment made under the Letter of Credit or interest or fee thereon, each Bank shall, on demand of the Agent on behalf of the Letter of Credit Bank, forthwith return to the Agent the amount of its Ratable Share of any amounts so returned by the Agent or such Letter of Credit Bank plus interest thereon from the date such demand is made to the date such amounts are returned by such Bank to the Agent, at a rate per annum equal to the Federal Funds Effective Rate in effect from time to time.

2.9.5. Documentation.

Each Loan Party agrees to be bound by the terms of the Letter of Credit Bank's application and agreement for letters of credit and the Letter of Credit Bank's written regulations and customary practices relating to letters of credit, though such interpretation may be different from such Loan Party's own. In the event of a conflict between such application or agreement and this Agreement, this Agreement shall govern. It is understood and agreed that, except in the case of gross negligence or willful misconduct, the Letter of Credit Bank shall not be liable for any error, negligence and/or mistakes, whether of omission or commission, in following any Loan Party's instructions or those contained in the Letters of Credit or any modifications, amendments or supplements thereto.

2.9.6. Determinations to Honor Drawing Requests.

In determining whether to honor any request for drawing under any Letter of Credit by the beneficiary thereof, the Letter of Credit Bank shall be responsible only to determine that the documents and certificates required to be delivered under such Letter of Credit have been delivered and that they comply on their face with the requirements of such Letter of Credit.

2.9.7. Nature of Participation and Reimbursement Obligations.

Each Bank's obligation in accordance with this Agreement to make the Revolving Credit Loans or Participation Advances, as contemplated by Section 2.9.3 (Disbursements, Reimbursement), as a result of a drawing under a Letter of Credit, and the obligations of the Borrower to reimburse the Agent upon a draw under a Letter of Credit, shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Section 2.9 (Letter of Credit Subfacility) under all circumstances, including the following circumstances:

- (i) any set-off, counterclaim, recoupment, defense or other right which such Bank may have against the Agent, any Loan Party or any other Person for any reason whatsoever;
- (ii) the failure of any Loan Party or any other Person to comply, in connection with a Letter of Credit Borrowing, with the conditions set forth in Section 2.1 (Revolving Credit Commitments), 2.4 (Revolving Credit Loan Requests; Swing Loan Requests), 2.4.2 (Swing Loan Requests) or 6.2 (Each Additional Loan or Letter of Credit), if applicable, or as otherwise set forth in this Agreement for the making of a Revolving Credit Loan, it being acknowledged that such conditions are not required for the making of a Letter of Credit Borrowing and the obligation of the Banks to make Participation Advances under Section 2.9.3 (Disbursements, Reimbursement);
- (iii) any lack of validity or enforceability of any Letter of Credit;
- (iv) the existence of any claim, set-off, defense or other right which any Loan Party or any Bank may have at any time against a beneficiary or any transferee of any Letter of Credit (or any Persons for whom any such transferee may be acting), the Agent, the Letter of Credit Bank or any Bank or any other Person or, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between any Loan Party or Subsidiaries of a Loan Party and the beneficiary for which any Letter of Credit was procured);
- (v) any draft, demand, certificate or other document presented under any 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 even if the Letter of Credit Bank has been notified thereof;

(vi) payment by the Letter of Credit Bank under any Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit;

(vii) any adverse change in the business, operations, properties, assets, condition (financial or otherwise) or prospects of any Loan Party or Subsidiaries of a Loan Party;

(viii) any breach of this Agreement or any other Loan Document by any party thereto;

(ix) the occurrence or continuance of an Insolvency Proceeding with respect to any Loan Party;

(x) the fact that an Event of Default or a Potential Default shall have occurred and be continuing;

(xi) the fact that the Expiration Date shall have passed or this Agreement or the Commitments hereunder shall have been terminated; and

(xii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

2.9.8. Indemnity.

In addition to amounts payable as provided in Section 9.5 (Reimbursement and Indemnification of Agent by the Borrower), the Borrower hereby agrees to protect, indemnify, pay and save harmless the Agent and any Letter of Credit Bank from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable fees, expenses and disbursements of counsel and allocated costs of internal counsel) which the Agent or any Letter of Credit Bank may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit, other than as a result of (A) the gross negligence or willful misconduct of the Agent or any Letter of Credit Bank as determined by a final judgment of a court of competent jurisdiction or (B) the wrongful dishonor by the Letter of Credit Bank of a proper demand for payment made under any Letter of Credit, except if such dishonor resulted from any act or omission, whether rightful or wrongful, of any present or future de jure or de facto government or governmental authority (all such acts or omissions herein called "Governmental Acts").

2.9.9. Liability for Acts and Omissions.

As between any Loan Party and the Agent or any Letter of Credit Bank, such Loan Party assumes all risks of the acts and omissions of, or misuse of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the foregoing, neither the Agent nor any Letter of Credit Bank shall not be responsible for:

(i) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for an issuance of any such Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged (even if the Agent or any Letter of Credit Bank shall have been notified thereof);

(ii) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any such Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) the failure of the beneficiary of any such Letter of Credit, or any other party to which such Letter of Credit may be transferred, to comply fully with any conditions required in order to draw upon such Letter of Credit or any other claim of any Loan Party against any beneficiary of such Letter of Credit, or any such transferee, or any dispute between or among any Loan Party and any beneficiary of any Letter of Credit or any such transferee; (iv) errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (v) errors in interpretation of technical terms; (vi) any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such Letter of Credit or of the proceeds thereof; (vii) the misapplication by the beneficiary of any such Letter of Credit of the proceeds of any drawing under such Letter of Credit; or (viii) any consequences arising from causes beyond the control of the Agent or Letter of Credit Bank, including any Governmental Acts, and none of the above shall affect or impair, or prevent the vesting of, any of the Agent's or any Letter of Credit Bank's rights or powers hereunder. Nothing in the preceding sentence shall relieve the Agent or any Letter of Credit Bank from liability for the Agent's or any Letter of Credit Bank's gross negligence or willful misconduct in connection with actions or omissions described in such clauses (i) through (viii) of such sentence.

In furtherance and extension and not in limitation of the specific provisions set forth above, any action taken or omitted by the Agent or any Letter of Credit Bank under

or in connection with the Letters of Credit issued by it or any documents and certificates delivered thereunder, if taken or omitted in good faith, shall not put the Agent or any Letter of Credit Bank under any resulting liability to any Loan Party or any Bank.

2.9.10. Sharing Letter of Credit Documentation.

Each Letter of Credit Bank shall furnish to the Agent copies of any letter of credit application and related documentation to which such Letter of Credit Bank and a Loan Party are parties and promptly after issuance, a copy of any Letter of Credit or amendment to any Letter of Credit issued by such Bank.

2.10 Extension by Banks of the Expiration Date.

2.10.1. Requests; Approval by All Banks.

After delivery by the Borrower of the annual financial statements to be provided under Section 7.3.2 (Annual Financial Statements) for the fiscal year ending October 30, 2002 or any subsequent fiscal year, the Borrower may request a one-year extension of the Expiration Date by written notice to the Banks made by May 30, and the Banks agree to respond to the Borrower's request for an extension no later than thirty (30) days following receipt of the request; provided, however, that the failure of any Bank to respond within such time period shall not in any manner constitute an agreement by such Bank to extend the Expiration Date. If all Banks elect to extend, the Expiration Date shall be extended for a period of one year. If one or more Banks decline to extend or do not respond to Borrower's request, the provisions of Section 2.10.2 (Approval by 80% Banks) shall apply.

2.10.2. Approval by 80% Banks.

In the event that one or more Banks do not agree to extend the Expiration Date or do not respond to Borrower's request for an extension within the time required under Section 2.10.1 (Requests; Approval by All Banks) (each a "Non-approving Bank"), but 80% of the Banks (measured by their Ratable Shares and not per capita) agree to such extension within such time (each such agreeing Bank being an "Extending Bank"), then the Borrower may, at the Borrower's option, on or before July 31 of each year notify the Agent and the Banks that the Borrower intends to employ one or more of the following three (3) options: (i) cause the Commitment of each Non-approving Bank to be terminated (after which time such Non-approving Bank shall cease to be a "Bank" hereunder) and cause the aggregate Commitments to be reduced by the amount of such terminated Commitments, or (ii) require the Non-approving Banks to sell, and allow (upon prior notice to the Agent) the Extending Banks which have agreed to such extension within the time required under Section 2.11.1 [Requests; Approval by All Banks] or any financial institution approved by the Agent and (absent an Event of Default) the Borrower (each such Person referred to in this clause (ii) being an "Assignee Bank") to purchase all of the outstanding Loans if any, of the Non-approving Banks and succeed to and assume the Commitments and all other rights, interests and obligations of the Non-approving Banks under this Agreement and the other Loan Documents, or (iii) require the Non-approving Bank to remain a Bank and require it to maintain its Commitment and retain for such Non-approving Bank's Commitment the "Expiration Date" established prior to the extension referred to in this Section 2.10.2, all subject to the other provisions of this Agreement. Any such purchase and assumption pursuant to clause (ii) above shall be (1)pursuant to an Assignment and Assumption Agreement and (2)subject to and in accordance with Section 10.11 (Successors and Assigns). The Borrower shall pay all amounts due and payable to the Non-approving Bank on the effective date of such Assignment and Assumption Agreement. In the event that the Agent shall become a Non-approving Bank, the provisions of this Section 2.10 (Extension by Banks of the Expiration Date) shall be subject to Section 9.14 (Successor Agent). In the event that the Borrower has selected the option described in clause (ii) above and if the Loans and Commitments of a Non-approving Bank are, nevertheless, not fully assigned and assumed pursuant to this Section 2.10.2, or terminated or retained pursuant to clause (i) or clause (iii)above, as applicable, on or before August 31 of such year, then the Expiration Date shall not be extended for any Bank. Nothing in this Section 2.10.2 shall expand the options provided in Section 4.4.2 (Replacement of a Bank).

2.11 Designation of Subsidiaries and Release of Guarantors.

2.11.1. Release of Guarantors.

At any time when the Borrower wishes to cause the Banks to release a Guarantor from its obligations under the Guaranty Agreement (whether directly or in connection with the designation of a Restricted Subsidiary as a Non-Restricted Person), the consent of the Banks shall be required as described below and shall be subject to the other provisions of this Section 2.11.

(a) For the release of any Guarantor (i)

whose assets are principally comprised of residential or commercial property which is leased or held for the purposes of leasing to unaffiliated third parties or (ii) in which any Loan Party (or Loan Parties in the aggregate) has, at the time of such release, a Subsidiary Investment less than \$100,000, no consent of the Banks shall be required and such request of the Borrower shall be granted absent an Event of Default or Potential Default, effective on the date specified by the Borrower which shall not be earlier than five (5) Business Days after the receipt by the Agent of such request;

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

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

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

2.11.2. Designation of Non-Restricted Person.

The Borrower may, by written notice delivered to the Agent, designate as a Non-Restricted Person a Subsidiary formerly designated a Restricted Subsidiary or a newly formed or acquired Subsidiary, subject to: (i) the provisions of subsection 2.11.1 hereof in relation to Guaranties, (ii) the requirements of Section 7 (Covenants) and in particular Section 7.2.10 (Borrowing Base); and (iii) the requirement that such designation not cause an Event of Default or Potential Default. Such designation shall be effective on the date specified by the Borrower which shall not be earlier than five (5) Business Days after the receipt by the Agent of such notice.

2.11.3. Automatic Designation of Non-Restricted Person.

Upon the occurrence of any event described in Section 8.1.10 (Insolvency), Section 8.1.14 (Involuntary Proceedings), Section 8.1.15 [Voluntary Proceedings], or the winding-up or termination of business, with respect to any Restricted Subsidiary, such Subsidiary shall automatically become a Non-Restricted Person. Such designation as a Non-Restricted Person shall, with respect such Person's obligations under the Guaranty Agreement, if any, be subject to the requirements of Section 2.11.1 (Release of Guarantors). The release of any Subsidiary which is a Guarantor from its obligations under the Guaranty Agreement pursuant to Section 2.11.1 (Release of Guarantors) shall automatically cause such Subsidiary to be a Non-Restricted Person.

2.11.4. Designation of Restricted Subsidiary.

The Borrower may by written notice delivered to the Agent designate as a Restricted Subsidiary a Subsidiary formerly designated a Non-Restricted Person or a newly formed or acquired Subsidiary. Such designation is subject to (i) compliance with Section 10.18 (Joinder of Guarantors); (ii) the requirements of Section 7 (Covenants) and in particular Section 7.2.10 [Borrowing Base]; and (iii) the requirement that such designation not cause an Event of Default or Potential Default. Such designation shall be effective on the date specified by the Borrower which shall not be earlier than five (5) Business Days after the receipt by the Agent of such notice.

3. INTEREST RATES

3.1 Interest Rate Options.

The Borrower shall pay interest in respect of the outstanding unpaid principal amount of the Loans as selected by it from the Base Rate Option or LIBO-Rate Option set forth below applicable to the Loans, it being understood that, subject to the provisions of this Agreement, the Borrower may select different Interest Rate Options and different Interest Periods to apply simultaneously to the Loans comprising different Borrowing Tranches and may convert to or renew one or more Interest Rate Options with respect to all or any portion of the Loans comprising any Borrowing Tranche, provided that there shall not be at any one time outstanding more than ten (10) Borrowing Tranches in the aggregate among all of the Loans, and provided further that only the Base Rate Option shall apply to the Swing Loans. If at any time the designated rate applicable to any Loan made by any Bank exceeds such Bank's highest lawful rate, the rate of interest on such Bank's Loan shall be limited to such Bank's highest lawful rate.

3.1.1. Revolving Credit Interest Rate Options.

The Borrower shall have the right to select from the following Interest Rate Options applicable to the Revolving Credit Loans (subject to the provisions above regarding Swing Loans):

(i) Revolving Credit Base Rate

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

(ii) Revolving Credit LIBO-Rate

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

3.1.2. Rate Quotations.

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

3.2 Interest Periods.

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

3.3 Interest After Default.

3.3.1. Default Rate.

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

3.3.2. Acknowledgment.

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

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

3.4.1. Unascertainable.

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

- (i) adequate and reasonable means do not exist for ascertaining such LIBO-Rate, or
- (ii) a contingency has occurred

which materially and adversely affects the London interbank eurodollar market relating to the LIBO-Rate, the Agent shall have the rights specified in Section 3.4.3 (Agent's and Bank's Rights).

3.4.2. Illegality; Increased Costs; Deposits Not Available.

If at any time any Bank shall have determined that:

- (i) the making, maintenance or funding of any Loan to which a LIBO-Rate Option applies has been made impracticable or unlawful by compliance by such Bank in good faith with any Law or any interpretation or application thereof by any Official Body or with any request or directive of any such Official Body (whether or not having the force of Law), or
- (ii) such LIBO-Rate Option will not adequately and fairly reflect the cost to such Bank of the establishment or maintenance of any such Loan, or
- (iii) after making all reasonable efforts, deposits of the relevant amount in Dollars for the relevant Interest Period for a Loan, or to banks generally, to which a LIBO-Rate Option applies, respectively, are not available to such Bank with respect to such Loan, or to banks generally, in the interbank eurodollar market, then the Agent shall have the rights specified in Section 3.4.3 (Agent's and Bank's Rights).

3.4.3. Agent's and Bank's Rights.

In the case of any event specified in Section 3.4.1 (Unascertainable) above, the Agent shall promptly so notify the Banks and the Borrower thereof, and in the case of an event specified in Section 3.4.2 (Illegality; Increased Costs; Deposits Not Available) above, such Bank shall promptly so notify the Agent

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

3.5 Selection of Interest Rate Options.

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

4. PAYMENTS

4.1 Payments.

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

4.2 Pro Rata Treatment of Banks.

Each borrowing shall be allocated to each Bank according to its Ratable Share, and each selection of, conversion to or renewal of any Interest Rate Option and each payment or prepayment by the Borrower with respect to principal, interest, Commitment Fees, Letter of Credit Fees, or other fees (except for the Agent's Fee) or amounts due from the Borrower hereunder to the Banks with respect to the Loans, shall (except as provided in Section 3.4.3 (Agent's and Bank's Rights) in the case of an event specified in Sections 3.4 (LIBO-Rate Unascertainable; Illegality, Increased Costs, Deposits Not Available), 4.4.2 (Replacement of a Bank) or 4.6 (Additional Compensation in Certain Circumstances)) be made in proportion to the applicable Loans outstanding from each Bank and, if no such Loans are then outstanding, in proportion to the Ratable Share of each Bank. Notwithstanding any of the foregoing, each borrowing or payment or prepayment by the Borrower of principal, interest, fees or other amounts from the Borrower with respect to Swing Loans shall be made by or to PNC Bank according to Section 2 (Revolving Credit and Swing Loan Facilities).

4.3 Interest Payment Dates.

Interest on Loans to which the Base Rate Option applies shall be due and payable in arrears on the first Business Day of each calendar month after the date hereof and on the Expiration Date or upon acceleration of the Loan. Interest on Loans to which the LIBO-Rate Option applies shall be due and payable on the last day of each Interest Period for those Loans and, if such Interest Period is longer than three (3) Months, also on the 90th day of such Interest Period. Interest on mandatory prepayments of principal under Section 4.5 (Mandatory Payments) shall be due on the date such mandatory prepayment is due. Interest on the principal amount of each Loan or other monetary Obligation shall be due and payable on demand after such principal amount or other monetary Obligation becomes due and payable (whether on the stated maturity date, upon acceleration or otherwise).

4.4 Voluntary Prepayments.

4.4.1. Right to Prepay.

The Borrower shall have the right at its option at any time and from time to time to prepay the Loans in whole or part without premium or penalty (except as provided in Section 4.4.2 (Replacement of a Bank) below or in Section 4.6 (Additional Compensation in Certain Circumstances)). Whenever the Borrower desires to prepay any part of the Loans, it shall provide a prepayment notice to the Agent no later than (A) 11:00 a.m., Eastern time, at least two (2) Business Days prior to the date of prepayment of the Revolving Credit Loans to which the LIBO-Rate Option applies, (B) 11:00 a.m., Eastern time, on the date of prepayment of Revolving Credit Loans to which the Base Rate Option applies or (C) 2:00 p.m., Eastern time, on the date of prepayment of Swing Loans, setting forth the following information:

- (x) the date, which shall be a Business Day, on which the proposed prepayment is to be made;
- (y) a statement indicating the application of the prepayment between the Swing Loans and the Revolving Credit Loans; and
- (z) the total principal amount of such prepayment, which shall not be less than (i) \$100,000 and in increments of \$100,000 for any Swing Loans, (ii) \$500,000 and in increments of \$100,000 for any Revolving Credit Loan to which the Base Rate Option applies or (iii) \$2,500,000 and in increments of \$500,000 for any Revolving Credit Loan to which the LIBO-Rate Option applies.

All prepayment notices shall be irrevocable.

The principal amount of the Loans for which a prepayment notice is given, together with interest on such principal amount except with respect to Loans to which the Base Rate Option applies, shall be due and payable on the date specified in such prepayment notice as the date on which the proposed prepayment is to be made. Except as provided in Section 3.4.3 (Agent's and Bank's Rights), if the Borrower prepays a Loan but fails to specify the applicable Borrowing Tranche which the Borrower is prepaying, the prepayment shall be applied first to Swing Loans, then to Loans to which the Base Rate Option applies, and then to Loans to which the LIBO-Rate Option applies. Any prepayment hereunder shall be subject to the Borrower's Obligation to indemnify the Banks under Section 4.6.2 (Indemnity).

4.4.2. Replacement of a Bank.

In the event any Bank (i) gives notice under Section 3.4 (LIBO-Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available) or Section 4.6.1 (Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.), (ii) does not fund Revolving Credit Loans because the making of such Loans would contravene any Law applicable to such Bank, or (iii) becomes subject to the control of an Official Body (other than normal and customary supervision), then the Borrower shall have the right at its option, with the consent of the Agent, which shall not be unreasonably withheld, to prepay the Loans of such Bank in whole, together with all interest accrued thereon, and terminate such Bank's Commitment within ninety (90) days after (x) receipt of such Bank's notice under Section 3.4 (LIBO-Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available) or 4.6.1 (Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.), (y) the date such Bank has failed to fund Revolving Credit Loans because the making of such Loans would contravene Law applicable to such Bank, or (z) the date such Bank became subject to the control of an Official Body, as applicable; provided that the Borrower shall also pay to such Bank at the time of such prepayment any amounts required under Section 4.6 (Additional Compensation in Certain Circumstances) and any accrued interest due on such amount and any related fees; provided, further, the remaining Banks shall have no obligation hereunder to increase their Commitments. Notwithstanding the foregoing, the Agent may only be replaced subject to the requirements of Section

9.14 (Successor Agent).

4.4.3. Change of Lending Office.

Each Bank agrees that upon the occurrence of any event giving rise to increased costs or other special payments under Section 3.4.2 (Illegality; Increased Costs; Deposits Not Available) or 4.6.1 (Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.) with respect to such Bank, it will if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of such Bank) to designate another lending office for any Loans or Letters of Credit affected by such event, provided that such designation is made on such terms that such Bank and its lending office suffer no economic, legal or regulatory disadvantage, with the object of avoiding the consequence of the event giving rise to the operation of such Section. Nothing in this Section 4.4.3 (Change of Lending Office) shall affect or postpone any of the Obligations of the Borrower or any other Loan Party or the rights of the Agent or any Bank provided in this Agreement.

4.5 Mandatory Payments.

The Borrower shall make mandatory payments of principal (together with accrued interest thereon) to the Agent to the extent by which Revolving Facility Usage exceeds at any time the Commitments (as they may be reduced pursuant to Section 2.1. (Voluntary Reduction of Commitment), Section 2.11.2 (Approval by 80% Banks) or otherwise) within three (3) Business Days after such excess is calculated.

4.6 Additional Compensation in Certain Circumstances.

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

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

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

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

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

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

4.6.2. Indemnity.

In addition to the compensation required by Section 4.6.1 (Increased Costs or Reduced Return Resulting from Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc.), the Borrower shall indemnify each Bank against all liabilities, losses or expenses (including actual loss of margin, any loss or expense incurred in liquidating or employing deposits from third parties and any loss or expense incurred in connection with funds acquired by a Bank to fund or maintain Loans subject to a LIBO-Rate Option) which such Bank sustains or incurs as a consequence of any:

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

or prepayment is then due),
(ii) attempt by the Borrower to revoke (expressly, by later inconsistent notices or otherwise) in whole or part any Loan Requests under Section 2.4 (Revolving Credit Loan Requests; Swing Loan Requests) or Section 3.2 (Interest Periods) or notice relating to prepayments under Section 4.4 (Voluntary Prepayments), or
(iii) default by the Borrower in the performance or observance of any covenant or condition contained in this Agreement or any other Loan Document, including any failure of the Borrower to pay when due (by acceleration or otherwise) any principal, interest, Commitment Fee, Letter of Credit Fees, or any other amount due hereunder.

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

4.7 Notes.

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

4.8 Settlement Date Procedures.

The Borrower may borrow, repay and reborrow Swing Loans and PNC Bank may make Swing Loans as provided in Section 2.1.2 (Swing Loan Commitment) hereof. On any Business Day, the Agent may notify each Bank of its Ratable Share of the total of the Revolving Credit Loans and the Swing Loans (each a "Required Share"). Prior to 2:30 p.m., Eastern time, on the date following the date of such notice, each Bank shall pay to the Agent the amount equal to the difference between its Required Share and its Revolving Credit Loans, and the Agent shall pay to each Bank its Ratable Share of all payments made by the Borrower to the Agent with respect to the Revolving Credit Loans. The Agent shall also effect settlement in accordance with the foregoing sentence on the proposed Borrowing Dates for Revolving Credit Loans and on any date when payments of principal of any Loan is required to be paid by any Loan Party hereunder and may at its option, and in consultation with the Borrower, effect settlement on any other Business Day. These settlement procedures are established solely as a matter of administrative convenience, and nothing contained in this Section 4.8 shall relieve the Banks of their obligations to fund Revolving Credit Loans on dates other than a Settlement Date pursuant to Section 2.8 (Borrowings to Repay Swing Loans). The Agent may at any time at its option for any reason whatsoever require each Bank to pay immediately to the Agent such Bank's Ratable Share of the outstanding Revolving Credit Loans and each Bank may at any time require the Agent to pay immediately to such Bank its Ratable Share of all payments made by the Borrower to the Agent with respect to the Revolving Credit Loans.

5. REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties.

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

5.1.1. Organization and Qualification.

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

5.1.2. Subsidiaries.

As of the Closing Date, Schedule 5.1.2 states the name of each of Hovnanian's Subsidiaries and its jurisdiction of incorporation. Hovnanian and each Loan Party has good and marketable title to all of the Subsidiary Shares, Partnership Interests and LLC Interests it purports to own, free and clear in each case of any Lien. All Subsidiary Shares, Partnership Interests and LLC Interests have been validly issued, and all Subsidiary Shares are fully paid and nonassessable. All capital contributions and other consideration required to be made or paid in connection with the issuance of the Partnership Interests and LLC Interests have been made or paid, as the case may be. Schedule 5.1.2 also sets forth, as to each of Hovnanian's

Subsidiaries, the percentage ownership of each owner of: the issued and outstanding shares (referred to herein as the "Subsidiary Shares") if such Subsidiary is a corporation, its outstanding partnership interests (the "Partnership Interests") if such Subsidiary is a partnership and its outstanding limited liability company interests (the "LLC Interests") if such Subsidiary is a limited liability company. Schedule 5.1.2 also footnote the controlling interests of each Subsidiary if such controlling interest is held by a Person other than Hovnanian or a Subsidiary of Hovnanian.

5.1.3. Power and Authority.

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

5.1.4. Validity and Binding Effect.

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

5.1.5. No Conflict.

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

5.1.6. Litigation.

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

5.1.7. Title to Properties.

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

5.1.8. Financial Statements.

(i) Historical Statements. The Borrower has delivered to the Agent copies of Hovnanian's audited consolidated year-end financial statements for and as of the end of the fiscal year ended October 31, 2001 (the "Annual Statements"). In addition, the Borrower has delivered to the Agent copies of Hovnanian's unaudited consolidated interim financial statements for the fiscal year to date and as of the end of the fiscal quarter ended January 31, 2002 (the "Interim Statements") (the Annual and Interim Statements being collectively referred to as the "Historical Statements"). The Historical Statements were compiled from the books and records maintained by Hovnanian's management, are correct and complete and fairly represent the consolidated financial condition of Hovnanian and its Subsidiaries as of their dates and the results of operations for the fiscal periods then ended and have been prepared in accordance with GAAP consistently applied, subject (in the case of

the Interim Statements) to normal year-end audit adjustments.

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

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

5.1.9. Use of Proceeds; Margin Stock.

5.1.9.1 General.

The Loan Parties intend to use the proceeds of the Loans in accordance with Sections 2.7 (Use of Proceeds) and 7.1.10 (Use of Proceeds).

5.1.9.2 Margin Stock.

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

5.1.10. Full Disclosure.

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

5.1.11. Taxes.

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

5.1.12. Consents and Approvals.

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

5.1.13. No Event of Default; Compliance with Instruments.

No event has occurred and is continuing and no

condition exists or will exist after giving effect to the borrowings or other extensions of credit to be made on the Closing Date under or pursuant to the Loan Documents which constitutes an Event of Default or Potential Default. None of the Loan Parties is in violation of (i) any term of its certificate of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation, limited liability company agreement or other organizational documents or (ii) any material agreement or instrument to which it is a party or by which it or any of its properties may be subject or bound where such violation would constitute a Material Adverse Change.

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

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

5.1.15. Insurance.

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

5.1.16. Compliance with Laws.

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

5.1.17. Burdensome Restrictions.

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

5.1.18. Investment Companies; Regulated Entities.

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

5.1.19. Plans and Benefit Arrangements.

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

(ii) Except where the liability that could reasonably be expected to result therefrom would not, individually or in the aggregate, result in a Material Adverse Change, no event requiring notice to the PBGC under Section 302(f)(4)(A) of ERISA has occurred or is reasonably expected to occur with respect to any Plan, and no amendment with respect to which security is required under Section 307 of ERISA has been made or is reasonably expected to be made to any Plan.

(iii) Except where the liability that could reasonably be expected to result therefrom would not, individually or in the aggregate, result in a Material Adverse Change, neither the Loan Parties nor any other member of the ERISA Group has incurred or reasonably expects to incur any material withdrawal liability under Section 4201 of ERISA to any Multiemployer Plan or under Section 4063 or 4064 of ERISA to any Plan;. Neither the Loan Parties nor any other member of the ERISA

Group has been notified by any Multiemployer Plan or Plan that such Multiemployer Plan or Plan has been terminated within the meaning of Sections 4041 A or 4064, respectively, of ERISA and, to the best knowledge of the Borrower, no Multiemployer Plan is reasonably expected to be reorganized or terminated, within the meaning of Title IV of ERISA.

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

5.1.20. Employment Matters.

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

5.1.21. Environmental Matters.

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

5.1.22. Senior Debt Status.

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

5.2 Continuation of Representations.

The Borrower and Hovnanian make the representations and warranties in this Section 5 on the date hereof and on the Closing Date and each date thereafter on which a Loan is made or a Letter of Credit is issued as provided in and subject to Sections 6.1 (First Loans and Letters of Credit) and 6.2 (Each Additional Loan or Letter of Credit).

6. CONDITIONS OF LENDING AND ISSUANCE OF LETTERS OF CREDIT

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

6.1 First Loans and Letters of Credit.

On the Closing Date:

6.1.1. Officer's Certificate.

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

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

6.1.2. Incumbency Certificate.

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

- (i) all action taken by each Loan Party in connection with this Agreement and the other Loan Documents;
- (ii) the names of the officer or officers authorized to sign this Agreement and the other Loan Documents and the true signatures of such officer or officers and specifying the Authorized Officers permitted to act on behalf of each Loan Party for purposes of this Agreement and the true signatures of such officers, on which the Agent and each Bank may conclusively rely; and
- (iii) as to Hovnanian and the Borrower only, copies of its organizational documents, including its certificate of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation, and limited liability company agreement as in effect on the Closing Date certified by the appropriate state official where such documents are filed in a state office together with certificates from the appropriate state officials as to the continued existence and good standing of such Loan Party in each state where organized, all as acceptable to the Agent.

6.1.3. Delivery of Loan Documents .

The Guaranty Agreement, the KHL Agreement , the Stock Pledge and the other Loan Documents shall have been duly executed and delivered by Hovnanian to the Agent on or before the date hereof for the benefit of the Banks, together with certificates evidencing 100% of the stock of KHL and stock powers therefor executed in blank.

6.1.4. Opinion of Counsel.

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

6.1.5. Legal Details.

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

6.1.6. Payment of Fees.

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

6.1.7. Consents.

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

6.1.8. Officer's Certificate Regarding MACs.

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

6.1.9. No Actions or Proceedings.

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

6.2 Each Additional Loan or Letter of Credit.

At the time of making any Loans or issuing any Letters of Credit other than Loans made or Letters of Credit issued on the Closing Date and after giving effect to the proposed extensions of credit: the representations and warranties of the Loan Parties contained in Section 5 (Representations and Warranties) and in the other Loan Documents shall be true and correct in all material respects on and as of the date of such additional Loan or Letter of Credit with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which expressly relate solely to an earlier date or time, which representations and warranties shall

be true and correct in all material respects on and as of the specific dates or times referred to therein); no Event of Default or Potential Default shall have occurred and be continuing or shall exist; and the Borrower shall have delivered to the Agent a duly executed and completed Loan Request or application for a Letter of Credit as the case may be.

7. COVENANTS

7.1 Affirmative Covenants.

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

7.1.1. Preservation of Existence, Etc.

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

7.1.2. Payment of Liabilities, Including Taxes, Etc.

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

7.1.3. Maintenance of Insurance.

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

7.1.4. Maintenance of Properties and Leases.

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

7.1.5. Maintenance of Patents, Trademarks, Etc.

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

7.1.6. Visitation Rights.

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

7.1.7. Keeping of Records and Books of Account.

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

7.1.8. Plans and Benefit Arrangements.

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

7.1.9. Compliance with Laws.

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

7.1.10. Use of Proceeds.

The Loan Parties will use the Letters of Credit and the proceeds of the Loans only for general corporate purposes and for working capital for the Borrower, Hovnanian and the Restricted Subsidiaries.

7.1.11. Required Dividends of KHL.

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

7.2 Negative Covenants.

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

7.2.1. Indebtedness.

7.2.1.1 Each of the Loan Parties

shall not at any time create, incur, assume or suffer to exist any secured indebtedness, except Indebtedness secured by Permitted Liens.

7.2.1.2 KHL shall not incur

Indebtedness of any kind or suffer to exist any Lien on its property or provide any Guaranty in respect of the Indebtedness or other obligations of any Person, or become obligated to do so, and no Loan Party shall allow any of the foregoing to occur.

7.2.1.3 The Loan Parties shall

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

7.2.2. Liens.

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

7.2.3. Loans and Investments.

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

7.2.4. Liquidations, Mergers, Consolidations, Acquisitions.

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

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

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

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

(i) if the Loan Parties are acquiring the ownership interests in such Person, and such Person is, or concurrently will be, designated a Restricted Subsidiary, such Person shall execute a Guarantor Joinder and join this Agreement as a Guarantor pursuant to Section 10.18 (Joinder of Guarantors) and the Borrower shall have otherwise complied with Section 2.11.4 (Designation of Restricted Subsidiary) on or before the date of such Permitted Acquisition;

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

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

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

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

(5) the Loan Parties may liquidate or wind-up Restricted Subsidiaries of Hovnanian which are not individually material to Hovnanian, the Borrower or to the Loan Parties taken as a whole; provided that the Loan Parties shall satisfy the requirements of Section 2.11 [Designation of Subsidiaries and Release of Guarantors], to the extent applicable;

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

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

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

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

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

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

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

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

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

7.2.6. Restricted Payments; Restricted Investments.

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

(i) \$45,000,000;

(ii) 50% of net income of Hovnanian

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

7.2.6.2 Each of the Loan Parties shall not enter into or carry out any transaction with any Affiliate (including purchasing property or services from or selling property or services to any Affiliate of any Loan Party or other Person but excluding transactions between Loan Parties) unless such transaction is not otherwise prohibited by this Agreement, is entered into in the ordinary course of business upon fair and reasonable arm's-length terms and is in accordance with all applicable Law. Without limiting the foregoing, the aggregate amount of all Indebtedness for owed or borrowed money owing to any Loan Party by any officer or director, or relative thereof, shall not exceed \$4,000,000 in the aggregate owing at any one time and all such Indebtedness shall bear interest at a rate not less than the coupon rate on six month U.S. Treasury bills as of the date such Indebtedness is incurred.

7.2.6.3 The Loan Parties shall not pay or make (i) any Restricted Payment in respect of Dividends and Capital Stock Retirement during the period commencing on February 1, 2001 which, in the aggregate, exceed an amount equal to (x) \$25,000,000 plus (y) 50% of Hovnanian's consolidated net income (calculated and consolidated in accordance with GAAP) generated after January 31, 2002 or (ii) any Restricted Payment in respect of the Subordinated Debt in excess of \$25,000,000 in the aggregate after January 31, 2001.

7.2.7. Subsidiaries, Partnerships and Joint Ventures.

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

7.2.8. Continuation of or Change in Business.

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

7.2.9. Plans and Benefit Arrangements.

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

7.2.10. Borrowing Base.

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

7.2.11. Minimum ATNW.

The Loan Parties shall not permit Adjusted Tangible Net Worth to be less than the sum of: (i) \$272,710,000 and (ii) 50% of Hovnanian's consolidated net income (calculated and consolidated in accordance with GAAP) for each fiscal quarter commencing on February 1, 2002 and thereafter in which net income was earned (as opposed to a net loss) and (iii) 50% of the proceeds (less costs of issuance) of any issuance or sale of equity of Hovnanian to any Person other than a Loan Party during each fiscal quarter commencing on February 1, 2001 and thereafter.

7.2.12. Leverage Ratio.

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

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

7.2.13. Inventory and Land Purchase Limits.

7.2.13.1 The Loan Parties shall not permit:

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

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

(iii) The number of Unsold Dwelling Units existing as of the end of any fiscal quarter to exceed 25% of the number of Dwelling Units conveyed by any Person who is a Loan Party on the date of determination or any Person that was acquired and merged or consolidated with and into a Person who is a Loan Party on the date of determination to third party purchasers within the previous twelve (12) months.

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

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

(y) fifty percent (50%) of the total land portion of "cost of sales" as reflected in the financial statements delivered pursuant to Section 7.3 (Reporting Requirements) for the average quarterly sales by the Loan Parties to third party purchasers in arm's length transactions during the preceding four (4) fiscal quarters.

7.2.14. Fiscal Year.

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

7.2.15. Changes in Subordinated Debt Documents.

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

7.3 Reporting Requirements.

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

7.3.1. Quarterly Financial Statements.

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

7.3.2. Annual Financial Statements.

As soon as available and in any event within ninety (90) days after the end of each fiscal year of Hovnanian, financial statements of Hovnanian consisting of a consolidated balance sheet as of the end of such fiscal year, and related consolidated statements of income, stockholders' equity and cash flows for the fiscal year then ended, all in reasonable detail and setting forth in comparative form the financial statements as of the end of and for the preceding fiscal year, and certified by independent certified public accountants of nationally recognized standing satisfactory to the Agent. The certificate or report of

accountants shall be free of qualifications (other than any consistency qualification that may result from a change in the method used to prepare the financial statements as to which such accountants concur) and shall not indicate the occurrence or existence of any event, condition or contingency which would materially impair the prospect of payment or performance of any covenant, agreement or duty of any Loan Party under any of the Loan Documents or cause or constitute an Event of Default. The Loan Parties will be deemed to have complied with the delivery requirements of this Section 7.3.2 if within ninety (90) days after the end of Hovnanian's fiscal year, the Borrower delivers to the Agent and each of the Banks a copy of Hovnanian's Annual Report and Form 10-K as filed with the SEC and the financial statements and separately delivers the above-referenced certification of public accountants.

7.3.3. Certificates of the Borrower.

7.3.3.1 Compliance Certificate.

Concurrently with the financial statements of Hovnanian furnished to the Agent and to the Banks pursuant to Sections 7.3.1 (Quarterly Financial Statements) and 7.3.2 (Annual Financial Statements):

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

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

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

(d) to the extent not previously disclosed in writing to the Agent and the Banks, a report of any changes to Schedule 1.1(C) including changes arising under Section 2.11 (Designation of Subsidiaries and Release of Guarantors).

7.3.3.2 Borrowing Base Certificate.

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

7.3.4. Notice of Default.

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

7.3.5. Notice of Litigation.

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

7.3.6. Notice of Change in Debt Rating.

Within two (2) Business Days after Standard & Poor's or Moody's announces a change in Hovnanian's Debt Rating, notice of such change. Hovnanian will deliver together with such

notice a copy of any written notification which Hovnanian received from the applicable rating agency regarding such change of Debt Rating.

7.3.7. Budgets, Forecasts, Other Reports and Information.

Promptly upon their becoming available to any Loan Party:

- (i) any reports, notices or proxy statements generally distributed by Hovnanian to its stockholders,
- (ii) regular or periodic reports, including Forms 10-K, 10-Q and 8-K, registration statements and prospectuses, filed by Hovnanian with the SEC, and
- (iii) such other reports and information as any of the Banks may from time to time reasonably request. The Loan Parties shall also notify the Banks promptly of the enactment or adoption of any Law which could reasonably be expected to constitute a Material Adverse Change.

7.3.8. Notices Regarding Plans and Benefit Arrangements.

7.3.8.1 Certain Events.

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

- (i) any Reportable Event with respect to any Plan,
- (ii) any Prohibited Transaction which could subject any Loan Party or any other member of the ERISA Group to a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Internal Revenue Code in connection with any Plan, any Benefit Arrangement or any trust created thereunder,
- (iii) any withdrawal from a Multiemployer Plan by the Borrower or any other member of the ERISA Group under Title IV of ERISA or assertion by a Multiemployer Plan that such a withdrawal has occurred
- (iv) any cessation of operations (by any Loan Party or any other member of the ERISA Group) at a facility in the circumstances described in Section 4062(e) of ERISA,
- (v) withdrawal by any Loan Party or any other member of the ERISA Group from a Plan in the circumstances described in Section 4063 of ERISA or the termination of such Plan in the circumstances described in Section 4064 of ERISA,
- (vi) a failure to make any required contribution to a Plan or the creation of any Lien in favor of the PBGC or a Plan,
- (vii) the adoption of an amendment to a Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA, or
- (viii) the distress termination of a Plan, under Title IV of ERISA, which has insufficient assets to pay all liabilities.

7.3.8.2 Notices of Involuntary Termination and Annual Reports.

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

7.3.8.3 Notice of Voluntary Termination.

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

8.1 Events of Default.

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

8.1.1. Payments Under Loan Documents.

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

8.1.2. Breach of Warranty.

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

8.1.3. Breach of Certain Negative Covenants.

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

8.1.4. Breach of Other Covenants.

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

8.1.5. Defaults in Other Agreements or Indebtedness.

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

8.1.6. Final Judgments or Orders.

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

8.1.7. Loan Document Unenforceable.

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

8.1.8. Uninsured Losses; Proceedings Against Assets.

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

8.1.9. Notice of Lien or Assessment.

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

8.1.10. Insolvency.

Any of (i) Hovnanian, (ii) the Borrower or (iii) Restricted Subsidiaries owning as of the date of any event

described in this Section 8.1.10 three percent (3%) or more of the Dollar value of all of the assets of all of the Subsidiaries of Hovnanian taken as a whole ceases to be solvent or admits in writing its inability to pay its debts as they mature;

8.1.11. Events Relating to Plans and Benefit Arrangements.

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

8.1.12. Cessation of Business.

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

8.1.13. Change of Control.

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

8.1.14. Involuntary Proceedings.

A proceeding shall have been instituted in a court having jurisdiction seeking a decree or order for relief in respect of any of (i) Hovnanian, (ii) the Borrower or (iii) Restricted Subsidiaries owning as of the date of any event described in this Section 8.1.14 three percent (3%) or more of the Dollar value of all of the assets of all of the Subsidiaries of Hovnanian taken as a whole in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of any Loan Party for any substantial part of its property, or for the winding-up or liquidation of its affairs, and such proceeding shall remain undismissed or unstayed and in effect for a period of sixty (60) consecutive days or such court shall enter a decree or order granting any of the relief sought in such proceeding; or

8.1.15. Voluntary Proceedings.

Any of (i) Hovnanian, (ii) the Borrower or (iii) Restricted Subsidiaries owning as of the date of any event described in this Section 8.1.15 three percent (3%) or more of the Dollar value of all of the assets of all of the Subsidiaries of Hovnanian taken as a whole shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law,

or shall consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or other similar official) of itself or for any substantial part of its property or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any action in furtherance of any of the foregoing.

8.2 Consequences of Event of Default.

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

If an Event of Default specified under Sections

8.1.1 (Payments Under Loan Documents) through 8.1.13 (Change of Control) shall occur and be continuing, the Banks and the Agent shall be under no further obligation to make Loans or issue Letters of Credit, as the case may be, and the Agent may, and upon the request of the Required Banks, shall (i) by written notice to the Borrower, declare the unpaid principal amount of the Loan then outstanding and all interest accrued thereon, any unpaid fees and all other Indebtedness of the Borrower to the Banks hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Agent for the benefit of each Bank without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, and (ii) require the Borrower to, and the Borrower shall thereupon, deposit in an interest-bearing account with the Agent, as cash collateral for its Obligations under the Loan Documents, an amount equal to the maximum amount currently or at any time thereafter available to be drawn on all outstanding Letters of Credit, and the Borrower hereby pledges to the Agent and the Banks, and grants to the Agent and the Banks a security interest in, all such cash as security for such Obligations. Upon the curing of all existing Events of Default, the Agent shall return such cash collateral to the Borrower; and

8.2.2. Bankruptcy, Insolvency or Reorganization Proceedings.

If an Event of Default specified under Section

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

8.2.3. Set-off.

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

8.2.4. Suits, Actions, Proceedings.

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

8.2.5. Application of Proceeds.

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

follows:

- (i) first, to reimburse the Agent and the Banks for out-of-pocket costs, expenses and disbursements, including reasonable attorneys' and paralegals' fees and legal expenses, incurred by the Agent or the Banks in connection with collection of any Obligations of any of the Loan Parties under any of the Loan Documents;
- (ii) second, to the repayment of all Indebtedness then due and unpaid of the Loan Parties to the Banks incurred under this Agreement or any of the other Loan Documents, whether of principal, interest, fees, expenses or otherwise, in such manner as the Agent may determine in its discretion; and
- (iii) the balance, if any, as required by Law.

8.2.6. Other Rights and Remedies.

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

9. THE AGENT

9.1 Appointment.

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

9.2 Delegation of Duties.

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

9.3 Nature of Duties; Independent Credit Investigation.

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

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

The Agent agrees, upon the written request of the Required Banks, to take or refrain from taking any action of the type specified as being within the Agent's rights, powers or

discretion herein, provided that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement or any other Loan Document or applicable Law. In the absence of a request by the Required Banks, the Agent shall have authority, in its sole discretion, to take or not to take any such action, unless this Agreement specifically requires the consent of the Required Banks or all of the Banks. Any action taken or failure to act pursuant to such instructions or discretion shall be binding on the Banks, subject to Section 9.6 (Exculpatory Provisions; Limitation of Liability). Subject to the provisions of Section 9.6 (Exculpatory Provisions; Limitation of Liability), no Bank shall have any right of action whatsoever against the Agent as a result of the Agent acting or refraining from acting hereunder in accordance with the instructions of the Required Banks, or in the absence of such instructions, in the absolute discretion of the Agent.

9.5 Reimbursement and Indemnification of Agent by the Borrower.

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

9.6 Exculpatory Provisions; Limitation of Liability.

Neither the Agent nor any of its directors, officers, employees, agents, attorneys or Affiliates shall (a) be liable to any Bank for any action taken or omitted to be taken by it or them hereunder, or in connection herewith including pursuant to any Loan Document, unless caused by its or their own gross negligence or willful misconduct, (b) be responsible in any manner to any of the Banks for the effectiveness, enforceability, genuineness, validity or the due execution of this Agreement or any other Loan Documents or for any recital, representation, warranty, document, certificate, report or statement herein or made or furnished under or in connection with this Agreement or any other Loan Documents, or (c) be under any obligation to any of the Banks to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions hereof or thereof on the part of the Loan Parties, or the financial condition of the Loan Parties, or the existence or possible existence of any Event of Default or Potential Default. No claim may be made by any of the Loan Parties, any Bank, the Agent or any of their respective Subsidiaries against the Agent, any Bank or any of their respective directors, officers, employees, agents, attorneys or Affiliates, or any of them, for any special, indirect or consequential damages or, to the fullest extent permitted by Law, for any punitive damages in respect of any claim or cause of action (whether based on contract, tort, statutory liability, or any other ground) based on, arising out of or related to any Loan Document or the transactions contemplated hereby or any act, omission or event occurring in connection therewith, including the

negotiation, documentation, administration or collection of the Loans, and each of the Loan Parties (for itself and on behalf of each of its Subsidiaries), the Agent and each Bank hereby waive, release and agree never to sue upon any claim for any such damages, whether such claim now exists or hereafter arises and whether or not it is now known or suspected to exist in its favor. Each Bank agrees that, except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder or given to the Agent for the account of or with copies for the Banks, the Agent and each of its directors, officers, employees, agents, attorneys or Affiliates shall not have any duty or responsibility to provide any Bank with credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Loan Parties which may come into the possession of the Agent or any of its directors, officers, employees, agents, attorneys or Affiliates.

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

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

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

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

9.11 Banks in Their Individual Capacities; Agents in its Individual Capacity. With respect to its Revolving Credit Commitment, the Revolving Credit Loans made by it and any other rights and powers given to it as a Bank hereunder or under any of the other Loan Documents, the Agent shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not the Agent, and the term "Bank" and "Banks" shall, unless the context otherwise indicates, include the Agent in its individual capacity. PNC Bank and its Affiliates and each of the Banks and their respective Affiliates may, without liability to account, except as prohibited herein, make loans to, issue letters of credit for the account of, acquire equity interests in, accept

deposits from, discount drafts for, act as trustee under indentures of, and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with, the Loan Parties and their Affiliates, in the case of the Agent, as though it were not acting as Agent hereunder and in the case of each Bank, as though such Bank were not a Bank hereunder, in each case without notice to or consent of the other Banks. The Banks acknowledge that, pursuant to such activities, the Agent or its Affiliates may (i) receive information regarding the Loan Parties or any of their Subsidiaries or Affiliates (including information that may be subject to confidentiality obligations in favor of the Loan Parties or such Subsidiary or Affiliate) and acknowledge that the Agent shall be under no obligation to provide such information to them, and (ii) accept fees and other consideration from the Loan Parties for services in connection with this Agreement and otherwise without having to account for the same to the Banks.

9.12 Holders of Notes.

The Agent may deem and treat any payee of any Note as the owner thereof for all purposes hereof unless and until written notice of the assignment or transfer thereof shall have been filed with the Agent. Any request, authority or consent of any Person who at the time of making such request or giving such authority or consent is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

9.13 Equalization of Banks.

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

9.14 Successor Agent.

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

9.15 Agent's Fee.

The Borrower shall pay to the Agent a nonrefundable fee (the "Agent's Fee") under the terms of a letter (the "Agent's Letter") between the Borrower and Agent, as amended from time to time.

9.16 Availability of Funds.

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

9.17 Calculations.

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

9.18 Beneficiaries.

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

10. MISCELLANEOUS

10.1 Modifications, Amendments or Waivers.

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

10.1.1. Increase of Commitment.

Increase the amount of the aggregate Revolving Credit Commitments;

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

Subject to Section 2.10 (Extension by Banks of the Expiration Date), but whether or not any Loans are outstanding, extend the time for payment of principal or interest of any Loan (excluding the due date of any mandatory prepayment of a Loan or any mandatory Commitment reduction in connection with such a mandatory prepayment hereunder except for mandatory reductions of the Commitments on the Expiration Date), the Commitment Fee or any other fee payable to any Bank, or reduce the principal amount of or the rate of interest borne by any Loan or reduce the Commitment Fee or any other fee payable to any Bank, or otherwise directly affect the terms of payment of the principal of or interest of any Loan, the Commitment Fee or any other fee payable to any Bank;

10.1.3. Miscellaneous

Amend Section 4.2 (Pro Rata Treatment of Banks), 9.6 (Exculpatory Provisions; Limitation of Liability), 9.13 (Equalization of Banks) or this Section 10.1 (Modifications, Amendments or Waivers) change the pro rata treatment of the Banks, change the definition of Required Banks, or change any requirement providing for the Banks or the Required Banks to authorize the taking of any action hereunder; provided, that no agreement, waiver or consent which would modify

the interests, rights or obligations of the Agent in its capacity as Agent shall be effective without the written consent of the Agent and provided further, that no provision of Sections 2.1.2 (Swing Loan Commitment), 2.4.2 (Swing Loan Requests), 2.5.2 (Making Swing Loans), 2.6 (Swing Loan Note), 2.8 (Borrowings to Repay Swing Loans) and 4.8 (Settlement Date Procedures) may be amended or modified without the consent of PNC Bank.

10.2 No Implied Waivers; Cumulative Remedies; Writing Required.

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

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

The Borrower agrees unconditionally upon demand to pay or reimburse to each Bank (other than the Agent, as to which the Borrower's Obligations are set forth in Section 9.5 (Reimbursement and Indemnification of Agent by the Borrower)) and to save such Bank harmless against (i) liability for the payment of all reasonable out-of-pocket costs, expenses and disbursements (including fees and expenses of counsel (including allocated costs of staff counsel) for the Agent except with respect to (a) and (b) below), incurred by the Agent (a) in connection with the administration and interpretation of this Agreement, and other instruments and documents to be delivered hereunder, (b) relating to any amendments, waivers or consents pursuant to the provisions hereof, (c) in connection with the enforcement of this Agreement or any other Loan Document, or collection of amounts due hereunder or thereunder or the proof and allowability of any claim arising under this Agreement or any other Loan Document, whether in bankruptcy or receivership proceedings or otherwise, and (d) in any workout or restructuring or in connection with the protection, preservation, exercise or enforcement of any of the terms hereof or of any rights hereunder or under any other Loan Document or in connection with any foreclosure, collection or bankruptcy proceedings, or (ii) all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Documents or any action taken or omitted by the Agent hereunder or thereunder, provided that the Borrower shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements (A) if the same results from the Agent's gross negligence or willful misconduct, or (B) if the Borrower was not given notice of the subject claim and the opportunity to participate in the defense thereof, at its expense (except that the Borrower shall remain liable to the extent such failure to give notice does not result in a loss to the Borrower), or (C) if the same results from a compromise or settlement agreement entered into without the consent of the Borrower, which shall not be unreasonably withheld. The Borrower agrees unconditionally to pay all stamp, document, transfer, recording or filing taxes or fees and similar impositions now or hereafter determined by the Agent to be payable in connection with this Agreement or any other Loan Document, and the Borrower agrees unconditionally to save the Agent and the Banks harmless from and against any and all present or future claims, liabilities or losses with respect to or resulting from any omission to pay or delay in paying any such taxes, fees or impositions.

10.4 Holidays.

Whenever payment of a Loan to be made or taken hereunder shall be due on a day which is not a Business Day such payment shall be due on the next Business Day (except as provided in Section 3.2 (Interest Periods) with respect to Interest Periods under the LIBO-Rate Option) and such extension of time shall be included in computing interest and fees, except that the Loans shall be due on the Business Day preceding the Expiration Date if the Expiration Date is not a Business Day. Whenever any payment or action to be made or taken hereunder (other than payment of the Loans) shall be stated to be due on a day which is not a Business Day, such payment or action shall be made or taken on the next following Business Day, and such extension of time shall not be

included in computing interest or fees, if any, in connection with such payment or action.

10.5 Funding by Branch, Subsidiary or Affiliate.

10.5.1. Notional Funding.

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

10.5.2. Actual Funding.

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

10.6 Notices.

Any notice, request, demand, direction or other communication (for purposes of this Section 10.6 only, a "Notice") to be given to or made upon any party hereto under any provision of this Agreement shall be given or made by telephone or in writing (which includes means of electronic transmission (i.e., "e-mail") or facsimile transmission or by setting forth such Notice on a site on the World Wide Web (a "Website Posting") if Notice of such Website Posting (including the information necessary to access such site) has previously been delivered to the applicable parties hereto by another means set forth in this Section 10.6 in accordance with this Section 10.6. Any such Notice must be delivered to the applicable parties hereto at the addresses and numbers set forth under their respective names on Schedule 1.1(B) hereof or in accordance with any subsequent unrevoked Notice from any such party that is given in accordance with this Section 10.6. Any Notice shall be effective:

- (i) In the case of hand-delivery, when delivered;
- (ii) If given by mail, four (4) days after such Notice is deposited with the United States Postal Service, with first-class postage prepaid, return receipt requested;
- (iii) In the case of a telephonic Notice, when a party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next Business Day by hand delivery, a facsimile or electronic transmission, a Website Posting or overnight courier delivery of a confirmatory notice (received at or before noon on such next Business Day);
- (iv) In the case of a facsimile transmission, when sent to the applicable party's facsimile machine's telephone number if the party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine;
- (v) In the case of electronic transmission, when actually received;
- (vi) In the case of a Website Posting, upon delivery of a Notice of such posting (including the information necessary to access such web site) by another means set forth in this Section 10.6; and
- (vii) If given by any other means (including by overnight courier), when actually received.

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

10.7 Severability.

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

10.8 Governing Law.

Each Letter of Credit and Section 2.10 (Letter of Credit Subfacility) shall be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, as the same may be revised or amended from time to time, and to the extent not inconsistent therewith, the internal laws of the State of New Jersey without regard to its conflict of laws principles, and the balance of this Agreement shall be deemed to be a contract under the Laws of the State of New Jersey and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of the State of New Jersey without regard to its conflict of laws principles.

10.9 Prior Understanding.

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

10.10 Duration; Survival.

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

10.11 Successors and Assigns.

(a) (i) This Agreement shall be binding upon and shall inure to the benefit of the Banks, the Agent, the Loan Parties a party hereto and their respective successors and assigns, except that none of the Loan Parties a party hereto may assign or transfer any of its rights and obligations hereunder or any interest herein. Each Bank may, at its own cost, make assignments of or sell participations in all or any part of its Commitments and the Loans made by it to one or more banks or other entities, subject to the consent of the Borrower and the Agent with respect to any assignee, such consent not to be unreasonably withheld provided that (1) no consent of the Borrower shall be required (A) if an Event of Default exists and is continuing, (B) in the case of an assignment by a Bank to an Affiliate of such Bank, or (C) in respect of the sale of a participation and (2) any assignment by a Bank to a Person other than an Affiliate of such Bank may not be made in amounts less than the lesser of \$10,000,000 or the amount of the assigning Bank's Commitment. In the case of an assignment, upon receipt by the Agent of the Assignment and Assumption Agreement, the assignee shall have, to the extent of such assignment (unless otherwise provided therein), the same rights, benefits and obligations as it would have if it had been a signatory Bank hereunder, the Commitments shall be adjusted accordingly, and upon surrender of any Note subject to such assignment, the Borrower shall execute and deliver a new Note to the assignee, if such assignee requests such a Note in an amount equal to the amount of the Revolving Credit Commitment assumed by it and a new Revolving Credit Note to the assigning Bank, if the assigning Bank requests such a Note, in an amount equal to the Revolving Credit Commitment or retained by it hereunder. Any Bank which assigns any or all of its Commitment or Loans to a Person other than an Affiliate of such Bank shall pay to the Agent a service fee in the amount of \$3,500 for each assignment. In the case of a participation, the participant shall only have the rights specified in Section 8.2.3 (Set-off) (the participant's rights against such Bank in respect of such participation to be those set forth in the agreement executed by

such Bank in favor of the participant relating thereto and not to include any voting rights except with respect to changes of the type referenced in Sections 10.1.1 (Increase of Commitment, Extension of Expiration Date), or 10.1.2 (Extension of Payment; Reduction of Principal, Interest or Fees; Modification of Terms of Payment)), all of such Bank's obligations under this Agreement or any other Loan Document shall remain unchanged, and all amounts payable by any Loan Party hereunder or thereunder shall be determined as if such Bank had not sold such participation.

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

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

(b) Additional Bank. A lender which is to become a party to this Agreement pursuant to Section 2.1.3 (Increase in Commitments After Closing Date) hereof or otherwise (each an "Additional Bank") shall execute and deliver to the Agent a Bank Joinder to this Agreement in substantially the form attached hereto as Exhibit 1.1(B)(1). Upon execution and delivery of a Bank Joinder, such Additional Bank shall be a party hereto and a "Bank" under each of the Loan Documents for all purposes, except that such Additional Bank shall not participate in any Revolving Credit Loans to which the LIBO-Rate Option applies which are outstanding on the effective date of such Bank Joinder. If Borrower should renew after the effective date of such Bank Joinder the LIBO-Rate Option with respect to Revolving Credit Loans existing on such date, Borrower shall be deemed to repay the applicable Revolving Credit Loans on the renewal date and then reborrow a similar amount on such date so that the Additional Bank shall participate in such Revolving Credit Loans after such renewal date. Schedule 1.1(B) shall be amended and restated on the date of such Bank Joinder to read as set forth on the attachment to such Bank Joinder. Simultaneously with the execution and delivery of such Bank Joinder, the Borrower shall execute, if requested, a Revolving Credit Note and deliver it to such Additional Bank together with copies of such other documents described in Section 7.1 (Affirmative Covenants) hereof as such Additional Bank may reasonably require.

10.12 Confidentiality.

10.12.1. General.

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

10.12.2. Sharing Information With Affiliates of the Banks.

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

[Confidentiality] as if it were a Bank hereunder. Such Authorization shall survive the repayment of the Loans and other Obligations and the termination of the Commitments.

10.13 Counterparts.

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

10.14 Agent's or Bank's Consent.

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

10.15 Exceptions.

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

10.16 CONSENT TO FORUM; WAIVER OF JURY TRIAL.

EACH LOAN PARTY A PARTY HERETO HEREBY IRREVOCABLY CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF THE SUPERIOR COURT OF NEW JERSEY, LAW DIVISION, MIDDLESEX COUNTY AND THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY AND WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON IT AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS BE MADE BY CERTIFIED OR REGISTERED MAIL DIRECTED TO SUCH LOAN PARTY AT THE ADDRESSES PROVIDED FOR IN SECTION 10.6 (NOTICES) AND SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED UPON ACTUAL RECEIPT THEREOF. EACH LOAN PARTY A PARTY HERETO WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED AGAINST IT AS PROVIDED HEREIN AND AGREES NOT TO ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE. EACH LOAN PARTY A PARTY HERETO, THE AGENT AND THE BANKS HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATED TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR ANY COLLATERAL TO THE FULL EXTENT PERMITTED BY LAW.

10.17 Tax Withholding Clause.

Each Bank or assignee or participant of a Bank that is not incorporated under the Laws of the United States of America or a state thereof (and, upon the written request of the Agent, each other Bank or assignee or participant of a Bank) agrees that it will deliver to each of the Borrower and the Agent two (2) duly completed appropriate valid Withholding Certificates (as defined under S1.1441-1(c)(16) of the Income Tax Regulations ("Regulations")) certifying its status (i.e., U.S. or foreign person) and, if appropriate, making a claim of reduced, or exemption from, U.S. withholding tax on the basis of an income tax treaty or an exemption provided by the Internal Revenue Code. Such delivery may be made by electronic transmission as described in S1.1441-1(e)(4)(iv) of the Regulations if the Agent establishes an electronic delivery system. The term "Withholding Certificate" means a Form W-9; a Form W-8BEN; a Form W-8ECI; a Form W-8IMY and the related statements and certifications as required under S1.1441-1(e)(3) of the Regulations; a statement described in S1.871-14(c)(2)(v) of the Regulations; or any other certificates under the Code or Regulations that certify or establish the status of a payee or beneficial owner as a U.S. or foreign person. Each Bank, assignee or participant required to deliver to the Borrower and the Agent a valid Withholding Certificate pursuant to the preceding sentence shall deliver such valid Withholding Certificate as follows: (A) each Bank which is a party hereto on the Closing Date shall deliver such valid Withholding Certificate at least five (5) Business Days prior to the first date on which any interest or fees are payable by the Borrower hereunder for the

account of such Bank; (B) each assignee or participant shall deliver such valid Withholding Certificate at least five (5) Business Days before the effective date of such assignment or participation (unless the Agent in its sole discretion shall permit such assignee or participant to deliver such Withholding Certificate less than five (5) Business Days before such date in which case it shall be due on the date specified by the Agent). Each Bank, assignee or participant which so delivers a valid Withholding Certificate further undertakes to deliver to each of the Borrower and the Agent two (2) additional copies of such Withholding Certificate (or a successor form) on or before the date that such Withholding Certificate expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent Withholding Certificate so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent. Notwithstanding the submission of a Withholding Certificate claiming a reduced rate of, or exemption from, United States withholding tax, the Agent shall be entitled to withhold United States federal income taxes at the full 30% withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under S1.1441-7(b) of the Regulations. Further, the Agent is indemnified under S1.1461-1(e) of the Regulations against any claims and demands of any Bank or assignee or participant of a Bank for the amount of any tax it deducts and withholds in accordance with regulations under S1441 of the Internal Revenue Code.

10.18 Joinder of Guarantors.

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

10.19 Concerning Agent Terms.

Notwithstanding anything contained herein which may be construed to the contrary, none of the Syndication Agent, the Documentation Agent and the Joint Lead Arrangers and Joint Book Runners shall exercise any of the rights or have any of the responsibilities of the Agent hereunder, or any other rights or responsibilities other than their respective rights and responsibilities (if any) as Banks hereunder.

10.20 Ratification of Notes and Loan Documents and Existing Obligations.

All of the terms, conditions, provisions and covenants in the Original Credit Agreement, the Notes and other Loan Documents delivered in connection therewith, and all other documents delivered to the Agent and the Banks in connection with any of the foregoing documents and obligations evidenced or secured thereby shall remain unaltered and in full force and effect and are hereby ratified and confirmed in all respects, except as specifically modified herein. Without limiting the foregoing, each of the Notes under the Original Credit Agreement shall be, and hereby are, amended to bear an Expiration Date of July 30, 2005. This Agreement amends and restates, and supersedes, the Original Credit Agreement and is in no way intended to constitute a novation of the "Obligations" under the Original Credit Agreement. On the date this Agreement becomes effective, and subject to the satisfaction (or waiver by Agent in its sole discretion) of all applicable conditions to advances hereunder, all sums owing under the Original Credit Agreement and the Loan Documents thereunder shall be deemed to be outstanding and owing under, evidenced by, and governed by the terms of this Agreement, the existing Notes, and the other existing Loan documents.

(SIGNATURES CONTINUED ON NEXT PAGE)

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the date first written.

K. HOVNANIAN ENTERPRISES, INC.

By:
Title:

PNC BANK, NATIONAL ASSOCIATION

as Agent and as a Bank

By:
Title:

BANK OF AMERICA, N.A.

By:
Title:

FLEET NATIONAL BANK

By:
Title:

FIRST UNION NATIONAL BANK

By:
Title:

GUARANTY BANK

By:
Title:

KEYBANK, NATIONAL ASSOCIATION

By:
Title:

BANK ONE, NA

By:
Title:

AMSOUTH BANK

By:
Title:

COMERICA BANK

By:
Title:

SUNTRUST BANK

By:
Title:

NATIONAL CITY BANK OF
PENNSYLVANIA

By:
Title:

WASHINGTON MUTUAL BANK, FA

By:
Title:

ACCEPTED AND AGREED:

HOVNANIAN ENTERPRISES, INC.
as a Guarantor

By:
Title:

SCHEDULE 1.1(A)
K. HOVNIANIAN ENTERPRISES, INC.
PRICING GRID
(expressed in basis points)

	Level	Debt Rating	Libor Margin	Base Rate	Margin
Commitment Fee					
LOC Fee					
I	?BB+/Ba1	145	0	30.0	117.5
II	BB/Ba2	165	15	32.5	137.5
III	BB-/Ba3	185	40	37.5	157.5
IV	B+/B1	205	60	42.5	177.5
V	?B/B2	225	80	47.5	197.5

The Applicable Margins will only be as shown above if Hovnianian holds both noted Debt Ratings from S&P and Moody's, respectively. In the event of inconsistent Debt Ratings, the Applicable Margin will be the midpoint of the margin(s) between the two levels. In the absence of ratings, pricing will be at Level V. As of the Closing Date, pricing shall be a Level III. Any change in the Applicable Margin; the Applicable Commitment Fee Rate or the Applicable Letter of Credit Fee Rate shall become effective five Business Days after any public announcement of the change in the Debt Rating requiring such change.

Bank
Amount of Commitment for Revolving Credit Loans

Ratable Share
Bank Name (also Agent):
PNC Bank, National Association
Address for Notices:
Two Tower Center, 18th Fl
E. Brunswick, NJ 08816
Attention: Douglas G. Paul
Telephone: (732) 220-3566
Telecopy: (732) 220-3744

Address of Lending Office:
One PNC Plaza
MS: P1-POPP-22-1
249 Fifth Avenue
Pittsburgh, PA 15222-2707
Attention: Rini Davis
Telephone: (412) 762-7638
Telecopy: (412) 762-8672

\$60,000,000

13.793%

Bank Name:
Bank of America, N.A.
Address for Notices:
231 S. LaSalle Street
Mail Code IL 1-231-12-18
Chicago, IL 60697
Attention: Kelley Prentiss
Telephone: (312) 828-7363
Telecopy: (312) 974-4970

Address of Lending Office:
231 S. LaSalle Street
Mail Code IL 1-231-12-18
Chicago, IL 60697
Attention: Marilyn Elizalde
Telephone: (312) 828-6388
Telecopy: (312) 828-3950

\$60,000,000

13.793%

Bank

Amount of Commitment for Revolving Credit Loans

Ratable Share

Bank Name:
Fleet National Bank
Address for Notices:
115 Perimeter Center Place NE
Suite 500
Atlanta, GA 30346
Attention: Jeff Aycock
Telephone: (770) 390-6583
Telecopy: (770) 390-8434

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

\$50,000,000

11.494%

Bank Name:
First Union National Bank
Address for Notices:
Commercial Real Estate Group
3rd Floor
2840 Morris Avenue
Union, NJ 07083
Attention: Richard M. Quinn
Telephone: (908) 624-2808
Telecopy: (908) 624-2817

Address of Lending Office:
Commercial Real Estate Group
3rd Floor
2840 Morris Avenue
Union, NJ 07083
Attention: Richard M. Quinn
Telephone: (908) 624-2808
Telecopy: (908) 624-2817

\$45,000,000

10.345%

Bank Amount of Commitment for Revolving Credit Loans

Ratable Share

Bank Name:
Guaranty Bank
Address for Notices:
8333 Douglas Avenue
Dallas, TX 75225
Attention: Randy Reid
Telephone: (214) 360-2735
Telecopy: (214) 360-1661

Address of Lending Office:
8333 Douglas Avenue
Dallas, TX 75225
Attention: Jill Fallows
Telephone: (214) 360-1681
Telecopy: (214) 360-1661

\$40,000,000

9.195%

Bank Name:
KeyBank, National Association
Address for Notices:
Law Group
127 Public Square

Mail Stop: OH-01-27-0200
Cleveland, OH 44114
Attention: Robert Bowes, Esquire
Telephone: (216) 689-5089
Telecopy: (216) 689-5681

With a copy to:
Key Commercial Real Estate
575 5th Avenue, 38th Floor
New York, NY 10017
Attention: Timothy J. Mertens, V.P.
Telephone: (917) 368-2390
Telecopy: (917) 368-2370

Bank

Amount of Commitment for Revolving Credit Loans

Ratable Share
Address of Lending Office:
Institutional C.R.E. Client Services
66 South Pearl StreetMail Stop: NY-31-66-0567
Albany, NY 12207
Attention: Rebecca Christner, A.V.P.
Telephone: (518) 257-8566
Telecopy: (518) 257-8572 \$30,000,000 6.897%

Bank Name:
Bank One, NA
Address for Notices:
One Bank One Plaza
Suite IL 1-0315
Chicago, IL 60670
Attention: Mark Kramer
Telephone: (312) 336-2212
Telecopy: (312) 732-5939

Address of Lending Office:
One Bank One Plaza
Suite IL 1-0315
Chicago, IL 60670
Attention: Bob Rodzon
Telephone: (312) 732-5097
Telecopy: (312) 732-1582

\$30,000,000

6.897%

Bank Name:
AmSouth Bank
Address for Notices:
1900 5th Avenue; AST-9
Birmingham, AL 35288
Attention: Ronny Hudspeth
Telephone: (205) 307-4227
Telecopy: (205) 801-0138

Bank Amount of Commitment for Revolving Credit Loans

Ratable Share

Address of Lending Office:
1900 5th Avenue; AST-9
Birmingham, AL 35288
Attention: Wanda Pate
Telephone: (205) 326-4615
Telecopy: (205) 801-0138

\$25,000,000

5.747%

Bank Name:

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

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

\$25,000,000

5.747%

Bank Amount of Commitment for Revolving Credit Loans

Ratable Share

Bank Name:
SunTrust Bank
Address for Notices:
303 Peachtree Street NE
3rd Floor, MC 1931
P.O. Box 4418
Atlanta, GA 30302-4418
Attention: Donald Gaudette
Telephone: (404) 658-4925
Telecopy: (404) 588-8505

Address of Lending Office:
303 Peachtree Street NE
3rd Floor, MC 1931
P.O. Box 4418
Atlanta, GA 30302-4418
Attention: Lawanda Griffeth
Telephone: (404) 588-8375
Telecopy: (404) 575-2730

\$25,000,000

5.747%

Bank Name:
National City Bank of Pennsylvania
Address for Notices:
One South Broad Street
13th Floor
Philadelphia, PA 19107
Attention: John Gaghan
Telephone: (267) 256-4056
Telecopy: (267) 256-4001

Address of Lending Office:
20 Stanwix Street, 25-143
Pittsburgh, PA 15222-4802
Attention: Janet R. Sabatasso
Telephone: (412) 644-7745
Telecopy: (412) 644-6095

\$20,000,000

4.598%

Bank
Amount of Commitment for Revolving Credit Loans
Ratable Share

Bank Name:

Washington Mutual Bank, FA
Address for Notices:
Kris W. Klinger Vice President
Washington Mutual Bank, FA
5950 La Place Court, Suite 205
Carlsbad, CA 92008
Telephone: (972) 705-0821
Telecopy: (972) 705-1481

Address of Lending Office:
3200 Southwest Freeway
Houston, TX 77027
Attention: Monica Rapp
Telephone: (713) 543-3323
Telecopy: (713) 543-7813

\$25,000,000

5.747%

Total
\$435,000,000
100%

AGENT

Name: Douglas G. Paul, Senior Vice President
Address: PNC Bank, National Association
Two Tower Center, 18th Floor
East Brunswick, New Jersey 08816
Telephone: (732) 220-3566
Telecopy: (732) 220-3744

BORROWER:

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

GUARANTORS:

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

REVOLVING CREDIT AGREEMENT
 by and among
 K. HOVNIANIAN MORTGAGE, INC.,
 THE LENDERS PARTY HERETO,
 and
 GUARANTY BANK,
 As Agent
 dated as of June 7, 2002

Table of Contents

ARTICLE I	DEFINITIONS	1
ARTICLE II	THE CREDITS	26
2.1	Commitment, Sublimits and Types of Advances	26
2.2	Primary Advances	27
2.3	Buy Down Loans	28
2.4	Swingline Loans	28
2.5	Fees	29
2.6	Method of Selecting Types and Interest Periods for New Advances	30
2.7	Conversion and Continuation of Outstanding Advances	30
2.8	Reductions to Aggregate Commitment	31
2.9	Principal Payments	31
2.10	Changes in Interest Rate, etc.	33
2.11	Rates Applicable After Default	33
2.12	Method of Payment	33
2.13	Noteless Agreement; Evidence of Indebtedness	34
2.14	Telephonic Notices	34
2.15	Interest Payment Dates; Interest and Fee Basis	35
2.16	Notification by the Agent	35
2.17	Lending Installations	35
2.18	Non-Receipt of Funds by the Agent	35
ARTICLE III	CHANGE IN CIRCUMSTANCES	36
3.1	Yield Protection	36
3.2	Changes in Capital Adequacy Regulations	37
3.3	Availability of Types of Advances	37
3.4	Funding Indemnification	37
3.5	Taxes	37
3.6	Lender Statements; Survival of Indemnity	39
ARTICLE IV	CONDITIONS PRECEDENT; WITHHOLDING TAX EXEMPTION	40
4.1	Effectiveness	40
4.2	Each Advance	41
ARTICLE V	REPRESENTATIONS AND WARRANTIES	42
5.1	Existence and Standing	42
5.2	Authorization and Validity	42
5.3	No Conflict; Government Consent	42
5.4	Financial Statements	43
5.5	Material Adverse Change	43
5.6	Taxes	43
5.7	Litigation and Contingent Obligations	43
5.8	Subsidiaries	44
5.9	ERISA	44
5.10	Accuracy of Information	44
5.11	Regulation U	44
5.12	Material Agreements	44
5.13	Compliance With Laws	44
5.14	Ownership of Properties	44
5.15	Plan Assets; Prohibited Transactions	45
5.16	Investment Company Act	45
5.17	Public Utility Holding Company Act	45
5.18	GNMA, FHA, VA, FNMA, and FHLMC Eligibility	45
5.19	Approved Investor Commitments	45
ARTICLE VI	COVENANTS	46
6.1	Financial Reporting	46
6.2	Use of Proceeds	48
6.3	Notice of Default	48
6.4	Conduct of Business	48
6.5	Taxes	49
6.6	Insurance	49
6.7	Compliance with Laws	49
6.8	Maintenance of Properties	49
6.9	Inspection	49
6.10	Dividends	49
6.11	Indebtedness	50
6.12	Merge	50
6.13	Sale of Assets	50
6.14	Investments and Acquisitions	50
6.15	Liens	51
6.16	Affiliates	51
6.17	Financial Covenants	51
6.18	Compliance with Security Agreement	52
6.19	Servicing Release	52
6.20	Federal Agency Approvals	53
6.21	Approved Investor Commitments	53
6.22	Negative Pledges	53
6.23	MERS	53
ARTICLE VII	DEFAULTS	54
ARTICLE VIII	COLLATERAL, ACCELERATION AND OTHER REMEDIES	56
8.1	Security and Collateral Agency Agreement	56

8.2	AP Mortgages	56
8.3	Release of Collateral	57
8.4	Settlement and Funding Accounts	57
8.5	Termination	57
8.6	Acceleration	57
8.7	Other Remedies	58
8.8	Application of Proceeds	59
8.9	Preservation of Rights	60
ARTICLE IX	AMENDMENTS; WAIVERS; GENERAL PROVISIONS	60
9.1	Amendments and Waivers	60
9.2	Survival of Representations	61
9.3	Governmental Regulation	61
9.4	Headings	61
9.5	Entire Agreement	61
9.6	Several Obligations; Benefits of this Agreement	61
9.7	Expenses; Indemnification	62
9.8	Nonliability of Lenders	62
9.9	Severability of Provisions	63
9.10	Numbers of Documents	63
9.11	Accounting	63
9.12	Confidentiality	63
9.13	Nonreliance	63
9.14	Disclosure	64
ARTICLE X	THE AGENT AND THE COLLATERAL AGENT	64
10.1	Appointment; Nature of Relationship	64
10.2	Powers	64
10.3	General Immunity	65
10.4	No Responsibility for Loans, Recitals, etc.	65
10.5	Action on Instructions of Lenders	65
10.6	Employment of Agents and Counsel	65
10.7	Reliance on Documents; Counsel	66
10.8	Agent's Reimbursement and Indemnification	66
10.9	Notice of Default	66
10.10	Rights as a Lender	66
10.11	Lender Credit Decision	67
10.12	Successor Agent	67
10.13	Delegation to Affiliates	67
10.14	Collateral Releases	68
ARTICLE XI	SETOFF; RATABLE PAYMENTS	68
11.1	Setoff	68
11.2		68
11.3	Ratable Payments	68
11.4	Custodial Accounts	68
ARTICLE XII	ASSIGNMENTS; PARTICIPATIONS; COMMITMENT INCREASES	69
12.1	Successors and Assigns	69
12.2	Participations	69
12.3	Assignments	70
12.4	Commitment Increases	71
12.5	Dissemination of Information	71
12.6	Tax Treatment	72
ARTICLE XIII	NOTICES	72
13.1	Notices	72
13.2	Change of Address	72
ARTICLE XIV	COUNTERPARTS	72
ARTICLE XV	CHOICE OF LAW, CONSENT TO JURISDICTION, WAIVER OF JURY TRIAL	73
15.1	CHOICE OF LAW	73
15.2	CONSENT TO JURISDICTION	73
15.3	WAIVER OF JURY TRIAL	73
15.4	No Tri-Party Accounts	73
15.5	Limitation on Interest	73
15.6	NO ORAL AGREEMENTS	74

REVOLVING CREDIT AGREEMENT

REVOLVING CREDIT AGREEMENT dated as of June 7, 2002 among K. HOVNANIAN MORTGAGE, INC., a New Jersey corporation (the "Borrower"), the banks identified on the signature pages hereof (together with any successors and assigns thereof, hereinafter referred to individually as a "Lender" and collectively as the "Lenders") and GUARANTY BANK, a federal savings bank, as Agent for the Lenders.

In consideration of the Advances to be made hereunder by the Lenders and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

As used in this Agreement:

"Acquisition" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (i) acquires any going business or all or substantially all of the assets of any firm, corporation or limited liability company, or division thereof, whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than

securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding ownership interests of a partnership or limited liability company.

"Additional Required Mortgage Documents" means the instruments and documents described in Schedule "B" to the Security Agreement.

"Advance" means a borrowing hereunder (or conversion or continuation thereof) consisting of the aggregate amount of the several Loans (other than Swingline Loans) made on the same Borrowing Date (or date of conversion or continuation) by some or all of the Lenders to the Borrower of the same Type and, in the case of Eurodollar Advances, for the same Interest Period.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 10% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

"Agent" means Guaranty Bank, with its main office in Dallas, Texas, in its capacity as contractual representative of the Lenders pursuant to Article X, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to Article X.

"Aggregate Commitment" means, as of any date (i) prior to the termination of the Bank One Credit Agreement and payment in full of all obligations thereunder, the amount equal to \$110,000,000 minus the aggregate amount of Loans outstanding under the Bank One Credit Agreement as most recently communicated to Agent by Bank One as agent under the Bank One Agreement and (ii) after the termination of the Bank One Credit Agreement and payment in full of all obligations thereunder, the aggregate of the Lenders' then-current Commitments under this Agreement, as reduced or increased from time to time, but in no event shall the Aggregate Commitment exceed \$150,000,000 without the approval of the Borrower, the Agent and all of the Lenders.

"Agreement" means this credit agreement, as it may be amended or modified and in effect from time to time.

"Agreement to Pledge" means a written pledge substantially in the form of Exhibit "E" to this Agreement executed by the Borrower and delivered by facsimile to the Collateral Agent, specifically identifying all Mortgage Loans with respect to which the Required Mortgage Documents are not being delivered on or before the Pledge Date of such Mortgage Loan.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of Federal Funds Effective Rate for such day plus 1/2% per annum.

"Alternate Base Rate Advance" means an Advance which bears interest at the Alternate Base Rate.'

"Alternate Base Rate Loan" means a Primary Loan (or any portion thereof) which bears interest at the Alternate Base Rate.

"AP Mortgage" means, on any date, any Mortgage Loan which has been identified in an Agreement to Pledge and for which the Collateral Agent has not received the Required Mortgage Documents for such Mortgage Loan by such date.

"Applicable Fee Rate" means, at any time, the percentage rate per annum at which "Facility Fees are accruing on the Aggregate Commitment (without regard to usage) at such time as set forth in the Pricing Schedule.

"Applicable Margin" means, with respect to Advances of any Type at any time, the percentage rate per annum which is applicable at such time with respect to Advances of such Type as set forth in the Pricing Schedule.

"Approved Investor" means, as of any time, any of the institutions listed on Schedule "3" attached hereto and any other institution approved in writing by the Agent (with prompt notice to the Lenders), such approval not to be unreasonably withheld, which Approved Investor shall be approved for the purchase of Non-Conforming Mortgage Loans if, and only if, it has a "1" following its name and which Approved Investor shall be approved for the purchase of Securities if, and only if, it has a "2" following its name; provided that any such institutions listed on Schedule "3" or previously approved by the Agent may be eliminated as an Approved Investor (or as an Approved Investor of a specific type) by written notice to the Borrower from the Agent, which elimination notice shall be given only for reasonable cause or at the election of the Required Lenders, and in either case any commitments issued by any such formerly-Approved Investor after such elimination shall not constitute Approved Investor Commitments, but commitments of such formerly-Approved Investor existing at the time of such elimination shall continue to be Approved Investor Commitments.

"Approved Investor Commitment" means a commitment, issued by an Approved Investor of the required type, to purchase Mortgage Loans, to exchange Securities for Mortgage Loans or to purchase Securities.

"Approved MBS Custodian" is defined in Paragraph 7(b) of the Security Agreement.

"ARM Mortgage Loan" means a Mortgage Loan which bears interest at a rate that may be adjusted at one or more times during the term of such Mortgage Loan.

"Assignment" means a duly executed assignment for the benefit of the Lenders of a Mortgage, of the indebtedness secured thereby, and of all documents and rights related to the Mortgage Loan secured by such Mortgage

in accordance with the requirements of the Security Agreement.
"Authorized Officer" means any of the Vice President, Senior Vice President, Executive Vice President, President, or Chief Executive Officer of the Borrower, acting singly.

"Available Deposits" means those free collected balances maintained in accounts in the name of the Borrower (or held by the Borrower in trust for third parties) with a Lender (after deducting float and balances required by such Lender under its normal practices to compensate such Lender for the maintenance of such accounts and taking into consideration reserve requirements applicable to such accounts) and which balances are not included in determining "Available Deposits" under any other arrangements between such Lender and the Borrower.

"Bank One Credit Agreement" means the Fourth Amended and Restated Revolving Credit Agreement dated as of July 16, 2001, among the Borrower, the lenders party thereto and Bank One, NA as agent.

"Basic Eligibility Requirements" means a Pledged Item with respect to which each of the following statements is accurate and complete:

(i) The Borrower is the legal and equitable owner and holder of such Pledged Item and has full power and authority to pledge such Pledged Item. Such Pledged Item and each commitment of a Person to purchase Mortgage Loans and Securities from the Borrower (including Approved Investor Commitments) has been duly and validly issued to the Borrower, and each Pledged Item constitutes Eligible Collateral, has been duly and validly pledged to the Collateral Agent for the benefit of the Secured Parties and is subject to no Lien other than the lien of the Security Agreement in favor of the Agent for the benefit of the Lenders.

(ii) Each requirement of any federal, state or local law including, without limitation, usury, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity or disclosure laws applicable to such Pledged Item has been complied with.

(iii) With respect to each Pledged Item which is a Pledged Mortgage:

(1) it has been duly executed and delivered by the parties thereto at a closing,

(2) it is valid and enforceable in accordance with its terms, without defense or offset, subject to bankruptcy and similar laws and other general restrictions on creditors' rights and equitable principles (whether raised in an equity proceeding or an action at law),

(3) the property covered by said Mortgage Loan is free and clear of all Liens except in favor of the Borrower subject only to (a) the Lien of current real property taxes and assessments not yet due and payable; (b) covenants, conditions and restrictions, rights of way, easements and other matters of the public record, as of the date of recording, as are acceptable to mortgage lending institutions generally and specifically referred to in a lender's title insurance policy delivered to the originator of said Mortgage Loan and (i) referred to or otherwise considered in the appraisal made for the originator of said Mortgage Loan or (ii) which do not materially adversely affect the appraised value of such property as set forth in such appraisal; (c) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by said Mortgage Loan or the use, enjoyment, value or marketability of the related property; and (d) a first Lien to the extent permitted under the Borrowing Base Sublimits,

(4) it has been correctly described in the Collateral Transmittal submitted to the Collateral Agent in respect of such Pledged Mortgage,

(5) it has been fully funded to the mortgagor or to an escrow or closing agent by wire transfer, transmittal through the "Automated Clearing House" or any similar private clearing house for interbank transfers of funds, cashier's check or a check written against the Borrower's controlled disbursement account with the Agent, which has been identified as a check in the related Collateral Transmittal and for which the Agent has notified the Collateral Agent that such check has been presented for payment and that good funds are available to fund the controlled disbursement account to cover such check,

(6) the Collateral Agent has in its possession (other than with respect to Pledged Mortgages which are then the subject of an Agreement to Pledge) all Required Mortgage Documents other than those documents and instruments which are in the possession of the Borrower pursuant to a Trust Receipt or in the possession of a Person to whom delivery was made pursuant to an Investor Transmittal Letter,

(7) it has been or will be promptly duly recorded where necessary and complies with all applicable state or local recording, registration and filing laws and regulations,

(8) there are no defenses, counterclaims or offsets of any nature whatsoever with respect to such Pledged Mortgage or the indebtedness evidenced and secured thereby or with respect to any Required Mortgage Document and, other than the related

Required Mortgage Documents and Additional Required Mortgage Documents, there are no instruments or documents evidencing, securing or guaranteeing payment of the indebtedness constituting such Pledged Mortgage,

(9) (a) with respect to Mortgage Loans other than MERS Mortgages, each Assignment (i) has been duly authorized by all necessary corporate action by the Borrower, duly executed and delivered by the Borrower and is the legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to bankruptcy and similar laws and other general restrictions on creditors' rights and equitable principles, and (ii) complies with all applicable laws including all applicable recording, filing and registration laws and regulations and is adequate and legally sufficient for the purpose intended to be accomplished thereby, including, without limitation, the assignment of the rights, powers and benefits of the Borrower as mortgagee, and (b) with respect to MERS Mortgages, the interest of the Collateral Agent and the Lenders in such Mortgages has been registered on the MERS System

(10) upon the recordation of each Assignment and assuming the possession of the Required Mortgage Documents by the Collateral Agent and filing of Uniform Commercial Code financing statements in proper form in the applicable filing offices, the Collateral Agent, for the benefit of the Lenders, will have a valid and perfected first priority security interest in such Pledged Item and all proceeds, products and profits derived therefrom, including, without limitation, all moneys, goods, insurance proceeds and other tangible or intangible property received upon liquidation thereof, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights generally and to general principles of equity,

(11) the Borrower has complied with all laws, rules and regulations in respect of such Pledged Mortgage if it is insured by FHA or guaranteed by VA and the related insurance or guarantee is in full force and effect. Such Mortgage Loan complies in all respects with all applicable requirements for purchase under the GNMA standard form of selling contract for FHA insured and VA guaranteed loans and any supplement thereto then in effect,

(12) the Borrower has received an appraisal on the property underlying such Pledged Mortgage, which appraisal shall be in conformity with the applicable requirements of any law or any governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any interpretation thereof, including, without limitation, the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended, reformed or otherwise modified from time to time, and any rules promulgated to implement such provisions,

(13) all fire and casualty policies covering the premises encumbered by each Pledged Mortgage (a) name the Borrower as the insured under a standard mortgagee clause not less favorable in coverage to the mortgagee than is customarily used in the state where such premises is located, (b) are in full force and effect, and (c) afford insurance against fire and such other risks as are usually insured against in the broad form of extended coverage insurance from time to time available, as well as insurance against flood hazards as required by FHA or VA,

(14) it is not a revolving credit facility, and

(15) with respect to MERS Loans, (i) the Borrower is in full compliance with all terms and conditions of membership in MERS, including the MERSCORP, Inc. "Rules of Membership" most recently promulgated by MERSCORP, Inc., the "MERS Procedures Manual" most recently promulgated by MERS, and any and all other guidelines or requirements set forth by MERS or MERSCORP, as each of the foregoing may be modified from time to time, including, but in no way limited to compliance with guidelines and procedures set forth with respect to technological capabilities, drafting and recordation of Mortgages, registration of Mortgages on the MERS System, including registration of the interest of the Collateral Agent and the Lenders in such Mortgages and membership requirements and (ii) the Borrower employs officers who have the authority, pursuant to a corporate resolution from MERS, to execute assignments of mortgage in the name of MERS in the event deregistration from the MERS System is necessary or desirable.

(iv) There shall be no breach of the covenants contained in Paragraph 12 of the Security Agreement and there shall be no breach of any of the following covenants (the sole remedy for which shall be the removal of such Pledged Item as Eligible Collateral):

(1) The Borrower shall not (a) amend or modify, or waive any of the terms and conditions of, or settle or compromise any claim in respect of, any Pledged Item or any rights related to any of the foregoing, if such amendment,

modification or waiver materially and adversely affects the Collateral Value of such Pledged Item, or impairs the marketability of such Pledged Item or (b) release any security or obligor, or, through any other activity or inactivity, cause any Pledged Mortgage which shall have been eligible for purchase to become ineligible for purchase in accordance with the Approved Investor Commitment related to such Pledged Mortgage.

(2) The Borrower shall not sell, assign, transfer or otherwise dispose of, or grant any option with respect to, or pledge or otherwise encumber (except pursuant to the Security Agreement), any of the Collateral or any interest therein, except as provided in Section 8.3 with respect to releases of Pledged Items.

(3) The Borrower is the servicer for and shall service all Pledged Mortgages in accordance with the requirements of the Approved Investor Commitments. The Borrower shall service all Mortgage Loans which are the subject of Pledged Securities in accordance with the standard requirements of the Federal Agency issuing or guaranteeing such Securities and all applicable FHA and VA requirements.

(4) The Borrower shall hold all escrow funds collected in respect of Pledged Items in trust, without commingling the same with any other fund, and apply the same for the purposes for which such funds were collected provided that such obligation with respect to Pledged Mortgages shall not arise until 30 days after the origination or acquisition of the applicable Mortgage Loan.

(5) The Borrower shall observe and perform all of its obligations in connection with each Approved Investor Commitment related to any Pledged Mortgage or Pledged Security. Within forty-eight (48) hours after a request therefor by the Agent, a copy of each Approved Investor Commitment certified by the Borrower, or if requested by the Agent at any time after a Default has occurred, the originals of such Approved Investor Commitments shall be delivered to the Agent.

(6) The Borrower shall promptly notify the Agent and the Collateral Agent if and when the Borrower receives any partial or full prepayment (which term excludes the principal portion of scheduled monthly payments made on a Mortgage Loan) arising from or relating to any Pledged Mortgage and hold the same in trust, as security for the Lenders, until such Mortgage Loan is removed from the Borrowing Base in accordance with this Agreement or, if a Default has occurred and is continuing under this Agreement, then immediately remit to the Agent such prepayments (and all interest and earnings thereon or with respect thereto).

(7) The Borrower shall do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, all such other acts, instruments and transfers (including, without limitation, Assignments) as the Agent or the Collateral Agent may reasonably request from time to time in order to create and maintain a perfected first priority security interest in the Collateral in favor of the Lenders and to create, maintain and preserve the security and benefits intended to be afforded by this Agreement, subject to no prior or equal security interest, lien, charge or encumbrance, or agreement purporting to grant to any Person a security interest in the Collateral.

(8) The Borrower shall promptly notify the Agent and the Collateral Agent of the occurrence of any event which would cause any Eligible Collateral to become Ineligible Collateral.

"Borrower" means K. Hovnanian Mortgage, Inc., a New Jersey corporation, and its successors and assigns.

"Borrowing Base" means, as of any date, subject to the Borrowing Base Sublimits, the sum of the amounts determined by applying the following percentages to the Collateral Values of the following categories of Eligible Collateral, without duplication as any asset is converted from one category to another, as described below (and the Borrower, by including any Pledged Item in any computation of the Borrowing Base, shall be deemed to represent and warrant to the Agent, the Collateral Agent and the Lenders that such Pledged Item constitutes Eligible Collateral):

(i) ninety-eight percent (98%) of the Collateral Value of Eligible Conforming Mortgage Loans and Eligible Securities;

(ii) ninety-six percent (96%) of the Collateral Value of Eligible Non-Conforming Mortgage Loans;

(iii) ninety-eight percent (98%) of the Collateral Value of Eligible Jumbo Mortgage Loans;

(iv) ninety-five percent (95%) of the Collateral Value of Eligible Oversize Jumbo Mortgage Loans; and

(v) ninety percent (90%) of the Collateral Value of Eligible Aged Conforming Mortgage Loans.

In connection with the Borrowing Base, the Agent is hereby authorized by the Lenders to grant temporary waivers of strict compliance by the Borrower with the eligibility requirements regarding qualification of any Collateral as Eligible Collateral or with the Lending Sublimits and Borrowing Base Sublimits when the Agent deems it appropriate, in its sole discretion, (i)

as to all matters (other than (x) any requirement that a Mortgage Loan be covered by an Approved Investor Commitment, (y) those described in the definition "Basic Eligibility Requirement" (except that temporary waivers may be granted for any of clauses (iii)(6), (9) or (10) or (iv) of such definition) or (z) those described in the definition of "Residential Mortgage Loan"), if the aggregate amount of deviation from strict compliance, based on the Collateral Value so included in the Borrowing Base and the amount of excess permitted over the Lending Sublimits or Borrowing Base Sublimits does not exceed \$5,000,000 at any time (provided, however, that the duration of any such temporary waiver shall not exceed twenty (20) days with respect to any AP Mortgage unless the note related to such mortgage has been delivered to the Collateral Agent), or (ii) as to any matter, up to any amount for up to three (3) Business Days, if the satisfaction of such eligibility requirements or sublimits cannot be independently determined because of events beyond the reasonable control of the Borrower (i.e. natural disasters, transmission failures, etc.), provided that, if such determination cannot be made for more than one (1) Business Day, the Borrower certifies in writing that all such eligibility requirements and sublimits are in fact satisfied.

"Borrowing Base Certificate" means a system generated report, initially in the form attached hereto as Exhibit "G," prepared by the Collateral Agent to reflect the Collateral Value Determination at the times required by (and as such term is defined in) the Security Agreement, the form of which report may be modified from time to time by the Collateral Agent.

"Borrowing Base Sublimits" is defined in Section 2.1.3.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in Section 2.6.

"Business Day" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Dallas, Texas and New York, New York for the conduct of substantially all of their commercial lending activities, interbank wire transfers can be made on the Fedwire system and dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Dallas, Texas for the conduct of substantially all of their commercial lending activities and interbank wire transfers can be made on the Fedwire system.

"Buy-Down Agreement" means a written agreement between the Borrower and a Lender setting forth the terms and conditions under which such Lender has agreed to a reduced interest rate on account of Fed Funds Loans outstanding hereunder based upon Available Deposits maintained by the Borrower with such Lender.

"Buy-Down Lender" is defined in Section 2.3.

"Buy-Down Rate" means 1.375%.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with GAAP.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with GAAP.

"Cash Equivalent Investments" means (i) short-term obligations of, or fully guaranteed by, the United States of America, (ii) commercial paper rated A-1 or better by S&P or P-1 or better by Moody's, (iii) demand deposit accounts maintained in the ordinary course of business, and (iv) certificates of deposit issued by and time deposits with commercial banks (whether domestic or foreign) having capital and surplus in excess of \$ 100,000,000; provided in each case that the same provides for payment of both principal and interest (and not principal alone or interest alone) and is not subject to any contingency regarding the payment of principal or interest.

"Change in Control" means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 50% or more of the outstanding shares of voting stock of the Parent; or (ii) Parent shall cease to own, free and clear of all Liens or other encumbrances, at least 100% of the outstanding shares of voting stock of the Borrower on a fully diluted basis.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Collateral" means all right, title and interest of the Borrower, of every kind and nature, in and to all of the following property, assets and rights of the Borrower wherever located, whether now existing or hereafter arising, and whether now or hereafter owned, acquired by or accruing or owing to the Borrower, and all proceeds and products thereof:

- (i) all Pledged Mortgages and Pledged Securities, whether Eligible Collateral or Ineligible Collateral, including all Required Mortgage Documents related thereto;
- (ii) any commitments or other agreements issued by any private mortgage insurer or by the FHA or VA to insure or guarantee any Pledged Mortgage;
- (iii) all Approved Investor Commitments to purchase Pledged Securities or Pledged Mortgages (or any Securities to be issued based on such Pledged Mortgages) from the Borrower;
- (iv) any options to sell or purchase Securities, future

contracts, or any other interest rate protection products which directly or indirectly protect the Borrower against reductions in value of such Pledged Mortgages or Pledged Securities due to changes in mortgage interest rates;

(v) the Settlement Account, the Funding Account and all uncollected deposits into the Settlement Account and the Funding Account, together with any Custodian Settlement Accounts then in existence with Approved MBS Custodians, as described in Paragraph 7(c) of the Security Agreement, and all uncollected deposits in such accounts;

(vi) all property related to the foregoing, including without limitation, the right to service Pledged Mortgages while owned by the Borrower, all accounts and general intangibles of whatsoever kind so related and all documents or instruments delivered to the Collateral Agent in respect of any Pledged Item, including, without limitation, the right to receive all insurance proceeds and condemnation awards which may be payable in respect of the premises encumbered by any Pledged Mortgage; and

(vii) all proceeds and products of any of the foregoing.

"Collateral Agent" means Guaranty Bank in its capacity as contractual representative of the Lenders pursuant to the Security Agreement, and any successor Collateral Agent appointed pursuant to paragraph 17 of the Security Agreement.

"Collateral Transmittal" means a transmittal from the Borrower to the Collateral Agent in electronic form (or in written form delivered by fax) or in the event that the Borrower is unable - due to a system failure or other event beyond the Borrower's control - to transmit such information electronically) and, if required by the Collateral Agent, written form containing the following information for the following submissions or special treatment of different types of Collateral: (i) the information described on Exhibit "D" for each AP Mortgage covered by any Agreement to Pledge, (ii) the information described on Exhibit "D" (other than the entry thereon for "AP Status Code") for each Pledged Mortgage not covered by an Agreement to Pledge, (iii) change of any Pledged Mortgage from wet to dry (open) status, open to shipped status, shipped to paid and any cancellation of wet status, (iv) whether the Mortgage Loan is to be funded by wire or check or (v) such information as may be required from time to time by the Collateral Agent for any Pledged Security.

"Collateral Value" means, with respect to each asset included in Eligible Collateral on any given day, a value determined as follows:

(ii) Each Security shall be valued based upon the Collateral Value of the underlying Pledged Mortgages as otherwise determined hereunder; and

(iii) Each Pledged Mortgage shall be valued at the lowest of

(A) the unpaid principal balance of such Mortgage Loan on its Pledge Date (or the unpaid principal balance on its conversion date in the case of Conversion Mortgage

Loans), or (B) the net acquisition cost (including any discounts and excluding any servicing released premium) of such Mortgage Loan, if acquired by the Borrower, or

(C) the weighted average purchase price (expressed as a percentage of par) committed to under those Approved Investor Commitments which could cover such Mortgage Loan applied to the unpaid principal balance of such Mortgage Loan on its Pledge Date (or the unpaid principal balance on its conversion date in the case of Conversion Mortgage Loans) or (D) market value, as determined by the Agent (in cooperation with the Collateral Agent), based upon whole loan prices currently available, as and when the Agent, in its sole discretion (with no requirement to do so unless directed to do so by the Required Lenders), chooses to calculate market value. The values described in (A), (B) and (C) of the preceding sentence shall be as determined by the Borrower as of the Pledge Date of the applicable Pledged Mortgage and reported to the Collateral Agent.

"Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Primary Loans in an aggregate principal amount at any time outstanding not to exceed such Lender's Commitment Amount.

"Commitment Amount" shall mean, as of any date and with respect to each Lender, the amount set forth opposite the name of such Lender on Schedule "2" as its "Commitment Amount" on such date, as such Schedule 2 may be revised in accordance with Section 2.8 or Section 12.4.

"Commitment Percentage" means, for each Lender as of any date, the percentage of the Aggregate Commitment represented by such Lender's Commitment, as it may be amended from time to time, which initially shall be as set forth on Schedule "2".

"Conforming Mortgage Loan" means a first or second priority Residential Mortgage Loan which (i) either is insured by the FHA or guaranteed by the VA or which fully conforms to all underwriting and other requirements for sale to FNMA, FHLMC or GNMA, and (ii) if said Mortgage Loan is a first priority Residential Mortgage Loan and has a loan-to-value ratio which is greater than eighty percent (80%), said Mortgage Loan is covered by a policy of private mortgage insurance acceptable to FNMA and the Agent; provided that no such insurance shall be required for second lien Residential Mortgage Loans, and (iii) if said Mortgage Loan is a second priority Residential Mortgage Loan, (A) said Mortgage Loan was made

contemporaneously with a first priority Residential Mortgage Loan to the same mortgagee and for the same real estate and improvements, and (B) said Mortgage Loan, together with said first Lien Mortgage Loan has a combined loan-to-value ratio which is not greater than one hundred percent (100%).

"Consolidated Tangible Net Worth" means, as of any date of determination thereof, the Net Worth less the book value of any assets of the Borrower and its consolidated Subsidiaries which would be treated as intangibles under GAAP including, without limitation, good-will, research and development costs, trade-marks, trade names, copyrights, patents and unamortized debt discount and expenses.

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement, take-or-pay contract or the obligations of any such Person as general partner of a partnership with respect to the liabilities of the partnership.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Conversion/Continuation Notice" is defined in Section 2.7.

"Conversion Mortgage Loan" means a Mortgage Loan which is originated as an ARM Mortgage Loan, sold to an Approved Investor and subsequently repurchased by the Borrower after an election by the obligor thereunder to convert to a fixed rate loan.

"Coverage Requirement" means, as of any date, the aggregate unpaid principal amount then outstanding under this Agreement

"Custodian Settlement Accounts" is defined in the Security Agreement.

"Default" means an event described in Article VII.

"Effective Date" is defined in Section 4.1.

"Electronic Tracking Agreement" shall mean the Electronic Tracking Agreement dated the date hereof among the Agent, MERS, MERSCORP, the Collateral Agent and the Borrower.

"Eligible Aged Conforming Mortgage Loan" shall mean an Eligible Mortgage Loan that (i) has been included in the Borrowing Base for more than 90 days after its Pledge Date and not more than 180 days after its Pledge Date, and (ii) would be an Eligible Conforming Mortgage Loan if such loan had been included in the Borrowing Base for not more than 90 days after its Pledge Date.

"Eligible Collateral" means, as of any date, all Eligible Conforming Mortgage Loans, Eligible Jumbo Mortgage Loans, Eligible Oversize Jumbo Mortgage Loans, Eligible Non-Conforming Mortgage Loans, Eligible Aged Conforming Mortgage Loans and Eligible Securities.

"Eligible Conforming Mortgage Loan" means an Eligible Mortgage Loan which: (i) is a Conforming Mortgage Loan; and (ii) is subject to an Approved Investor Commitment.

"Eligible Jumbo Mortgage Loan" means an Eligible Mortgage Loan which: (i) is a Jumbo Mortgage Loan; and (ii) is subject to an Approved Investor Commitment.

"Eligible Mortgage Loan" means any Pledged Mortgage:

- (i) which meets the Basic Eligibility Requirements;
- (ii) which has no monthly installment of principal and/or interest which is more than 29 days past due;
- (iii) which has been included in the Borrowing Base for not more than ninety (90) days after its Pledge Date unless it is an Eligible Aged Mortgage Loan;
- (iv) which has a note date (or, in the case of Conversion Mortgage Loan, a conversion date) which is one hundred twenty (120) days or less prior to its Pledge Date;
- (v) for which, if it is an AP Mortgage:
 - (1) the Borrower expects such AP Mortgage to close on the Pledge Date and become a valid lien securing actual indebtedness by funding to the order of the mortgagor thereunder, has not learned of any information to the contrary and has not received any returned proceeds of such AP Mortgage from the escrow or closing agent for such Pledged Mortgage;
 - (2) if an AP Mortgage is not closed and funded as required pursuant to clause (v) (1) above, the Borrower shall so notify the Collateral Agent as soon as the Borrower becomes aware of that fact but in any event no later than 12:00 noon the next Business Day, unless the AP Mortgage has closed and funded by that time, and the Collateral Agent shall delete said AP Mortgage from the Borrowing Base;
 - (3) if an AP Mortgage was previously included in the Borrowing Base and was subsequently deleted as required pursuant to clause (v) (2) above, such AP Mortgage has not been submitted for inclusion in the Borrowing Base for a total of more than three times;
 - (4) the Collateral Agent has received the Required Mortgage Documents within seven (7) Business Days after the date of the related Agreement to Pledge;

(5) the Collateral Value attributable to all AP Mortgages included in any category of the Borrowing Base does not exceed forty percent (40%) of the Aggregate Commitment during the first and last three Business Days in any calendar month, and

(6) the Collateral Value attributable to all AP Mortgages included in any category of the Borrowing Base does not exceed thirty percent (30%) of the Aggregate Commitment for any day other than the first and last three Business Days of any calendar month;

(vi) which, if subject to an Investor Transmittal Letter or Trust Receipt and if said Pledged Mortgage was:

(1) withdrawn by the Borrower for purposes of correcting clerical or other non-substantive documentation problems: (i) the promissory note and other documents relating to said Pledged Mortgage were returned to the Collateral Agent within fifteen calendar days from the date of withdrawal, (ii) said Pledged Mortgage was released to the Borrower pursuant to a Trust Receipt and (iii) the Collateral Value of said Pledged Mortgage when added to the Collateral Value of all other Pledged Mortgages which have been similarly released to the Borrower does not exceed \$1,000,000; or

(2) shipped by the Collateral Agent directly to an Approved Investor for purchase pursuant to an Investor Transmittal Letter which is a "Whole Loan Sale Transmittal Letter" substantially in the form of Exhibit "4" to the Security Agreement, the full purchase price therefor has been received by the Collateral Agent (or said Pledged Mortgage has been returned to the Collateral Agent) within forty-five (45) calendar days (or sixty (60) calendar days for deliveries to such Approved Investors as the Agent may have specifically approved for extended Investor Transmittal Letters) from the date of shipment by the Collateral Agent; or

(3) shipped by the Collateral Agent directly to a custodian for purposes of formation of a pool supporting a Security, the Security is issued and sold and the purchase price therefor has been received by the Collateral Agent (or said Pledged Mortgage has been returned to the Collateral Agent) within forty-five (45) days (or sixty (60) days for deliveries to such Approved Investors as the Agent may have specifically approved for extended Investor Transmittal Letters) from the date of shipment by the Collateral Agent; and

(vii) which has not previously been included in the Borrowing Base, then shipped to an investor and returned, for whatever reason, to the Collateral Agent.

"Eligible Non-Conforming Mortgage Loan" means an Eligible Mortgage Loan which: (i) is a Non-Conforming Mortgage Loan; (ii) is subject to an Approved Investor Commitment issued by an Approved Investor; and (iii) has an unpaid principal balance on the applicable Pledge Date less than or equal to \$350,000.

"Eligible Oversize Jumbo Mortgage Loan" means an Eligible Mortgage Loan which: (i) is an Oversize Jumbo Mortgage Loan; and (ii) is subject to an Approved Investor Commitment specifically identified as covering such Mortgage Loan.

"Eligible Security" means any Pledged Security: (i) which is covered by an Approved Investor Commitment; and (ii) for which the Collateral Agent shall have received such evidence as may be required under the Security Agreement to confirm the existence of the security interest in favor of the Collateral Agent for the benefit of the Lenders in such Pledged Security.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to (i) the protection of the environment, (ii) the effect of the environment on human health, (iii) emissions, discharges or releases of pollutants, contaminants, hazardous substances or wastes into surface water, ground water or land, or (iv) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, hazardous substances or wastes or the clean-up or other remediation thereof

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any rule or regulation issued thereunder.

"Eurodollar Advance" means an Advance which bears interest at a Eurodollar Rate.

"Eurodollar Base Rate" means with respect to a Eurodollar Advance for the relevant Interest Period, the rate appearing on Bloomberg Professional (or, if not available, any other nationally recognized trading screen reporting on-line trading in eurodollars) as the eurodollar rate for deposits in dollars at 10:00 a.m. (Dallas time) two Business Days prior to the first day of such Interest Period, having a maturity equal to such Interest Period. In the event that such rate ceases to be published, Eurodollar Base Rate shall mean a comparable rate of interest reasonably selected by Lender.

"Eurodollar Loan" means a Loan which bears interest at a Eurodollar Rate.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (i) the quotient of (a) the Eurodollar

Base Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus (ii) the Applicable Margin.

"Excluded Taxes" means, in the case of each Lender or applicable Lending Installation and the Agent, taxes imposed on its overall net income, and franchise taxes imposed on it, by (i) the jurisdiction under the laws of which such Lender or the Agent is incorporated or organized or (ii) the jurisdiction in which the Agent's or such Lender's principal executive office or such Lender's applicable Lending Installation is located.

"Exhibit" refers to an exhibit to this Agreement, unless another document is specifically referenced.

"Federal Agency" means FHLMC, FNMA, GNMA, FHA or VA.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10 a.m. (Dallas time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Federal Funds Funding Rate" means, with respect to any Fed Funds Loan for any day, the rate per annum equal to the consensus (or if no consensus exists, the arithmetic average) of the rates at which reserves are offered by first-class banks to other first-class banks (at approximately 10:00 a.m. (Dallas time)) on such day (or if such day is not a Business Day, on the immediately preceding Business Day) on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, based on quotes received by the Agent from three federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Federal Funds Rate" means, for any day, an interest rate per annum equal to the Federal Funds Funding Rate for such day plus the Applicable Margin.

"Fed Funds Advance" means an Advance which bears interest at the Federal Funds Rate.

"Fed Funds Loan" means any Loan made as a part of a Fed Funds Advance.

"Fees" is defined in Section 2.5.

"FHA" means the Federal Housing Administration or other agency, corporation or instrumentality of the United States to which the powers and duties of the Federal Housing Administration have been transferred.

"FHA-Approved Mortgagee" means an institution that is approved by the FHA to act as a servicer and mortgagee of record with respect to a Mortgage Loan insured by the FHA.

"FHLMC" means the Federal Home Loan Mortgage Corporation or other agency, corporation or instrumentality of the United States to which the powers and duties of the Federal Home Loan Mortgage Corporation have been transferred.

"FHLMC-Approved Lender" means an institution that is approved by the FHLMC to act as a lender in connection with the origination of any Mortgage Loan purchased by the FHLMC.

"FHLMC Security" means a security representing an undivided fractional interest in a pool of Mortgage Loans, which security is issued and guaranteed as to full and timely payment of interest and full collection by principal by FHLMC.

"FNMA" means the Federal National Mortgage Association or other agency, corporation or instrumentality of the United States to which the powers and duties of the Federal National Mortgage Association have been transferred.

"FNMA-Approved Lender" means an institution that is approved by the FNMA to act as a lender in connection with the origination of any Mortgage Loan purchased by the FNMA.

"FNMA Security" means a security representing an undivided fractional interest in a pool of Mortgage Loans, which security is issued and guaranteed as to full and timely payment of principal and interest by FNMA.

"Funding Account" means the account established pursuant to Section 8.4.

"GAAP" means generally accepted accounting principles as in effect from time to time, consistently applied.

"GAAP Carrying Value" means, with respect to any asset of the Borrower, the value at which such asset is carried on the books of the Borrower in accordance with GAAP after excluding capitalized items. Any changes in the methodology used for adjusting such book value shall be subject to the prior approval of the Agent.

"GNMA" means the Government National Mortgage Association or other agency, corporation or instrumentality of the United States as to which the powers and duties of the Governmental National Mortgage Association have been transfer-red.

"GNMA Security" means a security representing an undivided fractional interest in a pool of Mortgage Loans, which security is issued by the Borrower and guaranteed as to full and timely payment of principal and interest by GNMA without regard as to whether the Borrower collects any payments on such Mortgage Loans.

"Ineligible Collateral" means any Pledged Item that does not at the

time constitute Eligible Collateral.

"Indebtedness" of a Person means such Person's (i) obligations for borrowed money, (ii) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (iii) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, acceptances, or other instruments, (v) Capitalized Lease Obligations, (vi) Contingent Obligations, (vii) Letters of Credit, (viii) obligations of such Person to purchase securities or other Property arising out of or in connection with the sale of the same or substantially similar securities or Property, (ix) Net Mark-to-Market Exposure under Rate Management Transactions and (x) any other obligation for borrowed money which in accordance with GAAP would be shown as a liability on the consolidated balance sheet of such Person.

"Interest Period" means, with respect to a Eurodollar Advance, a period of one, two or three-months commencing on a Business Day, all as selected by the Borrower pursuant to this Agreement. An Interest Period of one, two or three months shall end on the day which corresponds numerically to such date one, two or three months thereafter, provided, however, that if there is no such numerically corresponding day in such next, second or third succeeding month, such Interest Period shall end on the last Business Day of such next, second or third succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if with respect to a one, two or three month Interest Period said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Interim Funder Category" shall mean the category of the same name on the MERS System that reflects the security interest of inter alia, mortgage warehouse lenders, in the Mortgage Loans that have been pledged by borrowers of such mortgage warehouse lender.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade) or contribution of capital by such Person; stocks, bonds, mutual funds, partnership interests, notes, debentures or other securities owned by such Person; any deposit accounts and certificate of deposit owned by such Person; and structured notes, derivative financial instruments and other similar instruments or contracts owned by such Person.

"Investor Transmittal Letter" means either a "Whole Loan Sale Transmittal Letter" or a "Warehouse-Related MBS Transmittal Letter" substantially in the form of Exhibits "4" and "5" to the Security Agreement.

"Jumbo Mortgage Loan" means a Conforming Mortgage Loan except for size, but which has an original principal balance of less than or equal to \$650,000.

"Keep-Well" means that certain Keep-Well Agreement of even date herewith executed by the Parent in favor of the Agent, for the ratable benefit of the Lenders, as it may be amended or modified and in effect from time to time.

"Lenders" means the lending institutions listed on the signature pages of this Agreement and their respective successors and assigns.

"Lending Installation" means, with respect to a Lender or the Agent, the office, branch, subsidiary or affiliate of such Lender or the Agent listed on the signature pages hereof or on a Schedule or otherwise selected by such Lender or the Agent pursuant to Section 2.17.

"Lending Sublimits" is defined in Section 2.1.1.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Lien" means any lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement).

"Loan" means a Primary Loan or a Swingline Loan and "Loans" means all Primary Loans and all Swingline Loans (or any conversion or continuation thereof).

"Loan Documents" means this Agreement, any Notes issued pursuant to Section 2.15, the Security Agreement, the Buy-Down Agreements, the Keep-Well, the Subordination Agreement and the other documents and agreements contemplated hereby and executed by the Borrower or another Person in favor of the Agent or any Lender.

"Material Adverse Effect" means a material adverse effect on (i) the business, Property, condition (financial or otherwise), results of operations, or prospects of the Borrower and its Subsidiaries taken as a whole or of the Parent, (ii) the ability of the Parent or the Borrower to perform its obligations under the Loan Documents to which it is a party, or (iii) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Material Indebtedness" is defined in Section 7.5.

"MERS" shall mean the Mortgage Electronic Registration System, Inc.

"MERSCORP" shall mean MERSCORP, Inc.

"MERS Loan" shall mean any Mortgage Loan made by the Borrower which is secured by a MERS Mortgage.

"MERS Member" shall mean any entity which is a member of MERS, in good standing and in compliance with all rules, regulations, procedures and requirements set forth by MERS, including, but not limited to the payment of membership dues.

"MERS Mortgage" shall mean any Mortgage registered to the Borrower on the MERS System.

"MERS System" shall mean the Mortgage Electronic Registration System established by MERS.

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

"Mortgage" means a mortgage, deed of trust, security deed or similar instrument purporting to create a first or second lien or similar interest in real estate and improvements thereon.

"Mortgage Loan" means a loan of money evidenced by a Mortgage Note and secured by a Mortgage.

"Mortgage Note" means a note evidencing the indebtedness secured by a Mortgage.

"Multi-employer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Borrower or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"Net Income" means, as of any date of determination thereof, the net income of the Borrower and the consolidated Subsidiaries, on a consolidated basis, as determined in accordance with GAAP.

"Net Mark-to-Market Exposure" of a Person means, as of any date of determination, the excess (if any) of all unrealized losses over all unrealized profits of such Person arising from Rate Management Transactions. "Unrealized losses" means the fair market value of the cost to such Person of replacing such Rate Management Transactions as of the date of determination (assuming the Rate Management Transactions were to be terminated as of that date), and "unrealized profits" means the fair market value of the gain to such Person of replacing such Rate Management Transactions as of the date of determination (assuming such Rate Management Transactions were to be terminated as of that date).

"Net Worth" means as of any date of determination thereof, the net worth of the Borrower and its Subsidiaries on a consolidated basis as determined in accordance with GAAP.

"Non-Conforming Mortgage Loan" means a first priority Residential Mortgage Loan that (i) does not fully conform to the underwriting criteria for sale to FNMA or FHLMC with respect to credit quality, (ii) meets the general underwriting guidelines established in Exhibit "H" hereto, and (iii) does not have a loan-to-value ratio which is greater than one hundred percent (100%).

"Non-U.S. Lender" is defined in Section 3.5(iv).

"Note" means any promissory note issued at the request of a Lender pursuant to Section 2.13 substantially the form of Exhibit "A" attached hereto, including any amendment, modification, renewal or replacement of any such promissory note.

"Notice of Assignment" is defined in Section 12.3.2.

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Loans, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent, the Collateral Agent or any indemnified party arising under the Loan Documents.

"Operating Cash Flow" means, for any period, (i) the sum of the following items for the Borrower and its consolidated Subsidiaries for such period (with terms in quotes having the meanings given such terms in the Borrower's consolidated financial statements): "net income", "net losses on interest rate contracts" and other similar hedging instruments, "provision for loan losses", "depreciation and amortization of good will", the increase in deferred (but not current) taxes, and other non-cash losses or deductions included in the computation of net income; minus (ii) the sum of the following items for the Borrower and its consolidated Subsidiaries for such period (with terms in quotes having the meanings given such terms in the Borrower's consolidated financial statements): the decrease in deferred (but not current) taxes and other non-cash gains included in the computation of "net income".

"Other Taxes" is defined in Section 3.5(ii).

"Overnight Transaction Loan Effective Rate" means, as of any day, a fluctuating rate of interest per annum determined by the Agent as its overnight transaction loan rate for such day.

"Overnight Transaction Loan Rate" means, with respect to a Swingline Loan, a rate equal to the sum of (i) the Overnight Transaction Loan Effective Rate plus (ii) the Applicable Margin.

"Oversize Jumbo Loans" means a Conforming Mortgage Loan except for size, but which has an original principal balance in excess of \$650,000, but less than or equal \$1,250,000.

"Parent" means Hovnanian Enterprises, Inc., and its successors and assigns.

"Participants" is defined in Section 12.2.1.

"Payment Date" means the last day of each calendar month.

"PBG" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Person" means any natural person, corporation, firm, joint venture,

partnership, association, limited liability company, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof

"Plan" means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code as to which the Borrower or any member of the Controlled Group may have any liability.

"Pledge Date" means the date on which a Mortgage Loan or Security is first delivered in pledge to the Collateral Agent or is otherwise made subject to a security interest in favor of the Agent or Collateral Agent for the benefit of the Lenders, provided that (i) the date of delivery of a Mortgage Loan covered by an Agreement to Pledge shall be deemed to be the date of delivery of such Agreement to Pledge even after subsequent delivery of the related Required Mortgage Documents, (ii) the "Pledge Date" for all Collateral previously held by the Collateral Agent under the Prior Facilities shall be deemed to be the date on which such Collateral was first delivered to the Collateral Agent under the Prior Facilities even though such date is prior to the date of this Agreement and (iii) any AP Mortgage which has been deleted and resubmitted as permitted pursuant to clause (v)(3) of the definition of Eligible Mortgage Loan, shall have a Pledge Date which is the date of the original Agreement to Pledge first submitted.

"Pledged Item" means any Pledged Mortgage or Pledged Security.

"Pledged Mortgage" all Mortgage Loans that are from time to time delivered (or, in the case of AP Mortgages, are committed to be delivered) to the Collateral Agent pursuant to this Agreement and the Security Agreement.

"Pledged Security" all Securities that are from time to time delivered to the Collateral Agent pursuant to this Agreement and the Security Agreement.

"Pricing Schedule" means the Schedule attached hereto identified as Schedule "1".

"Primary Advance" means a Eurodollar Advance, a Fed Funds Advance or an Alternate Base Rate Advance.

"Primary Loan" means a Loan (other than a Swingline Loan) consisting of a portion of a Primary Advance.

"Prime Rate" means a rate per annum equal to the prime rate of interest announced from time to time by Guaranty Bank or by its parent (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"Purchasers" is defined in Section 12.3.1.

"Rate Management Transaction" means any transaction (including an agreement with respect thereto) now existing or hereafter entered into between the Borrower and any Person which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"Rate Management Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all Rate Management Transactions, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any Rate Management Transactions.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided, however, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Reports" is defined in Section 9.7.

"Required Lenders" means Lenders in the aggregate having at least 66 2/3% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Lenders in the aggregate holding at least 66 2/3% of the

aggregate unpaid principal amount of the outstanding Advances.

"Required Mortgage Documents" means the instruments and documents described in Schedule "A" to the Security Agreement, as applicable to a particular Mortgage Loan, which are required to be delivered to the Collateral Agent.

"Reserve Requirement" means, with respect to the Eurodollar Rate applicable to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on eurocurrency liabilities.

"Residential Mortgage Loan" means a Mortgage Loan secured by a Mortgage on a Single Family Residence.

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

"Schedule" refers to a specific schedule to this Agreement, unless another document is specifically referenced.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Secured Obligations" means, collectively, (i) the Obligations and (ii) all Rate Management Obligations owing to one or more Lenders.

"Secured Parties" is defined in Paragraph 1 of the Security Agreement.

"Security or Securities" means any FHLMC Security, FNMA Security or GNMA Security.

"Security Agreement" means the Fourth Amended and Restated Security and Collateral Agency Agreement as of even date herewith, substantially in the form of Exhibit "I" attached hereto, by and among the Borrower, the Agent, and the Collateral Agent, pursuant to which a security interest is created in favor of the Collateral Agent for the Lenders under this Agreement in certain Collateral to be pledged pursuant to this Agreement, as the same may, from time to time, be further supplemented, modified or amended.

"Settlement Account" means the account established pursuant to Section 8.4.

"Single Employer Plan" means a Plan maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group.

"Single Family Residence" means a one to four family dwelling unit, which may be a condominium unit but which shall not be a mobile home, manufactured housing or a dwelling unit in a cooperative apartment building.

"Subordination Agreement" means that certain Subordination Agreement of even date herewith made by Parent in favor of the Agent for the benefit of the Lenders.

"Subsidiary" of a Person means (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any partnership, limited liability company, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Substantial Portion" means, with respect to the Property of the Borrower and its Subsidiaries, Property which (i) represents more than 10% of the consolidated assets of the Borrower and its Subsidiaries as would be shown in the consolidated financial statements of the Borrower and its Subsidiaries as at the beginning of the twelve-month period ending with the month in which such determination is made, or (ii) is responsible for more than 10% of the consolidated net sales or of the consolidated net income of the Borrower and its Subsidiaries as reflected in the financial statements referred to in clause (i) above.

"Swingline Amount" means \$3,000,000.

"Swingline Commitment" means the obligation of the Swingline Lender under Section 2.4 to make Swingline Loans.

"Swingline Lender" means Guaranty Bank in its capacity as Swingline Lender under this Agreement.

"Swingline Loan" has the meaning ascribed to such term in Section 2.4.1.

"Swingline Obligations" has the meaning ascribed to such term in Section 2.4.2.

"Swingline Rate" means for any day, the Overnight Transaction Loan Rate.

"Taxes" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and any and all liabilities with respect to the foregoing, but excluding Excluded Taxes.

"Termination Date" means June 6, 2003 or any earlier date on which the Aggregate Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof

"Total Liabilities" means as of any date of determination thereof, all liabilities (as such term is used under GAAP) of the Borrower and the

other consolidated Subsidiaries determined on a consolidated basis.

"Transferee" is defined in Section 12.5.

"Trust Receipt" means a trust receipt substantially in the form of Exhibit "T" to the Security Agreement.

"Type" means, with respect to any Advance, its nature as an Alternate Base Rate Advance, Eurodollar Advance or Fed Funds Advance.

"Unfunded Liabilities" means the amount (if any) by which the present value of all vested and unvested accrued benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans using PBGC actuarial assumptions for single employer plan terminations.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"VA" means the Veterans Administration or other agency, corporation or instrumentality of the United States as to which the powers and duties of the Veterans Administration have been transferred.

"VA-Approved Lender" means an institution that is approved by the VA to act as a lender in connection with the origination of any Mortgage Loan guaranteed by the VA.

"Wholly-Owned Subsidiary" of a Person means (i) any Subsidiary all of the outstanding voting securities of which shall at the time be owned or controlled, directly or indirectly, by such Person or one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person, or (ii) any partnership, limited liability company, association, joint venture or similar business organization 100% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

ARTICLE II

THE CREDITS

1.2 Commitment, Sublimits and Types of Advances

1.2.1 Commitment and Lending Sublimits.

From and including the date of this Agreement and prior to the Termination Date, each Lender severally agrees, on the terms and conditions set forth in this Agreement (including the lending sublimits (the "Lending Sublimits") set forth below), to make Primary Loans to the Borrower from time to time; provided that, on any date, after giving effect to such Primary Loans and all other Loans that the Borrower has requested be made on such date under this Agreement:

(1) the sum of (i) the aggregate principal balance then outstanding of all Loans then held by such Lender plus (ii) such Lender's Commitment Percentage of the then-outstanding Swingline Loans shall not exceed the amount of such Lender's then-current Commitment Amount;

(2) the aggregate principal balance of all outstanding Swingline Loans held by the Swingline Lender on the date shall not exceed the Swingline Amount; and

(3) the Coverage Requirement, on such date, shall not exceed the lesser of the Aggregate Commitment or the then-current Borrowing Base.

Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow Primary Loans at any time prior to the Termination Date. The Commitments of the Lenders and the Swingline Commitment of the Swingline Lender to lend hereunder shall expire on the Termination Date.

1.2.2 Borrowing Base Sublimits by Category. The maximum amount that can be credited toward the Borrowing Base from certain categories of Eligible Collateral shall be limited so that the Borrowing Base value determined under:

(i) clause (iii) of the definition thereof (Eligible Non-Conforming Mortgage Loans) shall not exceed five percent (5%) of the Aggregate Commitment;

(ii) clause (iv) of the definition thereof (Eligible Jumbo Mortgage Loans) shall not exceed thirty percent (30%) of the Aggregate Commitment; and

(iii) clause (v) of the definition thereof (Eligible Oversize Jumbo Mortgage Loans) shall not exceed five percent (5%) of the Aggregate Commitment.

1.2.3 Borrowing Base Sublimits by Asset Type. The maximum amount that can be credited toward the Borrowing Base from certain types of Collateral, regardless of category, shall be limited (collectively with the limits set forth in Section 2.1.2, the "Borrowing Base Sublimits") so that the Borrowing Base value attributable to:

(i) Eligible Conforming Aged Mortgage Loans shall not exceed one and one half percent (1.5%) of the Aggregate Commitment; and

(ii) Pledged Mortgages having a second lien priority shall not exceed five percent (5%) of the Aggregate Commitment.

1.2.4 Types of Advances. Each Advance hereunder shall consist of one or more Primary Advances requested by the Borrower in accordance with Sections 2.6. Primary Advances shall be available as provided in Section 2.1 and Swingline Loans shall be available as provided in Section 2.4.

1.3 Primary Advances. Subject to the terms and conditions herein

(including the Lending Sublimits) the Borrower may request Primary Advances from the Lenders on a pro rata basis in accordance with each such Lender's Commitment Percentage. Primary Advances shall accrue interest at the Eurodollar Rate, the Federal Funds Rate or the Alternate Base Rate, as selected by the Borrower in accordance with Sections 2.6 and 2.7.

1.4 Buy Down Loans. Notwithstanding anything contained in this Agreement, the Borrower and any individual Lender (a "Buy-Down Lender") may notify the Agent in writing (which notice shall be given at least five (5) Business Days prior to the end of any calendar month) that the Borrower and such Buy-Down Lender have entered into a Buy-Down Agreement with respect to all Fed Funds Loans from time to time outstanding and held by such Buy-Down Lender, and, that, pursuant to said Buy-Down Agreement, the interest rate applicable to such Fed Funds Loans during any interest calculation period shall be the Buy-Down Rate and shall be based on the assumption that the Borrower shall maintain sufficient Available Deposits with such Buy-Down Lender. The Agent shall (until otherwise notified by the Borrower and Buy-Down Lender to the contrary) accrue interest on such Fed Funds Loans at the Buy-Down Rate and the Borrower shall pay such interest in accordance with Section 2.18. The Agent shall have no obligation to verify the amount of any Available Deposits supporting the pricing of such Fed Funds Loans held by any Buy-Down Lender, including without limitation, any deficiency fees or other amounts payable to such Lender by the Borrower under the applicable Buy-Down Agreement. The Borrower shall pay all deficiency fees or other amounts payable under its Buy-Down Agreement with each Buy-Down Lender directly to such Buy-Down Lender within ten (10) calendar days of receipt of a billing statement from such Buy-Down Lender. Any Buy-Down Lender may elect not to make demand for the payment of deficiency fees accruing in respect of any shortage of Available Deposits from time to time and it is expressly agreed and understood that: (1) any such deficiency fee shall not, by reason of such failure of such Buy-Down Lender or otherwise, be deemed to have been waived by such Buy-Down Lender (except as such waiver is expressly acknowledged in writing by such Buy-Down Lender from time to time), and (2) all deficiency fees accrued and unpaid hereunder and not so expressly waived, whether or not previously declared due and owing by any such Buy-Down Lender, shall automatically be due and payable in full upon the Termination Date.

1.5 Swingline Loans.

1.5.1 Swingline Loans. Subject to the terms and conditions hereof, the Swingline Lender, in its sole discretion, may make loans (each a "Swingline Loan" and collectively, the "Swingline Loans") to the Borrower from time to time during the period from and including the date of this Agreement and prior to the Termination Date, provided, however, that at no time shall the Swingline Lender make a Swingline Loan if, immediately after giving effect thereto, (i) the aggregate outstanding principal amount of all Swingline Loans would exceed the Swingline Amount, or (ii) the aggregate outstanding principal amount of all Swingline Loans and the aggregate outstanding principal amount of all Primary Loans would exceed either (A) the Aggregate Commitment, or (B) the Borrowing Base. All Swingline Loans shall bear interest at the Swingline Rate.

1.5.2 Swingline Take-Out. By no later than 11:00 a.m., on (i) the last Business Day of each calendar week or (ii) any Business Day immediately succeeding any day upon which the Swingline Lender shall so demand, the Agent shall notify each Lender of the aggregate outstanding principal balance of the Swingline Loans as of the commencement of business of the Agent on such Business Day (the "Swing Line Obligations") and, subject only to its receipt of such notice and regardless of whether any Default shall have occurred and be continuing, whether the Commitments shall have been reduced or terminated or any other matter whatsoever, each Lender shall (i) make a loan to the Borrower in an amount equal to its Commitment Percentage of such Swing Line Obligations, and (ii) make the amount of such loan available to the Agent for the account of the Borrower at the Office not later than 1:00 p.m., on such Business Day, in funds immediately available to the Agent at such office. The funds so made available to the Agent on such Business Day in respect of such loans will then be disbursed by the Agent directly to the Swingline Lender as payment in respect of the Swing Line Obligations. Notwithstanding anything to the contrary contained in this Agreement, to the extent that the Swingline Lender, in its capacity as a Lender hereunder, shall be required to fund its Commitment Percentage of any Swingline Loan take-out under this Section 2.4.2, the Swingline Lender and the Agent shall net out the funding thereof against the payments to be received by the Swingline Lender in respect of such take-out.

1.5.3 Swingline Loans to Pay Amounts Due to the Swingline Lender. If any amounts are advanced by the Swingline Lender to cover checks or wire transfers from Borrower accounts maintained with the Swingline Lender when there are insufficient funds in such accounts to cover the applicable check or wire transfer and sufficient funds are not deposited in the applicable account before the close of business on the day on which the applicable check or wire transfer request is honored, then the Borrower shall be deemed to have requested, and the Swingline Lender may (but shall not be obligated to) elect to make, a Swingline Loan to pay such overdraft amount; provided, however, that the Swingline Lender shall not make any such Swingline Loan if, after giving effect thereto, (x) the Coverage Requirement would exceed the Borrowing Base or (y) the aggregate principal balance of all outstanding Loans under this Agreement would exceed the Aggregate Commitment.

1.5.4 Indemnification of Swingline Lender. The Lenders agree to

reimburse and indemnify the Swingline Lender ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) from and against any and all losses, liabilities (including liabilities for penalties), actions, suits, judgments, demands, costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements) arising out of or in connection with the Swingline, (including the foregoing in respect of losses, liabilities or other obligations suffered by the Swingline Lender resulting from its own negligence and excluding the foregoing in respect of losses, liabilities and other obligations resulting from its own gross negligence or willful misconduct). If a Lender does not make available to the Swingline Lender when due such Lender's Commitment Percentage of any such loss, liability, judgment, cost or expense, such Lender shall be required to pay on demand interest thereon for the account of the Swingline Lender at a rate of interest per annum equal to the Federal Funds Funding Rate from the date such Lender's payment is due until the date such payment is received by the Swingline Lender.

1.6 Fees. The Borrower shall pay the following fees (the "Fees"):

1.6.1 Facility Fees. A facility fee based on the Aggregate Commitment from time to time from and after the date hereof, calculated at the Applicable Fee Rate, expressed as a per diem rate on the actual Aggregate Commitment for each day during the preceding full or partial calendar quarter, payable in arrears, on the last day of each calendar quarter and on the Termination Date. This fee shall be paid to the Agent and allocated among the Lenders on a pro rata basis in accordance with their respective Commitments during such quarter.

1.6.2 Agent Fees. Any fees payable to the Agent pursuant to the Borrower's letter agreement with the Agent of even date herewith.

1.6.3 Collateral Agent Fees. Any fees payable to Collateral Agent for its services rendered pursuant to the Security Agreement as agreed to by the Borrower and charged by Collateral Agent from time to time.

1.6.4 Fees Payable in connection with Buy-Down Loans. The Borrower shall pay any fees and other charges when due to any Buy-Down Lender under a Buy-Down Agreement as described in Section 2.3.

1.7 Method of Selecting Types and Interest Periods for New Advances. The Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance, the Interest Period applicable to each Advance from time to time. The Borrower shall give the Agent irrevocable notice (a "Borrowing Notice") not later than (i) 10:00 a.m. (Dallas time) on the Borrowing Date of each Alternate Base Rate Advance or Fed Funds Advance, (ii) 3:00 p.m. (Dallas time) on the proposed Borrowing Date for each Swingline Loan, and (iii) 2:00 p.m. (Dallas time) at least three Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

- (a) the Borrowing Date, which shall be a Business Day, of such Advance,
- (b) the aggregate amount of such Advance, which shall not be less than (1) \$2,000,000 for any Eurodollar Advance, (2) \$600,000 for any Alternate Base Rate Advance or Fed Funds Advance, or (3) \$100,000 for any Swingline Loan,
- (c) except in the case of a Swingline Loan, the Type of Advance selected, and
- (d) in the case of each Eurodollar Advance, the Interest Period applicable thereto, and

Not later than noon (Dallas time) on each Borrowing Date, with respect to all Advances other than Swingline Loans, each Lender shall make available its Loan or Loans comprising such Advance, in funds immediately available in Dallas to the Agent at its address specified pursuant to Article XIII; provided that Swingline Loans may be made available up to the close of business. The Agent will make the funds so received from the Lenders available to the Borrower at the Agent's aforesaid address.

1.8 Conversion and Continuation of Outstanding Advances. An Alternate Base Rate Advance shall continue as an Alternate Base Rate Advance unless and until such Alternate Base Rate Advance is converted into another Type of Advance. A Fed Funds Advance shall continue as a Fed Funds Advance unless and until (a) such Advance is converted into a different Type of Advance in accordance with the terms hereof or (b) the Borrower has paid any such Fed Funds Advance prior to 10:00 a.m. (Dallas time) on any Business Day or the Borrower has given notice by 10:00 a.m. (Dallas time) that it intends to pay and has paid any such Fed Funds Advance prior to 12:00 noon (Dallas time) on any Business Day. A Swingline Loan shall continue as a Swingline Loan unless and until the Borrower has paid any Swingline Loan prior to 3:00 p.m. (Dallas time) on any Business Day. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into an Alternate Base Rate Advance unless the Borrower shall have given the Agent a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurodollar Advance either continue as a Eurodollar Advance for the same or another Interest Period or be converted into an Advance of another Type. Swingline Loans may be repaid out of new Advances hereunder but may not be converted directly to a Type of Advance. The Borrower may elect from time to time to convert all or any part of an Advance of any Type into any other Type or Types of Advances; provided that any conversion of any Eurodollar Advance shall be made on, and only on, the last day of the Interest Period applicable thereto. The Borrower shall

give the Agent irrevocable notice (a "Conversion/Continuation Notice") of each conversion of an Alternate Base Rate Advance or Fed Funds Advance or conversion or continuation of a Eurodollar Advance not later than (i) 10:00 a.m. (Dallas time) on the date of the requested conversion, in the case of a conversion into an Alternate Base Rate Advance or Fed Funds Advance or (ii) 10:00 a.m. (Dallas time) at least three Business Days prior to the date of the requested conversion into or continuation of a Eurodollar Advance, specifying:

(i) the requested date which shall be a Business Day, of such conversion or continuation,

(ii) the aggregate amount (which meets the minimums set forth in Section 2.8(c)) and Type of the Advance which is to be converted or continued, and

(iii) the amount and Type(s) of Advance(s) into which such Advance is to be converted or continued and, in the case of a conversion into or continuation of a Eurodollar Advance, the duration of the Interest Period applicable thereto.

1.9 Reductions to Aggregate Commitment. The Borrower may from time to time permanently reduce the Aggregate Commitment in whole, or in part ratably among the Lenders in integral multiples of \$5,000,000, upon at least three Business Days' written notice to the Agent, which notice shall specify the amount of any such reduction. On or before the effective date of any such reduction, the Borrower shall, if necessary, repay sufficient Loans to prevent the remaining outstanding Loans hereunder, after giving effect to such permanent reduction, from exceeding the Lending Sublimits. Upon any reduction of the Aggregate Commitment, upon the election of any Swingline Lender, the reduction in such Lender's Commitment may be allocated either solely to such Lender's Primary Commitment or in part to its Primary Commitment and in part to its Swingline Commitment on a pro rata basis.

1.10 Principal Payments.

1.10.1 Optional Principal Payments. The Borrower may from time to time pay, without penalty or premium, all outstanding Alternate Base Rate Advances or Fed Funds Advances, or, in a minimum aggregate amount of \$1,000,000, any portion of the outstanding Alternate Base Rate Advances or Fed Funds Advances upon prior written notice to the Agent (and if a Fed Funds Advance, within the timeframe described below). The Borrower may from time to time pay, subject to the payment of any funding indemnification amounts required by Section 3.4 but without penalty or premium, all outstanding Eurodollar Advances, or, in a minimum aggregate amount of \$1,000,000 or any integral multiple of \$500,000 in excess thereof, any portion of the outstanding Eurodollar Advances upon three Business Days' prior notice to the Agent. Fed Funds Advances and Swingline Loans may be paid on any Business Day provided that the Borrower has given the Agent written notice of such repayment on the date of such intended payment by (i) 10:00 a.m. (Dallas time) for Fed Funds Advances and (ii) noon (Dallas time) for Swingline Loans. All optional principal payments shall be applied to the Swingline Loans or the Type of Advance designated by the Borrower when making such payment, provided that any payments received during the continuance of a Default or Unmatured Default shall be applied first to Swingline Loans and then on a pro rata basis to all Advances then outstanding. Payments so allocated to an Advance shall be distributed to the Lenders holding the Loans comprising such Advance on a pro rata basis in accordance with the respective unpaid principal balances of such Loans, with such payments applied first to accrued interest and thereafter to principal.

1.10.2 Required Payments Related to Borrowing Base. On any date that the Coverage Requirement is in excess of the then-current Borrowing Base, the Borrower shall, prior to the close of business on such date, either deliver sufficient Eligible Collateral to eliminate such excess or make a mandatory payment to the Agent for the benefit of the Lenders in the amount of such excess. Any such payment shall be allocated as directed by the Borrower unless a Default or Unmatured Default then exists in which case such payment shall be allocated first to the Swingline Loans and then to on a pro rata basis to all Advances then outstanding. Payments so allocated to an Advance shall be distributed to the Lenders holding the Loans comprising such Advance on a pro rata basis in accordance with the respective unpaid principal balances of such Loans, with such payments applied first to accrued interest and thereafter to principal.

1.10.3 Settlement Account Payments. Prior to the occurrence of a Default, to the extent the amounts in the Settlement Account are not needed to keep the Borrowing Base equal to or greater than the Coverage Requirement, the Borrower may withdraw or otherwise direct the application of such amounts. Upon the occurrence of a Default (and during the continuance thereof), the Agent may declare a portion of the principal balance of the Loans, equal to any amounts then on deposit in the Settlement Account and any deposits made in the Settlement Account during the continuance of such Default, to be due and payable without demand (unless previously declared due and payable). Such amount shall be withdrawn from the Settlement Account by the Agent and shall be applied to the Obligations.

1.10.4 Final Payment on Termination Date. Any outstanding Advances and all other unpaid Obligations, unless required to be paid earlier pursuant to the terms hereof, shall be paid in full by the Borrower on the Termination Date.

1.11 Changes in Interest Rate, etc. Each Alternate Base Rate Advance shall bear interest on the outstanding principal amount thereof, for each

day from and including the date such Advance is made or is automatically converted from a Eurodollar Advance into an Alternate Base Rate Advance pursuant to Section 2.7, to but excluding the date it is paid or is converted into a Eurodollar Advance pursuant to Section 2.7 hereof, at a rate per annum equal to the Alternate Base Rate for such day. Changes in the rate of interest on that portion of any Advance maintained as an Alternate Base Rate Advance will take effect simultaneously with each change in the Alternate Base Rate. The interest rate on each Swingline Loan or Fed Funds Advance shall be recalculated daily for each day that such Swingline Loan or Fed Funds Advance is continued under Section 2.7. Each Eurodollar Advance shall bear interest on the outstanding principal amount thereof from and including the first day of the Interest Period applicable thereto to (but not including) the last day of such Interest Period at the interest rate determined by the Agent as applicable to such Eurodollar Advance based upon the Borrower's selections under Section 2.6 and 2.7 and otherwise in accordance with the terms hereof. Not more than six (6) different Interest Periods may be in effect at any time and no Interest Period may end after the Termination Date.

1.12 Rates Applicable After Default. Notwithstanding anything to the contrary contained in Section 2.8 or 2.9, during the continuance of a Default or Unmatured Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 9.1 requiring unanimous consent of the Lenders to reductions in interest rates), declare that no Advance may be made as, converted into or continued as a Eurodollar Advance. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 9.1 requiring unanimous consent of the Lenders to reductions in interest rates) declare that (i) each Eurodollar Advance shall bear interest for the remainder of the applicable Interest Period at the rate otherwise applicable to such Interest Period plus 2% per annum and (ii) each Advance (other than those under clause (i) above) and each Swingline Loan shall bear interest at a rate per annum equal to the Alternate Base Rate plus 2% per annum; provided that, during the continuance of a Default under Section 7.6 or 7.7, the interest rates set forth in clauses (i) and (ii) above shall be applicable to all Advances and Swingline Loans without any election or action on the part of the Agent or any Lender.

1.13 Method of Payment. All payments of the Obligations hereunder shall be made, without setoff, deduction, or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to Article XIII, or at any other Lending Installation of the Agent specified in writing by the Agent to the Borrower, on the date when due by (i) noon (Dallas time) with respect to all Advances other than Swingline Loans and (ii) 4:00 p.m. (Dallas time) with respect to Swingline Loans and all such payments shall be applied in accordance with Section 2.9.1. Notwithstanding the foregoing, if the Borrower fails to give the Agent notice of repayment of a Fed Funds Advance before 10:00 a.m. (Dallas time) on the Business Day that the Borrower intends to repay such Fed Funds Advance, any payment of such Fed Funds Advance received by the Agent on such Business Day shall be deemed to have been received by the Agent at the opening of business on the following Business Day. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to Article XIII or at any Lending Installation specified in a notice received by the Agent from such Lender. The Agent is hereby authorized to charge the account of the Borrower maintained with Bank One for each payment of principal, interest and fees as it becomes due hereunder.

1.14 Noteless Agreement; Evidence of Indebtedness.

(i) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(ii) Subject to Section 2.3, the Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Agent hereunder from the Borrower and each Lender's share thereof.

(iii) The entries maintained in the accounts maintained pursuant to paragraphs (i) and (ii) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(iv) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 12.3) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 12.3, except to the extent that any such Lender or assignee

subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (i) and (ii) above.

1.15 Telephonic Notices. The Borrower hereby authorizes the Lenders and the Agent to extend, convert or continue Advances, effect selections of Types of Advances and to transfer funds based on telephonic notices made by any person or persons the Agent or any Lender in good faith believes to be acting on behalf of the Borrower, it being understood that the foregoing authorization is specifically intended to allow Borrowing Notices and Conversion/Continuation Notices to be given telephonically. The Borrower agrees to deliver promptly to the Agent a written confirmation, if such confirmation is requested by the Agent or any Lender, of each telephonic notice signed by an Authorized Officer. If the written confirmation differs in any material respect from the action taken by the Agent and the Lenders, the records of the Agent and the Lenders shall govern absent manifest error.

1.16 Interest Payment Dates; Interest and Fee Basis. Subject to Section 2.3, interest shall be payable in accordance with the following provisions. Interest accrued on each Advance other than a Eurodollar Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof and at maturity. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and Fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received at the place of payment prior to the time required for payment as set forth in Section 2.14. If any payment of principal or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

1.17 Notification by the Agent. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. Promptly upon determination thereof, the Agent will notify each Lender making a portion of any Eurodollar Advance and the Borrower of the interest rate applicable to each Eurodollar Advance. When any Fed Funds Advances or Alternate Base Rate Advances are outstanding or have been requested, the Agent will give each Lender making or holding any such Loans and the Borrower prompt notice of each change in such rates.

1.18 Lending Installations. Each Lender may book its Loans at any Lending Installation selected by such Lender and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Loans and any Notes issued hereunder shall be deemed held by each Lender for the benefit of such Lending Installation. Each Lender may, by written notice to the Agent and the Borrower in accordance with Article XIII, designate replacement or additional Lending Installation through which Loans will be made by it and for whose account Loan payments are to be made.

1.19 Non-Receipt of Funds by the Agent. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (i) in the case of a Lender, the proceeds of a Loan or an Advance or (ii) in the case of the Borrower, a payment of principal (including but not limited to situations in which the Borrower informs the Agent that the Agent will be receiving proceeds of Collateral on a specific date and that the Borrower intends to use such proceeds to make a payment of principal), interest or Fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If such Lender or the Borrower, as the case may be, has not in fact made such payment to the Agent, the recipient of such payment shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (x) in the case of payment due from a Lender, the Federal Funds Effective Rate for such day for the first three days and, thereafter, the interest rate applicable to the relevant Loan or (y) in the case of payment due from the Borrower, the interest rate applicable to the relevant Loan.

ARTICLE III

CHANGE IN CIRCUMSTANCES

1.20 Yield Protection. If, on or after the date of this Agreement, the adoption of any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any change in the interpretation or administration thereof by any governmental or quasi-governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender or applicable Lending Installation with any request or directive (whether or not having the force of law) of

any such authority, central bank or comparable agency:

(i) subjects any Lender or any applicable Lending

Installation to any Taxes or changes the basis of taxation of payments (other than with respect to Excluded Taxes) to any Lender in respect of its Eurodollar Loans, or

(ii) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to Eurodollar Advances), or

(iii) imposes any other condition the result of which is to increase the cost to any Lender or any applicable Lending Installation of making, funding or maintaining its Eurodollar Loans or reduces any amount receivable by any Lender or any applicable Lending Installation in connection with its Eurodollar Loans, or requires any Lender or any applicable Lending Installation to make any payment calculated by reference to the amount of its Eurodollar Loans held or interest received by it, by an amount deemed material by such Lender,

and the result of any of the foregoing is to increase the cost to such Lender or applicable Lending Installation of making or maintaining its Eurodollar Loans or Commitment or to reduce the return received by such Lender or applicable Lending Installation in connection with such Eurodollar Loans or Commitment, then, within 15 days of demand by such Lender, the Borrower shall pay such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction in an amount received.

1.21 Changes in Capital Adequacy Regulations. If a Lender determines the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within 15 days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its Commitment to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "Change" means (i) any change after the date of this Agreement in the Risk-Based Capital Guidelines or (ii) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "Risk-Based Capital Guidelines" means (i) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices Entitled "International Convergence of Capital Measurements and Capital Standards," including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

1.22 Availability of Types of Advances. If any Lender determines that maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if the Required Lenders determine that (i) deposits of a type and maturity appropriate to match fund Eurodollar Advances or Fed Funds Advances are not available or (ii) the interest rate applicable to a Type of Advance does not accurately reflect the cost of making or maintaining such Advance, then the Agent shall suspend the availability of the affected Type of Advance and require any Advances of the affected Type to be repaid or converted to Alternate Base Rate Advances, subject to the payment of any funding indemnification amounts required by Section 3.4.

1.23 Funding Indemnification. If any payment of a Eurodollar Advance occurs on a date which is not the last day of the applicable Interest Period, whether because of acceleration, prepayment or otherwise, or a Eurodollar Advance is not made, continued or converted on the date specified by the Borrower for any reason other than default by the Lenders, the Borrower will indemnify each Lender for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain the Eurodollar Advance.

1.24 Taxes.

(i) All payments by the Borrower to or for the account of any Lender or the Agent hereunder or under any Note shall be made free and clear of and without deduction for any and all Taxes. If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, (a) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.5) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (b) the Borrower shall make such deductions, (c) the Borrower shall pay the full amount deducted to the relevant authority in accordance with applicable law and (d) the Borrower shall furnish to the Agent the

original copy of a receipt evidencing payment thereof within 30 days after such payment is made.

(ii) In addition, the Borrower hereby agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under any Note or from the execution or delivery of, or otherwise with respect to, this Agreement or any Note ("Other Taxes").

(iii) The Borrower hereby agrees to indemnify the Agent and each Lender for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this Section 3.5) paid by the Agent or such Lender and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within 30 days of the date the Agent or such Lender makes demand therefor pursuant to Section 3.6.

(iv) Each Lender that is not incorporated under the laws of the United States of America or a state thereof (each a "Non-U.S. Lender") agrees that it will, not less than ten Business Days after the date of this Agreement, (i) deliver to each of the Borrower and the Agent two duly completed copies of United States Internal Revenue Service Form W-BEN or W-8ECI, certifying in either case that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, and (ii) deliver to each of the Borrower and the Agent a United States Internal Revenue Form W-8 or W-9, as the case may be, and certify that it is entitled to an exemption from United States backup withholding tax. Each Non-U.S. Lender further undertakes to deliver to each of the Borrower and the Agent (x) renewals or additional copies of such form (or any successor form) on or before the date that such form expires or becomes obsolete, and (y) after the occurrence of any event requiring a change in the most recent forms so delivered by it, such additional forms or amendments thereto as may be reasonably requested by the Borrower or the Agent. All forms or amendments described in the preceding sentence shall certify that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, unless 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 Lender from duly completing and delivering any such form or amendment with respect to it and such Lender advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

(v) For any period during which a Non-U.S. Lender has failed to provide the Borrower with an appropriate form pursuant to clause (iv), above (unless such failure is due to a change in treaty, law or regulation, or any change in the interpretation or administration thereof by any governmental authority, occurring subsequent to the date on which a form originally was required to be provided), such Non-U.S. Lender shall not be entitled to indemnification under this Section 3.5 with respect to Taxes imposed by the United States; provided that, should a Non-U.S. Lender which is otherwise exempt from or subject to a reduced rate of withholding tax become subject to Taxes because of its failure to deliver a form required under clause (iv), above, the Borrower shall take such steps as such Non-U.S. Lender shall reasonably request to assist such Non-U.S. Lender to recover such Taxes.

(vi) Any Lender that is entitled to an exemption from or reduction of withholding tax with respect to payments under this Agreement or any Note pursuant to the law of any relevant jurisdiction or any treaty shall deliver to the Borrower (with a copy to the Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

(vii) If the U.S. Internal Revenue Service or any other governmental authority of the United States or any other country or any political subdivision thereof asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or properly completed, because such Lender failed to notify the Agent of a change in circumstances which rendered its exemption from withholding ineffective, or for any other reason), such Lender shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax, withholding therefor, or otherwise, including penalties and interest, and including taxes imposed by any jurisdiction on amounts payable to the Agent under this subsection, together with all costs and expenses related thereto (including attorneys fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent). The obligations of the Lenders under this Section 3.5(vii) shall survive the payment of the Obligations and termination of this Agreement.

1.25 Lender Statements; Survival of Indemnity. To the extent reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Loans to reduce any liability

of the Borrower to such Lender under Sections 3.1, 3.2 and 3.5 or to avoid the unavailability of a Type of Advance under Section 3.3, so long as such designation is not, in the judgment of such Lender, disadvantageous to such Lender. Each Lender shall deliver a written statement of such Lender to the Borrower (with a copy to the Agent) as to the amount due, if any, under Section 3.1, 3.2, 3.4 or 3.5. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Loan shall be calculated as though each Lender funded its Eurodollar Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate or the Purchase Price applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall be payable on demand after receipt by the Borrower of such written statement. The obligations of the Borrower under Sections 3.1, 3.2, 3.4 and 3.5 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE II

CONDITIONS PRECEDENT; WITHHOLDING TAX EXEMPTION

1.26 Effectiveness. This Agreement shall not be effective and no Lender shall be required to make the initial Advance hereunder until a date (the "Effective Date") upon which the Borrower has furnished or caused to be furnished to the Agent (with sufficient copies for the Lenders) the following:

(i) Copies of the articles or certificate of incorporation of the Borrower, together with all amendments, and a certificate of good standing, each certified by the appropriate governmental officer in its jurisdiction of incorporation.

(ii) Copies, certified by the Secretary or Assistant Secretary of the Borrower, of its by-laws and of its Board of Directors' resolutions and of resolutions or actions of any other body authorizing the execution of the Loan Documents to which the Borrower is a party.

(iii) An incumbency certificate, executed by the Secretary or Assistant Secretary of the Borrower, which shall identify by name and title and bear the signatures of the Authorized Officers and any other officers of the Borrower authorized to sign the Loan Documents to which the Borrower is a party, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Borrower.

(iv) A certificate, signed by the chief financial officer of the Borrower, stating that on the initial Borrowing Date no Default or Unmatured Default has occurred and is continuing.

(v) A written opinion of the Borrower's and the Parent's counsel, addressed to the Lenders in substantially the form of Exhibit "B" hereto.

(vi) Any Notes requested by a Lender pursuant to Section 2.13 payable to the order of each such requesting Lender.

(vii) A fully executed Security Agreement.

(viii) Copies of the articles or certificate of incorporation of the Parent, together with all amendments, and a certificate of good standing, each certified by the appropriate governmental officer in its jurisdiction of incorporation.

(ix) Copies, certified by the Secretary or Assistant Secretary of the Parent, of its by-laws and of its Board of Directors' resolutions and of resolutions or actions of any other body authorizing the execution of the Loan Documents to which the Parent is a party.

(x) An incumbency certificate, executed by the Secretary or Assistant Secretary of the Parent, which shall identify by name and title and bear the signatures of the Authorized Officers and any other officers of the Parent authorized to sign the Loan Documents to which the Parent is a party, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Parent.

(xi) The Keep-Well and the Subordination Agreement executed by the Parent.

(xii) Payment of all Fees due and payable on or before the Effective Date.

(xiii) Establishment of the Settlement Account and the Funding Account.

(xiv) Copy of each form of Approved Investor Commitment that the Borrower currently utilizes for any Mortgage Loan that is not a Conforming Mortgage Loan.

(xv) An Electronic Tracking Agreement with MERS.

(xvi) An amendment to the Bank One Agreement duly executed and delivered by the appropriate parties in form and substance satisfactory to Lenders consistent with Section 6.24 of this Agreement.

(xvii) Such other documents as any Lender or its counsel may have reasonably requested.

1.27 Each Advance. The Lenders shall not be required to make any Advance (other than an Advance that, after giving effect thereto and to the application of the proceeds thereof, does not increase the aggregate amount of outstanding Advances), unless on the applicable Borrowing Date:

(i) There exists no Default or Unmatured Default.

(ii) The representations and warranties contained in Article V are true and correct as of such Borrowing Date except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct on and as of such earlier date.

(iii) All legal matters incident to the making of such Advance shall be satisfactory to the Lenders and their counsel.

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that each Pledged Item included in the Borrowing Base constitutes Eligible Collateral, and that after giving effect to the amount of the Advance being requested, (a) the conditions contained in Sections 4.2(i) and (ii) have been satisfied, (b) the Borrower has provided the Collateral Agent with the true and correct information including the GAAP Carrying Values (correctly calculated in accordance with the provisions of this Agreement) necessary to calculate the Collateral Value for all Eligible Collateral, (c) the then current Borrowing Base is equal to or greater than the Coverage Requirement and (d) no Lending Sublimit has been exceeded. Any Lender may require a duly completed compliance certificate in substantially the form of Exhibit "F" hereto as a condition to making an Advance.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

1.28 Existence and Standing. Each of the Parent, Borrower and the Subsidiaries is a corporation, partnership (in the case of Subsidiaries only) or limited liability company duly and properly incorporated or organized, as the case may be, validly existing and (to the extent such concept applies to such entity) in good standing under the laws of its jurisdiction of incorporation or organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

1.29 Authorization and Validity. Each of Borrower and the Parent has the power and authority and legal right to execute and deliver the Loan Documents to which it is a party and to perform its obligations thereunder. The execution and delivery by each of the Borrower and the Parent of the Loan Documents to which it is a party and the performance of its obligations thereunder have been duly authorized by proper corporate proceedings, and the Loan Documents to which each of the Borrower and the Parent is a party constitute legal, valid and binding obligations of the Borrower or the Parent, as applicable enforceable against the Borrower or the Parent, as applicable in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

1.30 No Conflict; Government Consent. Neither the execution and delivery by the Borrower of the Loan Documents to which it is a party, nor the consummation of the transactions therein contemplated, nor compliance with the provisions thereof will violate (i) any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Parent, Borrower or any of their respective Subsidiaries or (ii) the Borrower's or any Subsidiary's articles or certificate of incorporation, partnership agreement, certificate of partnership, articles or certificate of organization, by-laws, or operating or other management agreement, as the case may be, or (iii) the provisions of any indenture, instrument or agreement to which the Borrower or any of their respective Subsidiaries is a party or is subject, or by which it, or their respective Property, is bound, or conflict with or constitute a default thereunder, or result in, or require, the creation or imposition of any Lien in, of or on the Property of the Parent, Borrower or their respective Subsidiary pursuant to the terms of any such indenture, instrument or agreement. No order, consent, adjudication, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of any governmental or public body or authority, or any subdivision thereof, which has not been obtained by the Parent, Borrower or any of their respective Subsidiaries, is required to be obtained by the Parent, Borrower or any of their respective Subsidiaries in connection with the execution and delivery of the Loan Documents, the borrowings under this Agreement, the payment and performance by the Borrower of the Obligations or the legality, validity, binding effect or enforceability of any of the Loan Documents (other than filings to perfect the Liens granted pursuant to the Security Agreement).

1.31 Financial Statements. The April 30, 2002 and the October 31, 2001 consolidated financial statements of the Borrower and its Subsidiaries heretofore delivered to the Lenders were prepared in accordance with GAAP in effect on the date such statements were prepared and fairly present the consolidated financial condition and operations of the Borrower and its Subsidiaries at such date and the consolidated results of their operations for the period then ended (subject to normal year-end adjustments for the October 31, 2001 financial statements).

1.32 Material Adverse Change. Since October 31, 2001, there has been no change in the business, Property, prospects, condition (financial or otherwise) or results of operations of the Borrower and its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

1.33 Taxes. The Parent, Borrower and the Subsidiaries have filed all United States federal tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by the Parent, Borrower or any of

the Subsidiaries, except such taxes, if any, as are being contested in good faith by appropriate proceedings and as to which adequate reserves have been provided in accordance with GAAP and as to which no Lien exists. The United States income tax returns of the Parent, Borrower and the Subsidiaries have been audited by the Internal Revenue Service through the fiscal year ended December 31, 2001. No tax liens have been filed and no claims are being asserted with respect to any such taxes. The charges, accruals and reserves on the books of the Borrower and the Subsidiaries in respect of any taxes or other governmental charges are adequate.

1.34 Litigation and Contingent Obligations. There is no litigation, arbitration, governmental investigation, proceeding or inquiry pending or, to the knowledge of any of their officers, threatened against or affecting the Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect or which seeks to prevent, enjoin or delay the making of any Loans. Other than any liability incident to any litigation, arbitration or proceeding which could not reasonably be expected to have a Material Adverse Effect, the Borrower has no material contingent obligations not provided for or disclosed in the financial statements referred to in Section 5.4.

1.35 Subsidiaries. Schedule "4" hereto contains an accurate list of all Subsidiaries of the Borrower as of the date of this Agreement, setting forth their respective jurisdictions of organization and the percentage of their respective capital stock or other ownership interests owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock or other ownership interests of such Subsidiaries have been (to the extent such concepts are relevant with respect to such ownership interests) duly authorized and issued and are fully paid and non-assessable.

1.36 ERISA. The Unfunded Liabilities of all Single Employer Plans do not in the aggregate exceed \$250,000. Neither the Borrower nor any other member of the Controlled Group has incurred, or is reasonably expected to incur, any withdrawal liability to Multi-employer Plans in excess of \$250,000 in the aggregate. Each Plan complies in all material respects with all applicable requirements of law and regulations, no Reportable Event has occurred with respect to any Plan, neither the Borrower nor any other members of the Controlled Group has withdrawn from any Plan or initiated steps to do so, and no steps have been taken to reorganize or terminate any Plan.

1.37 Accuracy of Information. No information, exhibit or report furnished by the Parent, Borrower or any of the Subsidiaries to the Agent or to any Lender in connection with the negotiation of, or compliance with, the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not misleading.

1.38 Regulation U. Margin stock (as defined in Regulation U) constitutes less than 25% of the value of those assets of the Borrower and its Subsidiaries which are subject to any limitation on sale, pledge, or other restriction hereunder.

1.39 Material Agreements. Neither the Borrower nor any Subsidiary is a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any Subsidiary is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in (i) any agreement to which it is a party, which default could reasonably be expected to have a Material Adverse Effect or (ii) any agreement or instrument evidencing or governing Indebtedness.

1.40 Compliance With Laws. The Borrower and its Subsidiaries have complied with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective Property except for any failure to comply with any of the foregoing which could not reasonably be expected to have a Material Adverse Effect.

1.41 Ownership of Properties. Except as set forth on Schedule "5" hereto, on the date of this Agreement, the Borrower and its Subsidiaries will have good title, free of all Liens other than those permitted by Section 6.15, to all of the Property and assets reflected in the financial statements provided to the Agent as owned by the Borrower and its Subsidiaries.

1.42 Plan Assets; Prohibited Transactions. The Borrower is not an entity deemed to hold "plan assets" within the meaning of 29 C.F.R. S 2510.3-101 of an employee benefit plan (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA or any plan (within the meaning of Section 4975 of the Code), and neither the execution of this Agreement nor the making of Loans hereunder gives rise to a prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code. The Borrower is an "operating company" as defined in 29 C.R.R. 2510-101 (c) and "benefit plan investors" (as defined in 29 C.F.R. S 2510.3-101(f)) do not own 25% or more of the value of any class of equity interests in the Borrower.

1.43 Investment Company Act. Neither the Borrower nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

1.44 Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary is a "holding company" or a "subsidiary company" of a

"holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

1.45 GNMA, FHA, VA, FNMA, and FHLMC Eligibility. The Borrower is:

(i) an FHA-Approved Mortgagee in good standing, a VA-Approved Lender, a FHLMC-Approved Lender and a FNMA-Approved Lender and meets all eligible requirements of law and governmental regulation so as to be eligible to originate, purchase, hold and service Mortgage Loans insured by FHA or supporting any Security; (ii) an approved seller and servicer in good standing of Mortgage Loans to each Federal Agency; and (iii) an approved issuer and servicer in good standing of Securities for FHLMC, FNMA and GNMA and meets all FHLMC, FNMA and GNMA requirements, requirements of law and governmental regulations so as to be able to issue Securities and to originate and service the Mortgage Loans that secure such Securities.

1.46 Approved Investor Commitments. The forms of Approved Investor Commitment with respect to Mortgage Loans, other than Conforming Mortgage Loans, which were delivered to the Agent on the Effective Date are still valid and currently in use and, except to the extent new forms or changes to the existing forms of Approved Investor Commitment have been delivered to the Agent, represent the only forms of Approved Investor Commitment used by the Borrower for such purposes.

ARTICLE II

COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

1.47 Financial Reporting. The Borrower will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles, and furnish to the Lenders:

(i) Within 90 days after the close of each of its fiscal years, an unqualified audit report certified by independent certified public accountants, acceptable to the Lenders, prepared in accordance with GAAP on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and the Subsidiaries, including balance sheets as of the end of such period, related profit and loss and changes in shareholders' equity statements, and a statement of cash flows, accompanied by (a) any management letter prepared by said accountants and (b) a certificate of said accountants that, in the course of their examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Unmatured Default, or if, in the opinion of such accountants, any Default or Unmatured Default shall exist, stating the nature and status thereof.

(ii) Within 45 days after the close of the first three quarterly periods of each of its fiscal years, for itself and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating profit and loss statements (showing a breakout of servicing sales gains attributed to servicing originated in prior periods), a statement of changes in shareholders equity and a statement of cash flows for the period from the beginning of such fiscal year to the end of such quarter, all certified (subject to normal year-end adjustments) by its chief financial officer.

(iii) Together with the financial statements required under Sections 6.1(i) and (ii), a compliance certificate in substantially the form of Exhibit "F" hereto signed by its chief financial officer showing the calculations necessary to determine compliance with this Agreement as currently in effect (regardless of whether this Agreement was in effect at the date for which such financial statements were prepared) and that no Default or Unmatured Defaults exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

(iv) Within thirty (30) days after the end of each month (other than a month which is the last month of a fiscal quarter or year), (1) consolidated unaudited balance sheets and income statements of the Borrower and its Subsidiaries as of the end of such month, (2) a report setting forth the Leverage Ratio (as defined in Section 6.17.2 hereof) and Cumulative Cash Flow (as defined Section 6.17.4 hereof) as of the end of such month, each certified as to fairness of presentation, GAAP and consistency by the chief financial officer of the Borrower.

(v) As soon as available but in any event within forty-five (45) days after the end of each calendar quarter, a production information report detailing geographic mix of all retail and correspondent production for the reference quarter and year-to-day.

(vi) As soon as available but in any event within fifteen (15) days after the end of each month, a secondary marketing report for such month reasonably satisfactory to the Agent including, without limitation, the following information:

i) Commitment Position - detailing investor, type, original principal amount, rate, price/yield, and expiration date.

ii) Pipeline Position - amount and rate of price committed loans in pipeline, future contracts, hedged positions, repurchase agreements, and profit & loss.

(vii) As soon as available, but in any event within ninety (90)

days after the beginning of each fiscal year of the Borrower, a copy of the plan and forecast (including a projected consolidated summary balance sheet and income statement) of the Borrower for such fiscal year.

(viii) Within five (5) Business Days of submission thereof by the Borrower, copies of all documents submitted in connection with any audits by any of FNMA, FHLMC or GNMA; within ten (10) Business Days of receipt thereof by the Borrower, copies of all compliance and audit reports received from any of FNMA, FHLMC or GNMA; and promptly upon receipt, a copy of any notice from (i) any Federal Agency to the effect that it is or is contemplating withdrawing its approval of the Borrower as a FHA-Approved Mortgagee, FHLMC-Approved Lender, FNMA-Approved Lender or VA-Approved Lender or as an approved seller and servicer for FNMA, FHLMC or GNMA or (ii) any private mortgage insurer which insures any of the Collateral to the effect that it is contemplating withdrawing its approval of the Borrower as an approved originator of insured Mortgage Loans.

(ix) At any time that the Borrower has a Single Employer Plan, within 270 days after the close of each fiscal year, a statement of the Unfunded Liabilities of each Single Employer Plan, certified as correct by an actuary enrolled under ERISA.

(x) As soon as possible and in any event within 10 days after the Borrower knows that any Reportable Event has occurred with respect to any Plan, a statement, signed by the chief financial officer of the Borrower, describing said Reportable Event and the action which the Borrower proposes to take with respect thereto.

(xi) As soon as possible and in any event within 10 days after receipt by the Borrower, a copy of (a) any notice or claim to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower, any of its Subsidiaries, or any other Person of any toxic or hazardous waste or substance into the environment, and (b) any notice alleging any violation of any federal, state or local environmental, health or safety law or regulation by the Borrower or any of its Subsidiaries, which, in either case, could reasonably be expected to have a Material Adverse Effect.

(xv) Promptly upon the furnishing thereof to the shareholders of the Borrower or the Parent, copies of all financial statements, reports and proxy statements so furnished.

(xv) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which the Parent, the Borrower or any of its Subsidiaries files with the Securities and Exchange Commission.

(xvi) Such other information (including non-financial information) as the Agent or any Lender may from time to time reasonably request.

1.48 Use of Proceeds. The Borrower will, and will cause each of the Parent and each Subsidiary to, only use the proceeds of the Advances for the purposes of the funding or purchasing of Mortgage Loans, of paying interest, Fees, expenses and other Obligations and of repaying outstanding Advances. The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Advances to purchase or carry any "margin stock" (as defined in Regulation U) or to make any Acquisition (other than those permitted by Section 6.14) or to make any Acquisition for which the board of directors of the Person being acquired has not consented to such Acquisition.

1.49 Notice of Default. The Borrower will, and will cause the Parent and each Subsidiary to, give prompt notice in writing to the Lenders of the occurrence of any Default or Unmatured Default and of any other development, financial or otherwise, which could reasonably be expected to have a Material Adverse Effect.

1.50 Conduct of Business. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted and to do all things necessary to remain duly incorporated or organized, validly existing and (to the extent such concept applies to such entity) in good standing as a domestic corporation, partnership or limited liability company in its jurisdiction of incorporation or organization, as the case may be, and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted. The Borrower will adhere in all material respects to customary practices and standards in the industry insofar as adherence to such practices and standards would require the Borrower to cause obligors whose indebtedness is secured by Pledged Mortgages to comply with their obligations under such Pledged Mortgages with respect to the real estate securing such indebtedness, including without limitation, the payment of all taxes and insurance premiums related thereto and maintenance of such real estate in compliance with all laws.

1.51 Taxes. The Borrower will, and will cause each Subsidiary to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with GAAP.

1.52 Insurance. The Borrower will, and will cause each Subsidiary to, maintain with financially sound and reputable insurance companies

insurance on all their Property in such amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to any Lender upon request full information as to the insurance carried. The Borrower will at all times, upon request of the Agent, furnish to the Agent copies of its, and each of its Subsidiaries', current Mortgage Bankers Blanket Bond and of its, and each of its Subsidiaries', insurance policy containing errors and omissions coverage or mortgage impairment coverage, and such Bonds and policies, to the extent possible, shall each provide that it is not cancelable without thirty (30) days prior written notice to the Agent.

1.53 Compliance with Laws. The Borrower will, and will cause each Subsidiary to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, including, without limitation, all Environmental Laws.

1.54 Maintenance of Properties. The Borrower will, and will cause each Subsidiary to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times.

1.55 Inspection. The Borrower will, and will cause each Subsidiary to, permit the Agent, the Collateral Agent and the Lenders, by their respective representatives and agents, to inspect any of the Property, books and financial records of the Borrower and each Subsidiary, to examine and make copies of the books of accounts and other financial records of the Borrower and each Subsidiary, and to discuss the affairs, finances and accounts of the Borrower and each Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Agent, the Collateral Agent or any Lender may designate.

1.56 Dividends. The Borrower will not, nor will it permit any Subsidiary to, declare or pay any dividends or make any distributions on its capital stock (other than dividends payable in its own capital stock) or redeem, repurchase or otherwise acquire or retire any of its capital stock at any time outstanding, except that (i) any Subsidiary may declare and pay dividends or make distributions to the Borrower or to a Wholly-Owned Subsidiary and (ii) provided that (a) no Default then exists hereunder, (b) the applicable action would not cause a Default to exist and (c) the applicable action is not likely to cause Leverage Ratio as of the end of a month to exceed the limits specified in Section 6.17.2 hereof regardless of the thirty (30) day period for Parent to inject additional capital into the Borrower to reduce the Leverage Ratio, the Borrower may declare and pay dividends or make distributions.

1.57 Indebtedness. The Borrower will not, nor will it permit any Subsidiary to, create, incur or suffer to exist any Indebtedness, except:

- (i) The Loans.
- (ii) Indebtedness arising under Rate Management Transaction related to the Loans having a Net Mark to Market Exposure not exceeding \$2,000,000.

- (iii) Other Indebtedness not exceeding \$250,000.

1.58 Merge. The Borrower will not, nor will it permit any Subsidiary to, merge or consolidate with or into any other Person, except that a Subsidiary may merge into the Borrower or a Wholly-Owned Subsidiary.

1.59 Sale of Assets. The Borrower will not, nor will it permit any Subsidiary to, lease, sell or otherwise dispose of its Property, to any other Person, except:

- (i) Sales of Mortgage Loans and Securities in the ordinary course of business.

- (ii) Leases, sales or other dispositions of its Property that, together with all other Property of the Borrower and its Subsidiaries previously leased, sold or disposed of (other than Mortgage Loans and Securities in the ordinary course of business) as permitted by this Section during the twelve-month period ending with the month in which any such lease, sale or other disposition occurs, do not constitute a Substantial Portion of the Property of the Borrower and its Subsidiaries.

1.60 Investments and Acquisitions. The Borrower will not, nor will it permit any Subsidiary to, make or suffer to exist any Investments (including without limitation, loans and advances to, and other Investments in, Subsidiaries), or commitments therefor, or to create any Subsidiary or to become or remain a partner in any partnership or joint venture, or to make any Acquisition of any Person, except:

- (i) Cash Equivalent Investments.

- (ii) Existing Investments in Subsidiaries and other Investments in existence on the date hereof and described in Schedule "4" hereto.

- (iii) Investments in the ordinary course of the Borrower's mortgage banking business to purchase: (a) Mortgage Loans, collateralized mortgage obligations and Securities (and in connection with commitments to purchase the same); (b) servicing rights and mortgage servicing contracts of another Person engaged in mortgage-related businesses; and (c) real estate acquired by foreclosure.

- (iv) Investments in the ordinary course of the Borrower's mortgage banking business to enter into Rate Hedging Agreements to the extent permitted pursuant to Section 6.11.

- (v) Subject in each case to approval by Required Lenders, Acquisitions of and Investments in Homebuyer's Mortgage, Inc. and any other company engaged in the mortgage banking business which Borrower

wishes to acquire.

1.61 Liens. The Borrower will not, nor will it permit any Subsidiary to, create, incur, or suffer to exist any Lien in, of or on the Property of the Borrower or any of its Subsidiaries, except:

(i) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books".

(ii) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than 60 days past due.

(iii) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation.

(iv) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of the Borrower or the Subsidiaries.

(v) Liens existing on the date hereof and described in Schedule "5" hereto.

(vi) Liens in favor of the Agent and the Collateral Agent, for the benefit of the Lenders, granted pursuant to the Security Agreement.

1.62 Affiliates. The Borrower will not, and will not permit any Subsidiary to, enter into any transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliate (other than the occurrence of Indebtedness by the Borrower or any Subsidiary to the Parent) except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transaction.

1.63 Financial Covenants.

1.63.1 Current Ratio. The Borrower will not permit, at any time, the ratio of current assets to current liabilities of the Borrower and its Subsidiaries on a consolidated basis to fall below 1.0 to 1.0, as determined in accordance with GAAP. For purposes of determining this ratio, current assets include cash (including restricted cash), mortgage loans held for sale, accounts receivable, investment securities, and any other assets which are expected to be converted into cash within a twelve month period.

1.63.2 Leverage Ratio. The Borrower will not permit, as of the end of any calendar month, the ratio of Total Liabilities to Consolidated Tangible Net Worth to exceed 10.0 to 1.0 (the "Leverage Ratio"). If the Borrower's Leverage Ratio as of the end of a month exceeds the respective limits then Parent will inject sufficient capital into the Borrower to reduce the Leverage Ratio to the permitted level within 30 days after the end of such month, in which case no Default or Unmatured Default shall be deemed to have occurred, provided that no dividends or distributions shall be made by the Borrower during such thirty (30) day period as provided in Section 6.10. Such injection may at Parent's option be in the form of subordinated debt which shall at all times be subject to the terms of the Subordination Agreement (which shall not have been revoked or cancelled) or capital, and shall be completed no later than thirty days after the end of the month. If the injection of capital is in the form of subordinated debt such debt shall not be counted as a liability of the Borrower for purposes of determining the Leverage Ratio. The Borrower shall supply Agent no later than 45 days after the end of each month with a certificate certifying that the Leverage Ratio did not exceed the specified limit for such month or that the required injection of capital was made within thirty days after the end of such month.

1.63.3 Net Worth. At all times, maintain a Consolidated Tangible Net Worth of at least Six Million Dollars (\$6,000,000).

1.63.4 Minimum Cash Flow. Permit, as of the end of any calendar month ending after the date hereof, the Borrower's and its consolidated Subsidiaries' consolidated cumulative Net Income (positive or negative) for the twelve calendar month period ending on, and including, the last day of such calendar month, minus the Borrower's and its consolidated Subsidiaries' consolidated non-cash revenues and plus non-cash expenses ("Cumulative Cash Flow"), as determined in accordance with GAAP, for the twelve calendar month period ending on, and including, the last day of such calendar month to be less than zero.

1.64 Compliance with Security Agreement. The Borrower will not fail to perform in any material respect any of its obligations under the Security Agreement or enter into similar security agreements for Mortgage Loans not included in Collateral with any Person other than the Collateral Agent. The Borrower will direct the Collateral Agent to ship Collateral only to Approved Investors or otherwise consistent with the provisions of the Loan Documents.

1.65 Servicing Release. All Mortgage Loans sold by the Borrower shall be sold on a servicing released basis, unless otherwise specifically approved in writing by the Agent in its sole discretion.

1.66 Federal Agency Approvals. The Borrower (i) will maintain its status as a FHA Approved Mortgagee, remain eligible to obtain VA guaranties of Mortgage Loans and remain approved by each Federal Agency as a seller/servicer and (ii) will not permit any Federal Agency to withdraw its approval of the Borrower.

1.67 Approved Investor Commitments. The Borrower shall maintain Approved Investor Commitments which cover all Pledged Mortgages and Pledged Securities and perform all of its obligations in connection with such Approved Investor Commitments.

1.68 Negative Pledges. The Borrower shall not enter into any agreement pursuant to which it agrees (i) not to grant a lien to third parties unless such provision allows for the lien of the Agent, the Collateral Agent and the Lenders contemplated under the Loan Documents or (ii) to grant another creditor a pari passu security interest in and to the Collateral when a security interest is granted to the Agent, the Collateral Agent and the Lenders pursuant to the Loan Documents.

1.69 MERS.

(i) The Borrower shall, (a) at all times, maintain its status as a MERS Member, (b) at all times remain in full compliance all terms and conditions of membership in MERS, including the MERSCORP, Inc. "Rules of Membership" most recently promulgated by MERSCORP, Inc., the "MERS Procedures Manual" most recently promulgated by MERS, and any and all other guidelines or requirements set forth by MERS or MERSCORP, as each of the foregoing may be modified from time to time, including, but in no way limited to compliance with guidelines and procedures set forth with respect to technological capabilities, drafting and recordation of Mortgages, registration of Mortgages on the MERS System, including registration of the interest of the Agent and the Lenders in such mortgages and membership requirements, (c) promptly, upon the request of the Agent, execute and deliver to the Agent an assignment of mortgage, in blank, with respect to any MERS Mortgage that the Agent determines shall be removed from the MERS System and (d) at all time, upon the Registration of any Mortgage on the MERS System, designate the Collateral Agent, as agent for the Agent, in the Interim Funder category.

(ii) The Borrower shall not de-register or attempt to de-register any Mortgage from the MERS System unless the Borrower has complied with the requirements set forth in the Electronic Tracking Agreement and the requirements hereof and the Security Agreement relating to a release of Collateral.

1.70 Borrower and Lenders agree that no new advances shall be made under the Bank One Agreement after the date hereof and such Persons hereby authorize Bank One, NA, and Bank One, NA hereby agrees, to notify Agent of the amount outstanding under the Bank One Agreement on each Business Day until the Bank One Agreement is terminated.

ARTICLE II

DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default:

1.71 Any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries to the Lenders or the Agent under or in connection with this Agreement, any Loan, or any certificate or information delivered in connection with this Agreement or any other Loan Document shall be materially false on the date as of which made (it being understood that if any of the representations and warranties made pursuant to the definition of "Borrowing Base" are not true and correct as of any date with respect to any Pledged Item, such Pledged Item shall be removed from Eligible Collateral as the sole remedy for such failure).

1.72 Nonpayment of principal of any Loan when due (including but not limited to payments required pursuant to Section 2.11.2 and Section 2.11.4), or nonpayment of interest upon any Loan or of any Fee or other obligations under any of the Loan Documents within five days after the same becomes due.

1.73 The breach by the Borrower of any of the terms or provisions of Article VI Section 6.2, 6.10, 6.11, 6.12, 6.13, 6.14, 6.15, 6.17, 6.19, 6.20, 6.21 or 6.22; provided, however, that if the Borrower breaches Section 6.21 as a result of an Approved Investor withdrawing or failing to perform its obligations under a commitment covering a Pledged Mortgage or Pledged Security, then Borrower shall have twenty-four hours to cure such breach.

1.74 The breach by the Borrower (other than a breach which constitutes a Default under another Section of this Article VII) of any of the terms or provisions of this Agreement which is not remedied within fifteen days after the earlier to occur of (i) receipt of written notice from the Agent or any Lender of such breach or (ii) the date that the Borrower obtains knowledge of such breach.

1.75 Failure of the Borrower or any of its Subsidiaries to pay when due (beyond any applicable notice and cure period) any Indebtedness aggregating in excess of \$250,000 ("Material Indebtedness"); or the default by the Borrower or any of its Subsidiaries in the performance beyond the applicable grace period with respect thereto, if any of any term, provision or condition contained in any agreement under which any such Material Indebtedness was created or is governed, or any other event shall occur or condition exist, the effect of which default or event is to cause, or to permit the holder or holders of such Material Indebtedness to cause, such Material Indebtedness to become due prior to its stated maturity; or any

Material Indebtedness of the Borrower or any of its Subsidiaries shall be declared to be due and payable or required to be prepaid or repurchased (other than by a regularly scheduled payment) prior to the stated maturity thereof, or the Borrower or any of its Subsidiaries or Parent shall not pay, or admit in writing its inability to pay, its debts generally as they become due.

1.76 The Borrower, Parent or any of the Subsidiaries shall (i) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (ii) make an assignment for the benefit of creditors, (iii) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any Substantial Portion of its Property, (iv) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (v) take any corporate, partnership or other action to authorize or effect any of the foregoing actions set forth in this Section 7.6 or (vi) fail to contest in good faith any appointment or proceeding described in Section 7.7.

1.77 Without the application, approval or consent of the Borrower or any of its Subsidiaries, or Parent a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any of its Subsidiaries or Parent or any Substantial Portion of its Property, or a proceeding described in Section 7.6(iv) shall be instituted against the Borrower or any of its Subsidiaries or Parent and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 30 consecutive days.

1.78 Any court, government or governmental agency shall condemn, seize or otherwise appropriate, or take custody or control of all or any portion of the Property of the Borrower and its Subsidiaries or Parent which, when taken together with all other Property of the Borrower and its Subsidiaries or Parent so condemned, seized, appropriated, or taken custody or control of, during the twelve-month period ending with the month in which any such action occurs, constitutes a Substantial Portion.

1.79 The Borrower or any of its Subsidiaries shall fail within 60 days to pay, bond or otherwise discharge one or more (i) judgments or orders for the payment of money in excess of \$250,000 the aggregate, or (ii) non-monetary judgments or orders which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, which judgments, in any case, is/are not stayed on appeal or otherwise being appropriately contested in good faith.

1.80 Any Change in Control shall occur.

1.81 The occurrence of any "default", as defined in any Loan Document (other than this Agreement) or the breach of any of the terms or provisions of any Loan Document (other than this Agreement), which default or breach continues beyond any period of grace therein provided.

1.82 The Security Agreement shall for any reason fail to create a valid and perfected first priority security interest in any collateral purported to be covered thereby, except as permitted by the terms of the Security Agreement, or the Security Agreement shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of the Security Agreement, or the Borrower shall fail to comply with any of the terms or provisions of the Security Agreement.

1.83 The Unfunded Liabilities of all Single Employer Plans shall exceed in the aggregate \$250,000 or any Reportable Event shall occur in connection with any Plan.

1.84 The Borrower or any other member of the Controlled Group shall have been notified by the sponsor of a Multi-employer Plan that it has incurred withdrawal liability to such Multi-employer Plan in an amount which, when aggregated with all other amounts required to be paid to Multi-employer Plans by the Borrower or any other member of the Controlled Group as withdrawal liability (determined as of the date of such notification), exceeds \$250,000.

1.85 The Borrower or any of its Subsidiaries shall (i) be the subject of any proceeding or investigation pertaining to the release by the Borrower or any of its Subsidiaries or any other Person of any toxic or hazardous waste or substance into the environment, or (ii) violate any Environmental Law, which, in the case of an event described in clause (i) and (ii), could reasonably be expected to have a Material Adverse Effect.

1.86 The Keep-Well or the Subordination Agreement shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of the Keep-Well or the Subordination Agreement, or the Parent shall fail to comply with any of the terms or provisions of the Keep-Well or the Subordination Agreement, or the Parent shall deny that it has any further liability under any the Keep-Well, or shall give notice to such effect.

1.87 The representations and warranties set forth in "Section 5.15 Plan Assets; Prohibited Transactions" shall at any time not be true and correct.

1.88 The Borrower and/or the Parent shall terminate its existence or suspend or discontinue its business; or

1.89 The Parent shall be in default under any document evidencing or relating to any Indebtedness of Parent greater than \$1,000,000, beyond any

applicable notice and cure period provided in the documents evidencing such Indebtedness; or

1.90 A change occurs, or is reasonably likely to occur, in the Borrower's or Parent's business condition (financial or otherwise), operations, properties or prospects, or ability to repay amounts owed to the Agent and Lenders under the Loan Documents which could reasonably be expected to have a Material Adverse Effect.

ARTICLE II

COLLATERAL, ACCELERATION AND OTHER REMEDIES

1.91 Security and Collateral Agency Agreement. Pursuant to the Security Agreement, a security interest in and a continuing lien upon the Collateral has been created in favor of the Collateral Agent for the benefit of the Lenders.

1.92 AP Mortgages. The Borrower agrees that while it is in possession of any Required Mortgage Documents for an AP Mortgage, it will hold same in trust and as agent and bailee for the Collateral Agent, without authority to make any other disposition thereof, or of the proceeds thereof, except as may be otherwise permitted in writing by the Collateral Agent. The Borrower assumes the responsibility for loss or destruction of any such Required Mortgage Documents until the same are delivered to the Collateral Agent.

1.93 Release of Collateral. Upon the request of the Borrower delivered from time to time to the Agent and the Collateral Agent in connection with the proposed sale of any Collateral, the Agent shall authorize the Collateral Agent to release Collateral specified in such notice from the lien of this Agreement, if, but only if, (i) at the time of such release no Default shall have occurred and then be continuing, (ii) the Borrowing Base, after giving effect to such release, is at least equal to the Coverage Requirement or any payment under Section 2.9 which may be required as a result of such release has been made and (iii) the release of such Collateral will not create a violation of any Lending Sublimit or Borrowing Base Sublimit.

1.94 Settlement and Funding Accounts. There is hereby established with the Agent, for the benefit of the Lenders, a "cash collateral" account of the Borrower, Account #3801990619 ("Settlement Account") into which shall be deposited all cash proceeds from the sale of any Pledged Item and which account shall be pledged as Collateral. All such cash proceeds shall be deposited directly into the Settlement Account by the applicable investor or purchaser of each Pledged Item and the Borrower agrees to give notice of such to each such investor or purchaser. Only the Agent shall have access to the Settlement Account. All amounts in the Settlement Account shall be applied as described in Section 2.9.3. There is also hereby established with the Agent, for the benefit of the Lenders, a second account of the Borrower, Account #3801990627 ("Funding Account") into which shall be deposited all Advances and from which all AP Mortgages shall be funded (by wire transfer from such Funding Account) and which account shall be pledged as Collateral.

1.95 Termination. If all Commitments under this Agreement shall have expired or been terminated pursuant to the express terms hereof and no Obligations shall be outstanding, the Agent shall promptly deliver or cause to be delivered all cash standing to the credit of the Settlement Account and Pledged Items to the Borrower. The receipt by the Borrower of any cash in the Settlement Account and of all Pledged Items returned or delivered to the Borrower pursuant to any provision of this Agreement, together with UCC3 termination statements executed by the Agent, shall be a complete and full acquittance for the Pledged Items so delivered.

1.96 Acceleration. If any Default described in Section 7.6 or 7.7 occurs with respect to the Borrower, the obligations of the Lenders to make Loans hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Lender. If any other Default occurs, the Required Lenders (or the Agent with the consent of the Required Lenders) may (i) terminate or suspend the obligations of the Lenders to make Loans hereunder and they shall, upon notice to the Borrower, terminate or be suspended, and/or (ii) declare the Obligations to be due and payable, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives.

1.97 Other Remedies.

(i) Unless a Default shall have occurred and then be continuing, the Borrower shall be entitled to receive and collect directly all sums payable to the Borrower in respect of the Collateral except proceeds from the sale thereof.

(ii) Upon the occurrence of a Default, the Agent and the Collateral Agent, on behalf of the Lenders, shall be entitled to all the rights and remedies hereunder and in the Security Agreement, subject to the limitations and requirements of Paragraph 16 thereof, and all other rights or remedies at law or in equity existing or conferred upon the Lenders by other jurisdictions or other applicable law.

(iii) Following the occurrence and during the continuance of a Default or an Unmatured Default, no Lender shall be obligated to fund any Loan hereunder.

(iv) Following the occurrence a Default, the Borrower agrees that the Borrower and the Agent shall, if the Agent shall request implement certain procedures with respect to the Borrower's funding of AP Mortgages, all at the Borrower's sole expense. Such procedures

may include, but are not limited to: (i) reducing the advance rate against any Eligible Collateral for purposes of determining the Collateral Value component of the Borrowing Base, (ii) requiring that wire transfers from the Funding Account only be released upon the secondary authorization of the Agent, (iii) requiring the closing agents for such AP Mortgages to enter into escrow or other agreements regarding the monies used to fund such AP Mortgages, and (iv) requiring the Borrower to provide the Agent and the Lenders with such information regarding the funding of such AP Mortgages as the Agent may reasonably request. The Borrower, at its expense, shall from time to time execute and deliver to the Agent or the Collateral Agent all such assignments, certificates, supplemental documents, and financing statements, and shall do all other acts or things, as the Agent may reasonably request in order to more fully implement such procedures.

(v) The Borrower waives, to the extent permitted by law, any right to require the Agent or any Lender to (i) proceed against any Person, (ii) proceed against or exhaust any of the Collateral or pursue its rights and remedies as against the Collateral in any particular order or (iii) pursue any other remedy in its power.

(vi) The Agent on behalf of the Lenders may, but shall not be obligated to, advance any sums or do any act or thing necessary to uphold and enforce the lien and priority of, or the security intended to be afforded by, any Pledged Item, including, without limitation, payment of delinquent taxes or assessments and insurance premiums. The Borrower shall provide any and all information required by the Agent to administer this Agreement or collect on the Collateral. All advances, charges, costs and expenses, including reasonable attorneys fees, incurred or paid by the Agent in exercising any right, power or remedy conferred by this Agreement, or in the enforcement hereof (or by any Lender acting on instruction of the Required Lenders in the enforcement hereof), together with interest thereon at the rate per annum of 2% plus the Alternate Base Rate from the time of payment until repaid, shall become a part of the Obligations.

(vii) Following the occurrence of a Default and the acceleration of the Obligations the Agent shall be entitled to receive and collect all sums payable to the Borrower in respect of the Collateral and (a) the Agent, at the request of the Required Lenders, may in its own name or in the name of the Borrower or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for any of the Collateral, (b) the Borrower shall receive and hold in trust for the Lenders any amounts thereafter received by the Borrower upon or in respect of any of the Collateral, advising the Agent as to the source of such funds and, if the Agent so requests at the direction of the Required Lenders, forthwith paying such amounts to the Agent, and (c) any and all amounts so received and collected by the Agent either directly or from the Borrower shall be deposited in the Settlement Account.

1.98 Application of Proceeds. After a Default and acceleration of the Obligations, the proceeds of any sale or enforcement of all or any part of the Collateral pursuant to the Security Agreement and the balance of any moneys in the Settlement Account and the Funding Account shall be applied by the Agent:

FIRST, to the payment of all costs and expenses of such sale or enforcement, including reasonable compensation to the Agent's agents and counsel, and all expenses, liabilities and advances made or incurred by the Agent or any Lender acting on instructions of the Required Lenders in connection therewith;

SECOND, to the payment of all costs and expenses incurred by the Collateral Agent under the Security Agreement;

THIRD, to the payment of the outstanding principal balance of, and all accrued and unpaid interest on and Fees attributable to, all Loans under this Agreement, ratably according to the amount so due to each Lender;

FOURTH, to the extent proceeds remain after application under the preceding subparagraphs, to the payment of all remaining Obligations, until such amounts are paid in full; and

FIFTH, to the payment to the Borrower, or to its successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

The Agent shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. If the proceeds of any such sale are insufficient to cover the costs and expenses of such sale, as aforesaid, and the payment in full of the Obligations, the Borrower shall remain liable for any deficiency.

1.99 Preservation of Rights. No delay or omission of the Lenders or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Loan shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lenders required pursuant to Section 9.1, and then only to the extent

in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent and the Lenders until the Obligations have been paid in full.

ARTICLE II

AMENDMENTS; WAIVERS; GENERAL PROVISIONS

1.100 Amendments and Waivers. Other than (a) Commitment increases pursuant to Section 12.4 (which may be accomplished solely by the Borrower, the Agent and the subject Lender) and (b) temporary waivers of Collateral eligibility permitted pursuant to the definition of "Borrowing Base" (which may be accomplished solely by the Agent), the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrower may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Borrower hereunder or waiving any Default hereunder; provided, however, that no such supplemental agreement shall, without the consent of each Lender directly or indirectly affected thereby:

(i) Extend the final maturity of any Loan or postpone any regularly scheduled payment of principal of any Loan or forgive all or any portion of the principal amount thereof, or reduce the rate or extend the time of payment of interest or fees thereon.

(ii) Reduce the percentage specified in the definition of Required Lenders.

(iii) Extend the Termination Date, or reduce the amount of or extend the payment date for the mandatory payments required under Section 2.9, or increase the amount of the Aggregate Commitment or of the Commitment of any Lender hereunder (other than in accordance with Section 12.4).

(iv) Amend this Section 9.1.

(v) Release any guarantor of any Advance or, except as provided herein or in the Security Agreement, release any Collateral.

(vi) Amend the definition of "Borrowing Base" or "Collateral Value".

(vii) Permit the Borrower to assign its rights under this Agreement or amend or waive any restriction on the Borrower's ability to assign its rights or obligations under any of the Loan Documents.

(viii) Amend or waive any Lending Sublimits or Borrowing Base Sublimits.

(ix) Amend or waive any provision herein regarding the indemnification of the Agent, the Collateral Agent or any Lender.

(x) Amend or waive any provision herein regarding the allocation among the Lenders of any payments or proceeds received by the Agent hereunder.

No amendment of any provision of this Agreement relating to the Agent or the Collateral Agent shall be effective without the written consent of the Agent or the Collateral Agent, as the case may be. In addition, the consent of the Collateral Agent shall be required for the effectiveness of any amendment referred to in Section 9.1 (iv), (v), (vi), (viii) and/or (ix) above. The Agent may waive payment of the fee required under Section 12.3.2 without obtaining the consent of any other party to this Agreement.

1.101 Survival of Representations. All representations and warranties of the Borrower contained in this Agreement shall survive the making of the Loans herein contemplated.

1.102 Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

1.103 Headings. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

1.104 Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrower, the Agent, the Collateral Agent and the Lenders and supersede all prior agreements and understandings among the Borrower, the Agent and the Lenders relating to the subject matter thereof, other than the fee letter described in Section 2.5.2 and any other agreement entered into in connection with the fees described in Section 2.5.3.

1.105 Several Obligations; Benefits of this Agreement. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns, provided, however, that the parties hereto expressly, agree that the Collateral Agent shall enjoy the benefits of the provisions of Sections 9.1, 9.7 and 9.8 to the extent specifically set forth therein and shall have the right to enforce such provisions on its own behalf and in its own name to the same extent as if it were a party to this Agreement.

1.106 Expenses; Indemnification. (i) The Borrower shall reimburse the Agent, the Arranger and the Collateral Agent for any costs, internal charges and out-of-pocket expenses (including reasonable attorneys' fees and time charges of attorneys for the Agent and the Collateral Agent, which

attorneys may be employees of the Agent or the Collateral Agent) paid or incurred by the Agent or the Collateral Agent in connection with the preparation, negotiation, execution, delivery, syndication, review, amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Agent, the Collateral Agent and the Lenders for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, the Collateral Agent and the Lenders, which attorneys may be employees of the Agent, the Collateral Agent or the Lenders) paid or incurred by the Agent, the Collateral Agent or any Lender in connection with the collection and enforcement of the Loan Documents. Expenses being reimbursed by the Borrower under this Section include, without limitation, costs and expenses incurred in connection with the Reports described in the following sentence. The Borrower acknowledges that from time to time Guaranty Bank may prepare and may distribute to the Lenders (but shall have no obligation or duty to prepare or to distribute to the Lenders) certain audit reports (the "Reports") pertaining to the Borrower's assets for internal use by Guaranty Bank from information furnished to it by or on behalf of the Borrower, after Guaranty Bank has exercised its rights of inspection pursuant to this Agreement.

(ii) The Borrower hereby further agrees to indemnify the Agent, the Collateral Agent and each Lender, their respective affiliates, and each of their directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent, the Collateral Agent, any Lender or any affiliate is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder, including the foregoing to the extent that they result from the negligence of the party seeking indemnification but excluding the foregoing to the extent that they are determined in a final and non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Borrower under this Section 9.7 shall survive the termination of this Agreement.

1.107 Nonliability of Lenders. The relationship between the Borrower on the one hand and the Lenders, the Agent and the Collateral Agent on the other hand shall be solely that of borrower and lender. Neither the Agent, the Collateral Agent nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent, the Collateral Agent nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations. The Borrower agrees that neither the Agent, the Collateral Agent nor any Lender shall have liability to the Borrower (whether sounding in tort, contract or otherwise) for losses suffered by the Borrower in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final and non-appealable judgment by a court of competent jurisdiction that such losses resulted from the gross negligence or willful misconduct of the party from which recovery is sought. Neither the Agent, the Collateral Agent nor any Lender shall have any liability with respect to, and the Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

1.108 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

1.109 Numbers of Documents. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

1.110 Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with GAAP, except that any calculation or determination which is to be made on a consolidated basis shall be made for the Borrower and all its Subsidiaries, including those Subsidiaries, if any, which are unconsolidated on the Borrower's audited financial statements.

1.111 Confidentiality. Each Lender agrees to hold any confidential information which it may receive from the Borrower pursuant to this Agreement in confidence, except for disclosure (i) to its Affiliates and to other Lenders and their respective Affiliates, (ii) to legal counsel, accountants, and other professional advisors to such Lender or to a Transferee, (iii) to regulatory officials, (iv) to any Person as requested pursuant to or as required by law, regulation, or legal process, (v) to any Person in connection with any legal proceeding to which such Lender is a party, (vi) to such Lender's direct or indirect contractual counterparties in swap agreements or to legal counsel, accountants and other professional

advisors to such counterparties, (vii)permitted by Section 12.5 and (viii) to rating agencies if requested or required by such agencies in connection with a rating of such lender or an Affiliate of such Lender.

1.112 Nonreliance. Each Lender hereby represents that it is not relying on or looking to any margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System) for the repayment of the Loans provided for herein.

1.113 Disclosure. The Borrower and each Lender hereby (i) acknowledge and agree that Bank One and/or its Affiliates from time to time may hold investments in, make other loans to or have other relationships with the Parent, the Borrower and their respective Affiliates, and (ii) waive any liability of Guaranty Bank or such Affiliate to the Parent, the Borrower or any Lender, respectively, arising out of or resulting from such investments, loans or relationships other than liabilities arising out of the gross negligence or willful misconduct of Guaranty Bank or its Affiliates.

ARTICLE II

THE AGENT AND THE COLLATERAL AGENT

1.114 Appointment; Nature of Relationship. Guaranty Bank is hereby appointed by each of the Lenders as its contractual representative (herein referred to as the "Agent") hereunder and under each other Loan Document, and each of the Lenders irrevocably authorizes the Agent to act as the contractual representative of such Lender with the rights and duties expressly set forth herein and in the other Loan Documents. The Agent is hereby authorized to enter into the Security Agreement thereby appointing the Collateral Agent to act on behalf of the Lenders and all obligations of the Lenders under the Security Agreement shall be binding upon each Lender as if such Lender had executed the Security Agreement. The Agent agrees to act as such contractual representative upon the express conditions contained in this Article X. Notwithstanding the use of the defined term "Agent" throughout the Agreement, it is expressly understood and agreed that the Agent shall have not have any fiduciary responsibilities to any Lender by reason of this Agreement or any other Loan Document and that the Agent is merely acting as the representative of the Lenders with only those duties as are expressly set forth in this Agreement and the other Loan Documents. In its capacity as the Lenders' contractual representative, the Agent (i) does not hereby assume any fiduciary duties to any of the Lenders, (ii) is a "representative" of the Lenders within the meaning of the term "secured party" as defined in the Illinois Uniform Commercial Code as in effect from time to time and (iii) is acting as an independent contractor, the rights and duties of which are limited to those expressly set forth in this Agreement and the other Loan Documents. Each of the Lenders hereby agrees to assert no claim against the Agent on any agency theory or any other theory of liability for breach of fiduciary duty, all of which claims each Lender hereby waives.

1.115 Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder except any action specifically provided by the Loan Documents to be taken by the Agent.

1.116 General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrower, the Lenders or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith, whether sounding in tort, contract or otherwise except to the extent such action or inaction is determined in a final non-appealable judgment by a court of competent jurisdiction to have arisen from the gross negligence or willful misconduct of such Person.

1.117 No Responsibility for Loans, Recitals, etc. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (i) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (iii) the satisfaction of any condition specified in Article IV, except receipt of items required to be delivered solely to the Agent; (iv) the existence or possible existence of any Default or Unmatured Default; (v) the validity, enforceability, effectiveness, sufficiency or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith; (vi) the value, sufficiency, creation, perfection or priority of any Lien in any collateral security; or (vii) the financial condition of the Borrower or any guarantor of any of the Obligations or of any of the Borrower's or any such guarantor's respective Subsidiaries. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrower to the Agent at such time, but is voluntarily furnished by the Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

1.118 Action on Instructions of Lenders. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders, and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders. The Lenders hereby acknowledge that the Agent shall be under no duty to

take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement or any other Loan Document unless it shall be requested in writing to do so by the Required Lenders. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

1.119 Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning the contractual arrangement between the Agent and the Lenders and all matters pertaining to the Agent's duties hereunder and under any other Loan Document.

1.120 Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

1.121 Agent's Reimbursement and Indemnification. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (i) for any amounts not reimbursed by the Borrower for which the Agent is entitled to reimbursement by the Borrower under the Loan Documents, (ii) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents (including, without limitation, for any expenses incurred by the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders) and (iii) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby (including, without limitation, for any such amounts incurred by or asserted against the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders), or the enforcement of any of the terms of the Loan Documents or of any such other documents, provided that (i) no Lender shall be liable for any of the foregoing to the extent any of the foregoing is found in, a final non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Agent and (ii) any indemnification required pursuant to Section 3.5(vii) shall, notwithstanding the provisions of this Section 10.8, be paid by the relevant Lender in accordance with the provisions thereof. The obligations of the Lenders under this Section 10.8 shall survive payment of the Obligations and termination of this Agreement.

1.122 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrower referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

1.123 Rights as a Lender. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document with respect to its Commitment and its Loans as any Lender and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent and its Affiliates may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrower or any of its Subsidiaries in which the Borrower or such Subsidiary is not restricted hereby from engaging with any other Person. The Agent, in its individual capacity, is not obligated to be or remain a Lender.

1.124 Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent, the Arranger or any other Lender and based on the financial statements prepared by the Borrower and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent, the Arranger or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

1.125 Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the retiring Agent gives

notice of its intention to resign. Upon any such resignation, the Required Lenders shall have the right to appoint, on behalf of the Borrower and the Lenders, a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent. Notwithstanding the previous sentence, the Agent may at any time without the consent of the Borrower or any Lender, appoint any of its Affiliates which is a commercial bank as a successor Agent hereunder. If the Agent has resigned and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least \$100,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation of an Agent, the provisions of this Article X shall continue in effect for the benefit of such Agent in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents. In the event that there is a successor to the Agent by merger, or the Agent assigns its duties and obligations to an Affiliate pursuant to this Section 10.12, then the term "'Prime Rate" as used in this Agreement shall mean the prime rate, base rate or other analogous rate of the new Agent.

1.126 Delegation to Affiliates. The Borrower and the Lenders agree that the Agent may delegate any of its duties under this Agreement to any of its Affiliates. Any such Affiliate (and such Affiliate's directors, officers, agents and employees) which performs duties in connection with this Agreement shall be entitled to the same benefits of the indemnification, waiver and other protective provisions to which the Agent is entitled under Articles IX and X.

1.127 Collateral Releases. The Lenders hereby empower and authorize the Agent to execute and deliver to the Borrower on their behalf any agreements, documents or instruments as shall be necessary or appropriate to effect any releases of Collateral which shall be permitted by the terms hereof or of any other Loan Document or which shall otherwise have been approved by the Required Lenders (or, if required by the terms of Section 9.1, all of the Lenders) in writing.

ARTICLE II

SETOFF; RATABLE PAYMENTS

1.128 Setoff. In addition to, and without limitation of, any rights of the Lenders under applicable law,

1.129 If the Borrower becomes insolvent, however evidenced, or any Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender or any Affiliate of any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

1.130 Ratable Payments. If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to Section 3.1, 3.2, 3.4 or 3.5) in a greater proportion than that received by any other Lender, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made.

1.131 Custodial Accounts. The Borrower agrees that funds received and held by the Borrower as custodian for FNMA, GNMA or other mortgage pools which are deposited into accounts with any Lender shall be clearly identified as custodial accounts, and each Lender agrees that each provision of the foregoing subsections of this Article XI shall not apply to such custodial accounts. The Borrower shall not deposit any of its general funds in any custodial accounts or otherwise commingle funds in any custodial accounts.

ASSIGNMENTS; PARTICIPATIONS; COMMITMENT INCREASES

1.132 Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (i) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents and (ii) and assignment by any Lender must be made in compliance with Section 12.3. The parties to this Agreement acknowledge that clause (ii) of this Section 12.1 relates only to absolute assignments and does not prohibit assignments creating security

interests, including, without limitation, any pledge or assignment by any Lender of all or any portion of its rights under this Agreement and any Note to a Federal Reserve Bank; provided, however, that no such pledge or assignment creating a security interest shall release the transferor Lender from its obligations hereunder unless and until the parties hereto have complied with the provisions of Section 12.3. The Agent may treat the Person which made any Loan or which holds any Note as the owner thereof for all purposes hereof unless and until such Person complies with Section 12.3, provided, however, that the Agent may in its discretion (but shall not be required to) follow instructions from the Person which made any Loan or which holds any Note to direct payments relating to such Loan or Note to another Person. Any assignee of the rights to any Loans or any Note agrees by acceptance of such transfer or assignment to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the owner of the Rights to any Loan (whether or not a Note has been issued in evidence thereof), shall be conclusive and binding on any subsequent holder, or assignee of the rights to such Loan.

1.133 Participations.

1.133.1 Permitted Participants; Effect. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the owner of its Loans and the holder of any Note issued to it in evidence thereof for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

1.133.2 Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver with respect to any Loan or Commitment in which such Participant has an interest which forgives principal, interest or fees or reduces the interest rate or fees payable with respect to any such Loan or Commitment, extends the Termination Date, postpones any date fixed for any regularly-scheduled payment of principal of, or interest or fees on, any such Loan or Commitment, releases any guarantor of any such Loan or releases all or substantially all of the Collateral (other than as expressly permitted pursuant to the Loan Documents).

1.133.3 Benefit of Setoff. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in Section 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents, provided that each Lender shall retain the right of setoff provided in Section 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 11.2 as if each Participant were a Lender.

1.134 Assignments.

1.134.1 Permitted Assignments. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("Purchasers") all or any part of its rights and obligations under the Loan Documents. Such assignment shall be substantially in the form of Exhibit "J" hereto or in such other form as may be agreed to by the parties thereto. The consent of the Borrower and the Agent shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof, provided, however, that if a Default has occurred and is continuing, the consent of the Borrower shall not be required. Such consent shall not be unreasonably withheld or delayed. Each such assignment shall (unless it is to a Lender or an Affiliate thereof or each of the Borrower and the Agent otherwise consents) be in an amount not less than the lesser of (i) \$10,000,000 or (ii) the remaining amount of the assigning Lender's Commitment (calculated as at the date of such assignment).

1.134.2 Effect; Effective Date. Upon (i) delivery to the Agent of a notice of assignment, substantially in the form attached as Annex "I" to Exhibit "J" hereto (a "Notice of Assignment"), together with any consents required by Section 12.3.1, and (ii) payment of a \$3,500 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. The Notice of Assignment shall contain a representation by the Purchaser to the effect that none of the consideration used to make the purchase of the Commitment and Loans under the applicable assignment agreement are "plan assets" as defined under ERISA and that the rights and interests of the Purchaser in and under the Loan Documents will not be "plan assets" under

ERISA. On and after the effective date of such assignment, such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by or on behalf of the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and no further consent or action by the Borrower, the Lenders or the Agent shall be required to release the transferor Lender with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser. Upon the consummation of any assignment to a Purchaser pursuant to this Section 12.3.2, the transferor Lender, the Agent and the Borrower shall, if the transferor Lender or the Purchaser desires that its Loans be evidenced by Notes, make appropriate arrangements so that new Notes or, as appropriate replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their respective Commitments, as adjusted pursuant to such assignment. In addition, within a reasonable time after the effective date of any assignment, the Agent shall, and is hereby authorized and directed to, revise Schedule "2" reflecting the revised commitments and percentages of each of the Lenders and shall distribute such revised Schedule "2" to each of the Lenders and the Borrower, whereupon such revised Schedule shall replace the old Schedule and become part of this Agreement.

1.135 Commitment Increases.

1.135.1 Increases to Aggregate Commitment. The Borrower shall have the right to increase the Aggregate Commitment by obtaining additional Commitments, either from one or more of the Lenders or another lending institution provided that (A) the Agent has approved the identity of any such new Lender, such approval not to be unreasonably withheld, (B) any such new Lender assumes all of the rights and obligations of a "Lender" hereunder, and (C) the procedure described in Section 12.4.2 has been complied with, provided further that the Aggregate Commitment shall not at any time exceed \$150,000,000 without the approval of the Agent and all of the Lenders.

1.135.2 Procedure for Increases and Addition of New Lenders.

This Agreement permits certain increases in a Lender's Commitment and the admission of new Lenders providing new Commitments, none of which require any consents or approvals from the other Lenders. Any amendment hereto for such an increase or addition shall be in the form attached hereto as Exhibit "K" and shall only require the written signatures of the Agent, the Borrower and the Lender(s) being added or increasing their Commitment, subject only to the approval of all Lenders if any such increase would cause the Aggregate Commitment to exceed \$150,000,000. In addition, within a reasonable time after the effective date of any increase, the Agent shall, and is hereby authorized and directed to, revise Schedule "2" reflecting such increase and shall distribute such revised Schedule to each of the Lenders and the Borrower, whereupon such revised Schedule shall replace the old Schedule and become part of this Agreement. On the Business Day following any such increase, all outstanding Fed Funds Advances and Alternate Base Rate Advances shall be reallocated among the Lenders (including any newly added Lenders) in accordance with the Lenders' respective revised Primary Commitment Percentages. Eurodollar Advances shall not be reallocated among the Lenders prior to the expiration of the applicable Interest Period in effect at the time of any such increase.

1.136 Dissemination of Information. The Borrower authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries, including without limitation any information contained in any Reports; provided that each Transferee and prospective Transferee agrees to be bound by Section 9.12 of this Agreement.

1.137 Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 3.5(iv).

NOTICES

1.138 Notices. Except as otherwise permitted by Section 2.6 with respect to borrowing notices, all notices, requests and other communications to any party hereunder shall be in writing (including bank wire, facsimile transmission or similar writing) and shall be given to such party: (x) in the case of the Borrower, the Agent or any Lender, at its address or facsimile number set forth on the signature pages hereof, (y) in the case of the Collateral Agent, at its address or facsimile number set forth on the signature pages of the Security Agreement or (z) in the case of any party, at such other address or facsimile number as such party may hereafter specify for the purpose by notice to the Agent and the Borrower in accordance with the provisions of this Section 13.1. Each such notice, request or other communication shall be effective (i) if given by facsimile transmission, when transmitted to the facsimile number specified in this Section and confirmation of receipt is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means, when delivered at the address specified in this Section; provided that notices to the Agent under Article 11 shall not be effective until received.

1.139 Change of Address. The Borrower, the Agent, the Collateral Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent by facsimile transmission or telephone, that it has taken such action.

CHOICE OF LAW, CONSENT TO JURISDICTION, WAIVER OF JURY TRIAL

1.140 CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF TEXAS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

1.141 CONSENT TO JURISDICTION. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR TEXAS STATE COURT SITTING IN DALLAS IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN DALLAS, TEXAS.

1.142 WAIVER OF JURY TRIAL. THE BORROWER, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

1.143 No Tri-Party Accounts. Section 346 of the Texas Finance Code (which regulates certain revolving loan accounts and revolving triparty accounts) shall not apply to this Agreement or the other loan documents.

1.144 Limitation on Interest. Agent, Lenders, and Borrower, and any other parties to the Loan Documents intend to contract in strict compliance with applicable usury law from time to time in effect. In furtherance thereof such Persons stipulate and agree that none of the terms and provisions contained in the Loan Documents shall ever be construed to create a contract to pay, for the use, forbearance or detention of money, interest in excess of the maximum amount of interest permitted to be charged by applicable law from time to time in effect. Neither Borrower nor any present or future guarantors, endorsers, or other Persons hereafter becoming liable for payment of any Obligation shall ever be liable for unearned interest thereon or shall ever be required to pay interest thereon in excess of the maximum amount that may be lawfully charged under applicable law from time to time in effect, and the provisions of this section shall control over all other provisions of the Loan Documents which may be in conflict or apparent conflict herewith. Lenders expressly disavow any intention to charge or collect excessive unearned interest or finance charges in the event the maturity of any Obligation is accelerated. If (a) the maturity of any Obligation is accelerated for any reason, (b) any Obligation is prepaid and as a result any amounts held to constitute interest are determined to be in excess of the legal maximum, or (c) Lenders or any other holder of any or all of the Obligations shall otherwise collect moneys which are determined to constitute interest which would otherwise increase the interest on any or all of the Obligations to an amount in excess of that permitted to be charged by applicable law then in effect, then all such sums determined to constitute interest in excess of such legal limit shall, without penalty, be promptly applied to reduce the then outstanding principal of the related Obligations or, at Lenders' or such holder's option, promptly returned to each Borrower or the other payor thereof upon such determination. In determining whether or not the interest paid or payable, under any specific circumstance, exceeds the maximum amount permitted under applicable law, Lenders and Borrower (and any other payors thereof) shall to the greatest extent permitted under applicable law, (i) characterize any non-principal payment as an expense, fee or premium rather than as interest, (ii) exclude voluntary prepayments and the effects thereof, and (iii) amortize, prorate, allocate, and spread the total amount of interest throughout the entire contemplated term of the instruments evidencing the Obligations in accordance with the amounts outstanding from time to time thereunder and the maximum legal rate of interest from time to time in effect under applicable law in order to lawfully charge the maximum amount of interest permitted under applicable law. In the event applicable law provides for an interest ceiling under Section 303 of the Texas Finance Code, that ceiling shall be the weekly ceiling.

1.145 NO ORAL AGREEMENTS. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the Borrower, the Lenders and the Agent have executed this Agreement as of the date first above written.

K. HOVNANIAN MORTGAGE, INC.

By:
Name:
Title:

Address for Notices:

1800 S. Australian Avenue
Suite 400
West Palm Beach, Florida 33409
Telephone: (561) 478-4900
Telecopier:

GUARANTY BANK, Agent and Lender

By:
Name: Randall S. Reid
Title: Vice President

Address for Notices Regarding Fundings:

3333 Douglas Avenue
Dallas, Texas 75225
Attn: Ronny O'Neal
Telephone No.: (214) 360-4802
Telephone No.: (214) 360-1659

Address for Other Notices:

3333 Douglas Avenue
Dallas, Texas 75225
Attn: Randall S. Reid
Telephone No.: (214) 360-2735
Telephone No.: (214) 360-1661

BANK ONE, NA

By:
Name: Rodney S. Davis
Title: Associate Director

Address for Notices Regarding Fundings:

1 Bank One Plaza
Chicago, Illinois 60670-0098
Attn: Ky Yoo
Telephone No.: (312)732-1068
Telecopier No.: (312)732-3852 or
7326774

Address for Other Notices:

1 Bank One Plaza
Mail Suite IL1-0098
Chicago, Illinois 60670
Attn: Todd Ritz
Director
Telephone No.: (312) 732-3953
Telecopier No.: (312) 732-6222

BANK OF AMERICA, N.A.

By:
Name: Agnes McAlpine
Title: Principal

Address for Notices Regarding Fundings:

901 Main Street
66th Floor
Dallas, Texas 75202-3714
Mail Code TX1-492-66-02
Attn: Barbara Allen
Telephone No.: (214) 209-1551
Telecopier No.: (214) 209-2710

Address for Other Notices:

901 Main Street
66th Floor
Dallas, Texas 75202-3714
Mail Code TX1-492-66-02
Attn: Mark Short
Telephone No.: (214) 209-0670
Telecopier No.: (214) 209-0338

COMERICA BANK

By:
Name: Robert W. Marr
Title: Assistant Vice President

Address for Notices Regarding Fundings:

500 Woodward Avenue

7th Floor, MC 3256
Detroit, MI 48226
Attention: Janet Nowicki
Telephone No.: (313) 222-9294
Telecopier No.: (313) 222-3697

Address for Other Notices:

500 Woodward Avenue

7th Floor, MC 3256
Detroit, MI 48226
Attention: Rob Marr
Telephone No.: (313) 222-4119
Telecopier No.: (313) 222-9295

SCHEDULE "1"
PRICING SCHEDULE*

APPLICABLE MARGIN &
APPLICABLE FEE RATE
Eurodollar Advance 1.25%
Fed Funds Advance 1.375%
Swingline Loan 1.625%
Facility Fee .25%

* There shall be no Applicable Margin for Alternate Base Rate Advances.

SCHEDULE "2"
COMMITMENTS AND COMMITMENT PERCENTAGES

LENDER

(A)

COMMITMENT

(B)

COMMITMENT
PERCENTAGE
(A?Aggregate
Commitment)
(C

SWINGLINE
AMOUNT
Guaranty Bank
Bank of America, N.A.
Bank One, NA
Comerica Bank \$30,000,000
\$30,000,000
\$30,000,000
\$20,000,000 27.272727%
27.272727%
27.272727%
18.181818% \$3,000,000

SCHEDULE "3"
LIST OF APPROVED INVESTORS
BANK OF AMERICA MORTGAGE
BANK BRANCH AND TRUST (BB&T)

CHASE MANHATTAN MORTGAGE CORPORATION
CITICORP MORTGAGE, INC.
COUNTRYWIDE HOME LOAN, INC.
DIME MORTGAGE SERVICES
FLAGSTAR BANCORP
FLEET MORTGAGE GROUP, INC.
FEDERAL HOME LOAN MORTGAGE CORPORATION
FEDERAL NATIONAL MORTGAGE ASSOCIATION
FIRST HORIZON BANCORP
FIRST NATIONWIDE MORTGAGE
FIRST UNION MORTGAGE GROUP
FLEET MORTGAGE CORP.
GE CAPITAL MORTGAGE SERVICES, INC.
GREENPOINT MORTGAGE CORPORATION
ILLINOIS HOUSING AND DEVELOPMENT AUTHORITY
IMPAC FUNDING CORPORATION
OHIO SAVINGS BANK
NATIONSBANC MORTGAGE CORP.
NEW JERSEY MORTGAGE FINANCE AGENCY
NORWEST FUNDING
PNC BANK, N.A.
REGION'S MORTGAGE
RESIDENTIAL FUNDING CORP.
ROSLYN NATION MORTGAGE CORP.
SIERRA WESTERN
SOMERSET SAVINGS BANK
SOVEREIGN BANK FSB
SUMMIT MORTGAGE CO. / SUMMIT BANK
VALLEY NATIONAL BANK

ALLIANCE FUNDING CORP.
CHASE MANHATTAN FUNDING1
COUNTRYWIDE HOME LOAN, INC.1
GE CAPITAL MORTGAGE SERVICES, INC.1
IMPAC FUNDING CORP.1
DIRECTORS ACCEPTANCE, A DIVISION OF NORWEST MORTGAGE1
RESIDENTIAL FUNDING CORP.1

FANNIE MAE TRADING DESK
PAINWEBBER, INC.2
ADVEST, INC.2
STIFEL FINANCIAL CORP.2

SCHEDULE "4"
SUBSIDIARIES AND OTHER INVESTMENTS
(See Sections 5.8 and 6.14)

Investment In	Owned
By	Amount of
Investment	Percent
Ownership	Jurisdiction of
Organization	

None

SCHEDULE "5"
LIENS
(See Sections 5.14 and 6.15)

Indebtedness Incurred By	Indebtedness Owed To	Property Encumbered (If Any)	Maturity and Amount of Indebtedness
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None

EXHIBIT "A"

NOTE

June 7, 2002

K. Hovnanian Mortgage, Inc. a New Jersey corporation (the "Borrower"), promises to pay to the order of (the "Lender") the lesser of the Lender's Commitment under the Agreement (as hereinafter defined) or the aggregate unpaid principal amount of all Loans made by the Lender to the Borrower pursuant to Article II of the Agreement in immediately available funds at the main office of Guaranty Bank, in Dallas, Texas, as Agent, together with interest on the unpaid principal amount hereof at the rates and on the dates set forth in the Agreement. The

Borrower shall pay the principal of and accrued and unpaid interest on the Loans in full on the Termination Date.

The Lender shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of each Loan and the date and amount of each principal payment hereunder.

This Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Credit Agreement dated as of June 7, 2002 (which, as it may be amended or modified and in effect from time to time, is herein called the "Agreement"), among the Borrower, the lenders party thereto, including the Lender, and Guaranty Bank, as Agent, to which Agreement reference is hereby made for a statement of the terms and conditions governing this Note, including the terms and conditions under which this Note may be prepaid or its maturity date accelerated. This Note is secured pursuant to the Security Agreement, all as more specifically described in the Agreement, and reference is made thereto for a statement of the terms and provisions thereof Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Agreement.

This Note is to be governed by and construed and enforced in accordance with the laws of the State of Texas.

K. HOVNANIAN MORTGAGE, INC.

By:
Name:
Title:

SCHEDULE OF LOANS AND PAYMENTS OF PRINCIPAL
TO
NOTE OF
DATED , 2002

Date Principal
Amount of
Loan Maturity
of Interest
Period Principal
Amount
Paid
Unpaid
Balance

EXHIBIT "B"
FORM OF OPINION

, 2002
The Agent and the Lenders who are parties to the
Credit Agreement described below.

Gentlemen/Ladies:

We are counsel for K. Hovnanian Mortgage, Inc., a New Jersey corporation (the "Borrower") and Hovnanian Enterprises, Inc., a Delaware corporation (the "Parent") and have represented the Borrower in connection with its execution and delivery of a Credit Agreement dated as of , 2002 (the "Agreement") among the Borrower, the Lenders named therein, and Guaranty Bank, as Agent, and providing for Advances in an aggregate principal amount not exceeding \$150,000,000 at any one time outstanding and the Parent in connection with its execution and delivery of the Keep-Well Agreement dated as of , 2002 and the Subordination Agreement dated as of

, 2002 related to the Agreement. All capitalized terms used in this opinion and not otherwise defined herein shall have the meanings attributed to them in the Agreement.

We have examined the Borrower's "(describe constitutive documents of Borrower and appropriate evidence of authority to enter into the transaction)", the Parent's "(describe constitutive documents of Borrower and appropriate evidence of authority to enter into the transaction)", the Loan Documents and such other matters of fact and law which we deem necessary in order to render this opinion. Based upon the foregoing, it is our opinion that:

1. Each of the Parent, the Borrower and its Subsidiaries is a corporation, partnership or limited liability company duly and properly incorporated or organized, as the case may be, validly existing and (to the extent such concept applies to such entity) in good standing under the laws of its jurisdiction of incorporation or organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

2. A. The execution and delivery by the Borrower of the Loan Documents to which it is a party and the performance by the Borrower of its obligations thereunder have been duly authorized by proper corporate proceedings on the part of the Borrower and will not:

(a) require any consent of the Borrower's shareholders or members (other than any such consent as has already been given and remains in full force and effect);

(b) violate (i) any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Borrower or any of its Subsidiaries or (ii) the Borrower's or any Subsidiary's articles or certificate of incorporation, partnership agreement, certificate of partnership, articles or certificate of organization, by-laws, or operating or other management agreement, as the case may be, or (iii) the provisions of any indenture, instrument or agreement to which the Borrower or any of its Subsidiaries is a party or is subject, or by which it, or its Property, is bound, or conflict with or constitute a default thereunder; or

(c) result in, or require, the creation or imposition of any Lien in, of or on the Property of the Borrower or a Subsidiary pursuant to the terms of any indenture, instrument or agreement binding upon the Borrower or any of its Subsidiaries.

B. The execution and delivery by the Parent of the Loan Documents to which it is a party and the performance by the Parent of its obligations thereunder have been duly authorized by proper corporate proceedings on the part of the Parent and will not:

(a) require any consent of the Parent's shareholders or members (other than any such consent as has already been given and remains in full force and effect);

(b) violate (i) any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Parent or any of its Subsidiaries or (ii) the Parent's or any of its Subsidiary's articles or certificate of incorporation, partnership agreement, certificate of partnership, articles or certificate of organization, by-laws, or operating or other management agreement, as the case may be, or (iii) the provisions of any indenture, instrument or agreement to which the Parent or any of its Subsidiaries is a party or is subject, or by which it, or its Property, is bound, or conflict with or constitute a default thereunder; or

(c) result in, or require, the creation or imposition of any Lien in, of or on the Property of the Parent or any of its Subsidiaries pursuant to the terms of any indenture, instrument or agreement binding upon the Parent or any of its Subsidiaries.

3. A. The Loan Documents to which the Borrower is a party have been duly executed and delivered by the Borrower and constitute legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms except to the extent the enforcement thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and subject also to the availability of equitable remedies if equitable remedies are sought.

B. The Loan Documents to which the Parent is a party have been duly executed and delivered by the Parent and constitute legal, valid and binding obligations of the Parent enforceable against the Parent in accordance with their terms except to the extent the enforcement thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and subject also to the availability of equitable remedies if equitable remedies are sought.

4. There is no litigation, arbitration, governmental investigation, proceeding or inquiry pending or, to the best of our knowledge after due inquiry, threatened against the Parent, the Borrower or any of its Subsidiaries which, if adversely determined, could reasonably be expected to have a Material Adverse Effect.

5. No order, consent, adjudication, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of any governmental or public body or authority, or any subdivision thereof, which has not been obtained by the Parent, the Borrower or any of its Subsidiaries, is required to be obtained by the Parent, the Borrower or any of its Subsidiaries in connection with the execution and delivery of the Loan Documents, the borrowings under the Agreement, the payment and performance by the Borrower of the Secured Obligations, or the legality, validity, binding effect or enforceability of any of the Loan Documents.

6. The Secured Obligations constitute senior indebtedness which is entitled to the benefits of the subordination provisions contained in the Subordination Agreement.

7. The provisions of the Collateral Documents are sufficient to create in favor of the Lenders a security interest in all right, title and interest of the Borrower in those items and types of collateral described in the Collateral Documents in which a security interest may be created under Article 9 of the Uniform Commercial Code as in effect from time to time in New Jersey and Delaware, as applicable. Financing statements on Form UCC-1's have been duly executed by the Borrower and have been duly filed in each filing office indicated in Exhibit A hereto under the Uniform Commercial Code in effect in each state in which said filing offices are located. The description of the collateral set forth in said financing statements is sufficient to perfect a security interest in the items and types of collateral described therein in which a security interest may be perfected by the filing of a financing statement under the Uniform Commercial Code as in effect from time to time in such states. Such filings are sufficient to perfect the security interest created by the Collateral Documents in all right, title and interest of the Borrower in

those items and types of collateral described in the Collateral Documents in which a security interest may be perfected by the filing of a financing statement under the Uniform Commercial Code from time to time in effect in such states, except that we express no opinion as to personal property affixed to real property in such manner as to become a fixture under the laws of any state in which the collateral may be located and we call your attention to the fact that the Lenders' security interest in certain of such collateral may not be perfected by filing financing statements under the Uniform Commercial Code. This opinion may be relied upon by the Agent, the Lenders and their participants, assignees and other transferees.

Very truly yours,

EXHIBIT "C"
(RESERVED)

EXHIBIT "D"
COLLATERAL TRANSMITTAL

- 1. CUSTOMER NAME
- 2. LOAN NUMBER
- AND "MIN" (IF APPLICABLE)
- 3. MORTGAGOR
SURNAME ONLY
- 4. AP STATUS CODE
- 5. PLEDGE DATE
- 6. ORIGINAL NOTE AMOUNT \$
- 7. OUTSTANDING PRINCIPAL BALANCE \$
- 8. ACQUISITION COST \$
- 9. TAKE-OUT VALUE \$
- 10. NOTE DATE OR CONVERSION DATE
- 11. NOTE RATE
- 12. LOAN TYPE

EXHIBIT "E"

AGREEMENT TO PLEDGE
SECURITY AGREEMENT AS PROVIDED FOR BY
THE UNIFORM COMMERCIAL CODE OF TEXAS
K. Hovnanian Mortgage, Inc. (the "Borrower") pursuant to that certain Credit Agreement dated as of _____, 2002 (as amended, extended and replaced from time to time, the "Credit Agreement") among the Borrower, Guaranty Bank, as Agent, and certain other Lenders, and pursuant to that certain Security and Collateral Agency Agreement among the Borrower, the Agent, the Lenders and Guaranty Bank (the "Collateral Agent") for new value this day received, and as security for the payment of any and all indebtedness and obligations of the Borrower under the Credit Agreement, hereby creates and grants to the Collateral Agent for the benefit of the lenders under the Credit Agreement a security interest in and to the mortgage loans identified as AP Mortgages by the inclusion of an "AP Status Code" on the Borrower's Collateral Transmittals on the date indicated below which provide the information concerning the AP Mortgages required by the Credit Agreement. All capitalized terms used herein shall have the meanings given to them in the Credit Agreement.

K. HOVNANIAN MORTGAGE, INC.

By:
Name:
Title:

Dated: _____, 200 .

EXHIBIT "F"
COMPLIANCE CERTIFICATE

To: The Lenders parties to the
Credit Agreement Described Below
This Compliance Certificate is furnished pursuant to that certain Credit Agreement dated as of _____, 2002 (as amended, modified, renewed or extended from time to time, the "Agreement") among the K. Hovnanian Mortgage, Inc. (the "Borrower"), the lenders party thereto and Guaranty Bank, as Agent for the Lenders. Unless otherwise defined herein, capitalized terms used in this Compliance Certificate have the meanings ascribed thereto in the Agreement.
THE UNDERSIGNED HEREBY CERTIFIES THAT:
1. I am the duly elected _____ of the Borrower;
2. I have reviewed the terms of the Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrower and its Subsidiaries during the accounting period covered by the attached financial statements;
3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or event which constitutes a Default or Unmatured Default during or at the end of the accounting period covered by the attached financial statements or as of the

date of this Certificate, except as set forth below; and
4. Schedule I attached hereto sets forth financial data and computations evidencing the Borrower's compliance with certain covenants of the Agreement, all of which data and computations are true, complete and correct.

Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event:

The foregoing certifications, together with the computations set forth in Schedule I hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this day of , 20 .

SCHEDULE I TO COMPLIANCE CERTIFICATE

Compliance as of , 200 with Provisions of and of the Agreement
EXHIBIT "G"
BORROWING BASE CERTIFICATE

EXHIBIT "H"
NON-CONFORMING UNDERWRITING GUIDELINES

SEE ATTACHED
EXHIBIT "I"
SECURITY AGREEMENT

EXHIBIT "J"
ASSIGNMENT AGREEMENT

This Assignment Agreement (this "Assignment Agreement") between (the "Assignor") and (the "Assignee") is dated as of , 200 . The parties hereto agree as follows:

1. PRELIMINARY STATEMENT. The Assignor is a party to a Credit Agreement (which, as it may be amended, modified, renewed or extended from time to time is herein called the "Credit Agreement") described in Item 1 of Schedule 1 attached hereto ("Schedule 1"). Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement.

2. ASSIGNMENT AND ASSUMPTION. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement such that after giving effect to such assignment the Assignee shall have purchased pursuant to this Assignment Agreement the percentage interest specified in Item 3 of Schedule 1 of all outstanding rights and obligations under the Credit Agreement relating to the facilities listed in Item 3 of Schedule 1 and the other Loan Documents. The aggregate Commitment (or Loans, if the applicable Commitment has been terminated) purchased by the Assignee hereunder is set forth in Item 4 of Schedule 1.

3. EFFECTIVE DATE. The effective date of this Assignment Agreement (the "Effective Date") shall be the later of the date specified in Item 5 of Schedule 1 or two Business Days (or such shorter period agreed to by the Agent) after a Notice of Assignment substantially in the form of Annex "I" attached hereto has been delivered to the Agent. Such Notice of Assignment must include any consents required to be delivered to the Agent by Section 12.3.1 of the Credit Agreement. In no event will the Effective Date occur if the payments required to be made by the Assignee to the Assignor on the Effective Date under Sections 4 and 5 hereof are not made on the proposed Effective Date. The Assignor will notify the Assignee of the proposed Effective Date no later than the Business Day prior to the proposed Effective Date. As of the Effective Date, (i) the Assignee shall have the rights and obligations of a Lender under the Loan Documents with respect to the rights and obligations assigned to the Assignee hereunder and (ii) the Assignor shall relinquish its rights and be released from its corresponding obligations under the Loan Documents with respect to the rights and obligations assigned to the Assignee hereunder.

4. PAYMENT OBLIGATIONS. On and after the Effective Date, the Assignee shall be entitled to receive from the Agent all payments of principal, interest and fees with respect to the interest assigned hereby. The Assignee shall advance funds directly to the Agent with respect to all Loans and reimbursement payments made on or after the Effective Date with respect to the interest assigned hereby. **[In consideration for the sale and assignment of Loans hereunder, (i) the Assignee shall pay the Assignor, on the Effective Date, an amount equal to the principal amount of the portion of all Alternate Base Rate Loans assigned to the Assignee hereunder and (ii) with respect to each Eurodollar Loan made by the Assignor and assigned to the Assignee hereunder which is outstanding on the Effective Date, (a) on the last day of the Interest Period therefor or (b) on such earlier date agreed to by the Assignor and the Assignee or (c) on the date on which any such Eurodollar Loan becomes due (by acceleration or otherwise) (the date as described in the foregoing clauses (a), (b) or (c) being hereinafter referred to as the "Payment Date"), the Assignee shall pay the Assignor an amount equal to the principal amount of the portion of such Eurodollar Loan assigned to the Assignee which is outstanding on the

Payment Date. If the Assignor and the Assignee agree that the Payment Date for such Eurodollar Loan shall be the Effective Date, they shall agree to the interest rate applicable to the portion of such Loan assigned hereunder for the period from the Effective Date to the end of the existing Interest Period applicable to such Eurodollar Loan (the "Agreed Interest Rate") and any interest received by the Assignee in excess of the Agreed Interest Rate shall be remitted to the Assignor. In the event interest for the period from the Effective Date to but not including the Payment Date is not paid by the Borrower with respect to any Eurodollar Loan sold by the Assignor to the Assignee hereunder, the Assignee shall pay to the Assignor interest for such period on the portion of such Eurodollar Loan sold by the Assignor to the Assignee hereunder at the applicable rate provided by the Credit Agreement. In the event a prepayment of any Eurodollar Loan which is existing on the Payment Date and assigned by the Assignor to the Assignee hereunder occurs after the Payment Date but before the end of the Interest Period applicable to such Eurodollar Loan, the Assignee shall remit to the Assignor the excess of the prepayment penalty paid with respect to the portion of such Eurodollar Loan assigned to the Assignee hereunder over the amount which would have been paid if such prepayment penalty was calculated based on the Agreed Interest Rate. The Assignee will also promptly remit to the Assignor (i) any principal payments received from the Agent with respect to Eurodollar Loans prior to the Payment Date and (ii) any amounts of interest on Loans and fees received from the Agent which relate to the portion of the Loans assigned to the Assignee hereunder for periods prior to the Effective Date, in the case of Alternate Base Rate Loans or fees, or the Payment Date, in the case of Eurodollar Loans, and not previously paid by the Assignee to the Assignor.]** In the event that either party hereto receives any payment to which the other party hereto is entitled under this Assignment Agreement, then the party receiving such amount shall promptly remit it to the other party hereto.

**Each Assignor may insert its standard payment provisions in lieu of the payment terms included in this Exhibit.

5. FEES PAYABLE BY THE ASSIGNEE. The Assignee shall pay to the Assignor a fee on each day on which a payment of interest or fees is made under the Credit Agreement with respect to the amounts assigned to the Assignee hereunder (other than a payment of interest or commitment fees for the period prior to the Effective Date or, in the case of Eurodollar Loans, the Payment Date, which the Assignee is obligated to deliver to the Assignor pursuant to Section 4 hereof). The amount of such fee shall be the difference between (i) the interest or fee, as applicable, paid with respect to the amounts assigned to the Assignee hereunder and (ii) the interest or fee, as applicable, which would have been paid with respect to the amounts assigned to the Assignee hereunder if each interest rate was of 1% less than the interest rate paid by the Borrower or if the commitment fee was

of 1% less than the commitment fee paid by the Borrower, as applicable. In addition, the Assignee agrees to pay % of the recordation fee required to be paid to the Agent in connection with this Assignment Agreement.

6. REPRESENTATIONS OF THE ASSIGNOR; LIMITATIONS ON THE ASSIGNOR'S LIABILITY. The Assignor represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim created by the Assignor. It is understood and agreed that the assignment and assumption hereunder are made without recourse to the Assignor and that the Assignor makes no other representation or warranty of any kind to the Assignee. Neither the Assignor nor any of its officers, directors, employees, agents or attorneys shall be responsible for (i) the due execution, legality, validity, enforceability, genuineness, sufficiency or collectability of any Loan Document, including without limitation, documents granting the Assignor and the other Lenders a security interest in assets of the Borrower or any guarantor, (ii) any representation, warranty or statement made in or in connection with any of the Loan Documents, (iii) the financial condition or creditworthiness of the Borrower or any guarantor, (iv) the performance of or compliance with any of the terms or provisions of any of the Loan Documents, (v) inspecting any of the Property, books or records of the Borrower, (vi) the validity, enforceability, perfection, priority, condition, value or sufficiency of any collateral securing or purporting to secure the Loans or (vii) any mistake, error of judgment, or action taken or omitted to be taken in connection with the Loans or the Loan Documents.

7. REPRESENTATIONS OF THE ASSIGNEE. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements requested by the Assignee and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement, (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information at it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, (iii) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto, (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender, (v) agrees that its payment instructions and notice instructions are as set

forth in the attachment to Schedule 1, (vi) confirms that none of the funds, monies, assets or other consideration being used to make the purchase and assumption hereunder are "plan assets" as defined under ERISA and that its rights, benefits and interests in and under the Loan Documents will not be "plan assets" under ERISA, **[(vii) confirms that it is an Eligible Assignee,]** ** [and (viii) attaches the forms prescribed by the Internal Revenue Service of the United States certifying that the Assignee is entitled to receive payments under the Loan Documents without deduction or withholding of any United States federal income taxes].**

*(vii) to be inserted if required by the Credit Agreement.
**(viii) to be inserted if the Assignee is not incorporated under the laws of the United States, or a state thereof.

8. INDEMNITY. The Assignee agrees to indemnify and hold the Assignor harmless against any and all losses, costs and expenses (including, without limitation, reasonable attorneys' fees) and liabilities incurred by the Assignor in connection with or arising in any manner from the Assignee's non-performance of the obligations assumed under this Assignment Agreement.

9. SUBSEQUENT ASSIGNMENTS. After the Effective Date, the Assignee shall have the right pursuant to Section 12.3.1 of the Credit Agreement to assign the rights which are assigned to the Assignee hereunder to any entity or person, provided that (i) any such subsequent assignment does not violate any of the terms and conditions of the Loan Documents or any law, rule, regulation, order, writ, judgment, injunction or decree and that any consent required under the terms of the Loan Documents has been obtained and (ii) unless the prior written consent of the Assignor is obtained, the Assignee is not thereby released from its obligations to the Assignor hereunder, if any remain unsatisfied, including, without limitation, its obligations under Sections 4, 5 and 8 hereof.

10. REDUCTIONS OF AGGREGATE COMMITMENT. If any reduction in the Aggregate Commitment occurs between the date of this Assignment Agreement and the Effective Date, the percentage interest specified in Item 3 of Schedule 1 shall remain the same, but the dollar amount purchased shall be recalculated based on the reduced Aggregate Commitment.

11. ENTIRE AGREEMENT. This Assignment Agreement and the attached Notice of Assignment embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings between the parties hereto relating to the subject matter hereof.

12. GOVERNING LAW. This Assignment Agreement shall be governed by the internal law, and not the law of conflicts, of the State of Illinois.

13. NOTICES. Notices shall be given under this Assignment Agreement in the manner set forth in the Credit Agreement. For the purpose hereof, the addresses of the parties hereto (until notice of a change is delivered) shall be the address set forth in the attachment to Schedule 1.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment Agreement by their duly authorized officers as of the date first above written.

[NAME OF ASSIGNOR]

By:

Title:

[NAME OF ASSIGNEE]

By:

Title:

SCHEDULE 1
to Assignment Agreement

- 1. Description and Date of Credit Agreement:
- 2. Date of Assignment Agreement: , 200
- 3. Amounts (As of Date of Item 2 above):

a.

Total of Commitments
(Loans)* under
Credit Agreement Primary
Commitment Swingline
Commitment

\$ \$

b. Assignee's Percentage
of each Facility purchased
under the Assignment

% %

c. Amount of Assigned Share in each Facility purchased under the Assignment Agreement

\$ \$

4. Assignee's Aggregate (Loan Amount)* Commitment Amount Purchased Hereunder:

\$ \$

5. Proposed Effective Date: Accepted and Agreed:

[NAME OF ASSIGNOR] [NAME OF ASSIGNEE]
By: By:
Title: Title:

* If a Commitment has been terminated, insert outstanding Loans in place of Commitment
** Percentage taken to 10 decimal places

Attachment to SCHEDULE 1 to ASSIGNMENT AGREEMENT

ADMINISTRATIVE INFORMATION SHEET
Attach Assignor's Administrative Information Sheet, which must include notice addresses for the Assignor and the Assignee (Sample form shown below)

ASSIGNOR INFORMATION

Contact:
Name: Telephone No.:
Fax No.: Telex No.:
Answerback:

Payment Information:
Name & ABA # of Destination Bank:
Account Name & Number for Wire Transfer:
Other Instructions:
Address for Notices for Assignor:

ASSIGNEE INFORMATION

Credit Contact:
Name: Telephone No.:
Fax No.: Telex No.:
Answerback:
Key Operations Contacts:
Booking Installation: Booking Installation:
Name: Name:
Telephone No.: Telephone No.:
Fax No.: Fax No.:
Telex No.: Telex No.:
Answerback: Answerback:

Payment Information:
Name & ABA # of Destination Bank:
Account Name & Number for Wire Transfer:
Other Instructions:
Address for Notices for Assignee:

GUARANTY BANK INFORMATION

Assignee will be called promptly upon receipt of the signed agreement.

Initial Funding Contact: Subsequent Operations
Contact:
Name: Name:
Telephone No.: (214) Telephone No.: (214)
Fax No.: (214) Fax No.: (214)

Initial Funding Standards:

Libor - Fund 2 days after rates are set.
GUARANTY BANK Wire Instructions: Guaranty Bank ABA #
Account No.:
Account Name:
Ref: K. Hovnanian
Address for Notices for GUARANTY BANK:

ANNEX "I"
to Assignment Agreement

NOTICE
OF ASSIGNMENT

, 200

To: K. HOVNANIAN MORTGAGE, INC.

[NAME OF AGENT]

From: [NAME OF ASSIGNOR] (the "Assignor")

[NAME OF ASSIGNEE] (the "Assignee")

1. We refer to that Credit Agreement (the "Credit Agreement") described in Item 1 of Schedule 1 attached hereto ("Schedule 1"). Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement.
2. This Notice of Assignment (this "Notice") is given and delivered to *[the Borrower and]* the Agent pursuant to Section 12.3.2 of the Credit Agreement.
3. The Assignor and the Assignee have entered into an Assignment Agreement, dated as of , 200 (the "Assignment"), pursuant to which, among other things, the Assignor has sold, assigned, delegated and transferred to the Assignee, and the Assignee has purchased, accepted and assumed from the Assignor the percentage interest specified in Item 3 of Schedule 1 of all outstandings, rights and obligations under the Credit Agreement relating to the facilities listed in Item 3 of Schedule 1. The Effective Date of the Assignment shall be the later of the date specified in Item 5 of Schedule 1 or two Business Days (or such shorter period as agreed to by the Agent) after this Notice of Assignment and any consents and fees required by Sections *[12.3.1 and 12.3.2]* of the Credit Agreement have been delivered to the Agent, provided that the Effective Date shall not occur if any condition precedent agreed to by the Assignor and the Assignee has not been satisfied.
*To be included only if consent must be obtained from the Borrower pursuant to Section 12.3.1 of the Credit Agreement.
4. The Assignor and the Assignee hereby give to the Borrower and the Agent notice of the assignment and delegation referred to herein. The Assignor will confer with the Agent before the date specified in Item 5 of Schedule 1 to determine if the Assignment Agreement will become effective on such date pursuant to Section 3 hereof, and will confer with the Agent to determine the Effective Date pursuant to Section 3 hereof if it occurs thereafter. The Assignor shall notify the Agent if the Assignment Agreement does not become effective on any proposed Effective Date as a result of the failure to satisfy the conditions precedent agreed to by the Assignor and the Assignee. At the request of the Agent, the Assignor will give the Agent written confirmation of the satisfaction of the conditions precedent.
5. The Assignor or the Assignee shall pay to the Agent on or before the Effective Date the processing fee of \$3,500 required by Section 12.3.2 of the Credit Agreement.
6. If Notes are outstanding on the Effective Date, the Assignor and the Assignee request and direct that the Agent prepare and cause the Borrower to execute and deliver new Notes or, as appropriate, replacement notes, to the Assignor and the Assignee. The Assignor and, if applicable, the Assignee each agree to deliver to the Agent the original Note received by it from the Borrower upon its receipt of a new Note in the appropriate amount.
7. The Assignee advises the Agent that notice and payment instructions are set forth in the attachment to Schedule 1.
8. The Assignee hereby represents and warrants that none of the funds, monies, assets or other consideration being used to make the purchase pursuant to the Assignment are "plan assets" as defined under ERISA and that its rights, benefits, and interests in and under the Loan Documents will not be "plan assets" under ERISA.
9. The Assignee authorizes the Agent to act as its agent under the Loan Documents in accordance with the terms thereof. The Assignee acknowledges that the Agent has no duty to supply information with respect to the Borrower or the Loan Documents to the Assignee until the Assignee becomes a party to the Credit Agreement.*
*May be eliminated if Assignee is a party to the Credit Agreement prior to the Effective Date.

NAME OF ASSIGNOR

By:
NAME OF ASSIGNEE

By:
Title:
Title:
ACKNOWLEDGED [AND CONSENTED TO]
ACKNOWLEDGED [AND CONSENTED TO]
BY [NAME OF AGENT]
BY:

By:
Title:
K. HOVNANIAN MORTGAGE, INC.

By:
Name:
Title:

[Attach photocopy of Schedule 1 to Assignment]

EXHIBIT "K"
FORM OF AMENDMENT FOR AN INCREASED OR NEW COMMITMENT

This AMENDMENT is made as of the _____ day of _____, 200__ by and among K. Hovnanian Mortgage, Inc. (the "Borrower"), Guaranty Bank, as Agent under the "Credit Agreement" (as defined below) (the "Agent") and _____ (the "Supplemental Lender").

The Borrower, the Agent and certain other Lenders, as described therein, are parties to a Credit Agreement dated as of _____, 2002 (the "Credit Agreement"). All terms used herein and not otherwise defined shall have the same meaning given to them in the Credit Agreement. Pursuant to Section 12.4.1 of the Credit Agreement, the Borrower has the right to increase the Aggregate Commitment by obtaining additional Commitments upon satisfaction of certain conditions. This Amendment requires only the signature of the Borrower, the Agent and the Supplemental Lender so long as the Aggregate Commitment is not increased above \$150,000,000.

The Supplemental Lender is either (a) an existing Lender which is increasing its Commitment or (b) a new Lender which is a lending institution whose identity the Agent will approve by its signature below. In consideration of the foregoing, such Supplemental Lender, from and after the date hereof shall have a Commitment of \$ _____, resulting in a new Aggregate Commitment of \$ _____ as of the date hereof, and if it is a new Lender, the Supplemental Lender hereby assumes all of the rights and obligations of a Lender under the Credit Agreement.

The Borrower has executed and delivered to the Supplemental Lender as of the date hereof, if requested by the Supplemental Lender, a new or amended and restated Note in the form attached to the Credit Agreement as Exhibit A to evidence the new or increased Commitment of the Supplemental Lender.

IN WITNESS WHEREOF, the Agent, the Borrower and the Supplemental Lender have executed this Amendment as of the date shown above.

K. HOVNANIAN MORTGAGE, INC.

By:
Name:
Title:

[SUPPLEMENTAL LENDER]

By:
Its:

Guaranty Bank, as Agent

By:
Its:

Approved for the purchase of Non-Conforming Mortgage Loans.

Approved for the purchase of Securities.

TABLE OF CONTENTS

(continued)

Page

106

iv
033544 000195 DALLAS 1437609_2.DOC
033544 000195 DALLAS 1437609_6.DOC
3
033544 000195 DALLAS 1437609_6.DOC
033544 000195 DALLAS 1437609_6.DOC

i

1
033544 000195 DALLAS 1437609_6.DOC

FIRST AMENDMENT TO REVOLVING CREDIT AGREEMENT

This FIRST AMENDMENT TO REVOLVING CREDIT AGREEMENT is dated as of July 31, 2002 and is among K. HOVNANIAN MORTGAGE, INC., a New Jersey corporation (the "Borrower"), GUARANTY BANK, BANK OF AMERICA, N.A., BANK ONE, NA and COMERICA BANK (together with any successors and assigns thereof, hereinafter referred to individually as an "Existing Lender" and collectively as the "Existing Lenders"), U.S. BANK NATIONAL ASSOCIATION and NATIONAL CITY BANK OF KENTUCKY, a national banking association (together with any successors and assigns thereof, hereinafter referred to individually as a "Supplemental Lender" and collectively as the "Supplemental Lenders"), and GUARANTY BANK, a federal savings bank, as Agent for the Lenders under the Credit Agreement ("Agent").

RECITALS

The Borrower, the Agent and the Existing Lenders are parties to a certain Revolving Credit Agreement dated as of June 7, 2002 (the "Credit Agreement"), pursuant to which the Existing Lenders have agreed to provide a revolving credit facility to Borrower on the terms and conditions set forth in the Credit Agreement. Any capitalized term not expressly defined herein shall have the meaning ascribed to such term in the Credit Agreement.

The parties hereto desire to modify the Commitments and certain definitions set forth in Article I of the Credit Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. Definitions relating to Federal Funds Rate. The definitions of "Federal Funds Effective Rate" and "Federal Funds Funding Rate" in Article I of the Credit Agreement are hereby amended in their entirety to read as follows:

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the 'Fed funds (effective rate)' as reported on such day for the immediately preceding Business Day by the Federal Reserve Board in its H.15 statistical release or any successor publication (or, if such day is not a Business Day, on the immediately preceding Business Day) or, if such rate is not so published on any day which is a Business Day, 'Federal Funds Effective Rate' shall mean a comparable rate of interest reasonably selected by Agent."

"Federal Funds Funding Rate" means, with respect to any Fed Funds Loan for any day, the Federal Funds Effective Rate for such day."

2. Other Definitions. In Article I of the Credit Agreement, the definition of "Eurodollar Base Rate" is hereby amended by substituting the word "Agent" for the word "Lender" at the end of such definition and the definition of "Security Agreement" is hereby amended by deleting the words "Fourth Amended and Restated" prior to the words "Security and Collateral Agency Agreement".

3. Modifications to Commitments.

Each of the Existing Lenders and the Supplemental Lenders, hereby agrees that from and after the date hereof it shall have a Commitment in the amount set forth opposite its name in Column (A) of Schedule 2 attached hereto, resulting in a new Aggregate Commitment of \$150,000,000 as of the date hereof, and each of the Supplemental Lenders hereby assumes all of the rights and obligations of a Lender under the Credit Agreement. The Borrower shall execute and deliver to each of the Supplemental Lenders as of the date hereof, a new Note in the form attached to the Credit Agreement as Exhibit A to evidence the new Commitment of such Supplemental Lender.

4. Schedules. The Credit Agreement is hereby amended by substituting Schedule 2 and Schedule 3 to this Amendment for Schedule 2 and Schedule 3 to the Credit Agreement.

5. Miscellaneous.

(a) All references to the Credit Agreement in the Loan Documents shall be deemed to refer to the Credit Agreement as amended by this Amendment.

(b) Borrower hereby represents and warrants to the Lenders that on the date of execution hereof both prior to and after giving effect to this Amendment, (i) the representations and warranties of Borrower contained in the Loan Documents are accurate and complete in all respects, and (ii) no Default or Unmatured Default has occurred and is continuing.

(c) In all other respects, the Credit Agreement and the other Loan Documents are and remain unmodified and in full force and effect and are hereby ratified and confirmed. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Amendment by signing any such counterpart.

(d) The Company agrees to reimburse the Agent for all reasonable out-of-pocket expenses (including legal fees and expenses) incurred in connection with the preparation, negotiation and consummation of this Amendment.

(e) This Amendment may be executed in counterparts which, taken together, shall constitute a single document. This Amendment may be duly executed by facsimile or other electronic transmission.

THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENT OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

K. HOVNANIAN MORTGAGE, INC.

By:
Name:
Title:

GUARANTY BANK, individually and as Agent

By:
Name:
Title:

BANK OF AMERICA, N.A.

By:
Name:
Title:

BANK ONE, NA

By:
Name:
Title:

COMERICA BANK

By:
Name:
Title:

NATIONAL CITY BANK OF KENTUCKY

By:
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION

By:
Name:
Title:

CONSENT AND AGREEMENT

Hovnanian Enterprises, Inc. hereby consents to the provisions of this Amendment and the transactions contemplated herein, and hereby ratifies and confirms the Keep-Well Agreement dated as of June 7, 2002 made by it for the benefit of Lender and the Subordination Agreement dated as of June 7, 2002 made by it for the benefit of Lender, and agrees that its obligations and covenants thereunder are unimpaired hereby and shall remain in full force and effect.

HOVNANIAN ENTERPRISES, INC.

By:
Name:
Title:

SCHEDULE 2

LENDER
(A)

COMMITMENT (B)
COMMITMENT
PERCENTAGE
(A?Aggregate
Commitment) (C)

SWINGLINE
AMOUNT

Guaranty Bank
\$35,000,000
23.333%
\$3,000,000

Bank of America		
	\$30,000,000	20.000%
Bank One		
	\$25,000,000	16.667%
Comerica		
	\$25,000,000	16.667%
U.S. Bank		
	\$25,000,000	16.667%
National City Bank		
	\$10,000,000	6.667%

SCHEDULE 3

LIST OF APPROVED INVESTORS

- CHASE MANHATTAN MORTGAGE CORPORATION
- COUNTRYWIDE HOME LOAN, INC.
- FLAGSTAR BANCORP
- FEDERAL HOME LOAN MORTGAGE CORPORATION
- FEDERAL NATIONAL MORTGAGE ASSOCIATION
- FIRST HORIZON BANCORP
- FIRST NATIONWIDE MORTGAGE
- GREENPOINT MORTGAGE CORPORATION
- GUARANTY RESIDENTIAL LENDING
- IMPAC FUNDING CORPORATION
- NATIONAL CITY BANK
- OHIO SAVINGS BANK
- RESIDENTIAL FUNDING CORPORATION
- VALLEY NATIONAL BANK
- WASHINGTON MUTUAL
- WELLS FARGO

- CHASE MANHATTAN FUNDING
- COUNTRYWIDE HOME LOAN, INC.1
- IMPAC FUNDING CORPORATION1
- RESIDENTIAL FUNDING CORPORATION1

Approved for the purchase of Non-Conforming Mortgage Loans.

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ara K. Hovnanian, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ARA K. HOVNANIAN

Ara K. Hovnanian
Chief Executive Officer

Date: September 13, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Larry Sorsby, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/J. LARRY SORSBY

J. Larry Sorsby
Chief Financial Officer

Date: September 13, 2002