

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

/X/ Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange  
Act of 1934  
[Fee Required]

For the fiscal year ended December 31, 1997

// Transition Report Pursuant to Section 13 or 15 (d) of the Securities  
Exchange Act of 1934  
[No Fee Required]

*Commission File Number 1-8029*

**THE RYLAND GROUP, INC.**

(Exact name of registrant as specified in its charter)

Maryland ----- (State or other jurisdiction No.) of incorporation or organization)	52-0849948 ----- (I.R.S. Employer Identification No.)
--	--

11000 Broken Land Parkway  
Columbia, Maryland 21044  
(Address of principal executive offices)

Registrant's telephone number, including area code: (410) 715-7000

**Securities Registered Pursuant to Section 12(b) of the Act:**

Title of each class registered -----	Name of each exchange on which registered
Common Stock, (Par Value \$1.00)	New York Stock Exchange
Common Share Purchase Rights	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference

in Part III of this Form 10-K or any amendment to this Form 10-K. //

The aggregate market value of the Common Stock of The Ryland Group, Inc., held by non-affiliates of the registrant (14,624,082 shares) as of March 2, 1998, was \$409,474,296. The number of shares of common stock of The Ryland Group, Inc., outstanding on March 2, 1998, was 14,820,217.

#### DOCUMENTS INCORPORATED BY REFERENCE

Name of Document Report ----- -----	Location in
Proxy Statement for 1998 Annual Meeting of Stockholders	Parts I, III
Annual Report to Shareholders for the year ended December 31, 1997	Parts II, IV
Form 8-K filed September 12, 1989	Part IV
Form 10-K for the year ended December 31, 1989	Part IV
Form 8-K filed August 6, 1992	Part IV
Form 10-K for the year ended December 31, 1990	Part IV
Form 10-Q for the quarter ended June 30, 1992	Part IV
Registration Statement on Form S-3, Registration 33-48071	Part IV
Form 10-Q for the quarter ended June 30, 1994	Part IV
Form 8-K filed October 24, 1996	Part IV
Registration Statement on Form S-3, Registration 333-03791	Part IV
Form 10-K for the year-ended December 31, 1995	Part IV
Form 8-K filed July 2, 1996	Part IV
Form 10-K for the year-ended December 31, 1996	Part IV

#### THE RYLAND GROUP, INC. FORM 10-K

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**PART I**

**Item 1. Business.**

The Ryland Group, Inc. (the "Company"), is a leading national homebuilder and mortgage-related financial services firm. Established in 1967, the Company builds homes in 23 divisions in 20 states and is one of the largest single-family on-site homebuilders in the United States. The Company's homebuilding segment specializes in the sale and construction of single-family attached and detached housing. The financial services segment, whose business is conducted through Ryland Mortgage Company and its subsidiaries (RMC), complements the Company's homebuilding activities by providing various mortgage-related products and services for retail customers including loan origination, loan servicing, title and escrow services. The financial services segment also conducts investment activities.

**Homebuilding**

**Markets**

The homebuilding segment markets and builds homes that are constructed on-site in three regions which comprise 23 divisions across the nation. The three regions are the North (consisting of the Mid-Atlantic and Midwest Divisions), South (consisting of the Southeast and

Southwest Divisions) and West. As of December 31, 1997, the Company operated in the following metropolitan markets:

Region	Major Markets Served
North:	Mid-Atlantic Divisions: ----- Baltimore, Delaware Valley/Philadelphia, Washington, D.C./Northern Virginia  Midwest Divisions: ----- Chicago, Cincinnati, Indianapolis, Minneapolis
South:	Southeast Divisions: ----- Atlanta, Charlotte, Greenville, Orlando, Tampa  Southwest Divisions: ----- Austin, Dallas, Houston, San Antonio
West:	Western Divisions: ----- Denver, Los Angeles/Pacific Inland, Phoenix, Portland, Salt Lake City, San Diego, San Jose Bay Area/Sacramento

The homebuilding segment sells under the name of Brock Homes in Southern California (except for San Diego where the Company sells under the Ryland Homes name), Larchmont Homes in Sacramento, California, Scott Felder Homes in certain Texas communities and Ryland Homes in all other areas.

The Company markets detached and attached single family homes generally targeted to the entry level, first-and second-time move-up home buyer through a diverse product line tailored to local styles and preferences in each of its geographic markets. The product line offered in a particular community is determined in conjunction with the land acquisition process, and is dependent upon a number of factors, including consumer preferences, competitive product offerings and the cost of building lots in the community. In 1997, the Company's average closing price for its homes was \$182,000.

During the last four years, the Company has substantially updated its product line and over the past year, the Company again introduced many new home designs across the country. The Company generally outsources architectural services to a network of architects to increase creativity and to ensure that its home designs are consistent with local market preferences. In addition, through flexible supply arrangements and construction methods, the Company has significantly improved its ability to quickly bring new home designs to market and modify existing products.

The Company's operations in each of its homebuilding markets may differ based on a number of market-specific factors. These factors include regional economic conditions and job growth, land availability and the local land development process, consumer tastes, competition from other builders of new homes and home resale activity. The Company considers each of these factors when entering into new markets or determining the extent of its operations and capital allocation in existing markets. During 1997, the Company completed its first full year of operations in Portland, Oregon.

During the past year, due to economic uncertainties and competitive pressures in the Mid-Atlantic region, the Company continued to reallocate capital out of the Mid-Atlantic and into other regions where the Company believes it can achieve higher returns.

### **Land Acquisition and Development**

As of December 31, 1997, the Company operated in approximately 270 communities in 23 metropolitan markets in 20 states. The Company's objective is to control a portfolio of building lots sufficient to meet anticipated homebuilding requirements for a period of two to three years. The land acquisition process is controlled through a formal corporate land approval committee to help ensure that transactions meet the Company's standards for financial performance and risk. In the ordinary course of its homebuilding business, the Company utilizes both direct acquisition and option contracts to control building lots for use in the sale and construction of homes. The Company's direct land acquisition activities include the bulk purchase of finished building lots from land developers and the purchase of undeveloped, entitled land from various third parties. The Company generally does not purchase unentitled or unzoned land. Option contract agreements are generally limited to

finished building lots.

Although control of lot inventory through the use of option contracts minimizes the Company's investment, such a strategy is not viable in certain markets due to the absence of third party land developers. In other markets, competitive conditions may preclude the Company from controlling quality building lots solely through the use of option contracts. In such situations, the Company may acquire undeveloped, entitled land and/or finished lots on a bulk basis. The Company utilizes selective development of entitled land in order to gain access to prime locations, increase margins and position the Company as a leader in the community through its influence over the community's character, layout and amenities.

As of December 31, 1997, the Company had deposits and letters of credit outstanding of \$29.8 million in connection with option and land purchase contracts having a total purchase price of \$310.8 million. These options and commitments expire at various dates through 2001.

### **Materials Costs**

Substantially all materials used in the construction of homes are available from a number of sources, but may fluctuate in price due to various factors. To increase purchasing efficiencies, the Company standardizes certain building materials and products in its homes and may procure such products through national supply contracts. The Company operates a plant in Maryland that produces and ships rough lumber packages and trim materials to building sites in its Baltimore, Maryland and Washington, D.C./Northern Virginia markets. In other markets, the Company may purchase rough lumber packages from outside suppliers where this is determined to be the most cost effective procurement and construction approach.

### **Production Management and Subcontractors**

Substantially all on-site construction is performed for a fixed price by independent subcontractors selected on a competitive bid basis. The Company generally requires a minimum of three competitive bids for each phase of construction. Construction activities are supervised by the Company's production supervisors who schedule and coordinate subcontractor work, monitor quality and ensure compliance with local zoning and building codes. The Company has an integrated financial and homebuilding management information system which assists in scheduling production and controlling costs. Through this system, the Company monitors the construction status and job costs incurred for each home for each phase of construction. The system provides for detailed budgeting and allows the Company to monitor and control actual costs versus construction bids for each subcontractor. The Company has, on occasion, experienced shortages of skilled labor in certain markets. If shortages were to occur in the future, such shortages could result in longer construction times and higher costs than those experienced in the past.

### **Marketing and Customer Service**

The Company generally markets its homes to entry level, first and second-time move-up buyers through targeted product offerings in each of the communities in which it operates. The Company's marketing strategy is determined during the land acquisition and feasibility stage of a community's development. The Company's homes are sold by employees and independent real estate brokers, generally by showing furnished model homes. The Company reports a new order when a customer's sales contract is approved, and records revenue from a sale at closing. The Company normally commences construction of homes when a customer has selected a lot and floor plan and has received preliminary mortgage approval. However, construction of homes may begin prior to a sale to satisfy market demand for completed homes and to facilitate construction scheduling.

The Company provides each homeowner with a comprehensive one-year warranty at the time of sale and a ten-year warranty covering loss related to structural defects. The Company believes its warranty program meets or exceeds terms customarily offered in the homebuilding industry.

### **Financial Services**

The Company repositioned its financial services segment in recent years through a strategy consisting of (1) focusing on retail mortgage loan originations and improving the efficiency of these activities by establishing regional operating centers (2) divesting of non-core assets and lines of business, (3) leveraging its affiliation with the company's homebuilding segment to increase its capture rate for builder loans and (4) reaching mortgage customers directly at the point of sale through the use of technology. Operations of the financial services segment include retail loan origination, loan servicing, title, escrow, homeowners insurance and investment activities.

## **RETAIL OPERATIONS**

### **Loan Production**

In 1997, the Company's mortgage origination operations consisted of both builder loans, which are originated in connection with the sale of the Company's homes, and spot loans, which are unrelated to the financing of homes built by the Company. During 1997, RMC originated 7,248 loans totaling approximately \$1.0 billion of which 66 percent were for purchases of homes built by the Company and 34 percent were for purchases of homes built by others, purchases of existing homes, or for the refinancing of existing mortgage loans. The Company has increased its focus on builder loan production by deploying loan officers directly in the Company's homebuilding communities and by utilizing traffic and prospect information generated by the Company's homebuilding sales and marketing staff. RMC's capture rate of the Company's homebuilding segment customers was 61 percent in 1997. The capture rate declined early in 1997 as the Company transitioned to its new regional operating

centers, but increased to 68 percent for the fourth quarter of 1997.

The Company arranges various types of mortgage financing including conventional, Federal Housing Administration (FHA) and Veterans Administration (VA) mortgages with various fixed- and adjustable-rate features. The Company's mortgage operations are approved by Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and Government National Mortgage Association (GNMA).

### **Loan Servicing**

The Company services certain loans that it originates, as well as loans originated by others. As of December 31, 1997, the Company's loan servicing portfolio was \$4.5 billion and included loans subserviced for others totaling \$1.3 billion. During 1997, the Company sold servicing rights in excess of amounts originated during the year due to the economic conditions in the market place. Future earnings of the financial services segment will be negatively impacted due to reductions in loan servicing income attributable to the aforementioned sales. The Company is currently evaluating a potential sale of a significant portion of its remaining loan servicing portfolio.

### **Title and Escrow Services**

Cornerstone Title Company, a wholly owned subsidiary, provides title services primarily to the Company's customers. As of December 31, 1997, Cornerstone had offices in Delaware, Florida, Georgia, Illinois, Maryland, New Jersey, Ohio, Texas and Virginia. The Company also operates an escrow Company in California that performs escrow and loan closing functions primarily on homes built by the Company. During 1997, Cornerstone Title Company captured 95% of the title and escrow business related to settlement of the Company's homes in those markets in which it operates.

## **INVESTMENT OPERATIONS**

The Company's investment operations hold certain assets, primarily mortgage-backed securities and notes receivable, which were obtained as a result of the exercise of redemption rights on various mortgage-backed bonds previously owned by the Company's limited-purpose subsidiaries. The Company earns a net interest spread on the investment portfolio and may periodically realize gains from the sale of mortgage-backed securities from the portfolio.

### **Limited-Purpose Subsidiaries**

The Company's limited-purpose subsidiaries no longer issue mortgage-backed bonds and mortgage-participation securities, but they continue to hold collateral for previously issued mortgage-backed bonds in which the Company maintains a residual interest. Revenues of the limited-purpose subsidiaries consist of interest on mortgage collateral subject to bond indebtedness. Expenses consist primarily of interest on the outstanding bonds and amortization of deferred costs. Revenues, expenses and portfolio balances continue to decline as the mortgage collateral pledged to secure the bonds decreases due to scheduled principal payments, prepayments and exercises of early redemption provisions. Revenues have approximated expenses for the last three years.

### **Real Estate and Economic Conditions**

The Company is significantly affected by the cyclical nature of the homebuilding industry, which is sensitive to fluctuations in economic activity, interest rates and levels of consumer confidence, the effects of which differ among the various geographic markets in which the Company operates. Higher interest rates may affect the ability of buyers to qualify for mortgage financing and decrease demand for new homes. As a result, the Company's home sales and mortgage originations generally will be negatively impacted by rising interest rates. Prepayments, which are higher in a falling interest rate environment, reduce the value of loan servicing rights in the Company's loan servicing portfolio. Movements in interest rates may also affect the market value of the Company's investment portfolio. The Company's business is also affected by local economic conditions, such as employment rates and housing demand in the markets in which it builds homes.

Inventory risk can be substantial for homebuilders. The market value of land, building lots and housing inventories can fluctuate significantly as a result of changing market and economic conditions. In addition, inventory carrying costs can be significant and can result in losses in poorly performing projects or markets. The Company must, in the ordinary course of its business, continuously seek and make acquisitions of land for expansion into new markets as well as for replacement and expansion of land inventory within its current markets. Although the Company employs various measures designed to manage inventory risks, there can be no assurance that such measures will be successful.

### **Competition**

The residential housing industry is highly competitive, and the Company competes in each of its markets with a large number of national, regional and local homebuilding companies. Some of these companies are larger than the Company and have greater financial resources. In addition, the general increase in the availability of capital and financing in recent years has made it easier for both large and small homebuilders to expand and enter new markets and has increased competition. In addition, the Company competes with other housing alternatives including existing homes and rental housing. Principal competitive factors in homebuilding are home price, design, quality, reputation, relationship with developers, availability and location of lots and availability of customer financing.

The financial services segment competes with other mortgage bankers to arrange financing for home buyers and refinancing customers. Principal competitive factors include interest rates and other features of mortgage loan products available to the consumer.

### **Regulatory and Environmental Matters**

The homebuilding segment is subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations which impose restrictive zoning and density requirements in order to limit the number of homes that can be built within the boundaries of a particular area. The Company may also be subject to periodic delays in homebuilding projects due to building moratoria in any of the areas in which it operates. Generally, such moratoria relate to insufficient water or sewage facilities or inadequate roads or local services.

The Company and its competitors are subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. The Company is also subject to a variety of environmental conditions that can affect its business and its homebuilding projects. The particular environmental laws which apply to any given homebuilding site vary greatly according to the site's location, the site's environmental condition and the present and former uses of the site, as well as adjoining properties. Environmental laws and conditions may result in delays, may cause the Company to incur substantial compliance and other costs, and can prohibit or severely restrict homebuilding activity in certain environmentally sensitive regions or areas.

The Company's financial services segment is subject to the rules and regulations of HUD, FHA, VA, FNMA, FHLMC, and GNMA ("regulatory agencies") with respect to originating, processing, selling and servicing mortgage loans. In addition, there are other federal and state statutes and regulations affecting such activities. These rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts. Moreover, the Company is required to submit to the regulatory agencies audited financial statements annually, and each regulatory entity has its own financial requirements. The Company's affairs are also subject to examination by the regulatory agencies at all times to assure compliance with the applicable regulations, policies and procedures. Mortgage origination activities are subject to the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and Real Estate Settlement Procedures Act and the regulations promulgated thereunder which prohibit discrimination and require the disclosure of certain information to mortgagors concerning credit and settlement costs.

### **Employees**

At December 31, 1997, the Company employed 2,229 people. The Company considers its employee relations to be good. No employees are represented by a collective bargaining agreement.

### **Item 2. Properties**

The Company leases office space for its corporate headquarters in Columbia, Maryland. In addition, the Company leases office space in the various markets in which it operates. The Company operates a building component plant in New Windsor, Maryland.

### **Item 3. Legal Proceedings**

Contingent liabilities may arise from the obligations incurred in the ordinary course of business, or from the usual obligations of on-site housing producers for the completion of contracts.

In 1995, one current and two former officers of Ryland Mortgage Company ("RMC") were notified that they were targets of a federal grand jury investigation concerning alleged misappropriation of funds from the Resolution Trust Corporation ("RTC") for activities during 1993. Subsequently, a federal grand jury in Jacksonville, Florida returned indictments against RMC and the three individuals. The indictments charge that RMC, acting through the three individuals, conspired to defraud approximately \$3.5 million from the RTC in connection with the reconciliation of payments and disbursements handled by RMC in its capacity as a servicer for certain mortgage servicing contracts with the RTC. The prosecuting assistant United States attorney indicated that the Company is responsible for restitution of the amount allegedly defrauded and, if convicted on all counts, RMC could receive fines of a significant but undetermined amount. RMC intends to vigorously defend the allegations contained in the indictments. No prediction can be made at this time regarding the result of the indictments or whether any civil action against the Company may be initiated by the RTC or its successor.

The Company is party to various other legal proceedings generally incidental to its businesses. Based on evaluation of these other matters and discussions with counsel, management believes that liabilities to the Company arising from these other matters will not have a material adverse effect on the financial condition of the Company.

### **Item 4. Submission to a Vote of Security Holders.**

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 1997.

Separate Item: Executive Officers of the Registrant

Name	Age	Position (date elected to position) Prior Business Experience
R. Chad Dreier Chief	50	Chairman of the Board of the Company (1994), President and Chief Executive Officer of the Company (1993). Executive Vice President and Financial Officer of Kaufman and Broad Home Corporation and Chairman of Kaufman and Broad Mortgage Company (1986-1993).
John M. Garrity	51	Senior Vice President of the Company, President of Southeast Region (1994) and President of the South Region (1996). Division General Manager of Arvida Homes (1992-1994).
Timothy J. Geckle	45	Senior Vice President, General Counsel and secretary of the Company (1997). Vice President, Deputy General Counsel (1995-1996). Corporate Counsel (1991-1995).
Edward W. Gold Resources,	40	Senior Vice President of Human Resources of the Company (1996). Vice President of Human United States Fidelity & Guaranty Company (1991-1996).
Michael D. Mangan Ryland	41	Executive Vice President and Chief Financial Officer of the Company (1994). President of Mortgage Company (1997). Executive Vice President and Group Chief Financial Officer of GMAC Mortgage Corporation (1991-1994).
Frank J. Scardina	49	Senior Vice President of the Company (1994), President of West Region (1996) and President of California Region (1994). Division President (1993).
Kipling W. Scott of	43	Senior Vice President of the Company, President Midwest Region (1994) and President of the North Region (1997). Midwest Region Director of Land Resources & Planning (1993). President of Development Management Services, Inc. (1989-1993).

All officers are elected by the board of directors.

There are no family relationships, arrangements or understandings pursuant to which any of the officers listed were elected. For a description of employment and severance arrangements with certain executive officers of the Company, see page 11 of the Proxy Statement for the 1998 Annual Meeting of Stockholders.

## PART II

### Item 5. Market for the Company's Common Stock and Related Stockholder Matters.

The information required by this item is incorporated by reference from the section entitled "Common Stock Prices and Dividends" appearing on page 45 of the Annual Report to Shareholders for the year ended December 31, 1997.

**Item 6. Selected Financial Data.**

The information required by this item is incorporated by reference from the section entitled "Selected Financial Data" appearing on page 19 of the Annual Report to Shareholders for the year ended December 31, 1997.

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

The information required by this item is incorporated by reference from the section entitled "Management's Discussion and Analysis of Results of Operations and Financial Condition" appearing on pages 20 through 24 of the Annual Report to Shareholders for the year ended December 31, 1997.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The Company is exempt from this disclosure requirement due to market capitalization of less than \$2.5 billion on January 28, 1997.

**Item 8. Financial Statements and Supplementary Data.**

The information required by this item is incorporated by reference from the information appearing on pages 25 through 42 and from the section entitled "Quarterly Financial Data and Common Stock Prices and Dividends" appearing on page 45 of the Annual Report to Shareholders for the year ended December 31, 1997.

**Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.**

During the fiscal years ended December 31, 1997 and 1996, there were no disagreements between the Company and its accountants on any matter of accounting principle or financial statement disclosure.

**PART III****Item 10. Directors and Executive Officers of the Registrant.**

Information as to the Company's Directors is incorporated by reference from pages 3 and 6 of the Company's Proxy Statement for its 1998 Annual Meeting of Stockholders. Information as to the Company's executive officers is shown under Part I as a separate item.

**Item 11. Executive Compensation.**

The information required by this item is incorporated by reference from pages 7-12 of the Company's Proxy Statement for its 1998 Annual Meeting of Stockholders.

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

The information required by this item is incorporated by reference from pages 4 and 5 of the Company's Proxy Statement for its 1998 Annual Meeting of Stockholders.

**Item 13. Certain Relationships and Related Transactions.**

There are no transactions, business relationships or indebtedness required to be reported by the Company pursuant to this Item.

**PART IV****Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.**

(a) 1. Financial Statements.

The following consolidated financial statements of the Ryland Group, Inc., and Subsidiaries, included in the Annual Report to Shareholders for the year ended December 31, 1997, are incorporated by reference in Item 8:

Consolidated Statements of Earnings - years ended December 31, 1997, 1996, and 1995.

**Consolidated Balance Sheets - December 31, 1997 and 1996.**

Consolidated Statements of Stockholders' Equity - years ended December 31, 1997, 1996 and 1995.

**Notes to Consolidated Financial Statements.**

(a) 2. Financial Statement Schedules. (filed herewith) Page No.

**Schedule II - Valuation and Qualifying Accounts..... 18**

Schedules not listed above have been omitted because they are either inapplicable or the required information has been given in the financial statements or notes thereto.

(a) 3. Exhibits

Exhibit No.

- 
- 3.1 Charter of The Ryland Group, Inc., as amended.  
(Incorporated by reference from Form 10-K for the year ended December 31, 1989)
- 3.2 Bylaws of The Ryland Group, Inc., as amended.  
(Incorporated by reference from Form 10-K for the year ended December 31, 1996)
- 4.1 Rights Agreement dated as of October 18, 1996, between The Ryland Group, Inc., and ChaseMellon Shareholder Services, L.L.C. (Incorporated by reference from Form 8-K filed October 24, 1996)
- 4.2 Articles Supplementary dated as of August 31, 1989.  
(Incorporated by reference from Form 8-K filed September 12, 1989)
- 4.3 Indenture dated as of July 15, 1992, between The Ryland Group, Inc., and Security Trust Company, N.A., as Trustee (Incorporated by reference from Form 8-K filed August 6, 1992)
- 4.4 Senior Subordinated Notes dated as of July 23, 1992.  
(Incorporated by reference from Form 8-K filed August 6, 1992)
- 4.5 Senior Subordinated Notes dated as of November 4, 1993.  
(Incorporated by reference from Registration Statement on Form S-3, Registration No. 33-48071)
- 4.6 Indenture dated as of June 28, 1996, between The Ryland Group, Inc., and Chemical Bank, as Trustee.  
(Incorporated by reference from Form 8-K filed July 2, 1996)
- 4.7 Senior Notes dated as of June 10, 1996. (Incorporated by reference from Registration Statement on Form S-3, Registration No. 333-03791)
- 10.1 Lease Agreement between Seventy Corporate Center Limited Partnership and The Ryland Group, Inc., dated April 17, 1990.  
(Incorporated by reference from Form 10-K for the year ended December 31, 1990)
- 10.2(1) 1992 Equity Incentive Plan of The Ryland Group, Inc.  
(Incorporated by reference from Form 10-Q for the quarter ended June 30, 1992)
- 10.3(1) 1992 Non-Employee Director Equity Plan of The Ryland Group, Inc., as amended. (Incorporated by reference from Form 10-Q for the quarter ended June 30, 1994)
- 10.4 Restated Credit Agreement dated as of July 21, 1995, between The Ryland Group, Inc., and certain banks.  
(Incorporated by reference from Form 10-K for the year ended December 31, 1995)

(a) 3. Exhibits, continued

Exhibit No.

- 
- June 10.5 Second Amended and Restated Credit Agreement dated as of 24, 1997, between The Ryland Group, Inc., and certain banks.  
(Filed herewith)
- 10.6 Restated Loan and Security Agreement dated as of June 16, 1995, between Ryland Mortgage Company; Associates Mortgage Funding Corporation; BankOne, Texas, N.A.; and certain lenders. (Incorporated by reference from Form 10-K for the
- Powered By  2002. EDGAR Online, Inc.

(1) Executive Compensation Plan or Arrangement

(b) Reports on Form 8-K filed in the fourth quarter of 1997:

Form 8-K was filed with the Securities and Exchange Commission on October 9, 1997 regarding the repurchase of Common Stock.

**The Ryland Group, Inc., and Subsidiaries**

**SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS**

(dollar amounts in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions and Transfers (1)	Balance at End of Period (2)
Valuation allowance: Homebuilding inventories					
1997	\$ 3,052	\$ 580		\$ 0	\$ (665)
\$2,967					
1996	8,303	0	0		(5,251)
3,052					
1995	31,853	7,000	0		(30,550)
8,303					
Valuation allowance: Investment in and advances to joint ventures					
1997	\$ 6,500	\$ 0	\$ 0	\$ (6,500)	\$
0					
1996	7,933	0	0	(1,433)	6,500
1995	1,573	7,000	0	(640)	7,933

(1) In 1995, the Company adopted a new accounting standard, Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (FASB 121). As part of the implementation of FASB 121, the carrying basis of inventories to be held and used was written down by the remaining amount of valuation reserves provided under prior accounting rules. Deductions for homebuilding inventories, prior to the adoption of FASB 121, were generally related to normal inventory turnover resulting from home closings or land sales.

(2) Balances as of December 31, 1997, 1996 and 1995, represent valuation allowances for assets to be disposed of.

**SIGNATURES**

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

**THE RYLAND GROUP, INC.**

By: /s/ R. Chad Dreier  
1998

March 13,

R. Chad Dreier, Chairman of the Board,  
President, and Chief Executive Officer  
(Principal Executive Officer)

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

**Principal Executive Officer:**

/s/ R. Chad Dreier  
1998  
R. Chad Dreier  
Chief Executive Officer

March 13,

**Principal Financial Officer:**

/s/ Michael D. Mangan  
1998  
Michael D. Mangan  
Chief Financial Officer

March 13,

**Principal Accounting Officer:**

/s/ Stephen B. Cook  
1998  
Stephen B. Cook  
Chief Accounting Officer

March 13,

Majority of the Board of Directors: James A. Flick, Jr.; R. Chad Dreier; Robert J. Gaw; Leonard M. Harlan; William L. Jews; William G. Kagler; John H. Mullin, III; Charlotte St. Martin; John O. Wilson.

By: /s/ Michael D. Mangan  
1998

March 13,

Michael D. Mangan  
As Attorney-in-Fact

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(1)Executive Compensation Plan or Arrangement

**EXECUTION COPY**

**SECOND AMENDED AND RESTATED CREDIT AGREEMENT**

among

**THE RYLAND GROUP, INC.,**

**CERTAIN LENDERS,**

**THE CHASE MANHATTAN BANK, NATIONS BANK, N.A.,  
BANK OF AMERICA ILLINOIS AND  
THE INDUSTRIAL BANK OF JAPAN TRUST COMPANY,**

as Co-Agents,

**THE CHASE MANHATTAN BANK**  
as Syndication Agent and  
Documentation Agent

and

**NATIONS BANK, N.A.**  
as Administrative Agent

**Dated as of June 24, 1997**

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## WITNESSETH:

WHEREAS, the Company and certain of the Lenders and Co-Agents were parties to the Credit Agreement dated as of July 29, 1993.

WHEREAS, the Company and certain of the Lenders and Co-Agents are parties to the Existing Amended and Restated Credit Agreement, and desire to amend and restate the Existing Amended and Restated Credit Agreement;

WHEREAS, the Company has requested the Lenders to make certain extensions of credit to it; and

WHEREAS, the Lenders are willing to make such extensions of credit on the terms and conditions contained herein;

NOW THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto hereby agree that the Existing Amended and Restated Credit Agreement is amended and restated in its entirety as follows:

### SECTION 1. DEFINITIONS

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

"ABR": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof: "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by NationsBank as its prime rate in effect at its principal office in Charlotte, North Carolina (the Prime Rate not being intended to be the lowest rate of interest charged by NationsBank in connection with extensions of credit to debtors); and "Federal Funds Effective Rate" shall mean, for any day, the rate set forth for such date opposite the caption "Federal Funds (Effective)" in the weekly statistical release designated "H.15 (510)", or any successor publication, published by the Board of Governors of the Federal Reserve System, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms thereof, the ABR shall be determined without regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the ABR due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective as of the opening of business on the effective day of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"ABR Loans": Revolving Credit Loans the rate of interest applicable to which is based upon the ABR.

"Adjusted Consolidated Net Income": with respect to a Person for any period, the Consolidated Net Income of such Person and its Subsidiaries for such period plus, to the extent reflected as a charge in the statement of such Consolidated Net Income, total income tax expense minus any extraordinary income or gains, determined in accordance with GAAP.

"Adjusted Consolidated Tangible Net Worth": with respect to the Company at any date, Consolidated Net Worth of the Company as at such date, less, without duplication, (a) Consolidated Intangibles, (b) the amount of such Consolidated Net Worth attributable to the Ryland Financial Division and (c) the amount of such Consolidated Net Worth attributable to equity investments in and Advances to any unconsolidated joint venture the Indebtedness of which (excluding Advances from the Company or any Subsidiary to such joint venture) exceeds 25% of its total assets, determined in accordance with GAAP.

"Advance": means any advance, loan or extension of credit to any Person or the purchase of any bonds, notes, debentures or other debt securities of any Person.

"Affiliate": as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (i) vote 10% or more of the securities having ordinary voting power for the election of directors of such Person or (ii) direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

"Affirmation, Restatement and Joinder": the Affirmation, Restatement and Joinder to be executed and delivered by each Guarantor on the Closing Date, substantially in the form of Exhibit H.

"Agents": the collective reference to the Documentation Agent, the Syndication Agent, the Co-Agents and the Administrative Agent; individually, an "Agent".

"Aggregate Outstanding Revolving Extensions of Credit": on any date, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Credit Loans and Short-Term Funding Loans then outstanding and (b) the L/C Obligations then outstanding.

"Agreement": this Second Amended and Restated Credit Agreement, as amended, supplemented or otherwise modified from time to time.

"Applicable Margin": with respect to each Type of Revolving Credit Loan, for any day, the rate per annum set forth below, under the column applicable to such Type, opposite the Rating in effect on such day:

Rating ----- (S&P / Moody's) Loans -----	ABR Loans -----	Applicable Margin Eurodollar Loans -----	CD Rate
Category 1 ----- BBB/Baa2 or higher	0%	0.80%	.95%
Category 2 ----- BBB-/Baa3	0	0.90	1.05
Category 3 ----- BB+/Ba1	0	1.05	1.20
Category 4 ----- BB/Ba2	0	1.15	1.30
Category 5 ----- BB-/Ba3	0	1.35	1.50
Category 6 ----- B+/B1 or lower	0	1.70	1.85

For purposes of the foregoing, (i) if either Moody's or S&P shall not have in effect a Rating (other than by reason of the circumstances referred to in the last sentence of this definition), then such Rating Agency shall be deemed to have established a rating in Category 6; (ii) if the Ratings established or deemed to have been established by Moody's and S&P shall fall within different Categories, the Applicable Margin shall be based on the higher of the two Ratings unless one of the two Ratings is two or more Categories lower than the other, in which case the Applicable Margin shall be determined by reference to the Category next below that of the higher of the two Ratings; and (iii) if the Ratings established or deemed to have been established by Moody's and S&P shall be changed (other than as a result of a change in the rating system of Moody's or S&P), such change shall be effective as of the date on which it is first announced by the applicable Rating Agency. Each change in the Applicable Margin shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such Rating Agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agency and, pending the effectiveness of any such amendment, the Applicable Margin shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Application": an application, in such form as the Issuing Bank may specify from time to time, requesting the Issuing Bank to open a Letter of Credit.

"Assignee": as defined in subsection 10.6(c).

"Associates Mortgage Funding Corporation": Associates Mortgage Funding Corporation, a Delaware corporation.

"Available Commitments": on any date, the excess, if any, of (a) the amount of the aggregate Revolving Credit Commitments on such date over

(b) (i) the Aggregate Outstanding Revolving Extensions of Credit on such date less (ii) for the purposes of calculating the commitment fee pursuant to subsection 2.5(a) for the Lenders other than the Short-Term Funding Lenders only, the aggregate principal amount of Short-Term Funding Loans outstanding on such day.

"Borrowing Base": as of any date of determination, an amount equal to the sum of (i) 25% of Unsold Land Under Development, (ii) 70% of Unsold Housing Inventory, (iii) 90% of Sold Housing Inventory and (iv) Working Capital (if greater than zero). The Borrowing Base shall be determined as of the last Business Day of each calendar month and shall be certified pursuant to Borrowing Base Certificates delivered pursuant to subsection 6.2(f); the Borrowing Base set forth in any such Borrowing Base Certificate shall be in effect from the date of delivery of such Borrowing Base Certificate until the date of delivery of the Borrowing Base Certificate for the succeeding calendar month.

"Borrowing Base Certificate": a certificate substantially in the form of Exhibit C, with such changes as the Documentation Agent may from time to time reasonably request for the purpose of monitoring the Borrowing Base.

"Borrowing Date": any day specified in a notice pursuant to subsection 2.3 or 2.4 as a date on which the Company requests that Loans be made hereunder.

"Business Day": a day other than a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York, are authorized or required by law to close; provided, however, that when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which commercial banks are not open for dealings in Dollar deposits in the London interbank market.

"Cash Equivalents": (a) securities issued or directly and fully guaranteed or insured by the United States Government or any agency or instrumentality thereof having maturities of not more than 90 days from the date of acquisition, (b) time deposits and certificates of deposit of any of the Lenders, or of any domestic or foreign commercial bank which has capital and surplus in excess of \$500,000,000 or which has a commercial paper rating meeting the requirements specified in clause (d) below, having maturities of not more than 90 days from the date of acquisition, (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (a) and (b) entered into with any bank meeting the qualifications specified in clause (b) above and (d) commercial paper of any Person rated at least A-2 or the equivalent thereof by S&P or P-2 or the equivalent thereof by Moody's and in either case maturing within 90 days after the date of acquisition.

"C/D Assessment Rate": for any day as applied to any C/D Rate Loan, the annual assessment rate in effect on such day which is payable by a member of the Bank Insurance Fund classified as well-capitalized and within supervisory subgroup "B" (or a comparable successor assessment risk classification) within the meaning of 12 C.F.R. 327.3(d) (or any successor provision) to the Federal Deposit Insurance Corporation (or any successor) for such Corporation's (or such successor's) insuring time deposits at offices of such institution in the United States.

"C/D Base Rate": with respect to each day during each Interest Period pertaining to a C/D Rate Loan, the rate of interest per annum determined by the Administrative Agent to be the arithmetic average (rounded upward to the nearest 1/100th of 1%) of the respective rates notified to the Administrative Agent by each of the Reference Lenders as the average rate bid at 10:00 A.M., Charlotte, North Carolina time, or as soon thereafter as practicable, on the first day of such Interest Period by a total of three certificate of deposit dealers of recognized standing selected by such Reference Lender for the purchase at face value from such Reference Lender of its certificates of deposit in an amount comparable to the C/D Rate Loan of such Reference Lender to which such Interest Period applies and having a maturity comparable to such Interest Period.

"C/D Rate": with respect to each day during each Interest Period pertaining to a C/D Rate Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

**C/D Base Rate + C/D Assessment Rate**

1.00 - C/D Reserve Percentage

"C/D Rate Loans": Revolving Credit Loans the rate of interest applicable to which is based upon the C/D Rate.

"C/D Reserve Percentage": for any day as applied to any C/D Rate Loan, that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) (the "Board"), for determining the maximum reserve requirement for a Depository Institution (as defined in Regulation D of the Board) in respect of new non-personal time deposits in Dollars having a maturity comparable to the Interest Period for such C/D Rate Loan.

"Closing Date": the date on which the conditions specified in Section 5 are satisfied in full and the initial Loans are made hereunder.

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

"Combined Net Income": with respect to a Person or segment for any period, the combined net income (or loss) of such Person and its Subsidiaries and Consolidated Joint Ventures or such segment for such period (taken as a cumulative whole), determined on a combined basis in accordance with GAAP.

Combined Total Liabilities": with respect to a Person or segment at a particular date, all amounts which would, in conformity with GAAP, be included under total liabilities on a combined balance sheet of such Person and its Subsidiaries and Consolidated Joint Ventures or such segment as at such date.

"Commitment Fee Rate": for any day, the rate per annum set forth below opposite the Rating in effect on such day:

Rating ----- (S&P / Moody's) -----	Commitment Fee Rate
Category 1 ----- BBB/Baa2 or higher	.15%
Category 2 ----- BBB- /Baa3	.15
Category 3 ----- BB+ /Ba1	.20
Category 4 ----- BB /Ba2	.25
Category 5 ----- BB- /Ba3	.30
Category 6 ----- B+ /B1 or lower	.375

For purposes of the foregoing, (i) if either Moody's or S&P shall not have in effect a Rating (other than by reason of the circumstances referred to in the last sentence of this definition), then such Rating Agency shall be deemed to have established a rating in Category 6; (ii) if the Ratings established or deemed to have been established by Moody's and S&P shall fall within different Categories, the Commitment Fee Rate shall be based on the higher of the two Ratings unless one of the two Ratings is two or more Categories lower than the other, in which case the Commitment Fee Rate shall be determined by reference to the Category next below that of the higher of the two Ratings; and (iii) if the Ratings established or deemed to have been established by Moody's and S&P shall be changed (other than as a result of a change in the rating system of Moody's or S&P), such change shall be effective as of the date on which it is first announced by the applicable Rating Agency. Each change in the Commitment Fee Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such Rating Agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agency and, pending the effectiveness of any such amendment, the Commitment Fee Rate shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Commitment Percentage": as to any Lender at any time, the percentage of the aggregate Revolving Credit Commitments then constituted by the sum of such Lender's Revolving Credit Commitment.

"Commitment Period": the period from and including the date hereof to but not including the Termination Date or such earlier date on which the Revolving Credit Commitments shall terminate as provided herein.

"Commitments": the Revolving Credit Commitments, the Short-Term Funding Line Commitments and the L/C Commitment.

"Common Stock": the Company's Common Stock, par value \$1.00 per share, as the same exists on the date hereof or any other class of stock of the Company the right of which to share in distributions of earnings or assets of the Company is without limit as to amount or percentage.

"Commonly Controlled Entity": an entity, whether or not incorporated, which is under common control with the Company within the meaning of Section 4001 of ERISA or is part of a group which includes the Company and which is treated as a single employer under Section 414 of the Code.

"Consolidated Adjusted Net Worth": at a particular date, (a) Consolidated Net Worth of the Financial Services Segment at such date plus (b) the amount of long-term subordinated debt of the Financial Services Segment the maturity of which is no less than two years after the Termination Date plus (c) an amount equal to 1% of the Financial Services Segment's Servicing Portfolio, if any, minus (d) the amount of Servicing Rights that are capitalized on the combined balance sheets of the Financial Services Segment, minus (e) the book value of any other assets reflected on the then-most-current combined balance sheets of the Financial Services Segment that should be properly treated under GAAP as intangible assets, including, without limitation, goodwill, trademarks, trade names, service marks, copyrights, patents, licenses, rights with respect to the foregoing, and the excess of the purchase price over the net assets of businesses acquired by entities in the Financial Services Segment.

"Consolidated Intangibles": with respect to any Person at any date, all amounts, determined in accordance with GAAP, included in the Consolidated Net Worth of such Person and attributable to (a) goodwill, including any amounts (however designated on the balance sheet) representing the cost of acquisitions of Subsidiaries in excess of underlying tangible assets or (b) patents, trademarks and copyrights.

"Consolidated Joint Ventures": at any time, real estate joint ventures in which the Company or any of its Subsidiaries has an investment at such time and which are being consolidated in the Company's consolidated financial statements.

"Consolidated Net Income": with respect to a Person for any period, the consolidated net income (or loss) of such Person and its Subsidiaries and Consolidated Joint Ventures for such period (taken as a cumulative whole), determined in accordance with GAAP.

"Consolidated Net Worth": with respect to any Person at any date, all amounts which would, in conformity with GAAP, be included under shareholders' equity on a consolidated balance sheet of such Person and its consolidated Subsidiaries and Consolidated Joint Ventures at such date.

"Contractual Obligation": as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Current Market Price": with respect to shares of Common Stock or any other class of capital stock or other security of the Company or any other issuer, the last reported sales price, regular way, or, in the event that no sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in either case as reported on the New York Stock Exchange Composite Tape or, if such security is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such security is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, by NASDAQ National Market System or, if such security is not quoted on such National Market System, the average of the closing bid and asked prices on each such day in the over-the-counter market as reported by NASDAQ or, if bid and asked prices for such security on each such day shall not have been reported through NASDAQ, the average of the bid and asked prices on such day as furnished by any New York Stock Exchange member firm regularly making a market in such security selected for such purpose by the Board of Directors of the Company or a committee thereof, in each case, on each trading day during the applicable period.

"Default": any of the events specified in Section 8, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Designated Event": the occurrence of any of the following: (i) whether or not approved by the Board of Directors of the Company, any person, entity or "group" within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act is or becomes the beneficial owner, directly or indirectly, of securities having 30% or more of the voting power of the Voting Stock; (ii) the Company shall engage in any Stock Repurchase or Stock Distribution where the sum of the aggregate Fair Market Value of such Stock Repurchase and Stock Distribution and all other such Stock Repurchases and Stock Distributions effected during the preceding 12-month period ending on the date on which such Stock Repurchase or Stock Distribution is effected exceeds 20% of the Fair Market Value of the Common Stock of the Company as of the date such Stock Repurchase or Stock Distribution is effected; (iii) there shall occur any consolidation of the Company with, or merger of the Company into, any other entity, any merger of another entity into the Company, or any sale or transfer of all or substantially all of the assets of the Company (other than any such sale or transfer to one or more wholly-owned Subsidiaries of the Company), in one transaction or a series of related transactions, to one or more persons or entities (other than (w) a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock of the Company, or (x) a merger which is effected solely to change the jurisdiction of incorporation of the Company, or (y) the sale or transfer of any of the stock or assets of the Limited-Purpose Subsidiaries, or (z) a merger pursuant to which the holders of Voting Stock of the Company prior to the effective date of such merger hold immediately after such effective date 70% or more of the class of stock of the surviving entity or its parent corporation that is entitled to vote generally for the election of directors); or (iv) during any period of two consecutive years, individuals who at the

beginning of such period constitute the Company's Board of Directors (together with any new director whose election by the Company's Board of Directors or whose nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors of the Company at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors of the Company then in office.

"Dollars" and "\$": dollars in lawful currency of the United States of America.

"Domestic Dollar Loans": the collective reference to C/D Rate Loans and ABR Loans.

"Environmental Laws": any and all foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning pollution or protection of the environment, as now or may at any time hereafter be in effect.

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

"Eurodollar Loans": Revolving Credit Loans the rate of interest applicable to which is based upon the Eurodollar Rate.

"Eurodollar Rate": with respect to each day during each Interest Period pertaining to a Eurodollar Loan, the rate per annum equal to the average (rounded upward to the nearest 1/16th of 1%) of the respective rates notified to the Administrative Agent by each of the Reference Lenders as the rate at which such Reference Lender is offered Dollar deposits at or about 10:00 A.M., Charlotte, North Carolina time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where the eurodollar and foreign currency and exchange operations in respect of its Eurodollar Loans are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the amount of its Eurodollar Loan to be outstanding during such Interest Period.

"Event of Default": any of the events specified in Section 8, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Exchange Act": the Securities Exchange Act of 1934, as amended.

"Existing Amended and Restated Credit Agreement": the Amended and Restated Credit Agreement, dated as of July 19, 1995, as amended, among the Company, the Lenders and Co-Agents parties thereto, The Chase Manhattan Bank, as Syndication Agent and Documentation Agent, and NationsBank, N.A., as Administrative Agent.

"Existing letters of Credit": as defined in subsection 3.1(a).

"Fair Market Value": with respect to shares of Common Stock or any other class of capital stock or securities of the Company which are publicly traded, the average of the Current Market Prices of such shares or securities for the five (5) consecutive trading days ending with the fifth (5th) Business Day preceding the date on which the Stock Repurchase or Stock Distribution is effected. Fair Market Value of any security not publicly traded or any other property constituting a part of a Stock Repurchase or Stock Distribution shall be the value thereof as determined in good faith by the Board of Directors of the Company or any designated committee of the Board of Directors of the Company after giving consideration to such market prices, opinions and valuations as such Board of Directors or committee may deem necessary or appropriate.

"FHLMC Securities": participation certificates representing undivided interests in mortgage loans purchased by the Federal Home Loan Mortgage Corporation or its successor pursuant to the Emergency Home Finance Act of 1970, as amended.

"Financial Services Segment": the business segment of the Company and its Subsidiaries engaged in the mortgage banking (including the title and escrow businesses), mortgage servicing, securities issuance, bond administration and management services and related activities, which segment on the date of this Agreement consists principally of the activities of Ryland Mortgage Company and its Subsidiaries but excludes the Limited-Purpose Subsidiaries.

"Financial Services Segment Combined Total Liabilities": at any time, all amounts which would, in accordance with GAAP, be included as liabilities on a combined balance sheet of the Financial Services Segment as at such date; provided, that reverse repurchase agreements secured by FHLMC Securities, FNMA Securities GNMA Securities and other mortgage-backed securities, whether such securities are issued in certificated form or book entry form, arising from the call of bonds issued by Affiliates of Ryland Mortgage Company may be excluded from those liabilities so long as (a) the underlying collateral value is at least 100.5% of the obligations of Ryland Mortgage Company and/or Associates Mortgage Funding Corporation under those agreements or (b) the underlying collateral is subject to a hedging agreement.

"Financing Lease": any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with GAAP to be capitalized on a balance sheet of the lessee.

"Fixed Charge Coverage": for any fiscal period of the Company, the ratio of (a) the sum for such fiscal period of the following items: (i) Combined Net Income of the Homebuilding Segment, plus (ii) income taxes, depreciation and amortization deducted from combined revenues in determining such Combined Net Income, plus (iii) interest expense deducted from combined revenues in determining such Combined Net Income, including, without duplication, previously capitalized interest expense which would be included in "Cost of Goods Sold" and deducted from combined revenues in determining such Combined Net Income on a combined balance sheet of the Homebuilding Segment determined in accordance with GAAP, plus (iv) the greater of (A) cash dividends received by the Company from the Financial Services Segment, determined in accordance with GAAP, and (B) 50% of Combined Net Income of the Financial Services Segment plus income tax expense deducted in determining such net income, determined in accordance with GAAP, plus (v) cash distributions received by the Company from all unconsolidated joint ventures in which the Company or any of its Subsidiaries within the Homebuilding Segment is a participant, less (vi) the amount of the Company's equity interest in the earnings of such joint ventures, determined in accordance with GAAP, to (b) the amount of cash interest expense deducted from combined revenues in determining such Combined Net Income, and including, without duplication, such cash interest expense constituting capitalized interest for such period determined in accordance with GAAP.

"FNMA Securities": modified pass-through mortgage-backed certificates guaranteed by the Federal National Mortgage Association or its successor pursuant to the National Housing Act, as amended.

"GAAP": generally accepted accounting principles in the United States of America in effect from time to time.

"GNMA Securities": modified pass-through mortgage-backed certificates guaranteed by the Government National Mortgage Association or its successor pursuant to Section 306(g) of the National Housing Act, as amended.

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

"Guarantee Obligation": as to any Person (the "guaranteeing person"), any obligation of (a) the guaranteeing person or (b) another Person (including, without limitation, any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the "primary obligations") of any other third Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Company in good faith.

"Guarantors": at any time, each of the Subsidiaries of the Company which (i) has assets with an aggregate book value equal to or greater than \$1,000,000 and (ii) is included in the Homebuilding Segment, including, without limitation, the Subsidiaries listed on Annex I hereto.

"Guaranty": each Guaranty executed and delivered by one or more of the Guarantors, substantially in the form of Exhibit D, as the same may from time to time be amended or otherwise modified.

"Hazardous Materials": any hazardous materials, hazardous wastes, hazardous constituents, hazardous or toxic substances, petroleum products (including crude oil or any fraction thereof), defined or regulated as such in or under any Environmental Law.

"Homebuilding Segment": the business segment of the Company and its Subsidiaries and Consolidated Joint Ventures engaged in the construction and sale of single family attached and unattached dwellings and related activities, which segment on the date of this Agreement consists principally of the activities of the Ryland Homes Division of the Company and M. J. Brock & Sons, Inc.

"Indebtedness": of any Person at any date, (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (other than trade liabilities and accrued expenses incurred in the ordinary course of business and payable in accordance with customary practices), (b) any other indebtedness of such Person which is evidenced by a note, bond, debenture or similar instrument, (c) all obligations of such Person under Financing Leases, (d) all obligations of such Person in respect of acceptances issued or created for the account of such Person and (e) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof.

"Insolvency": with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.

"Interest Payment Date": (a) as to any ABR Loan, the last day of each March, June, September and December to occur while such Loan is outstanding, (b) as to any Eurodollar Loan having an Interest Period of three months or less and any C/D Rate Loan having an Interest Period of 90 days or less, the last day of such Interest Period, (c) as to any Eurodollar Loan or C/D Rate Loan having an Interest Period longer than three months or 90 days, respectively, each day which is three months or 90 days, respectively, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period and (d) as to any Short-Term Funding Loan, the date which is the last day of each calendar quarter.

"Interest Period": (a) with respect to any Eurodollar Loan:

(i) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months thereafter (or such other period (not to exceed six months) agreed upon by the Administrative Agent and the Company), as selected by the Company in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and

(ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months thereafter (or such other period (not to exceed six months) agreed upon by the Administrative Agent and the Company), as selected by the Company by irrevocable notice to the Administrative Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto;

and (b) with respect to any C/D Rate Loan:

(i) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such C/D Rate Loan and ending 30, 60, 90 or 180 days thereafter (or such other period (not to exceed 180 days) agreed upon by the Administrative Agent and the Company), as selected by the Company in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and

(ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such C/D Rate Loan and ending 30, 60, 90 or 180 days thereafter (or such other period (not to exceed 180 days) agreed upon by the Administrative Agent and the Company), as selected by the Company by irrevocable notice to the Administrative Agent not less than two Business Days prior to the last day of the then current Interest Period with respect thereto;

provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(1) if any Interest Period pertaining to a Eurodollar Loan would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(2) if any Interest Period pertaining to a C/D Rate Loan would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day;

(3) any Interest Period that would otherwise extend beyond the Termination Date shall end on the Termination Date;

(4) any Interest Period pertaining to a Eurodollar Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month; and

(5) the Company shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan or C/D Rate Loan during an Interest Period for such Loan.

"Investments": any Advance to, or any contribution to or purchase of stock or other equity securities of, or any purchase of assets constituting a business unit of, any Person, excluding investments in stock or other equity securities existing on the date of this Agreement and any investment representing any interest of the Company or any Subsidiary in the retained or undistributed earnings of any Person.

"Issuing Bank": (i) with respect to the Existing Letters of Credit, NationsBank or the affiliate thereof which issued such Existing Letters of Credit, as set forth in Schedule 3.1, and (ii) with respect to any Letter of Credit issued after the Closing Date, NationsBank, or such other Lender as the Documentation Agent, the Company and such other Lender shall agree upon.

"L/C Commitment": \$50,000,000.

"L/C Fee Payment Date": the last day of each March, June, September and December.

"L/C Fee Rate": for any day, the rate per annum set forth below opposite the Rating in effect on such day:

Rating ----- (S&P / Moody's) -----	L/C Fee Rate
Category 1 ----- BBB/Baa2 or higher	.675%
Category 2 ----- BBB-/Baa3	.775
Category 3 ----- BB+/Ba1	.925
Category 4 ----- BB/Ba2	1.025
Category 5 ----- BB-/Ba3	1.225
Category 6 ----- B+/B1 or lower	1.575

For purposes of the foregoing, (i) if either Moody's or S&P shall not have in effect a Rating (other than by reason of the circumstances referred to in the last sentence of this definition), then such Rating Agency shall be deemed to have established a rating in Category 6; (ii) if the Ratings established or deemed to have been established by Moody's and S&P shall fall within different Categories, the L/C Fee Rate shall be based on the higher of the two Ratings unless one of the two Ratings is two or more Categories lower than the other, in which case the L/C Fee Rate shall be determined by reference to the Category next below that of the higher of the two Ratings; and (iii) if the Ratings established or deemed to have been established by Moody's and S&P shall be changed (other than as a result of a change in the rating system of Moody's or S&P), such change shall be effective as of the date on which it is first announced by the applicable Rating Agency. Each change in the L/C Fee Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such Rating Agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agency and, pending the effectiveness of any such amendment, the L/C Fee Rate shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"L/C Obligations": at any time, an amount equal to the sum of (a) the aggregate then undrawn and unexpired amount of the then outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit which have not then been reimbursed pursuant to subsection 3.5.

"L/C Participants": in respect of any Letter of Credit, the collective reference to all the Lenders other than the Issuing Bank in respect of such Letter of Credit.

"Letters of Credit": as defined in subsection 3.1(a).

"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any Financing Lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction in respect of any of the foregoing).

"Limited-Purpose Subsidiaries": Subsidiaries included within the Limited-Purpose Subsidiaries Segment.

"Limited-Purpose Subsidiaries Segment": the business segment of the Company and its Subsidiaries which facilitates, through special-purpose entities created or existing solely for such purpose, the financing of mortgage loans and mortgage backed securities and the securitization of mortgage loans and other related activities.

"Loan": any loan made by any Lender pursuant to this Agreement.

"Loan Documents": this Agreement, the Notes, the Applications, the Affirmation, Restatement and Joinder and the Guaranty.

"Material Adverse Effect": a material adverse effect on (a) the financial condition of the Company and its Restricted Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement or the Notes, or (c) the validity or enforceability of this Agreement or any of the Notes or the rights or remedies of the Agents or the Lenders hereunder or thereunder.

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

"Moody's": Moody's Investors Services, Inc.

"Multiemployer Plan": a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"1992 Subordinated Debt Indenture": the Indenture, dated as of July 15, 1992, between the Company and Security Trust Company, N.A., or its successor, as Trustee, pursuant to which the Company's 10-1/2% Senior Subordinated Notes due July 15, 2002, and the Company's 9-5/8% Senior Subordinated Notes due June, 2004 were issued.

"Non-Excluded Taxes": as defined in subsection 2.17.

"Notes": the collective reference to the Revolving Credit Notes and the Short-Term Funding Line Notes.

"Participants": as defined in subsection 10.6(b).

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Permitted IRB Letters of Credit": letters of credit and other credit enhancement instruments issued for the account of the Company or any of its Subsidiaries which at any time support industrial revenue bonds issued for the benefit of the Company or any of its Subsidiaries, which are outstanding on the date of this Agreement and are shown on Schedule 7.2(f).

"Permitted Senior Indebtedness": at any date, the aggregate unpaid principal amount of Indebtedness outstanding on such date permitted under, without duplication, (i) subsection 7.2(c) (other than Indebtedness of unconsolidated joint ventures permitted thereunder), (e), (f), (h), (k) and (p), (ii) subsection 7.2(g), other than such Indebtedness permitted thereunder by reference to subsection 7.4(c), (iii) subsection 7.2(i), other than such Indebtedness permitted thereunder in connection with acquisitions or mergers by any Subsidiary in the Ryland Financial Division and (iv) subsection 7.2(j), but only such Indebtedness permitted thereunder relating to refinancings of Indebtedness included in this definition of Permitted Senior Indebtedness pursuant to clauses (i), (ii) and (iii) above.

"Person": an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan": at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Company or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Rating": each rating (actual or implied) by a Rating Agency of the Company's senior, long-term, unsecured, non credit-enhanced debt.

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

"Reference Lenders": Chase and NationsBank.

"Register": as defined in subsection 10.6(d).

"Regulation U": Regulation U of the Board of Governors of the Federal Reserve System.

"Reimbursement Obligation": the obligation of the Company to reimburse the Issuing Bank pursuant to subsection 3.5 for amounts drawn under Letters of Credit.

"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event": any of the events set forth in Section 4043(b) of ERISA, other than those events as to which the thirty day notice period is waived under subsections .13, .14, .16, .18, .19 or .20 of PBGC Reg. 2615.

"Required Lenders": at any time, Lenders the Commitment Percentages of which aggregate at least 66-2/3%.

"Requirement of Law": as to any Person, the Charter and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer": the chief executive officer and the president of the Company or, with respect to financial matters, the chief financial officer, the chief accounting officer or the treasurer of the Company.

"Restricted Subsidiary": any Subsidiary of the Company other than the Limited-Purpose Subsidiaries and any Subsidiary that the Required Lenders agree in writing is not to be treated hereunder as a Restricted Subsidiary.

"Revolving Credit Commitment": as to any Lender, the amount set forth opposite such Lender's name on Schedule 1.1 under the caption "Revolving Credit Commitments".

"Revolving Credit Commitment Percentage": as to any Lender at any time, the percentage which such Lender's Revolving Credit Commitment then constitutes of the aggregate Revolving Credit Commitments (or, at any time after the Commitments shall have expired or terminated, the percentage which the aggregate principal amount of such Lender's Loans then outstanding constitutes of the aggregate principal amount of the Loans then outstanding).

"Revolving Credit Loans": as defined in subsection 2.1.

"Revolving Credit Note": as defined in subsection 2.2.

"Ryland Financial Division": all subsidiaries and operations of the Company and its Subsidiaries other than the Homebuilding Segment.

"Ryland Mortgage Company": Ryland Mortgage Company, an Ohio corporation.

"Servicing Portfolio": for Ryland Mortgage Company, at any time, an amount equal to the aggregate unpaid principal amount of all loans with respect to which Ryland Mortgage Company or its Subsidiaries owns Servicing Rights, other than loans serviced on behalf of the Resolution Trust Corporation.

"Servicing Rights": all of Ryland Mortgage Company's right, title and interest in agreements between Ryland Mortgage Company and Persons other than Ryland Mortgage Company and Associates Mortgage Funding Corporation pursuant to which Ryland Mortgage Company undertakes to service one-to- four family and multifamily dwelling mortgage loans and pools of one-to- four family and multifamily dwelling mortgage loans for such Persons.

"Short-Term Funding Lenders": Initially, The Chase Manhattan Bank, NationsBank, N.A., Bank of America Illinois and The Industrial Bank of Japan Trust Company, and, in the event that any of such Lenders is no longer a Lender, such other Lender as shall be mutually agreed upon by such other Lender, the Company, the Documentation Agent and the Administrative Agent to replace such Short-Term Funding Lender.

"Short-Term Funding Line Commitment": as to any Lender, the amount set forth opposite such Lender's name on Schedule 1.1 under the caption "Short-Term Funding Line Commitments." It is understood that each Lender's Short-Term Funding Line Commitment is included in, and not in addition to, such Lender's Revolving Credit Commitment.

"Short-Term Funding Loan": as defined in subsection 2.4.

"Short-Term Funding Line Margin": for any day, the rate per annum set forth below opposite the Rating in effect on such day:

Rating ----- (S&P / Moody's) -----	Short-Term Funding Line Margin
Category 1 ----- BBB/Baa2 or higher	.80%
Category 2 ----- BBB-/Baa3	.90
Category 3 ----- BB+/Ba1	1.05
Category 4 ----- BB/Ba2	1.15
Category 5 ----- BB-/Ba3	1.35
Category 6 ----- B+/B1 or lower	1.70

For purposes of the foregoing, (i) if either Moody's or S&P shall not have in effect a Rating (other than by reason of the circumstances referred to in the last sentence of this definition), then such Rating Agency shall be deemed to have established a rating in Category 6; (ii) if the Ratings established or deemed to have been established by Moody's and S&P shall fall within different Categories, the Short-Term Funding Line Margin shall be based on the higher of the two Ratings unless one of the two Ratings is two or more Categories lower than the other, in which case the Short-Term Funding Line Margin shall be determined by reference to the Category next below that of the higher of the two Ratings; and (iii) if the Ratings established or deemed to have been established by Moody's and S&P shall be changed (other than as a result of a change in the rating system of Moody's or S&P), such change shall be effective as of the date on which it is first announced by the applicable Rating Agency. Each change in the Short-Term Funding Line Margin shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such Rating Agency shall cease to be in the business of rating corporate debt obligations, the Borrower and Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agency and, pending the effectiveness of any such amendment, the Short-Term Funding Line Margin shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Short-Term Funding Line Note": as defined in subsection 2.4.

"Significant Subsidiary": a Subsidiary satisfying the requirements of Rule 1-02(v) of Regulation S-X as adopted by the Securities and Exchange Commission under the provisions of the Securities Act of 1933 and the Exchange Act as in force on the date of this Agreement.

"Single Employer Plan": any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Sold Housing Inventory": at any date, an amount equal to the aggregate capitalized cost, determined in accordance with GAAP consistently applied, with respect to homes and lots under construction for which final contracts of sale have been entered into on or prior to such date, and are still in effect on such date, but with respect to which settlement under such contracts has not occurred.

"Specified Debt": the Company's Senior Debt Securities issued pursuant to the Company's Registration Statements on Form S-3 (Registration Nos. 33-50933 and 333-03791) or any successor registration statement and outstanding on the Closing Date.

"S&P": Standard & Poor's Ratings Group.

"Stock Distribution": any dividend or other distribution to holders of Common Stock of cash, property or securities (excluding however any

dividends or distributions of Common Stock or rights to purchase Common Stock).

"Stock Repurchase": any purchase of shares of Common Stock by the Company or any Subsidiary, whether for cash, shares of capital stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other person or any other property (including shares of a Subsidiary of the Company), or any combination thereof.

"Subordinated Debt": (i) Indebtedness of the Company outstanding on the date hereof issued pursuant to the 1992 Subordinated Debt Indenture and  
(ii) any other unsecured Indebtedness of the Company no part of the principal of which is required to be paid (whether by way of mandatory sinking fund, mandatory redemption, mandatory prepayment or otherwise) prior to July 31, 2000, and the payment of the principal of and interest on which and other obligations of the Company in respect thereof are subordinated to the prior payment in full of the principal of and interest (including post-petition interest) on the Notes and all other obligations and liabilities of the Company to the Agents and the Lenders hereunder on terms and conditions identical to such provisions under the 1992 Subordinated Debt Indenture except to the extent of any differences therefrom that are not substantive, provided that any different provisions thereof that are less favorable to the Lenders than the provisions under the 1992 Subordinated Debt Indenture, are adverse to the interests of the Lenders in any way or are otherwise substantive shall be subject to prior approval in writing by the Required Lenders.

"Subsidiary": as to any Person, a corporation, partnership or other entity 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 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 the Company and shall exclude any real estate joint venture which the Company or any Subsidiary within the Homebuilding Segment either directly or indirectly participates in or controls.

"Termination Date": July 30, 2000.

"Total Housing Inventory": at any date, the amount which would be included under "Housing inventories" on a combined balance sheet of the Homebuilding Segment determined on a combined basis in accordance with GAAP as at such date.

"Tranche": the collective reference to Eurodollar Loans or C/D Rate Loans the Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day); Tranches may be identified as "Eurodollar Tranches" or "C/D Rate Tranches", as applicable.

"Type": as to any Revolving Credit Loan, its nature as an ABR Loan, a Eurodollar Loan or a C/D Rate Loan.

"Uniform Customs": the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, as the same may be amended from time to time.

"Unsold Housing Inventory": at any date, an amount equal to (i) the amount which would be included under "Housing inventories: Unsold" less (ii) the amounts which would be included under the definitions of "Unsold Land Held" and "Unsold Land Under Development" in this Agreement, determined on a combined basis in accordance with GAAP as at such date.

"Unsold Land Held": at any date, the amount which would be included under "Housing inventories: Unsold: Land held for future development or resale" on a combined balance sheet of the Homebuilding Segment determined on a combined basis in accordance with GAAP as at such date.

"Unsold Land Under Development": at any date, an amount equal to (i) the amount which would be included under "Housing inventories: Unsold: Homes and lots under construction" on a combined balance sheet of the Homebuilding Segment determined on a combined basis in accordance with GAAP as at such date less (ii) the portion of such amount attributable to lots on which construction of a foundation or slab has been commenced, determined on a combined basis in accordance with GAAP as at such date less.

"Voting Stock": shares of stock of the Company entitling the holder thereof to vote generally for the election of directors of the Company.

"Working Capital": at any date, an amount equal to (i) cash and Cash Equivalents plus (ii) accounts and notes receivable plus (iii) prepaid expenses and deposits (iv) less accounts payable less (v) accrued expenses less (vi) customer deposits, in each case as such amounts would be determined with respect to the Homebuilding Segment on a consolidated basis in accordance with GAAP as at such date.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or any certificate or other document made or delivered pursuant hereto.

(b) As used herein and in the Notes, and any certificate or other document made or delivered pursuant hereto, accounting terms relating to the Company and its Subsidiaries not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

1.3 Accounting Principles. Unless otherwise defined or specified herein, all accounting terms used in this Agreement shall be construed herein, and all accounting determinations hereunder shall be made, in accordance with GAAP, applied on a basis consistent with the most recent audited consolidated financial statements of the Company and its Subsidiaries delivered to the Lenders; provided, however, that if there shall occur any change after the date hereof in GAAP and such change affects the method of calculating any of the factors that go into any component of the financial covenants and ratios set forth in this Agreement, the Required Lenders will, upon request of the Company, and the Company will, upon request of the Required Lenders, make adjustments to such covenants and ratios as reasonably required so that they are consistent with the financial covenants and ratios made as of the date hereof, notwithstanding such change.

## SECTION 2. AMOUNT AND TERMS OF COMMITMENTS

2.1 Revolving Credit Commitments. (a) Subject to the terms and conditions hereof, each Lender severally agrees to make revolving credit loans ("Revolving Credit Loans") to the Company from time to time during the Commitment Period in an aggregate principal amount at any one time outstanding not to exceed such Lender's Revolving Credit Commitment; provided, that no Revolving Credit Loan may be made if, after giving effect thereto, the then Aggregate Outstanding Revolving Extensions of Credit would exceed the lesser of (i) the Revolving Credit Commitments then in effect and (ii) the excess of the Borrowing Base then in effect over Permitted Senior Indebtedness then outstanding. During the Commitment Period the Company may use the Revolving Credit Commitments by borrowing, prepaying the Revolving Credit Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof.

(b) The Revolving Credit Loans may from time to time be (i) Eurodollar Loans, (ii) ABR Loans, (iii) C/D Rate Loans or (iv) a combination thereof, as determined by the Company and notified to the Administrative Agent in accordance with subsections 2.3 and 2.8, provided that no Revolving Credit Loan shall be made as a Eurodollar Loan or a C/D Rate Loan if the last day of any Interest Period in respect thereof would be after the Termination Date.

2.2 Revolving Credit Notes. The Revolving Credit Loans made by each Lender shall be evidenced by a promissory note of the Company, substantially in the form of Exhibit A, with appropriate insertions as to payee, date and principal amount (a "Revolving Credit Note"), payable to the order of such Lender and in a principal amount equal to the lesser of (a) the amount of the Revolving Credit Commitment of such Lender and (b) the aggregate unpaid principal amount of all Revolving Credit Loans made by such Lender. Each Lender is hereby authorized to record the date, Type and amount of each Revolving Credit Loan made by such Lender, each continuation thereof, each conversion of all or a portion thereof to another Type, the date and amount of each payment or prepayment of principal thereof and, in the case of Eurodollar Loans and C/D Rate Loans, the length of each Interest Period with respect thereto, in its records in accordance with its usual practice, and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded. Each Revolving Credit Note shall (x) be dated the date hereof, (y) be stated to mature on the Termination Date and (z) provide for the payment of interest in accordance with subsection 2.10.

2.3 Procedure for Revolving Credit Borrowing. The Company may borrow under the Revolving Credit Commitments during the Commitment Period on any Business Day, provided that the Company shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent prior to 10:30 A.M., Charlotte, North Carolina time, (a) three Business Days prior to the requested Borrowing Date, if all or any part of the requested Revolving Credit Loans are to be initially Eurodollar Loans, (b) two Business Days prior to the requested Borrowing Date, if all or any part of the requested Revolving Credit Loans are to be initially C/D Rate Loans, or (c) on the requested Borrowing Date, otherwise), specifying (i) the amount to be borrowed, (ii) the requested Borrowing Date, (iii) whether the borrowing is to be of Eurodollar Loans, ABR Loans, C/D Rate Loans or a combination thereof and (iv) if the borrowing is to be entirely or partly of Eurodollar Loans or C/D Rate Loans, the respective amounts of each such Type of Loan and the respective lengths of the initial Interest Periods therefor. Each borrowing under the Revolving Credit Commitments shall be in an amount equal to (x) in the case of ABR Loans, \$10,000,000 or a whole multiple of \$1,000,000 in excess thereof (or, if the then Available Commitments are less than \$10,000,000, such lesser amount) and (y) in the case of Eurodollar Loans or C/D Rate Loans, \$10,000,000 or a whole multiple of \$1,000,000 in excess thereof. Upon receipt of any such notice from the Company, the Administrative Agent shall promptly notify each Lender thereof. Each Lender will make the amount of its pro rata share of each borrowing available to the Administrative Agent for the account of the Company at the office of the Administrative Agent specified in subsection 10.2 prior to 12:00 noon, Charlotte, North Carolina time, on the Borrowing Date requested by the Company in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Company by the Administrative Agent crediting the account of the Company on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent.

2.4 Short-Term Funding Line Commitments. (a) Subject to the terms and conditions hereof, each Short-Term Funding Lender severally agrees to make short-term funding loans ("Short-Term Funding Loans") to the Company from time to time during the Commitment Period in an aggregate principal amount at any one time outstanding not to exceed such Lender's Short-Term Funding Line Commitment; provided, that no Short-Term Funding Loans may be made if, after giving effect thereto, the then Aggregate Outstanding Revolving Extensions of Credit would exceed the lesser of (i) the amount of the Revolving Credit Commitments then in effect and (ii) the excess of the Borrowing Base then in effect over Permitted Senior Indebtedness then outstanding. During the Commitment Period the Company may use the Short-Term Funding Line Commitments by borrowing, prepaying the Short-Term Funding Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof.

(b) The Short-Term Funding Loans made by each Short-Term Funding Lender shall be evidenced by a promissory note of the Company, substantially in the form of Exhibit B, with appropriate insertions as to payee, date and principal amount (a "Short-Term Funding Line Note"), payable to the order of such Lender and in a principal amount equal to the lesser of (a) the amount of the Short-Term Funding Line Commitment of such Short-Term Funding Lender and (b) the aggregate unpaid principal amount of all Short-Term Funding Loans made by such Short-Term Funding Lender. Each Lender is hereby authorized to record the date and amount of each Short-Term Funding Loan made by such Short-Term Funding Lender and the date and amount of each payment or prepayment of principal thereof, in its records in accordance with its usual practice, and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded. Each Short-Term Funding Line Note shall (x) be dated the date hereof, (y) be stated to mature as to each Short-Term Funding Loan issued thereby on the date which is five Business Days after the Borrowing Date of such Short-Term Funding Loan, and in any event on the Termination Date and (z) provide for the payment of interest in accordance with subsection 2.10.

(c) The Company may borrow under the Short-Term Funding Line Commitments during the Commitment Period on any Business Day, provided that the Company shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent prior to 2:00 P.M., Charlotte, North Carolina time, on the requested Borrowing Date, specifying the amount to be borrowed. Each borrowing under the Short-Term Funding Line Commitments shall be in an amount equal to \$500,000 or a whole multiple of \$500,000 in excess thereof. Upon receipt of any such notice from the Company, the Administrative Agent shall promptly notify each Short-Term Funding Lender thereof. Each Short-Term Funding Lender will make the amount of its pro rata share of each borrowing available to the Administrative Agent for the account of the Company at the office of the Administrative Agent specified in subsection 10.2 prior to 4:30 P.M., Charlotte, North Carolina time, on the Borrowing Date requested by the Company in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Company by the Administrative Agent crediting the account of the Company on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Short-Term Funding Lenders and in like funds as received by the Administrative Agent.

(d) The Administrative Agent may at any time in its sole and absolute discretion, and, with respect to each Short-Term Funding Loan which has not been repaid by the Company in immediately available funds prior to 10:30 A.M. on the day which is the fifth Business Day after the Borrowing Date with respect to such Short-Term Funding Loan shall, on behalf of the Company (which hereby irrevocably directs the Short-Term Funding Lender to act on its behalf) request prior to 12:00 Noon (New York City time) each Lender on such fifth Business Day after the Borrowing Date with respect to such Short-Term Funding Loan to make a Revolving Credit Loan in an amount equal to such Lender's Revolving Credit Commitment Percentage of the amount of the Short-Term Funding Loan (the "Refunded Short-Term Funding Loans") outstanding on the date such notice is given. Unless any of the events described in paragraph (f) of Section 8 shall have occurred (in which event the procedures of paragraph (e) of this subsection 2.4 shall apply) each Lender shall make the proceeds of its Revolving Credit Loan available to the Administrative Agent for the account of the Short-Term Funding Lenders at the office of the Administrative Agent specified in subsection 10.2 prior to 2:00 P.M. (New York City time) in funds immediately available on the date such notice is given. The proceeds of such Revolving Credit Loans shall be immediately applied to repay the Refunded Short-Term Funding Loans. Each Revolving Credit Loan made pursuant to this subsection 2.4(d) shall be an ABR Loan.

(e) If prior to the making of a Revolving Credit Loan pursuant to paragraph (d) of this subsection 2.4 one of the events described in paragraph (f) of Section 8 shall have occurred, each Lender will on the date such Revolving Credit Loan was to have been made, purchase an undivided participating interest in the Refunded Short-Term Funding Loan in an amount equal to its Revolving Credit Commitment Percentage of such Refunded Short-Term Funding Loan. Each Lender will immediately transfer to the Administrative Agent, in immediately available funds, the amount of its participation and upon receipt thereof (i) the Administrative Agent will make such funds available to each Short-Term Funding Lender based pro rata on their respective portion of such Short-Term Funding Loan and (ii) each such Short-Term Funding Lender deliver to the Administrative Agent, and the Administrative Agent will in turn promptly deliver to each such Lender, a Short-Term Funding Loan participation certificate dated the date of receipt of such funds and in such amount.

(f) Whenever, at any time after the Administrative Agent has received from any Lender such Lender's participating interest in a Refunded Short-Term Funding Loan, the Administrative Agent receives any payment on account thereof, the Administrative Agent will distribute to such Lender its participating interest in such amount (appropriately adjusted in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded); provided, however, that in the event that such payment received by the Administrative Agent is required to be returned, such Lender will return to the Administrative Agent any portion thereof previously distributed by the Administrative Agent to it.

(g) Each Lender's obligation to purchase participating interests pursuant to this subsection 2.4 shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any set-off, counterclaim, recoupment, defense or other right which such Lender or the Company may have against the Administrative Agent or any Short-Term Funding Lender, the Company or anyone else for any reason whatsoever; (ii) the occurrence or continuance of an Event of Default; (iii) any adverse change in the financial condition of the Company; (iv) any breach of this Agreement by the Company or any other Lender; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

2.5 Fees. (a) The Company agrees to pay to the Administrative Agent for the account of each Lender a commitment fee for the period from and including the Closing Date to the Termination Date, computed at the Commitment Fee Rate on such Lender's Revolving Credit Commitment Percentage of the average daily amount of the Available Commitments during the period for which payment is made, payable quarterly in arrears on the last day of each March, June, September and December and on the Termination Date or such earlier date on which the Commitments shall terminate as provided herein, commencing on the first of such dates to occur after the Closing Date.

(b) The Company agrees to pay to the Administrative Agent on the Closing Date for the account of each Lender a facility fee equal to (i) in the case of each Co-Agent, .075% of such Co-Agent's Revolving Credit Commitment on the Closing Date and (ii) in the case of each other Lender, .05% of such Lender's Revolving Credit Commitment on the Closing Date.

(c) The Company agrees to pay to the Administrative Agent and the Documentation Agent the fees in the amounts and on the dates agreed by the Company in writing with the Administrative Agent and the Documentation Agent, respectively.

2.6 Optional Termination and Reduction of Commitments. The Company shall have the right, upon not less than five Business Days' notice to the Administrative Agent, to terminate the Revolving Credit Commitments or, from time to time, to reduce the amount of the Revolving Credit Commitments, provided that no such termination or reduction shall be permitted if, after giving effect thereto and to any prepayments or repayments of the Revolving Credit Loans and the Short-Term Funding Loans made on the effective date thereof, the Aggregate Outstanding Revolving Extensions of Credit would exceed the Revolving Credit Commitments then in effect. Any such reduction shall be in an amount equal to \$10,000,000 or a whole multiple of \$1,000,000 in excess thereof and shall reduce permanently the Revolving Credit Commitments then in effect. The Revolving Credit Commitments may not be reduced to an amount less than the amount of the Short-Term Funding Line Commitments after giving effect to any simultaneous reduction of the Short-Term Funding Line Commitments.

2.7 Optional Prepayments; Mandatory Prepayments. (a) The Company may on the last day of any Interest Period with respect thereto, in the case of Eurodollar Loans or C/D Rate Loans, or at any time and from time to time, in the case of ABR Loans and Short-Term Funding Loans, prepay the Revolving Credit Loans and the Short-Term Funding Loans, in whole or in part, without premium or penalty, upon (i) at least three Business Days' irrevocable notice, which must be received prior to 10:30 A.M. on the day of such notice, to the Administrative Agent with respect to Eurodollar Loans or C/D Rate Loans, and (ii) upon irrevocable notice received prior to 10:30 A.M., in the case of ABR Loans, and 2:00 P.M., in the case of Short-Term Funding Loans, on the date of such prepayment with respect to ABR Loans, in each case specifying the date and amount of prepayment and whether the prepayment is of Eurodollar Loans, C/D Rate Loans, ABR Loans or a combination thereof, and, if of a combination thereof, the amount allocable to each. Upon receipt of any such notice the Administrative Agent shall promptly notify each Lender thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein. Partial prepayments shall be in an aggregate principal amount of \$10,000,000 in the case of the Revolving Credit Loans, or \$1,000,000, in the case of the Short-Term Funding Loans, or, in each case, a whole multiple of \$1,000,000 in excess thereof.

(b) If on any date (including any date on which a Borrowing Base Certificate is delivered pursuant to Section 6.2(f)) (i) the sum of (A) the Aggregate Outstanding Revolving Extensions of Credit as of such date and (B) Permitted Senior Indebtedness as of such date exceeds the then applicable Borrowing Base or (ii) the Aggregate Outstanding Revolving Extensions of Credit exceeds the aggregate Revolving Credit Commitments then in effect, then, without notice or demand, the Company shall, on such date, prepay the Loans in an amount equal to such excess, together with interest on the amount paid or prepaid accrued to the date of such payment or prepayment and any amounts payable pursuant to subsection 2.8 in connection therewith; provided, that if the aggregate principal amount of Loans then outstanding is less than the amount of such excess (because L/C Obligations constitute a portion thereof), the Company shall, to the extent of the balance of such excess, replace outstanding Letters of Credit and/or deposit an amount in cash in a cash collateral account established with the Administrative Agent for the benefit of the Lenders. The Company may, subject to the terms and conditions of this Agreement, reborrow the amount of any prepayment made under this subsection 2.7.

2.8 Conversion and Continuation Options. (a) The Company may elect from time to time to convert Eurodollar Loans or C/D Rate Loans to ABR Loans, and/or to convert Eurodollar Loans or ABR Loans to C/D Rate Loans, by giving the Administrative Agent at least two Business Days' prior irrevocable notice of such election, provided that any such conversion of Eurodollar Loans or C/D Rate Loans may only be made on the last day of an Interest Period with respect thereto. The Company may elect from time to time to convert ABR Loans or C/D Rate Loans to Eurodollar Loans by giving the Administrative Agent at least three Business Days' prior irrevocable notice of such election, provided that any such conversion of C/D Rate Loans may, subject to the third succeeding sentence, only be made on the last day of an Interest Period with respect thereto. Any such notice of conversion to Eurodollar Loans or C/D Rate Loans shall specify the length of the initial Interest Period or

Interest Periods therefor. Upon receipt of any such notice the Administrative Agent shall promptly notify each Lender thereof. If the last day of the then current Interest Period with respect to C/D Rate Loans that are to be converted to Eurodollar Loans is not a Business Day, such conversion shall be made on the next succeeding Business Day, and during the period from such last day to such succeeding Business Day such Loans shall bear interest as if they were ABR Loans. All or any part of outstanding Eurodollar Loans, ABR Loans and C/D Rate Loans may be converted as provided herein, provided that (i) no Loan may be converted into a Eurodollar Loan or a C/D Rate Loan when any Event of Default has occurred and is continuing and the Documentation Agent and the Administrative Agent have or the Required Lenders have determined that such a conversion is not appropriate and (ii) no Loan may be converted into a Eurodollar Loan or a C/D Rate Loan if the last day of any Interest Period in respect thereof would be after the Termination Date.

(b) Any Eurodollar Loans or C/D Rate Loans may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Company giving notice to the Administrative Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in subsection

1.1, of the length of the next Interest Period to be applicable to such Loans, provided that no Eurodollar Loan or C/D Rate Loan may be continued as such (i) when any Event of Default has occurred and is continuing and the Agents have or the Required Lenders have determined that such a continuation is not appropriate or (ii) if the last day of any Interest Period in respect thereof would be after the Termination Date; and provided, further, that if the Company shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Loans shall be automatically converted to ABR Loans on the last day of such then expiring Interest Period.

2.9 Minimum Amounts of Tranches. All borrowings, conversions and continuations of Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of the Loans comprising (i) each Eurodollar Tranche shall be equal to \$10,000,000 or a whole multiple of \$1,000,000 in excess thereof and (ii) each C/D Rate Tranche shall be equal to \$10,000,000 or a whole multiple of \$1,000,000 in excess thereof.

2.10 Interest Rates and Payment Dates. (a) Each Eurodollar Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each ABR Loan shall bear interest at a rate per annum equal to the ABR plus the Applicable Margin.

(c) Each C/D Rate Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the C/D Rate determined for such day plus the Applicable Margin.

(d) Each Short-Term Funding Loan made by a Short-Term Funding Lender shall bear interest for each day during which such Short-Term Funding Loan is outstanding at the rate per annum equal to the average determined by the Administrative Agent to be the arithmetic average (rounded upward to the nearest 1/100th of 1%) of the respective rates notified to the Administrative Agent by each of the Reference Lenders as the rate at which such Reference Lender is able to obtain funds for such day in the federal funds market in which such Lender customarily acquires federal funds, plus the Short-Term Funding Line Margin. The Administrative Agent shall, upon request, quote to the Company the interest rate in effect for Short-Term Funding Loans on the date of quotation.

(e) If all or a portion of (i) the principal amount of any Revolving Credit Loan or Short-Term Funding Loan, (ii) any interest payable thereon or (iii) any other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum which is (x) in the case of overdue principal, 2% above the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this subsection until the earlier of the date such amount is paid in full or the last day of the Interest Period applicable to such overdue amount, and then 2% above the rate described in paragraph (b) of this subsection or (y) in the case of overdue interest and any other amount payable hereunder, 2% above the rate described in paragraph (b) of this subsection, in each case from the date of such non-payment up to but not including the date of actual payment in full (as well after as before judgment).

(f) Interest on Revolving Credit Loans and Short-Term Funding Loans shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (e) of this subsection shall be payable on demand.

2.11 Repayment of Loans. (a) On the Termination Date, the Company will pay to the Administrative Agent for the account of each Lender the unpaid principal amount of each Revolving Credit Loan made by such Lender.

(b) The Company will pay to the Administrative Agent for the account of each Lender the unpaid principal amount of each Short-Term Funding Loan in accordance with subsection 2.4(b), and in any event not later than the Termination Date.

2.12 Computation of Interest and Fees. (a) Commitment fees and, whenever it is calculated on the basis of the Prime Rate, interest shall be calculated on the basis of a 365- (or 366-, as the case may be) day year for the actual days elapsed; and, otherwise, interest shall be calculated on the basis of a 360- day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Company and the Lenders of each determination of a Eurodollar Rate or of a C/D Rate. Any change in the interest rate on a Loan resulting from a change in the ABR, the eurocurrency reserve costs (described in subsection 2.16), the C/D Assessment Rate or the C/D Reserve Percentage shall become

effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Company and the Lenders of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Company and the Lenders in the absence of manifest error. The Administrative Agent shall, at the request of the Company, deliver to the Company a statement showing the quotations used by the Administrative Agent in determining any interest rate pursuant to this subsection 2.12.

(c) If any Reference Lender shall for any reason no longer have a Revolving Credit Commitment or any Loans outstanding, such Reference Lender shall thereupon cease to be a Reference Lender, and if, as a result, there shall only be one Reference Lender remaining, the Documentation Agent and the Administrative Agent (after consultation with the Company and with the consent of the Required Lenders) shall, by notice to the Company and the Lenders, designate another Lender as a Reference Lender so that there shall at all times be at least two Reference Lenders.

(d) Each Reference Lender shall use its best efforts to furnish quotations of rates to the Administrative Agent as contemplated hereby. If any of the Reference Lenders shall be unable or shall otherwise fail to supply such rates to the Administrative Agent upon its request, the rate of interest shall, subject to the provisions of subsection 2.13, be determined on the basis of the quotations of the remaining Reference Lenders or Reference Lender.

2.13 Inability to Determine Interest Rate. If prior to the first day of any Interest Period:

(a) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Company) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate or the C/D Rate for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Required Lenders that the Eurodollar Rate or the C/D Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Loans during such Interest Period,

the Administrative Agent shall give telecopy or telephonic notice thereof to the Company and the Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans or C/D Rate Loans, as the case may be, requested to be made on the first day of such Interest Period shall be made as ABR Loans, (y) any Loans that were to have been converted on the first day of such Interest Period to Eurodollar Loans or C/D Rate Loans, as the case may be, shall be converted to or continued as ABR Loans and (z) any outstanding Eurodollar Loans or C/D Rate Loans, as the case may be, shall be converted, on the first day following the last day of the then current Interest Period with respect thereto, to ABR Loans. Until such notice has been withdrawn by the Administrative Agent, no further Eurodollar Loans or C/D Rate Loans, as the case may be, shall be made or continued as such, nor shall the Company have the right to convert Loans to Eurodollar Loans or C/D Rate Loans, as the case may be.

2.14 Pro Rata Treatment and Payments. (a) Each borrowing by the Company from the Lenders hereunder, each payment by the Company on account of any commitment fee hereunder and any reduction of the Revolving Credit Commitments of the Lenders shall be made pro rata according to the respective Revolving Credit Commitment Percentages of the Lenders. Each payment (including each prepayment) by the Company on account of the principal of and interest on the Revolving Credit Loans shall be made pro rata according to the respective outstanding principal of the Revolving Credit Loans, respectively, then held by the Lenders. Notwithstanding any other provision of this Agreement that requires payments hereunder to be allocated to any particular category of obligations hereunder, if at any time (i) the Administrative Agent shall have received insufficient funds to pay all amounts then due and payable hereunder or (ii) the Documentation Agent shall have received written notice from the Company or any Lender that an Event of Default has occurred and is continuing, the amount of funds received shall be applied first to the payment of commitment fees and other amounts then due and payable hereunder other than fees in respect of Letters of Credit, principal and interest, and Reimbursement Obligations, pro rata in respect of all such amounts owing to each Lender, second to the payment of fees in respect of Letters of Credit and interest then due and payable hereunder, pro rata in respect of all such amounts owing to each Lender, and then to the payment of Reimbursement Obligations and all principal amounts then outstanding (whether or not due and payable) hereunder, pro rata in respect of all such amounts owing to each Lender. All payments (including prepayments) to be made by the Company hereunder and under the Notes, whether on account of principal, interest, fees or otherwise, shall be made without set off or counterclaim and shall be made prior to 12:30 P.M., Charlotte, North Carolina time, on the due date thereof to the Administrative Agent, for the account of the Lenders, at the Administrative Agent's office specified in subsection 10.2, in Dollars and in immediately available funds. The Administrative Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day, and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension. If any payment on a Eurodollar Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day.

(b) Unless the Administrative Agent shall have been notified in writing by any Lender prior to a borrowing that such Lender will not make the amount that would constitute its Commitment Percentage of such borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender is making such amount available to the Administrative Agent, and the Administrative Agent may, in reliance upon such assumption, make available to the Company a corresponding amount. If such amount is not made available to the Administrative Agent by the required time on the Borrowing Date therefor, such Lender shall pay to the Administrative Agent, on demand, such amount with interest thereon at a rate equal to the daily average Federal Funds Effective Rate for the period until such Lender makes such amount immediately available to the Administrative Agent. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error. If such Lender's Commitment Percentage of such borrowing is not made available to the Administrative Agent by such Lender within three Business Days of such Borrowing Date, the Administrative Agent shall also be entitled to recover such amount with interest thereon at the rate per annum applicable to ABR Loans hereunder, on demand, from the Company. Nothing contained in this subsection 2.14(b) shall relieve any Lender that has failed to make available its Commitment Percentage of any borrowing hereunder from its obligation to do so in accordance with the terms hereof.

2.15 Illegality. Notwithstanding any other provision herein, if the adoption of or any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Lender hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Domestic Dollar Loans to Eurodollar Loans shall forthwith be cancelled and (b) such Lender's Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to ABR Loans on the respective last days of the then current Interest Periods with respect to such Loans or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Company shall pay to such Lender such amounts, if any, as may be required pursuant to subsection 2.18.

2.16 Eurocurrency Reserve Costs; Requirements of Law. (a) The Company agrees to pay to each Lender which requests compensation under this subsection

2.16(a) (by notice to the Company), on the last day of each Interest Period with respect to any Eurodollar Loan made by such Lender, so long as such Lender shall be required to maintain reserves against "Eurocurrency liabilities" under Regulation D of the Board of Governors of the Federal Reserve System (or, so long as such Lender may be required by such Board of Governors or by any other Governmental Authority to maintain reserves against any other category of liabilities which includes deposits by reference to which the interest rate on Eurodollar Loans is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Lender which includes any Eurodollar Loans), an additional amount (determined by such Lender and notified to the Company) representing such Lender's calculation or, if an accurate calculation is impracticable, reasonable estimate (using such reasonable means of allocation as such Lender shall determine) of the actual costs, if any, incurred by such Lender during such Interest Period as a result of the applicability of the foregoing reserves to such Eurodollar Loans, which amount in any event shall not exceed the product of the following for each day of such Interest Period:

(i) the principal amount of the Eurodollar Loans made by such Lender to which such Interest Period relates outstanding on such day; and

(ii) the difference between (x) a fraction the numerator of which is the Eurodollar Rate (expressed as a decimal) applicable to such Eurodollar Loan and the denominator of which is one minus the maximum rate (expressed as a decimal) at which such reserve requirements are imposed by such Board of Governors or other Governmental Authority on such date minus (y) such numerator; and

(iii) a fraction the numerator of which is one and the denominator of which is 360.

(b) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any Note, any Letter of Credit, any Application or any Eurodollar Loan or C/D Rate Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for Non-Excluded Taxes covered by subsection 2.17 and changes in the rate of tax on the overall net income of such Lender);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender which is not otherwise included in the determination of eurocurrency reserve costs pursuant to paragraph (a) above or the C/D Rate hereunder; or

(iii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount which such Lender in good faith deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or C/D Rate Loans or issuing or participating in Letters of Credit, or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Company shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify the Company, through the Documentation

Agent, of the event by reason of which it has become so entitled. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

(c) If any Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof does or shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder or under any Letter of Credit to a level below that which such Lender or such corporation could have achieved but for such change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender in good faith to be material, then from time to time, after submission by such Lender to the Company (with a copy to the Documentation Agent) of a written request therefore, the Company shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction.

(d) A certificate of each Lender setting forth such amount or amounts as shall be necessary to compensate such Lender as specified in paragraph (a), (b) or (c) of this subsection 2.16, as the case may be, shall be delivered to the Company and shall, if submitted in good faith, be conclusive absent manifest error; provided that any certificate delivered by a Lender pursuant to this subsection 2.16(d) shall (i) in the case of a certificate in respect of amounts payable pursuant to paragraph (a) or (b) of this subsection 2.16, set forth in reasonable detail the basis for and the calculation of such amounts, and (ii) in the case of a certificate in respect of amounts payable pursuant to paragraph (c) of this subsection 2.16, (A) set forth at least the same amount of detail in respect of the calculation of such amount as such Lender provides in similar circumstances to other similarly situated borrowers from such Lender, and (B) include a statement by such Lender that it has allocated to its Revolving Credit Commitment or outstanding Loans no greater than a proportionately equal amount of any reduction of the rate of return on such Lender's capital due to the adoption or change in any Requirement of Law regarding capital adequacy as it has allocated to each of its other commitments to lend or other outstanding loans to similarly situated borrowers that are affected similarly by such adoption or change.

2.17 Taxes. (a) All payments made by the Company under this Agreement and the Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes (imposed in lieu of net income taxes) imposed on any Agent or any Lender as a result of a present or former connection between such Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Administrative Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or the Notes). If any such non-excluded taxes, levies, imposts, duties, charges, fees deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Administrative Agent or any Lender hereunder or under the Notes, the amounts so payable to the Administrative Agent or such Lender shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes, provided, however, that the Company shall not be required to increase any such amounts payable to any Lender that is not organized under the laws of the United States of America or a state thereof if

(i) such Lender fails to comply with the requirements of paragraph (b) of this subsection or (ii) either of the certifications made by such Lender as set forth in such paragraph is not true and correct with respect to such Lender. Whenever any Non-Excluded Taxes are payable by the Company, as promptly as possible thereafter the Company shall send to the Administrative Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Company showing payment thereof. If the Company fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Administrative Agent the required receipts or other required documentary evidence, the Company shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure. The agreements in this subsection shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

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

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

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

(iii) obtain such extensions of time for filing and complete such forms or certifications as may reasonably be requested by the Company or the Documentation Agent and the Administrative Agent;

unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly

completing and delivering any such form with respect to it and such Lender so advises the Company, the Administrative Agent and the Documentation Agent. Such Lender shall certify

(i) in the case of a Form 1001 or 4224, that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes and (ii) in the case of a Form W-8 or W-9, that it is entitled to an exemption from United States backup withholding tax. Each Person that shall become a Lender or a Participant pursuant to subsection 10.6 shall, upon the effectiveness of the related transfer, be required to provide all of the forms and statements required pursuant to this subsection, provided that in the case of a Participant such Participant shall furnish all such required forms and statements to the Lender from which the related participation shall have been purchased.

2.18 Indemnity. The Company agrees to indemnify each Lender and to hold each Lender harmless from any loss or expense which such Lender may sustain or incur as a consequence of (a) default by the Company in making a borrowing of, conversion into or continuation of Eurodollar Loans or C/D Rate Loans after the Company has given a notice requesting the same in accordance with the provisions of this Agreement, (b) default by the Company in making any prepayment after the Company has given a notice thereof in accordance with the provisions of this Agreement or (c) the making of a prepayment of Eurodollar Loans or C/D Rate Loans on a day which is not the last day of an Interest Period with respect thereto. Such indemnification may include an amount equal to the excess, if any, of (i) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) which would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder. A certificate of any Lender setting forth any amount or amounts which such Lender is entitled to receive pursuant to this Section shall be delivered to the Company and shall be conclusive absent manifest error.

### SECTION 3. LETTERS OF CREDIT

3.1 L/C Commitment. (a) Subject to the terms and conditions hereof, NationsBank or an Affiliate, as Issuing Bank, agrees, and other Lenders designated by the Company with the consent of the Documentation Agent and the Administrative Agent may agree, in each case in reliance on the agreements of the other Lenders set forth in subsection 3.4(a), to issue letters of credit (together with the Letters of Credit outstanding on the Closing Date issued under (and as defined in) the Existing Amended and Restated Credit Agreement, "Letters of Credit") for the account of the Company on any Business Day during the Commitment Period in such form as may be approved from time to time by the Issuing Bank; provided that the Issuing Bank shall have no obligation to issue any Letter of Credit if, after giving effect to such issuance, (i) the L/C Obligations would exceed the L/C Commitment or (ii) the Aggregate Outstanding Revolving Extensions of Credit would exceed the lesser of (A) the aggregate Revolving Credit Commitments then in effect and (B) the excess of the Borrowing Base then in effect over Permitted Senior Indebtedness. Each Letter of Credit shall (i) be denominated in Dollars and shall be either (x) a standby letter of credit issued to support obligations of the Company and its Subsidiaries, contingent or otherwise, arising in the ordinary course of business or (y) a documentary letter of credit in respect of the purchase of goods or services by the Company and its Subsidiaries in the ordinary course of business and (ii) expire no later than the Termination Date.

(b) Each Letter of Credit shall be subject to the Uniform Customs and, to the extent not inconsistent therewith, the laws of the State of New York.

(c) The Issuing Bank shall not at any time be obligated to issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Bank or any L/C Participant to exceed any limits imposed by, any applicable Requirement of Law.

3.2 Procedure for Issuance of Letters of Credit. The Company may from time to time request that the Issuing Bank issue a Letter of Credit by delivering to the Issuing Bank at its address for notices specified herein an Application therefor, completed to the satisfaction of the Issuing Bank, and such other certificates, documents and other papers and information as the Issuing Bank may reasonably request in accordance with its customary procedures (with a copy to the Administrative Agent). Upon receipt of any Application, the Issuing Bank will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Bank be required to issue any Letter of Credit earlier than three Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise may be agreed by the Issuing Bank and the Company. The Issuing Bank shall furnish a copy of such Letter of Credit to the Company promptly following the issuance thereof.

### 3.3 Fees, Commissions and Other Charges.

(a) The Company shall pay (i) to the Administrative Agent, for the account of the Issuing Bank and the L/C Participants in accordance with their respective Revolving Credit Commitment Percentages, a letter of credit commission with respect to each Letter of Credit, computed for the period from the Closing Date (in the case of the first such payment) or the date on which the last such payment was due (in all other cases)

to the date upon which such payment is due hereunder at the L/C Fee Rate on the average daily aggregate amount available to be drawn under such Letter of Credit and (ii) to the Issuing Bank for its own account, a letter of credit commission with respect to each Letter of Credit, computed for the period from the Closing Date (in the case of the first such payment) or the date on which the last such payment was due (in all other cases) to the date upon which such payment is due hereunder at the rate of 1/8% per annum of the average daily aggregate amount available to be drawn under such Letter of Credit during the period for which such fee is calculated. Such commissions shall be payable in arrears on each L/C Fee Payment Date and shall be nonrefundable.

(b) In addition to the foregoing fees and commissions, the Company shall pay or reimburse the Issuing Bank for such reasonable and customary costs and expenses as are incurred or charged by the Issuing Bank in issuing, effecting payment under, amending or otherwise administering any Letter of Credit.

(c) The Administrative Agent shall, promptly following its receipt thereof, distribute to the Issuing Bank and the L/C Participants all fees and commissions received by the Administrative Agent for their respective accounts pursuant to this subsection.

3.4 L/C Participations. (a) The Issuing Bank irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce the Issuing Bank to issue Letters of Credit hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Bank, on the terms and conditions hereinafter stated, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's Commitment Percentage in the Issuing Bank's obligations and rights under each Letter of Credit issued hereunder and the amount of each draft paid by the Issuing Bank thereunder. Each L/C Participant unconditionally and irrevocably agrees with the Issuing Bank that, if a draft is paid under any Letter of Credit for which the Issuing Bank is not reimbursed in full by the Company in accordance with the terms of this Agreement, such L/C Participant shall pay to the Issuing Bank upon demand at the Issuing Bank's address for notices specified herein an amount equal to such L/C Participant's Commitment Percentage of the amount of such draft, or any part thereof, which is not so reimbursed; provided, that no L/C Participant shall be obligated to make such payment to the extent that, after giving effect to such payment, the sum of

(i) such payment, (ii) such Lender's Commitment Percentage of the L/C Obligations on the date of such payment other than that with respect to which such payment would be made and (iii) such Lender's Commitment Percentage of the Aggregate Outstanding Revolving Extensions of Credit on such date other than the L/C Obligations exceeds such Lender's Revolving Credit Commitment. Each L/C Participant's obligation to purchase its participating interest in each Letter of Credit pursuant to this subsection 3.4(a) shall not be affected by any circumstance, including, without limitation, (i) any set-off, counterclaim, recoupment, defense or other right which such L/C Participant may have against the Issuing Bank, the Company, any direct or indirect beneficiary of any Letter of Credit, the Administrative Agent or any other Person whatsoever, (ii) the occurrence or continuance of a Default or an Event of Default; (iii) any adverse change in the condition (financial or otherwise) of the Company; (iv) any breach of this Agreement by the Company, the Administrative Agent or any other Lender; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing; and such obligation shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any reimbursement obligation of the Company is rescinded or must otherwise be restored or returned by the Issuing Bank upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Company or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Company or any substantial part of its property, or otherwise, all as though such payment had not been made.

(b) If any amount required to be paid by any L/C Participant to the Issuing Bank pursuant to subsection 3.4(a) in respect of any unreimbursed portion of any payment made by the Issuing Bank under any Letter of Credit is paid to the Issuing Bank within three Business Days after the date such payment is due, such L/C Participant shall pay to the Issuing Bank on demand an amount equal to the product of (i) such amount, times (ii) the daily average federal funds rate, as quoted by the Issuing Bank, during the period from and including the date such payment is required to the date on which such payment is immediately available to the Issuing Bank, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to subsection 3.4(a) is not in fact made available to the Issuing Bank by such L/C Participant within three Business Days after the date such payment is due, the Issuing Bank shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to ABR Loans hereunder. A certificate of the Issuing Bank submitted to any L/C Participant with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error.

(c) Whenever, at any time after the Issuing Bank has made payment under any Letter of Credit and has received from any L/C Participant its pro rata share of such payment in accordance with subsection 3.4(a), the Issuing Bank receives any payment related to such Letter of Credit (whether directly from the Company or otherwise, including proceeds of collateral applied thereto by the Issuing Bank), or any payment of interest on account thereof, the Issuing Bank will distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by the Issuing Bank shall be required to be returned by the Issuing Bank, such L/C Participant shall return to the Issuing Bank the portion thereof previously distributed by the Issuing Bank to it.

3.5 Reimbursement Obligation of the Company. The Company agrees to reimburse the Issuing Bank on each date on which the Issuing Bank notifies the Company of the date and amount of a draft presented under any Letter of Credit and paid by the Issuing Bank for the amount of (a) such draft so paid and (b) any taxes, fees, charges or other costs or expenses incurred by the Issuing Bank in connection with such payment, provided, that the failure of the Company to so reimburse the Issuing Bank on such date shall not be deemed to be an Event of Default if (i) the Company receives notice of such draft after 1:30 P.M. on such date and (ii) the Company makes such reimbursement in full no later than the

first Business Day following such date. Each such payment shall be made to the Issuing Bank at its address for notices specified herein in lawful money of the United States of America and in immediately available funds. Interest shall be payable on any and all amounts remaining unpaid by the Company under this subsection from the date such amounts become payable (whether at stated maturity, by acceleration or otherwise) to but not including the date of payment in full at the rate which would be payable on any outstanding ABR Loans which were then overdue.

3.6 Obligations Absolute. The Company's obligations under this Section 3 shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment which the Company may have or have had against the Issuing Bank or any beneficiary of a Letter of Credit. The Company also agrees with the Issuing Bank that the Issuing Bank shall not be responsible for, and the Company's Reimbursement Obligations under subsection 3.5 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Company and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or any claims whatsoever of the Company against any beneficiary of such Letter of Credit or any such transferee, provided, that payment by the Issuing Bank under such Letters of Credit against presentation of such documents shall not have been determined by a final judgement of a court of competent jurisdiction to have constituted gross negligence or willful misconduct by the Issuing Bank. The Issuing Bank shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by the Issuing Bank's gross negligence or willful misconduct. The Company agrees that any action taken or omitted by the Issuing Bank under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards or care specified in the Uniform Commercial Code of the State of New York and the Uniform Customs, shall be binding on the Company and shall not result in any liability of the Issuing Bank to the Company.

3.7 Letter of Credit Payments. If any draft shall be presented for payment under any Letter of Credit, the Issuing Bank shall promptly notify the Company of the date and amount thereof. The responsibility of the Issuing Bank to the Company in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment appear on their face to be in conformity with such Letter of Credit.

3.8 Application. To the extent that any provision of any Application related to any Letter of Credit is inconsistent with the provisions of this Section 3, the provisions of this Section 3 shall apply.

#### SECTION 4. REPRESENTATIONS AND WARRANTIES

To induce the Lenders to enter into this Agreement and to make the Loans and issue or participate in the Letters of Credit the Company hereby represents and warrants to the Agents and each Lender that:

4.1 Financial Condition. The consolidated balance sheets of the Company and its consolidated Subsidiaries as at December 31, 1996 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, reported on by Ernst & Young, copies of which have heretofore been furnished to each Lender, present fairly the consolidated financial condition of the Company and its consolidated Subsidiaries as at such dates, and the consolidated results of their operations and changes in cash flows for the fiscal year then ended. The unaudited consolidated balance sheet of the Company and its consolidated Subsidiaries as at March 31, 1997 and the related unaudited consolidated statements of income and of cash flows for the three-month period ended on such date, certified by a Responsible Officer, copies of which have heretofore been furnished to each Lender, present fairly the consolidated financial condition of the Company and its consolidated Subsidiaries as at such date, and the consolidated results of their operations and changes in cash flows for the three-month period then ended (subject to normal year-end audit adjustments). All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by such accountants or Responsible Officer, as the case may be, and as disclosed therein and except the quarterly statements are unaudited and do not include footnotes as would be required for audited financial statements). Neither the Company nor any of its Restricted Subsidiaries had, at the date of the most recent balance sheet referred to above, any Guarantee Obligation, contingent liability or liability for taxes, or any long-term lease or any interest rate or foreign currency swap or exchange transaction, which is not reflected in the foregoing statements or in the notes thereto and which, in the aggregate, would be material to the Company and its Subsidiaries taken as a whole, except as set forth on Schedule 4.6.

4.2 No Change. Since December 31, 1996, no development or event has occurred which has had or could reasonably be expected to have a Material Adverse Effect except as otherwise disclosed in the Company's audited or unaudited financial statements including the periodic quarterly reports on Form 10-Q, in each case delivered to the Lenders prior to the Closing Date. Between December 31, 1996 and the Closing Date, no dividends or other distributions have been declared, paid or made upon the capital stock of the Company nor has any of the capital stock of the Company been redeemed, retired, purchased or otherwise acquired for value by the Company or any of its Subsidiaries, except for payment of regular quarterly dividends of not more than \$0.17 per share per quarter, payment of the dividend on the Series A ESOP Convertible Preferred Stock and except as otherwise disclosed in the Company's audited or unaudited financial statements including the periodic quarterly reports on Form 10-Q delivered to the Lenders prior to the Closing Date.

4.3 Corporate Existence; Compliance with Law. Each of the Company and its Restricted Subsidiaries (a) is duly organized, validly existing and

in good standing under the laws of the jurisdiction of its incorporation, (b) has the corporate power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification and (d) is in compliance with all Requirements of Law, except in the case of the foregoing clauses (c) and (d) to the extent that the failure to be so qualified or to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.4 Corporate Power; Authorization; Enforceable. The Company has the corporate power and authority, and the legal right, to make, deliver and perform this Agreement and the Notes and to borrow hereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of this Agreement and the Notes and to authorize the execution, delivery and performance of this Agreement and the Notes. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement or any other Loan Document. This Agreement has been, and, as of the Closing Date, the Notes will be, duly executed and delivered on behalf of the Company. This Agreement constitutes, and each other Loan Document when executed and delivered by the Company for value received will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

4.5 No Legal Bar. The execution, delivery and performance of this Agreement and the Notes, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or Contractual Obligation of the Company or of any of its Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties or revenues pursuant to any such Requirement of Law or Contractual Obligation.

4.6 No Material Litigation. Schedule 4.6 sets forth information with respect to certain litigation, investigations, or proceedings pending against the Company and its Subsidiaries. Subject to the matters set forth on such Schedule, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Company, threatened by or against the Company or any of its Restricted Subsidiaries or against any of its or their respective properties or revenues

(a) with respect to this Agreement or the Notes or any of the transactions contemplated hereby, or (b) which could reasonably be expected to have a Material Adverse Effect.

4.7 No Default. Neither the Company nor any of its Restricted Subsidiaries is in default under or with respect to any of its Contractual Obligations in any respect which could reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

4.8 Ownership of Property;. Each of the Company and its Restricted Subsidiaries has good record and marketable title in fee simple to, or a valid leasehold interest in, all its real property, and good title to all its other property, except for defects in title that do not interfere in any material respect with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes, and none of such property is subject to any Lien except as permitted by subsection 7.3.

4.9 Intellectual Property. The Company and each of its Restricted Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, technology, know-how and processes necessary for the conduct of its business as currently conducted except for those the failure to own or license which could not reasonably be expected to have a Material Adverse Effect (the "Intellectual Property"). No claim has been asserted and is pending by any Person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual Property, which could reasonably be expected to have a Material Adverse Effect nor does the Company know of any valid basis for any such claim. The use of such Intellectual Property by the Company and its Restricted Subsidiaries does not infringe on the rights of any Person, except for such claims and infringements that, in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

4.10 Taxes. Each of the Company and its Restricted Subsidiaries has filed or caused to be filed all tax returns which, to the knowledge of the Company, are required to be filed and which if not so filed could reasonably be expected to have a Material Adverse Effect, and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges of a material nature imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Company or its Subsidiaries, as the case may be); no tax Lien has been filed, and, to the knowledge of the Company, no claim is being asserted, with respect to any such tax, fee or other charge which reasonably could be expected to have a Material Adverse Effect.

4.11 Federal Regulations. No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect or for any purpose which violates the provisions of the Regulations of such Board of Governors. If requested by any Lender or the Documentation Agent, the Company will furnish to the Documentation Agent and each Lender a statement to the foregoing

effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U.

4.12 ERISA. Neither a Reportable Event nor an "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code. No termination of a Single Employer Plan has occurred, and no Lien in favor of the PBGC or a Plan has arisen, during such five-year period. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits to an extent which could reasonably be expected to have a Material Adverse Effect. Neither the Company nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan which could reasonably be expected to have a Material Adverse Effect, and neither the Company nor any Commonly Controlled Entity would become subject to any liability under ERISA in an amount which could reasonably be expected to have a Material Adverse Effect if the Company or any such Commonly Controlled Entity were to withdraw completely from all Multiemployer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made. To the knowledge of the Company or any Commonly Controlled Entity, no such Multiemployer Plan for which the Company or any Subsidiary could reasonably be expected to have a material liability is in Reorganization or Insolvent. The present value (determined using actuarial and other assumptions which are reasonable in respect of the benefits provided and the employees participating) of the liability of the Company and each Commonly Controlled Entity for post retirement benefits to be provided to their current and former employees under Plans which are welfare benefit plans (as defined in Section 3(1) of ERISA) does not, in the aggregate, exceed the assets under all such Plans allocable to such benefits by an amount in excess of \$5,000,000.

4.13 Investment Company Act; Other Regulations. The Company is not an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended. The Company is not subject to regulation under any Federal or State statute or regulation which limits its ability to incur Indebtedness.

4.14 Subsidiaries. All the Subsidiaries of the Company at the date of this Agreement are listed on Schedule 4.14 and the Subsidiaries that, as of the date of this Agreement, are Significant Subsidiaries of the Company are designated as such on Schedule 4.14.

4.15 Accuracy and Completeness of Information. The written information, reports and other papers and data with respect to the Company (other than projections and estimates) furnished to the Agents or the Lenders in connection with this Agreement or the obtaining of the commitments of the Lenders hereunder was, at the time so furnished and when considered as a whole, complete and correct in all material respects, or has been subsequently supplemented by other information, reports or other papers or data, to the extent necessary to give in all material respects a true and accurate knowledge of the subject matter in all material respects. All projections and estimates with respect to the Company and its Subsidiaries so furnished by the Company were prepared and presented in good faith, it being recognized by the Documentation Agent and the Lenders that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results and that such differences may be material; except as set forth and required within this Agreement, the Company shall not be required to update such projections.

4.16 Environmental Matters. Except to the extent that all of the following, in the aggregate, would not reasonably be expected to have a Material Adverse Effect:

- (a) To the knowledge of the Company, the facilities and properties owned, leased or operated by the Company or any of its Subsidiaries (the "Properties") do not contain, and have not previously contained, any Materials of Environmental Concern in amounts or concentrations which (i) constitute or constituted a violation of, or (ii) could reasonably be expected to give rise to liability under, any Environmental Law.
- (b) To the knowledge of the Company, the Properties and all operations at the Properties are in compliance, and, to the extent of the Company's and its Subsidiaries' involvement with the Properties, have in the last five years been in compliance, in all material respects with all applicable Environmental Laws, and there is no contamination at, under or about the Properties or violation of any Environmental Law with respect to the Properties or the business operated by the Company or any of its Subsidiaries (the "Business").
- (c) Neither the Company nor any of its Subsidiaries has received any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Properties or the Business, nor does the Company have knowledge or reason to believe that any such notice will be received or is being threatened.
- (d) To the knowledge of the Company, Materials of Environmental Concern have not been transported or disposed of from the Properties while owned or operated by the Company or any of its Subsidiaries in violation of, or in a manner or to a location which could reasonably be expected to give rise to liability under, any Environmental Law, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Properties in violation of, or in a manner that could reasonably be expected to give rise to liability under, any applicable Environmental Law.
- (e) No judicial proceeding or governmental or administrative action is pending or, to the knowledge of the Company, threatened, under any Environmental Law to which the Company or any Subsidiary is or will be named as a party with respect to the Properties or the Business, nor

are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Properties or the Business.

(f) To the knowledge of the Company, there has been no release or threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations of the Borrower or any Subsidiary in connection with the Properties or otherwise in connection with the Business, in violation of or in amounts or in a manner that could reasonably give rise to liability under Environmental Laws.

4.17 Status of the Notes. All indebtedness of the Company under this Agreement, the Notes and the Applications (including, without limitation principal, interest (including interest accruing after the occurrence of any event described in Section 8(f), whether or not such interest constitutes an allowed claim in any proceeding referred to in Section 8(f)), fees, expenses and indemnities) constitutes, and the Company hereby expressly agrees that all such indebtedness shall constitute, "Senior Debt" as such term is used in the 1992 Subordinated Debt Indenture.

4.18 Purpose of Loans. The proceeds of the Loans shall be used by the Company for working capital purposes in the ordinary course of business and to make the purchases and investments permitted by Section 7.

## SECTION 5. CONDITIONS PRECEDENT

5.1 Conditions to Initial Extensions of. The agreement of each Lender to make the initial extensions of credit requested to be made by it is subject to the satisfaction, on or prior to the Closing Date, of the following conditions precedent:

(a) Loan Documents. The Documentation Agent shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Company and each Agent, with a counterpart for each Lender, (ii) for the account of each Lender, a Revolving Credit Note, conforming to the requirements hereof and executed by a duly authorized officer of the Company, (iii) for the account of each Short-Term Funding Lender, a Short-Term Funding Line Note conforming to the requirements hereof and executed by a duly authorized officer of the Company and (iv) the Affirmation, Restatement and Joinder, executed by a duly authorized officer of each Guarantor.

(b) Corporate Proceedings. The Documentation Agent shall have received, with a counterpart for each Lender, (i) a copy of the resolutions, in form and substance reasonably satisfactory to the Documentation Agent, of the Board of Directors of the Company and each Guarantor authorizing (x) in the case of the Company, the execution, delivery and performance of this Agreement, the Notes and the other Loan Documents to which it is a party, and the borrowings contemplated hereunder, and (y) in the case of each Guarantor, the execution and delivery of the Affirmation, Restatement and Joinder, in each case, certified by the Secretary or an Assistant Secretary of the Company or such Guarantor, as the case may be, as of the Closing Date, which certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded and shall be in form and substance satisfactory to the Documentation Agent and (ii) an incumbency certificate of the Company and each Guarantor, satisfactory in form and substance to the Documentation Agent, with appropriate insertions and attachments.

(c) Corporate Documents. The Documentation Agent shall have received, with a counterpart for each Lender, true and complete copies of the Charter and By-laws of the Company and each Guarantor, certified as of the Closing Date as complete and correct copies thereof by the Secretary or an Assistant Secretary of the Company or such Guarantor, as the case may be.

(d) No Violation. The consummation of the transactions contemplated hereby shall not contravene, violate or conflict with, nor involve the Documentation Agent or any Lender in any violation of, any Requirement of Law.

(e) Fees. The Syndication Agent, the Documentation Agent and the Administrative Agent shall have received the fees to be received on the Closing Date referred to in subsection 2.5.

(f) Legal Opinions. The Documentation Agent shall have received, with a counterpart for each Lender, the executed legal opinions of (i) the Corporate Counsel to the Company, substantially in the form of Exhibit E-1 hereto, and (ii) Piper & Marbury L.L.P., counsel to the Company and the Guarantors, substantially in the form of Exhibit E-2. Such legal opinions shall cover such other matters incident to the transactions contemplated by this Agreement as the Documentation Agent may reasonably require.

(g) Borrowing Base Certificate. The Documentation Agent shall have received a Borrowing Base Certificate, dated the Closing Date and setting forth a calculation of the Borrowing Base as of March 31, 1997, showing that the Aggregate Outstanding Revolving Extensions of Credit on the Closing Date (after giving effect to the extension of credit hereunder on the Closing Date), when added to the Permitted Senior Indebtedness on the Closing Date, shall not exceed the Borrowing Base as set forth therein.

(h) Existing Amended and Restated Credit Agreement. The Documentation Agent shall have received evidence satisfactory to it that, effective as of the Closing Date and after giving effect for the initial extensions of Credit hereunder all amounts outstanding under the Existing Amended and Restated Credit Agreement will have been paid in full and the Commitments thereunder will have been replaced with the Commitments hereunder.

5.2 Conditions to Each Extension of Credit. The agreement of each Lender to make any extension of credit requested to be made by it on any date (including, without limitation, its initial extension of credit) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Company or any Guarantor in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the Loans requested to be made on such date.

(c) Additional Documents. The Documentation Agent shall have received each additional document, instrument, legal opinion or item of information reasonably requested by it, including, without limitation, a copy of any debt instrument, security agreement or other material contract to which the Company may be a party.

(d) Additional Matters. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to the Documentation Agent, and the Documentation Agent shall have received such other documents and legal opinions in respect of any aspect or consequence of the transactions contemplated hereby or thereby as it shall reasonably request.

Each borrowing by and Letter of Credit issued on behalf of the Company hereunder shall constitute a representation and warranty by the Company as of the date of such Loan or such issuance that the conditions contained in subsection 5.2(a) and (b) have been satisfied.

## SECTION 6. AFFIRMATIVE COVENANTS

The Company hereby agrees as follows for so long as any of the Commitments remain in effect, any Note or any Letter of Credit remains outstanding and unpaid or any other amount is owing to any Lender or the Agents hereunder:

6.1 Financial Statements. The Company will furnish to each Lender:

(a) as soon as available, but in any event within 100 days after the end of each fiscal year of the Company, copies of the consolidated balance sheets of the Company and its consolidated Subsidiaries as at the end of such year and the related consolidated statements of income and retained earnings and changes in cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit (other than qualifications related to the incorporation of reports by other independent certified public accountants), by Ernst & Young or other independent certified public accountants of nationally recognized standing not unacceptable to the Required Lenders; and

(b) as soon as available, but in any event not later than 55 days after the end of each of the first three quarterly periods of each fiscal year of the Company, the unaudited consolidated balance sheets of the Company and its consolidated Subsidiaries as at the end of such quarter and the related unaudited consolidated statements of income and retained earnings and changes in cash flows of the Company and its consolidated Subsidiaries for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by a Responsible Officer as being fairly stated in all material respects when considered in relation to the consolidated financial position of the Company and its consolidated Subsidiaries (subject to normal year-end audit adjustments);

all such financial statements to be prepared in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except as approved by such accountants or officer, as the case may be, and disclosed therein).

6.2 Certificates; Other Information. The Company will furnish to each Lender:

(a) concurrently with the delivery of the financial statements referred to in subsection 6.1(a), a certificate of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default, except as specified in such certificate;

(b) concurrently with the delivery of the financial statements referred to in subsections 6.1(a) and 6.1(b), a compliance certificate of a Responsible Officer, substantially in the form of Exhibit G, stating that, to the best of such officer's knowledge, the Company during such period has observed or performed all of its covenants and other agreements, and satisfied every condition, contained in this Agreement and in the Notes to be observed, performed or satisfied by it (and containing calculations demonstrating compliance with subsections 7.1 and 7.11 and such other financial information as requested by the Documentation Agent), and that such officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate;

(c) not later than 95 days after the end of each fiscal year of the Company, a copy of the projections by the Company of the operating budget and cash flow budget of the Company and its Subsidiaries for the succeeding fiscal year, such projections to be accompanied by a certificate of

a Responsible Officer to the effect that while such officer has no reason to believe such projections are incorrect or misleading in any material respect, such projections are based upon assumptions that may not materialize or may change adversely due to factors related to the Company's business or industry, and unanticipated events and circumstances may occur subsequent to the date of such projections, such that the actual results achieved may vary from such projections, and such variations may be material, and that the Company is under no obligation to update such projections;

(d) promptly upon their becoming available, but in any event no later than ten days after the same are sent, copies of all financial statements, reports, notices and proxy statements sent or made available generally by the Company to its stockholders, or by any Restricted Subsidiary of the Company to its stockholders (other than the Company or any Subsidiary of the Company), of all regular and periodic reports and all registration statements (excluding exhibits thereto and Registration Statements on Form S-8) and prospectuses, if any, filed by the Company or any of its Restricted Subsidiaries with any securities exchange or with the Securities and Exchange Commission or any successor or analogous Governmental Authority; and all of press releases and other statements made available generally by the Company or any of its Restricted Subsidiaries to the public concerning material developments in the business of the Company and any of its Restricted Subsidiaries;

(e) promptly, such additional financial and other information as any Lender may from time to time reasonably request; and

(f) as soon as practicable, but in no event later than 25 days after the end of each month, a Borrowing Base Certificate certifying in reasonable detail the Borrowing Base as of the last day of such month, which certificate shall be complete and correct as of the date thereof; and

(g) concurrently with the delivery of the financial statements referred to in subsections 6.1(a) and 6.2(b), the financial information set forth on Schedule 6.2(g) hereto.

**6.3 Payment of Obligations.** The Company and each Restricted Subsidiary will pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all obligations of whatever nature which if not so paid could reasonably be expected to have a Material Adverse Effect, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Company or its Subsidiaries, as the case may be.

**6.4 Conduct of Business and Maintenance of Existence.** The Company and the Restricted Subsidiaries, taken as a whole, will at all times remain principally engaged in the business currently being conducted by the Company and the Restricted Subsidiaries, and in all respects material to the business of the Company and the Restricted Subsidiaries taken as a whole, the Company shall, and will cause each of the Restricted Subsidiaries to, preserve, renew and keep in full force and effect its corporate existence and take all reasonable action to maintain all rights, privileges and franchises required for the normal conduct of such business, except (i) as otherwise permitted pursuant to subsection 7.5 and (ii) the Company shall not be required to preserve any such right, privilege or franchise if the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company or any Subsidiary and that the loss thereof could not reasonably be expected to have a Material Adverse Effect. The Company shall, and will cause each Restricted Subsidiary to, comply with all Contractual Obligations and Requirements of Law except to the extent that failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

**6.5 Maintenance of Property; Insurance.** The Company and each Restricted Subsidiary will keep in all material respects all property useful and necessary in its business in good working order and condition (provided, however, that nothing in this subsection 6.5 shall prevent the Company from discontinuing the operation or maintenance, or both the operation and maintenance, of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary and could not reasonably be expected to have a Material Adverse Effect); maintain with financially sound and reputable insurance companies insurance on all its property in at least such amounts and against at least such risks (but including in any event public liability, product liability and business interruption) as are usually insured against in the same general area by companies engaged in the same or a similar business; and furnish to each Lender, upon written request, reasonable information as to the insurance carried.

**6.6 Inspection of Property; Books and Records; Discussions.** The Company and each Restricted Subsidiary will keep proper books of records and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities; and permit representatives of any Lender, at such Lender's expense, to visit and inspect as reasonably requested any of its properties and the properties of the real estate joint ventures in which the Company or any Subsidiary within the Homebuilding Segment participates or manages and examine and make abstracts from any of its books and records at any reasonable time and as often as may reasonably be desired and to discuss the business, operations, properties and financial and other condition of the Company and its Subsidiaries and such real estate joint ventures in which the Company or any Subsidiary within the Homebuilding Segment participates or manages, as reasonably requested with officers and employees of the Company and its Subsidiaries and with its independent certified public accountants.

**6.7 Notices.** The Company will promptly give notice to the Documentation Agent and each Lender of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Company or any of its Restricted Subsidiaries or (ii) litigation, investigation or proceeding which may exist at any time between the Company or any of its Restricted Subsidiaries and any Governmental Authority, which, in either case, reasonably could be expected to have a Material Adverse Effect;

(c) any litigation or proceeding affecting the Company or any of its Restricted Subsidiaries (i) in which the amount involved and not covered by insurance is \$10,000,000 or more or (ii) in which injunctive or similar relief is sought which reasonably could be expected to have a Material Adverse Effect;

(d) the following events, as soon as possible and in any event within 30 days after the Company knows or has reason to know thereof: (i) the occurrence of any Reportable Event with respect to any Plan, or any withdrawal from, or the termination, Reorganization or Insolvency of any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Company or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Plan;

(e) any change in the Rating by either Rating Agency; and

(f) any event or occurrence which has a Material Adverse Effect.

Each notice pursuant to this subsection shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Company proposes to take with respect thereto.

6.8 Environmental Laws. (a) The Company, each Restricted Subsidiary and each joint venture in which the Company or any Restricted Subsidiary participates or manages will comply with and insure compliance by all tenants and subtenants, if any, with all Environmental Laws and obtain and comply in all material respects with and maintain, and insure that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, registrations or permits required by Environmental Laws, except in each case to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and

(b) The Company, each Restricted Subsidiary and each such joint venture will conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply in all material respects with all lawful orders and directives of all Governmental Authorities respecting Environmental Laws, except to the extent that the same are being contested in good faith by appropriate proceedings and the pendency of such proceedings could not reasonably be expected to have a Material Adverse Effect; and

(c) The Company will defend, indemnify and hold harmless each Agent and the Lenders, and their respective employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of or noncompliance with any Environmental Laws, or any orders, requirements or demand of Governmental Authorities related thereto, including without limitation reasonable attorney and consultant fees, investigation and laboratory fees, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the gross negligence or willful misconduct of the party seeking indemnification therefor. The agreements contained in this paragraph (c) shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

6.9 Guarantees from Future. The Company will promptly secure the execution and delivery of the Guaranty to the Documentation Agent on behalf of the Lenders from each Subsidiary, whether now existing or formed and organized after the Closing Date, if such Subsidiary (i) has assets with an aggregate book value equal to or greater than \$1,000,000 and (ii) is included in the Homebuilding Segment. Each such Subsidiary which hereafter meets the criteria set forth in the preceding sentence shall execute and deliver the Guaranty within 30 days after it meets such criteria. Concurrently with the execution and delivery by such a Subsidiary of a Guaranty, the Company will deliver to the Documentation Agent such legal opinions and evidence of corporate action and authority in respect thereof as shall be reasonably requested by the Documentation Agent.

## SECTION 7. NEGATIVE COVENANTS

The Company hereby agrees as follows for so long as any of the Commitments remain in effect, any Note or any Letter of Credit remains outstanding and unpaid or any other amount is owing to any Lender or any Agent hereunder:

7.1 Financial Condition Covenants. The Company shall not:

(a) Maintenance of Consolidated Net Worth of the Company. Permit the Consolidated Net Worth of the Company on the last day of any fiscal quarter ending after March 31, 1997, to be less than \$260,000,000 plus the sum of (A) 50% of Consolidated Net Income of the Company for each fiscal quarter for which such Consolidated Net Income is positive during the period from April 1, 1997 through such date plus (B) the aggregate amount of net proceeds received by the Company from all registered public offerings of securities of the Company characterized as

capital stock in accordance with GAAP after April 1, 1997 through such date.

(b) Maintenance of Total Liabilities in Relation to Adjusted Consolidated Tangible Net Worth. Permit Combined Total Liabilities of the Homebuilding Segment on the last day of any fiscal quarter of the Company to be greater than the sum of (i) 2.75 multiplied by that portion of Adjusted Consolidated Tangible Net Worth on such day which is less than or equal to \$218,000,000 plus (ii) 2.0 multiplied by that portion of Adjusted Consolidated Tangible Net Worth on such day which is greater than \$218,000,000; provided, that in the event that Fixed Charge Coverage is less than 1.75 for any two consecutive fiscal quarters of the Company, the multipliers specified in clauses (i) and (ii) of this subsection (i.e. 2.75 and 2.0) shall each be reduced by 0.25, effective as of the last day of the fiscal quarter immediately following the second of such two consecutive fiscal quarters of the Company, and such multipliers shall be further reduced by 0.1 on and as of the last day of each subsequent fiscal quarter of the Company unless Fixed Charge Coverage for such subsequent fiscal quarter is equal to or greater than 1.75, in which case such multipliers shall be as set forth in clauses

(i) and (ii) of this subsection effective as of such day. For purposes of this subsection 7.1(b), Combined Total Liabilities of the Homebuilding Segment shall exclude accounts payable and accrued expenses.

(c) Maintenance of Fixed Charge Coverage. Permit Fixed Charge Coverage to be less than 1.50 for any three consecutive fiscal quarters of the Company.

(d) Maintenance of Net Worth Ratio of the Financial Services Segment. Permit the ratio of Financial Services Segment Combined Total Liabilities to the Consolidated Adjusted Net Worth of the Financial Services Segment to be greater than 8.0 to 1.0 as of the end of any quarter in Ryland Mortgage Company's fiscal year.

7.2 Limitation on Indebtedness. Neither the Company nor any Restricted Subsidiary will create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness in respect of the Loans, the Notes, and the other obligations of the Company under this Agreement;

(b) Indebtedness of the Company to any Subsidiary and of any Subsidiary to the Company or any other Subsidiary; provided, in each case, that such Indebtedness be permitted as an Investment pursuant to subsection 7.8;

(c) Indebtedness of the Company or any of its Subsidiaries in respect of purchase money mortgage financing for real estate inventory, provided, that the holder of such Indebtedness shall have no recourse against the Company or any Subsidiary in respect of such Indebtedness, such recourse being limited solely to the assets financed with the proceeds of such Indebtedness, and provided, further, that (i) at least 50% of the aggregate capitalized cost of the assets so acquired with such purchase money mortgage financing by the Company, its Subsidiaries and the Company's consolidated joint ventures shall have been financed with such purchase money mortgage financing and (ii) the aggregate capitalized cost of all assets pledged in respect of or otherwise securing all such non-recourse purchase money mortgage financing of the Company, its Subsidiaries and its consolidated and unconsolidated joint ventures shall not at any time exceed \$100,000,000;

(d) Subordinated Debt;

(e) Specified Debt;

(f) Indebtedness in respect of industrial revenue bonds outstanding on the Closing Date and listed on Schedule 7.2(f) hereto;

(g) Indebtedness constituting, or constituting the primary obligations guaranteed by, the Guarantee Obligations permitted pursuant to subsection 7.4(a), (b) or (c);

(h) Indebtedness of the Company or any other entity in the Homebuilding Segment in the form of reimbursement obligations in respect of letters of credit issued for the account of the Company or such other entity other than Letters of Credit issued hereunder and other than Permitted IRB Letters of Credit, provided, that such Indebtedness shall not include any letters of credit supporting obligations under any Indebtedness having a final maturity of more than one year from the date of incurrence of such Indebtedness;

(i) Indebtedness of a corporation which becomes a Subsidiary or which is merged into the Company or any Subsidiary after the date hereof, provided that (i) such Indebtedness existed at the time such corporation became a Subsidiary or was so merged and was not created in anticipation thereof and (ii) immediately after giving effect to the acquisition of such corporation by the Company no Default or Event of Default shall have occurred and be continuing;

(j) refinancing of existing Indebtedness of the Company or any Restricted Subsidiary or other Indebtedness permitted under this subsection 7.2 (a), (b), (c), (d), (e), (f), (g), (h), (i), (k), (l), (m), (n), (o) and

(p) on terms no less favorable to the Company and not resulting in an Event of Default or Default hereunder, provided, that the provisions of the applicable clause (other than this clause (j)) of this subsection

7.2 under which such Indebtedness is permitted are satisfied after giving effect thereto;

(k) subject to subsection 7.15 hereof, additional Indebtedness of the Company or any of its Subsidiaries in the Homebuilding Segment (other than the Indebtedness described in the paragraphs of this subsection 7.2 other than this paragraph) (i) having restrictive covenants no more restrictive or less favorable to the Company than the terms and provisions hereof, (ii) having a final maturity of greater than one year from the date of incurrence of such Indebtedness and (iii) having no revolving credit or other provisions for short-term repayment and reborrowing, provided, that no more than an aggregate of \$20,000,000 in principal of such Indebtedness matures prior to the Termination Date;

(l) Indebtedness of any entity within the Ryland Financial Division so long as there is no recourse in respect thereof to the Company or any entity in the Homebuilding Segment or so long as any such recourse to the Company or any entity within the Homebuilding Segment is permitted pursuant to subsection 7.4;

(m) Indebtedness of the Company and any of its Subsidiaries incurred to finance the acquisition of fixed or capital assets (whether pursuant to a loan, a Financing Lease or otherwise) in an aggregate amount at any time outstanding not to exceed \$15,000,000; provided, that such Indebtedness shall be secured solely by the assets financed with the proceeds of such Indebtedness;

(n) Indebtedness of the Company or any other entity in the Homebuilding Segment in the form of reimbursement obligations in respect of completion bonds issued for the account of the Company or such other entity in the ordinary course of business of the Homebuilding Segment in respect of construction projects undertaken by it;

(o) Indebtedness of the Company or any other entity in the Homebuilding Segment in the form of reimbursement obligations in respect of letters of credit issued for the account of the Company or such other entity for the benefit of employee benefit or employee insurance programs of the Company or any of its Subsidiaries; and

(p) Indebtedness of the Company or any of its Subsidiaries in the Homebuilding Segment to any Lender, the proceeds of which are used to finance acquisition, development or construction projects, the financing of which projects by such Lender pursuant to this clause (p), in the determination of such Lender, furthers the purposes applicable to it under the Community Reinvestment Act of 1977, as amended, and the regulations issued thereunder, provided that (i) the aggregate principal amount of all such Indebtedness shall not exceed \$15,000,000 at any time outstanding and (ii) such Indebtedness, if secured by assets of the Company or any Subsidiary, shall be secured solely by such assets financed with the proceeds of such Indebtedness.

**7.3 Limitation on Liens.** Neither the Company nor any Restricted Subsidiary will create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except for:

(a) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of the Company or its Subsidiaries, as the case may be, in conformity with GAAP;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith by appropriate proceedings;

(c) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation and deposits securing liability to insurance carriers under insurance or self-insurance arrangements;

(d) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(e) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Company or such Subsidiary;

(f) Liens in existence on the Closing Date securing Indebtedness permitted by subsection 7.2(f), a refinancing thereof pursuant to subsection 7.2(j) or any extensions, renewals or replacements thereof, provided that no such Lien is spread to cover any additional property after the Closing Date and that the amount of Indebtedness secured thereby is not increased;

(g) Liens securing Indebtedness of the Company and its Subsidiaries permitted by subsection 7.2(c) or 7.2(m) incurred to finance the acquisition of real estate inventory or fixed or capital assets or a refinancing thereof pursuant to subsection 7.2(j), provided that (i) such Liens shall be created substantially simultaneously with the acquisition of such real estate inventory or fixed or capital assets (or, in the case of a refinancing pursuant to subsection 7.2(j), such Liens shall be renewals or replacements of Liens created substantially simultaneously with the acquisition of such real estate inventory or fixed or capital assets), (ii) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (iii) if applicable, the percentage of such acquisition financed with proceeds of Indebtedness shall satisfy the requirements set forth in clause (ii) to the last proviso to subsection 7.2(c);

(h) Liens on the property or assets of a corporation which becomes a Subsidiary or which is merged into the Company or a Subsidiary after the date hereof securing Indebtedness permitted by subsection 7.2(i) (or subsection 7.2(j) in respect of such Indebtedness), provided that (i) such Liens existed at the time such corporation became a Subsidiary or was so merged and were not created in anticipation thereof, (ii) any such Lien is not spread to cover any additional property or assets of such corporation after the time such corporation becomes a Subsidiary or is so merged, and (iii) the amount of Indebtedness secured thereby is not increased;

(i) Liens on assets of the Financial Services Segment securing Indebtedness of the Financial Services Segment permitted by subsection 7.2(g) or 7.2(l);

(j) judgment and other similar Liens arising in connection with court proceedings; provided (i) the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being actively contested in good faith by appropriate proceedings and (ii) no Default or Event of Default shall have occurred and be continuing and

(k) Liens securing Indebtedness permitted under subsection 7.2(p), provided that such Liens cover only such assets financed with the proceeds of such Indebtedness.

7.4 Limitation on Guarantee. Neither the Company nor any Restricted Subsidiary will create, incur, assume or suffer to exist any Guarantee Obligation except:

(a) the Company and other entities within the Homebuilding Segment may incur Guarantee Obligations for the benefit of the Ryland Financial Division if the aggregate amount of such Guarantee Obligations, plus the net amount of Investments by the Homebuilding Segment in the Financial Services Segment, does not exceed the sum of (i) \$50,000,000, and (ii) an amount, if a positive number, equal to (A) the aggregate value of all cash dividends received by the Company from the Financial Services Segment, determined in accordance with GAAP, during the period from April 1, 1995 to and including such date less (B) an amount equal to the excess of (1) the aggregate amount of cash dividends paid by the Company on its common stock during such period over (2) 50% of the Consolidated Net Income of the Homebuilding Segment for such period;

(b) subject to subsection 7.15 hereof, the Company may incur Guarantee Obligations other than those described in paragraphs (a) and (e) of this subsection 7.4 in an aggregate amount at any time outstanding not exceeding 25% of Adjusted Consolidated Tangible Net Worth at such time, provided, that Guarantee Obligations of the Company for the benefit of unconsolidated joint ventures permitted under subsection 7.8(e) hereof shall not at any time exceed an aggregate amount equal to 15% of Adjusted Consolidated Tangible Net Worth at such time;

(c) the Company and its Restricted Subsidiaries may incur Guarantee Obligations in respect of Permitted IRB Letters of Credit;

(d) the entities within the Financial Services Segment may incur other Guarantee Obligations;

(e) the Company and other entities within the Homebuilding Segment may incur Guarantee Obligations in respect of letters of credit and completion bonds permitted pursuant to subsection 7.2(h), (n) or (o); and

(f) Subsidiaries of the Company may incur Guarantee Obligations in respect of the Specified Debt, provided that simultaneously with the execution and delivery of any guaranty in respect thereof by any Subsidiary, such Subsidiary shall execute and deliver a substantially identical guaranty in respect of all obligations of the Company under this Agreement and the other Loan Documents.

7.5 Limitations of Fundamental. Neither the Company nor any Restricted Subsidiary will enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of, all or substantially all of its property, business or assets except:

(a) any Restricted Subsidiary of the Company may be merged or consolidated with or into the Company provided that the Company shall be the continuing or surviving corporation, or with or into any one or more wholly owned Restricted Subsidiaries of the Company provided that the wholly owned Restricted Subsidiary or Subsidiaries shall be the continuing or surviving corporation;

(b) any wholly owned Restricted Subsidiary may sell, lease, transfer or otherwise dispose of any or all of its assets (upon voluntary liquidation or otherwise) to the Company or any other wholly owned Restricted Subsidiary of the Company;

(c) the Company or any Restricted Subsidiary may sell, lease, transfer or otherwise dispose of any or all of its assets to the Company or any Restricted Subsidiary of the Company, whether existing on or created after the date of this Agreement; provided, that if the transferor is the Company or a Guarantor, the transferee shall be the Company or a Guarantor; and

(d) sales, conveyances, leases, assignments, transfers or other dispositions of property, business or assets permitted under subsection 7.6.

7.6 Limitation on Sale of. Neither the Company nor any Restricted Subsidiary will convey, sell, lease, assign, transfer or otherwise dispose of

any of its property, business or assets (including, without limitation, stock of Subsidiaries, receivables and leasehold interests and, with respect to the Financial Services Segment, its loan servicing portfolios), whether now owned or hereafter acquired, except:

- (a) obsolete or worn out property disposed of in the ordinary course of business;
- (b) the sale of inventory in the ordinary course of business;
- (c) the sale or discount of accounts receivable arising in the ordinary course of business in connection with the compromise or collection thereof;
- (d) the sale or discount without recourse of mortgage loan receivables;
- (e) the sale by the Financial Services Segment in the ordinary course of its business of its rights under loan servicing portfolios owned on the Closing Date;
- (f) as permitted by subsection 7.5 (other than pursuant to subsection 7.5(d));
- (g) the sale of mortgages and mortgage-backed or other securities by the Financial Services Segment in the ordinary course of business;
- (h) the sale, transfer or other disposition of any stock, property or assets of the Limited-Purpose Subsidiaries;
- (i) the sale, transfer or other disposition of Cash Equivalents; and
- (j) any other sale or disposition of property or assets (including stock or assets of Subsidiaries), provided that the aggregate book value of all assets so sold or disposed of in any period of twelve consecutive months shall not exceed 10% of the book value of the consolidated total assets of the Company (excluding the assets of the Limited Purpose Subsidiaries) as at the beginning of such twelve-month period.

**7.7 Limitation on Dividends.** The Company will not declare or pay any dividend (other than dividends payable solely in common stock of the Company) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of stock of the Company or any warrants or options to purchase any such stock, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of the Company or any Subsidiary (such declarations, payments, setting apart, purchases, redemptions, defeasances, retirements, acquisitions and distributions being herein called "Restricted Payments"), except that (i) the Company may make any Restricted Payment so long as, after giving effect thereto, no Default or Event of Default will be in existence and (ii) the Company may in any event pay dividends in respect of the Company's Series A ESOP Convertible Preferred Stock for any period in any amount not exceeding the amount of principal and interest payable to the Company for such period by the recipient of such dividends.

**7.8 Limitation on Investments.** Neither the Company nor any Restricted Subsidiary will make any Investments, except:

- (a) extensions of trade credit and other payables in the ordinary course of business;
- (b) Investments in Cash Equivalents;
- (c) acquisitions by the Company or any of its Restricted Subsidiaries within the Homebuilding Segment of assets constituting a business unit or the capital stock of any Person; provided, that such business unit or Person is engaged in the same general type of business as conducted by the Company or one of its Restricted Subsidiaries; provided, further, that the aggregate amount of consideration paid by the Company and its Restricted Subsidiaries for all such acquisitions of assets or capital stock (including as a part of such consideration any Indebtedness assumed as a part thereof) does not exceed (i) in any fiscal year, an amount equal to 25% of Adjusted Consolidated Tangible Net Worth as at the end of the immediately prior fiscal year of the Company or (ii) since the Closing Date, an aggregate amount equal to \$100,000,000; and provided, finally, that after giving effect thereto, no Default or Event of Default shall be in existence;
- (d) acquisitions by the Company or any of its Restricted Subsidiaries other than acquisitions permitted under subsection 7.8(c) or (h) of, or investments in, assets constituting a business unit or the capital stock of any Person; provided, that the aggregate amount of consideration paid by the Company and its Restricted Subsidiaries for all such acquisitions of assets or capital stock (including as a part of such consideration any Indebtedness assumed as a part thereof) does not exceed an aggregate amount equal to \$25,000,000; and provided, further, that after giving effect thereto, no Default or Event of Default shall be in existence;
- (e) (i) Investments by the Company or any of its Subsidiaries within the Homebuilding Segment in joint ventures, other than Consolidated Joint Ventures, in an aggregate amount for all such Investments not exceeding at any date the sum of (A) \$41,500,000, (B) an amount equal to the aggregate value of all cash distributions attributable to such Investments received by the Company from all joint ventures in which the

Company or any of its Subsidiaries within the Homebuilding Segment is a participant, determined in accordance with GAAP, during the period from April 1, 1995 to and including such date and (C) 15% of cumulative Adjusted Consolidated Net Income of the Company for the period from and including April 1, 1995 to and including the last day of the fiscal quarter of the Company ending immediately prior to such date;

(f) Investments by the Company in any Subsidiary within the Homebuilding Segment or in any Consolidated Joint Venture or by any Subsidiary within the Homebuilding Segment in the Company, in any other Subsidiary within the Homebuilding Segment or in any Consolidated Joint Venture;

(g) Investments by the Company or any other entity within the Homebuilding Segment in the Financial Services Segment if the aggregate amount of such Investments outstanding on any date, plus the aggregate amount of all Guarantee Obligations incurred by the Homebuilding Segment for the benefit of the Ryland Financial Division outstanding on such date, does not at any time exceed the sum of (i) \$50,000,000 and (ii) an amount, if a positive number, equal to (A) the aggregate value of all cash dividends received by the Company from the Financial Services Segment, determined in accordance with GAAP, during the period from April 1, 1995 to and including such date less (B) an amount equal to the excess of (1) the aggregate amount of cash dividends paid by the Company on its common stock during such period over (2) 50% of the Consolidated Net Income of the Homebuilding Segment for such period;

(h) Investments by entities within the Financial Services Segment in any Person and acquisitions of assets constituting a business unit or the capital stock of any Person by entities within the Financial Services Segment;

(i) loans and advances to employees of the Company or its Subsidiaries for travel, entertainment and relocation expenses in the ordinary course of business; and

(j) other loans and advances to employees of the Company in connection with incentive or stock purchase plans or arrangements in an aggregate amount not to exceed \$3,000,000 at any time outstanding.

7.9 Limitation on Optional Payments and Modification of Debt. (a) Neither the Company nor any Restricted Subsidiary will (i) make any optional payment or prepayment on or redemption of any Subordinated Debt or (ii) amend, modify or change, or consent or agree to any amendment, modification or change to any of the terms (including, without limitation, the subordination terms) of any Subordinated Debt (other than any such amendment, modification or change which would extend the maturity or reduce the amount of any payment of principal thereof or which would reduce the rate or extend the date for payment of interest thereon or would otherwise make the terms of the Subordinated Debt more favorable to the Company and no less favorable to the holders of the senior debt to which such Subordinated Debt is subordinated); provided that so long as no Default is in existence or would result therefrom, the Company may prepay Subordinated Debt to the extent that the aggregate face amount of the Subordinated Debt so prepaid after the Closing Date does not exceed \$25,000,000.

(b) No Restricted Subsidiary within the Financial Services Segment will amend, modify or change, or consent or agree to any amendment, modification or change to any of the terms of any debt instrument to which it is a party the effect of which would be to (i) impose restrictions on the payment of dividends, directly or indirectly, to or for the benefit of the Company which would limit such dividends to an aggregate amount for all Restricted Subsidiaries in the Financial Services Segment in any fiscal year which is less than the Combined Net Income of the Financial Services Segment for the current fiscal year or

(ii) impose restrictions on the making by such Restricted Subsidiaries of Advances, directly or indirectly, to or for the benefit of the Company which would limit such Advances to an aggregate amount for all Restricted Subsidiaries in the Financial Services Segment which is less than \$25,000,000 at any time outstanding, provided, that provisions which by their terms would impose such restrictions only in the event of a default under such debt instrument and solely as a result of such default shall not be deemed to be included in the restrictions described in the foregoing clauses (i) or (ii).

7.10 Transactions with Affiliates. Neither the Company nor any Restricted Subsidiary will enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of property or the rendering of any service, with any Affiliate unless such transaction is otherwise permitted under this Agreement, or is upon fair and reasonable terms no less favorable to the Company or such Subsidiary, as the case may be, than it would obtain in a comparable arm's length transaction with a Person not an Affiliate.

7.11 Limitation on Inventory. The Company will not permit (a) Unsold Land Held at the end of any month to exceed 20% of Adjusted Consolidated Tangible Net Worth of the Company at such date, or (b) Unsold Land Under Development to exceed an amount equal to 150% of Adjusted Consolidated Tangible Net Worth or

(c) the ratio of (i) the sum of (A) the average Unsold Land Held on the last day of each month during the six-month period ending on such date plus (B) the average Unsold Land Under Development on the last day of each month during the six-month period ending on such date plus (C) the average Unsold Housing Inventory on the last day of each month during the six-month period ending on such date to (ii) the average Total Housing Inventory on the last day of each month during the six-month period ending on such date to exceed .75 to 1. Notwithstanding any of the foregoing to the contrary, in the event that Fixed Charge Coverage is less than 1.20 for any two consecutive fiscal quarters of the Company, then for each fiscal quarter of the Company subsequent to the second such consecutive fiscal quarter, the aggregate amount of purchases of land which, immediately after such purchase, would be included under the definition herein of "Unsold Land Held" during such subsequent quarter shall be limited to an amount equal to 50% of the average quarterly amount attributable to the purchase cost of land which would be included in

"Cost of Goods Sold" on a combined balance sheet of the Homebuilding Segment determined in accordance with GAAP for the four fiscal quarters of the Company immediately prior to such subsequent quarter, effective until the fiscal quarter of the Company immediately following the first subsequent fiscal quarter of the Company for which Fixed Charge Coverage is 1.20 or greater.

7.12 Fiscal Year. The Company will not permit the fiscal year of the Company to end on a day other than December 31.

7.13 Compliance with ERISA. Neither the Company nor any Restricted Subsidiary will (a) terminate any Plan so as to result in any material liability to PBGC, (b) engage in any "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA) involving any Plan which would result in a material liability for an excise tax or civil penalty in connection therewith, (c) incur or suffer to exist any material "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, involving any Plan, or (d) allow or suffer to exist any event or condition which presents a material risk of incurring a material liability to PBGC by reason of termination of any such Plan.

7.14 Preferred Stock. The Company will not permit any Restricted Subsidiary within the Homebuilding Segment to issue preferred stock to any Person other than the Company.

7.15 Limitation on Indebtedness of New Subsidiaries. Notwithstanding anything to the contrary in subsection 7.2 or subsection 7.4 hereof, the Company shall not permit any Subsidiary of the Company in the Homebuilding Segment created or acquired after the Closing Date to create, incur, assume or suffer to exist any Indebtedness which otherwise would be permitted under subsection 7.2(k) or subsection 7.4(b) hereof.

## SECTION 8. EVENTS OF DEFAULT

If any of the following events shall occur and be continuing:

- (a) The Company shall fail to pay any principal of any Note or any Reimbursement Obligation when due in accordance with the terms thereof or hereof; or the Company shall fail to pay any interest on any Note, or any other amount payable hereunder, within 2 days after any such interest or other amount becomes due in accordance with the terms thereof or hereof; or
- (b) Any representation or warranty made or deemed made by the Company or any Guarantor herein or in any other Loan Document or which is contained in any certificate or document furnished at any time under or in connection with this Agreement shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or
- (c) The Company shall default in the observance or performance of any agreement contained in Section 7 (other than subsection 7.11); or
- (d) The Company shall default in the observance or performance of any other agreement contained in this Agreement (other than as provided in paragraphs (a) through (c) of this Section 8), and such default shall continue unremedied (i) for a period of 90 days, in the case of subsection 7.11, or (ii) for a period of 30 days, in the case of any other such provision; or
- (e) The Company or any of its Restricted Subsidiaries shall (i) default in any payment of principal of or interest on any Indebtedness having a principal balance of \$10,000,000 or more (other than the Notes) or in the payment of any Guarantee Obligation of \$10,000,000 or more, beyond the period of grace (not to exceed 15 days), if any, provided in the instrument or agreement under which such Indebtedness or Guarantee Obligation was created; or (ii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or Guarantee Obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Guarantee Obligation (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or such Guarantee Obligation to become payable; provided that the failure by Ryland Mortgage Company or any of its Subsidiaries to pay any such Indebtedness or Guarantee Obligation in the form of reimbursement obligations in respect of letters of credit issued for the account of Ryland Mortgage Company or any of its Subsidiaries backing obligations under master servicing agreements shall not constitute an Event of Default under this paragraph (e) until the date which is 90 days after the date on which such reimbursement obligations become due and payable; or
- (f) (i) The Company or any of its Restricted Subsidiaries shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Company or any of its Restricted Subsidiaries shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Company or any of its Restricted Subsidiaries any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against the Company or any of its Restricted Subsidiaries any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of an order

for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) the Company or any of its Restricted Subsidiaries shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Company or any of its Restricted Subsidiaries shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(g) (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan,

(ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, 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 Company or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA,

(v) the Company or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Effect; or

(h) One or more judgments or decrees shall be entered against the Company or any of its Restricted Subsidiaries involving in the aggregate a liability (not paid or fully covered by insurance) of \$10,000,000 or more and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof; or

(i) If a Designated Event shall occur;

(j) The Company shall cease to own, directly or indirectly and free and clear of any Lien, 100% of the issued and outstanding capital stock of M.J. Brock & Sons, Inc. and Ryland Mortgage Company; or

(k) The Guaranty shall cease, for any reason, to be in full force and effect, or the Company or any Guarantor shall so assert in writing;

then, and in any such event, (A) if such event is an Event of Default specified in clause (i) or (ii) of paragraph (f) above with respect to the Company, automatically the Commitments shall immediately terminate and the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the Notes (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i) with the consent of the Required Lenders, the Documentation Agent may, or upon the request of the Required Lenders, the Documentation Agent shall, by notice to the Company declare the Commitments to be terminated forthwith, whereupon the Commitments shall immediately terminate; and (ii) with the consent of the Required Lenders, the Documentation Agent may, or upon the request of the Required Lenders, the Documentation Agent shall, by notice of default to the Company, declare the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the Notes (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) to be due and payable forthwith, whereupon the same shall immediately become due and payable.

With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to the preceding paragraph, the Company shall at such time deposit in a cash collateral account opened by the Documentation Agent an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Amounts held in such cash collateral account shall be applied by the Documentation Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Company hereunder and under the Notes. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Company hereunder and under the Notes shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Company.

Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived.

## SECTION 9. THE AGENTS

9.1 Appointment. (a) Each Lender hereby irrevocably designates and appoints Chase as the Documentation Agent of such Lender under this Agreement and the other Loan Documents, and each Lender irrevocably authorizes Chase, as the Documentation Agent for such Lender, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Documentation Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Documentation Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any

Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Documentation Agent

(b) Each Lender hereby irrevocably designates and appoints NationsBank as the Administrative Agent of such Lender under this Agreement and the other Loan Documents, and each Lender irrevocably authorizes NationsBank, as the Administrative Agent for such Lender, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent.

9.2 Delegation of Duties. Any Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. No Agent shall be responsible for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

9.3 Exculpatory Provisions. Neither any Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except for its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Company or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by any Agent under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or the Notes or any other Loan Document or for any failure of the Company to perform its obligations hereunder or thereunder. No Agent shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Company.

9.4 Reliance by Agents. Any Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, teletype, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Company), independent accountants and other experts selected by such Agent. Each Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with such Agent. Any Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Each Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the Notes and the other Loan Documents in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Notes.

9.5 Notice of Default. No Agent shall be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless such Agent has received notice from a Lender or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Documentation Agent receives such a notice, the Documentation Agent shall give notice thereof to the Lenders. The Documentation Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided that unless and until the Documentation Agent shall have received such directions, the Documentation Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders.

9.6 Non-Reliance on Agents and Other. Each Lender expressly acknowledges that neither any Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Company, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender represents to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Company and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon any Agent 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 analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Company. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Agents hereunder, no Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Company which may come into the possession of such Agent or any of its officers, directors, employees,

agents, attorneys-in-fact or Affiliates.

9.7 Indemnification. The Lenders agree to indemnify each Agent in its capacity as such (to the extent not reimbursed by the Company and without limiting the obligation of the Company to do so), ratably according to their respective Commitment Percentages in effect on the date on which indemnification is sought under this subsection (or, if indemnification is sought after the date upon which the Commitments shall have terminated and the Loans shall have been paid in full, ratably in accordance with their Commitment Percentages immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes) be imposed on, incurred by or asserted against any Agent in any way relating to or arising out of this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by such Agent under or in connection with any of the foregoing; provided that no Lender shall be liable to any Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from such Agent's gross negligence or willful misconduct. The agreements in this subsection shall survive the payment of the Notes and all other amounts payable hereunder. Each Agent shall have the right to deduct any amount owed to it by any Lender under this subsection from any payment made by it to such Lender hereunder.

9.8 Agents in Individual. Any Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Company as though such Agent were not an Agent hereunder and under the other Loan Documents. With respect to its Loans made or renewed by it and any Note issued to it, each Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include each Agent in its individual capacity.

9.9 Successor Administrative. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Lenders. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall be approved by the Company, whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Administrative Agent's resignation as Administrative Agent, the provisions of this subsection shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

9.10 Successor Documentation Agent. The Documentation Agent may resign as Documentation Agent upon 30 days' notice to the Lenders. If the Documentation Agent shall resign as Documentation Agent under this Agreement and the other Loan Documents, then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall be approved by the Company, whereupon such successor agent shall succeed to the rights, powers and duties of the Documentation Agent, and the term "Documentation Agent" shall mean such successor agent effective upon such appointment and approval, and the former Documentation Agent's rights, powers and duties as Documentation Agent shall be terminated, without any other or further act or deed on the part of such former Documentation Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Documentation Agent's resignation as Documentation Agent, the provisions of this subsection shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Documentation Agent under this Agreement and the other Loan Documents.

9.11 The Co-Agents and the Syndication Agent. Neither the Co-Agents nor the Syndication Agent, in such capacities, shall have any duties, responsibilities, obligations, liabilities or functions under this Agreement or the other Loan Documents.

## SECTION 10. MISCELLANEOUS

10.1 Amendments and Waivers. Neither this Agreement, any Note, any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. With the written consent of the Required Lenders, the Documentation Agent and the Company may, from time to time, enter into written amendments, supplements or modifications hereto and to the Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or the Notes or the other Loan Documents or changing in any manner the rights of the Lenders or of the Company hereunder or thereunder or waiving, on such terms and conditions as the Documentation Agent may specify in such instrument, any of the requirements of this Agreement or the Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (a) reduce the amount or extend the maturity of any Note or any installment thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any fee payable to any Lender hereunder, in each case without the consent of the Lender affected thereby, (b) change the amount of any Lender's Revolving Credit Commitment without the consent of the Lender affected thereby and each Issuing Bank, (c) change the amount of any Lender's Short-Term Funding Line Commitment without the consent of the Lender affected thereby, (d) amend, modify or waive any provision of this subsection or reduce the percentage specified in the definition of Required Lenders, or consent to the assignment or transfer by the Company of any of its rights and obligations under this Agreement and the other Loan Documents, in each case without the written consent of all the Lenders, (e) amend, modify or waive any provision of

Section 9 without the written consent of the then Administrative Agent, Documentation Agent and Co-Agents, (f) amend, modify or waive any provision of subsection 2.4 without the written consent of the Administrative Agent, (g) amend, modify or waive any provision of Section 3 without the written consent of each Issuing Bank affected thereby or (h) release the obligation of any Guarantor under the Guaranty without the written consent of all the Lenders. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Company, the Lenders, the Agents and all future holders of the Notes. In the case of any waiver, the Company, the Lenders and the Agents shall be restored to their former position and rights hereunder and under the outstanding Notes and any other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

10.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy, telegraph or telex), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or 5 days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, or, in the case of telegraphic notice, when delivered to the telegraph company, or, in the case of telex notice, when sent, answerback received, addressed as follows in the case of the Company, the Administrative Agent and the Documentation Agent, and as set forth in Schedule 1.1 in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes:

The Company:	The Ryland Group, Inc. 11000 Broken Land Parkway Columbia, Maryland
21044-3562	Attention: Chief Financial Officer Telecopy: 410-715-7909
The Documentation Agent:	The Chase Manhattan Bank 270 Park Avenue New York, New York 10017 Attention: Kevin O'Neill Telecopy: 212-622-3395
The Administrative Agent:	NationsBank, N.A. 6610 Rockledge Drive Bethesda, MD 20817-1876 Attention: Elizabeth S. Duff Telecopy: 301-571-0719

provided that any notice, request or demand to or upon the Administrative Agent or the Lenders pursuant to subsection 2.3A, 2.3B, 2.4, 2.6, 2.7 or 2.8 shall not be effective until received.

10.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Documentation Agent or any Lender, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.4 Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Notes.

10.5 Payment of Expenses and Taxes. The Company agrees (a) to pay or reimburse the Documentation Agent for all its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement and the Notes and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Documentation Agent, (b) to pay or reimburse each Lender and each Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the Notes, the other Loan Documents and any such other documents, including, without limitation, reasonable fees and disbursements of counsel to such Agent and to the several Lenders, and (c) to pay, indemnify, and hold each Lender and each Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement

or modification of, or any waiver or consent under or in respect of, this Agreement, the Notes, the other Loan Documents and any such other documents, and (d) to pay, indemnify, and hold each Lender and each Agent harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement, the Notes, the other Loan Documents or the use of the proceeds of the Loans (all the foregoing, collectively, the "indemnified liabilities"), provided, that the Company shall have no obligation hereunder to any Agent or any Lender with respect to indemnified liabilities arising from (i) the gross negligence or willful misconduct of such Agent or any such Lender, (ii) legal proceedings commenced against any Agent or any such Lender by any security holder or creditor thereof arising out of and based upon rights afforded any such security holder or creditor in its capacity as such, or (iii) legal proceedings commenced against any Agent or any such Lender by any other Lender or by any Transferee (as defined in subsection 10.6). Any person which may seek indemnification under this subsection 10.5 will promptly notify the Company of any claim, litigation, investigation or proceeding of which it shall receive notice which may give rise to any liability subject to indemnification under this subsection 10.5 and shall permit the Company to participate, at the Company's expense, in the defense of such claim, litigation, investigation or proceeding unless such person seeking indemnification shall have determined, in its sole discretion, that such participation by the Company would be disadvantageous to such person; provided, however, that the failure so to notify the Company will not relieve it of its indemnification obligations under this subsection 10.5, except to the extent of any damages directly suffered by the Company as a result of such failure to notify. The agreements in this subsection shall survive repayment of the Notes and all other amounts payable hereunder.

10.6 Successors and Assigns; Participations and Assignments. (a) This Agreement shall be binding upon and inure to the benefit of the Company, the Lenders, each Agent, all future holders of the Notes and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Lender.

(b) Any Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more banks or other financial institutions ("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 hereunder and under the other Loan Documents. In the event of any such sale by a Lender of a participating interest to a Participant, such Lender's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any such Note for all purposes under this Agreement and the other Loan Documents, such Lender shall retain the sole right to enforce against the Company the Obligations of the Company relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or changing the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans), and the Company and the Agents shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Loan Documents. The Company agrees that if amounts outstanding under this Agreement and the Notes are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement and any Note to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement or any Note, provided that, in purchasing such participating interest, such Participant shall be deemed to have agreed to share with the Lenders the proceeds thereof as provided in subsection 10.7(a) as fully as if it were a Lender hereunder. The Company also agrees that each Participant shall be entitled to the benefits of subsections 2.16, 2.17, 2.18 with respect to its participation in the Commitments and the Loans outstanding from time to time as if it were a Lender; provided that, in the case of subsection 2.18, such Participant shall have complied with the requirements of said subsection and provided, further, that no Participant shall be entitled to receive any greater amount pursuant to any such subsection than the transferor Lender would have been entitled to receive in respect of the amount of the participation transferred by such transferor Lender to such Participant had no such transfer occurred.

(c) Any Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time and from time to time assign to any Lender or any Affiliate thereof or, with the consent of the Company, the Documentation Agent and the Administrative Agent, which consents shall not be unreasonably withheld, to an additional bank or financial institution ("an Assignee") all or any part of its rights and obligations under this Agreement and the Notes pursuant to an Assignment and Acceptance, substantially in the form of Exhibit F, executed by such Assignee, such assigning Lender (and, in the case of an Assignee that is not then a Lender or an Affiliate thereof, by the Documentation Agent, the Administrative Agent and the Company) and delivered to the Documentation Agent for its acceptance and recording in the Register. Upon such execution, delivery, acceptance and recording, from and after the effective date determined pursuant to such Assignment and Acceptance, (x) the Assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereunder with a Commitment as set forth therein, (y) the assigning Lender thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such assigning Lender shall cease to be a party hereto) and (z) after giving effect to each such assignment, each of the assigning Lender (unless such assigning Lender shall have assigned its entire Commitment pursuant to such assignment) and each assignee shall have a Commitment in an amount not less than \$5,000,000.

(d) The Documentation Agent shall maintain at its address referred to in subsection 10.2 a copy of each Assignment and Acceptance delivered to it and a register (the "Register") for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Loans owing to, each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the

Company, the Documentation Agent and the Lenders may treat each Person whose name is recorded in the Register as the owner of the Loan recorded therein for all purposes of this Agreement. The Register shall be available for inspection by the Company or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an Assignee (and, in the case of an Assignee that is not then a Lender or an Affiliate thereof, by the Company and the Documentation Agent) together with payment to the Documentation Agent of a registration and processing fee of \$2,500, the Documentation Agent shall (i) promptly accept such Assignment and Acceptance and (ii) on the effective date determined pursuant thereto record the information contained therein in the Register and give notice of such acceptance and recordation to the Lenders and the Company. On or prior to such effective date, the Company, at its own expense, shall execute and deliver to the Documentation Agent (in exchange for the Revolving Credit Note of the assigning Lender, which such Note shall be returned to the Company marked "Cancelled") a new Revolving Credit Note to the order of such Assignee in an amount equal to the Revolving Credit Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Lender has retained a Revolving Credit Commitment hereunder, a new Revolving Credit Note to the order of the assigning Lender in an amount equal to the Revolving Credit Commitment retained by it hereunder. Such new Notes shall be dated the Closing Date and shall otherwise be in the form of the Note replaced thereby.

(f) The Company authorizes each Lender to disclose to any Participant or Assignee (each, a "Transferee") and any prospective Transferee any and all financial information in such Lender's possession concerning the Company and its Affiliates which has been delivered to such Lender by or on behalf of the Company pursuant to this Agreement or which has been delivered to such Lender by or on behalf of the Company in connection with such Lender's credit evaluation of the Company and its Affiliates prior to becoming a party to this Agreement, provided that, prior to any such disclosure of nonpublic information, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree to be bound by the provisions contained in Section 10.14 hereof.

(g) Nothing herein shall prohibit any Lender from pledging or assigning any Note to any Federal Reserve Bank in accordance with applicable law.

10.7 Adjustments; Set-off. (a) If any Lender (a "Benefitted Lender") shall at any time receive any payment of all or part of its Loans or Reimbursement Obligations owing to it, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 8(f), or otherwise), other than in respect of Short-Term Funding Loans pursuant to the provisions of this Agreement, in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of such other Lender's Loans or the Reimbursements Obligations owing to it, or interest thereon, such Benefitted Lender shall purchase for cash from the other Lenders such portion of each such other Lender's Loan or the Reimbursement Obligations owing to it, or shall provide such other Lenders with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such Benefitted Lender to share the excess payment or benefits of such collateral or proceeds ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Company agrees that each Lender so purchasing a portion of another Lender's Loan may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

(b) If an Event of Default shall occur and be continuing, in addition to any rights and remedies of the Lenders provided by law, each Lender shall have the right, without prior notice to the Company, any such notice being expressly waived by the Company to the extent permitted by applicable law, to set-off and appropriate and apply against any amount becoming due and payable by the Company hereunder or under the Notes (whether at the stated maturity, by acceleration or otherwise) any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender to or for the credit or the account of the Company. Each Lender agrees promptly to notify the Company and the Documentation Agent after any such set-off and application made by such Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application.

10.8 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Company and the Documentation Agent.

10.9 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.10 Integration. This Agreement represents the agreement of the Company, the Agents and the Lenders with respect to the subject matter hereof, and there are no promises or representations by any Agent or any Lender relative to subject matter hereof not reflected herein.

10.11 GOVERNING LAW. THIS AGREEMENT AND THE NOTES AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN

ACCORDANCE WITH, THE INTERNAL LAW OF THE STATE OF NEW YORK.

10.12 Submission To Jurisdiction. The Company hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgement in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Company at its address set forth in subsection 9.2 or at such other address of which the Documentation Agent shall have been notified pursuant thereto; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

**10.13 WAIVER OF JURY TRIAL. THE COMPANY, THE AGENTS AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR THE NOTES OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.**

10.14 Confidentiality. Each Lender agrees to take normal and reasonable precautions to maintain the confidentiality of non-public information provided to it by the Company or any Subsidiary in connection with this Agreement or any other Loan Document; provided, however, that any Lender may disclose such information (a) at the request of any regulatory authority or in connection with an examination of such Lender by any such authority, (b) pursuant to subpoena or other court process, (c) when required to do so in accordance with the provisions of any applicable law, (d) at the direction of any other Governmental Authority, (e) to such Lender's independent auditors and other professional advisors, (f) to any Transferee or potential Transferee or (g) to the extent such information is public when received by such Lender or becomes public thereafter due to the act or omission of any person other than such Lender or its advisors, agents, employees or representatives; provided that such Transferee agrees to comply with the provisions of this subsection 10.14.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered in New York, New York by their proper and duly authorized officers as of the day and year first above written.

**THE RYLAND GROUP, INC.**

By:  
Title:

**THE CHASE MANHATTAN BANK, as Syndication Agent, as Documentation Agent, as a Co-Agent and as a Lender**

By:  
Title:

**NATIONSBANK, N.A., as Administrative Agent, as a Co-Agent and as a Lender**

By:  
Title:

**BANK OF AMERICA ILLINOIS, as a Co-Agent and as a Lender**

By:  
Title:

**THE INDUSTRIAL BANK OF JAPAN TRUST COMPANY, as a Co-Agent and as a Lender**

By:  
Title:

**BANK ONE, ARIZONA, NA.**

By:  
Title:

**THE FIRST NATIONAL BANK OF MARYLAND**

By:  
Title:

**THE FIFTH THIRD BANK**

By:  
Title:

**CREDIT LYONNAIS NEW YORK BRANCH**

By:  
Title:

**THE FIRST NATIONAL BANK OF CHICAGO**

By:  
Title:

**FIRST UNION NATIONAL BANK OF NORTH CAROLINA**

By:  
Title:

**GUARANTY FEDERAL BANK, F.S.B.**

By:  
Title:

**PNC BANK, NATIONAL ASSOCIATION**

By:  
Title:

**SUNTRUST BANK, ATLANTA**

By:  
Title:

**SUNTRUST BANK, ATLANTA**

By:  
Title:

**HARRIS TRUST AND SAVINGS BANK**

By:  
Title:

**FIRST BANK NATIONAL ASSOCIATION**

By:

Title:

Dated as of

**GUARANTOR**

By:

**GUARANTOR**

By:

**ANNEX I**

**RYLAND SUBSIDIARY GUARANTORS**

**M.J. BROCK & SONS, INC. (DE)**

**RYLAND TRADING, LTD. (MD)**

**CONVEST MANAGEMENT CORPORATION (DE)**

**RYLAND HOMES OF TEXAS, INC. (TX)**

**RYLAND HOMES INVESTMENT - TEXAS, INC. (MD)**

**BROCK VENTURES, INC. (CA)**

**RYLAND VENTURES, INC. (MD)**

**RYLAND HOMES OF ARIZONA, INC. (AZ)**

**R.H. BUILDERS OF INDIANA, INC. (IN)**

**R.H. INVESTMENTS OF INDIANA, INC. (IN)**

**Schedule 1.1**

**LENDERS, ADDRESSES, AND COMMITMENTS**

FUNDING BANK -----	REVOLVING CREDIT COMMITMENTS -----	SHORT-TERM COMMITMENTS
The Chase Manhattan Bank Kevin O'Neill 380 Madison Avenue New York, New York Phone (212) 622-3213 Fax (212) 622-3395	\$35.0MM	\$5.0MM
NationsBank, N.A. Elizabeth S. Duff 6610 Rockledge Drive Bethesda, Maryland Phone (301) 571-0705 Fax (301) 571-0719	\$35.0MM	\$5.0MM
Bank of America Illinois Ms. Megan McBride 231 South LaSalle St. 74 Mail Code #3017 Chicago, Illinois 60697 Phone (312) 828-6274 Fax (312) 974-4970	\$35.0MM	\$5.0MM
The Industrial Bank of Japan Trust Company Mr. J. Kenneth Beigen 1251 Avenue of the Americas 32ND Floor New York, New York 10020-1104 Phone (212) 282-3460 Fax (212) 282-4488	\$35.0MM	\$5.0MM
PNC Bank, National Association Mr. Douglas G. Paul Two Tower Center, 18TH Floor East Brunswick, New Jersey 08816 Phone (908) 220-3566 Fax (908) 220-3755	\$25.0MM	
Bank One, Arizona, NA. Ms. Rhonda R. Williams 241 North Central, 19TH Floor Phoenix, Arizona 85004 Phone (602) 221-1783 Fax (602) 221-4435	\$22.5MM	
The First National Bank of Chicago Ms. Patricia Leung 1 First National Plaza Mail Suite 0315 Chicago, Illinois 60670-0151 Phone (312) 732-8619 Fax (312) 732-1117	\$22.5MM	
The First National Bank of Maryland Ms. Kellie Matthews 25 S. Charles Street, 18TH Floor #101-744 Baltimore, Maryland 21201 Phone (410) 244-4864 Fax (410) 244-4294	\$15.0MM	
The Fifth Third Bank Mr. Kevin C.M. Jones 38 Fountain Square Pla Mail Drop 109054 Cincinnati, Ohio 45226 Phone (513) 744-8662 Fax (513) 570-5226	\$12.5MM	

**EXHIBIT A**

**FORM OF REVOLVING CREDIT NOTE**

\$  
York

-----  
1997

New York, New

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FOR VALUE RECEIVED, THE RYLAND GROUP, INC., a Maryland corporation (the "Company"), promises to pay to the order of (the "Lender") on the Termination Date, at the office of NationsBank, N.A., 6610 Rockledge Drive, Bethesda Maryland, 10817-0719, in lawful money of the United States of America and in immediately available funds, the principal amount of the lesser of (a) DOLLARS (\$) and (b) the aggregate unpaid principal amount of all Revolving Credit Loans made by the Lender to the Company. The Company further agrees to pay interest at said office, in like money, from the date hereof on the unpaid principal amount hereof at the rates and on the dates specified in subsection 2.10 of the Second Amended and Restated Credit Agreement, dated as of , 1997, among the Company, the Lender, the several other banks and other financial institutions from time to time parties thereto, the Co-Agents named therein, The Chase Manhattan Bank, as Syndication Agent and Documentation Agent, and NationsBank, N.A., as Administrative Agent (as the same may from time to time be amended, modified or supplemented, the "Credit Agreement"; terms defined therein being used herein as so defined).

This Note is one of the Revolving Credit Notes referred to in the Credit Agreement, is entitled to the benefits thereof and is subject to optional and mandatory prepayment in whole or in part as provided therein.

The holder of this Note is authorized to record the date, amount and Type of each Revolving Credit Loan made by the Lender to the Company pursuant to subsection 2.1 of the Credit Agreement, each continuation thereof, each conversion of all or a portion thereof to another Type, the date and amount of each payment or prepayment of principal thereof, and the length of each Interest Period with respect thereto, on the schedule annexed hereto and made a part hereof, and any such recordation or any such information recorded on such Lender's internal books and records and then attached to this Note in the form of the schedule attached hereto shall constitute prima facie evidence of the accuracy of the information so recorded, provided that the failure of the Lender to make such recordation (or any error in such recordation) shall not affect the obligations of the Company hereunder or under the Credit Agreement.

Payment and performance of this Note is guaranteed as set forth in the Guarantee.

Upon the occurrence of any one or more of the Events of Default specified in the Credit Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided therein.

The Company hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

**THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

**THE RYLAND GROUP, INC.**

By

Title:

**SCHEDULE A  
To Note**

**LOANS, CONVERSIONS AND PAYMENTS  
WITH RESPECT TO ABR LOANS**







of America and in immediately available funds, the principal amount of the lesser of (a) DOLLARS (\$) and (b) the aggregate unpaid principal amount of each Short-term Funding Loan made by the Lender to the Company, in each case on the date which is five Business Days after the date of such Short-term Funding Loan, or, if earlier, on the Termination Date. The Company further agrees to pay interest at said office, in like money, from the date hereof on the unpaid principal amount hereof at the rates and on the dates specified in subsection 2.10 of the Second Amended and Restated Credit Agreement, dated as of , 1997, among the Company, the Lender, the several other banks and other financial institutions from time to time parties thereto, the Co- Agents named therein, The Chase Manhattan Bank, as Syndication Agent and Documentation Agent, and NationsBank, N.A., as Administrative Agent (as the same may from time to time be amended, modified or supplemented, the "Credit Agreement"; terms defined therein being used herein as so defined).

This Note is one of the Short-term Funding Line Notes referred to in the Credit Agreement, is entitled to the benefits thereof and is subject to optional and mandatory prepayment in whole or in part as provided therein.

The holder of this Note is authorized to record the date and amount of each Short-term Funding Loan made by the Lender to the Company pursuant to subsection 2.4 of the Credit Agreement and the date and amount of each payment or prepayment of principal thereof, on the schedule annexed hereto and made a part hereof, and any such recordation or any such information recorded on such Lender's internal books and records and then attached to this Note in the form of the schedule attached hereto shall constitute prima facie evidence of the accuracy of the information so recorded, provided that the failure of the Lender to make such recordation (or any error in such recordation) shall not affect the obligations of the Company hereunder or under the Credit Agreement.

Payment and performance of this Note is guaranteed as set forth in the Guarantee.

Upon the occurrence of any one or more of the Events of Default specified in the Credit Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided therein.

The Company hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

**THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

**THE RYLAND GROUP, INC.**

By

Title:

**SCHEDULE A  
To Note**

**LOANS AND PAYMENTS**



Borrowing Base Calculation:

25% of Unsold Land Under Development

70% of Unsold Housing Inventory

90% of Sold Housing Inventory

100% Working Capital, net of Inventory Total Borrowing Base:

(1) Inventory values net of reserves

Permitted Senior Homebuilding Indebtedness:

- 7.2(a) TRG bank facility
- 7.2(c) land notes payable (PMM)
- 7.2(e) Specified Debt (senior notes)
- 7.2(f) industrial revenue bonds
- 7.2(g) financial guarantees of FSD debt
- 7.2(g) financial guarantees of JV debt
- 7.2(g) financial guarantees of 3rd party debt
- 7.2(h) homebuilding letters of credit
- 7.2(i) Indebtedness acquired through acquisition
- 7.2(j) refinancings of existing permitted debt
- 7.2(k) Additional term debt

Total Permitted Senior Indebtedness Total Borrowing Base

Borrowing Base surplus/(deficit):

IN WITNESS WHEREOF, I hereto set my name.

Name:

Title:

Date:

**EXHIBIT D**

**FORM OF GUARANTY**

GUARANTY, dated as of , 1993 (this "Guaranty"), made by each of the corporations that are signatories hereto (the "Guarantors"), in favor of NationsBank, N.A. (Carolinas) ("NationsBank"), as Administrative Agent (in such capacity, the "Administrative Agent") for the lenders (the "Lenders") parties to the Amended and Restated Credit Agreement, dated as of \_\_\_\_ \_\_, 1995 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among The Ryland Group, Inc. (the "Company"), the Lenders and Co-Agents named therein, Chemical Bank, as Syndication Agent and Documentation Agent, and the Administrative Agent.

**WITNESSETH:**

WHEREAS, pursuant to the terms of the Credit Agreement and the other Credit Documents (as hereinafter defined), the Lenders have agreed to make certain Extensions of Credit (as hereinafter defined) to or for the benefit of the Company;

WHEREAS, the Company owns directly or indirectly all of the issued and outstanding stock of the Guarantors;

WHEREAS, the proceeds of Extensions of Credit will be used in part for the benefit of the Guarantors in connection with the operation of their businesses;

WHEREAS, the Company and the Guarantors are engaged in related businesses, and each Guarantor will derive substantial direct and indirect benefit from the making of Extensions of Credit; and

WHEREAS, it is a condition precedent to the obligation of the Lenders to make their respective Extensions of Credit to the Company under the Credit Agreement that the Guarantors shall have executed and delivered this Guaranty to the Documentation Agent for the benefit of the Lenders;

NOW, THEREFORE, in consideration of the premises and to induce the Documentation Agent, the Administrative Agent and the Lenders to enter into the Credit Agreement and to induce the Lenders to make their respective Extensions of Credit to the Company under the Credit Agreement, each Guarantor hereby jointly and severally agrees with the Documentation Agent, for the ratable benefit of the Lenders, as follows:

I. Defined Terms. Unless otherwise defined herein, terms which are defined in the Credit Agreement and used herein are so used as so defined and the following terms shall have the following meanings:

"Credit Documents" shall mean the Credit Agreement and the Notes.

"Extension of Credit" shall mean (i) all loans or advances made to the Company under any Credit Document, (ii) all letters of credit issued for the account of the Company under any Credit Document, (iii) all other extensions of credit to or for the benefit of the Company under any Credit Document and (iv) to the extent not otherwise included in the foregoing, all Obligations.

"Obligations" shall mean the unpaid principal of and interest on the Notes and all other obligations and liabilities of the Company to the Administrative Agent, the Documentation Agent or the Lenders, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, the Notes or any other documents made, delivered or given in connection therewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including without limitation, all fees and disbursements of counsel to the Administrative Agent, the Documentation Agent or any Lender) or otherwise.

II. Guaranty. 1. Each Guarantor hereby unconditionally and irrevocably

(i) guarantees to the Documentation Agent, for the benefit of the Lenders and their respective successors, indorsees, transferees and assigns, the prompt and complete payment and performance by the Company when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations and (ii) further agrees to pay any and all expenses (including, without limitation, all fees and disbursements of counsel) which may be paid or incurred by the Documentation Agent, the Administrative Agent or by the Lenders in enforcing, or obtaining advice of counsel in respect of, any of their rights under this Guaranty; provided, however, that anything herein or in any other Credit Document to the contrary notwithstanding, the maximum liability of each Guarantor hereunder and under the other Credit Documents shall in no event exceed the amount which can be guaranteed by such Guarantor under applicable federal and state laws relating to the insolvency of debtors (the "Maximum Guaranteed Amount").

2. This Guaranty shall remain in full force and effect until the Commitments have been terminated and the Loans, together with interest, fees and all other Obligations incurred under the Credit Agreement have been paid in full, notwithstanding that from time to time prior thereto the Company may be free from any Obligations. Each Guarantor agrees that whenever, at any time, or from time to time, it shall make any payment to the Documentation Agent, Administrative Agent or any Lender on account of its liability hereunder, it will notify the Documentation Agent, Administrative Agent and such Lender in writing that such payment is made under this Guaranty for such purpose.

3. Each Guarantor agrees that the Obligations may at any time and from time to time exceed the Maximum Guaranteed Amount of such Guarantor or of all of the Guarantors without impairing this Guaranty or affecting the rights and remedies of the Documentation Agent, the Administrative Agent and the Lenders hereunder.

4. No payment or payments made by the Company, any Guarantor, any other Guarantor or any other Person or received or collected by the Documentation Agent, Administrative Agent or any Lender from the Company, any Guarantor, any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of the Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of any Guarantor hereunder which shall, notwithstanding any such payment or payments other than payments made by such Guarantor in respect of the Obligations or payments received or collected from such Guarantor in respect of the Obligations, remain liable for the Obligations up to its Maximum Guaranteed Amount until the Obligations are paid in full and the Commitment is terminated.

III. Right of Contribution. Each Guarantor hereby agrees that to the extent that a Guarantor shall have paid more than its proportionate share of any payment made hereunder, such Guarantor shall be entitled to seek and receive contribution from and against any other Guarantor hereunder who has not paid its proportionate share of such payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of paragraph V hereof. The provisions of this paragraph shall in no respect limit the obligations and liabilities of any Guarantor to the Documentation Agent, the Administrative Agent and the Lenders, and each Guarantor shall remain liable to the Documentation Agent, the Administrative Agent and the Lenders for the full amount guaranteed by such Guarantor hereunder.

IV. Right of Set-off. The Administrative Agent, the Documentation Agent and each Lender are hereby irrevocably authorized by each Guarantor at any time and from time to time without notice to such Guarantor or any other guarantor, any such notice being hereby waived by each Guarantor, to set off and appropriate and apply any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by the Documentation Agent, the Administrative Agent or such Lender to or for the credit or the

account of the Guarantor, or any part thereof in such amounts as the Documentation Agent, the Administrative Agent or such Lender may elect, against and on account of the obligations of such Guarantor hereunder and claims of every nature and description of the Documentation Agent, the Administrative Agent or such Lender against such Guarantor, in any currency, whether arising hereunder, under the Credit Agreement, any Note or otherwise, as the Documentation Agent, the Administrative Agent or such Lender may elect, whether or not the Documentation Agent, the Administrative Agent or such Lender has made any demand for payment and although such liabilities and claims may be contingent or unmatured. The Documentation Agent, the Administrative Agent and each Lender shall notify such Guarantor promptly of any such set-off made by it and the application made by it of the proceeds thereof, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Documentation Agent, the Administrative Agent and each Lender under this paragraph are in addition to other rights and remedies (including, without limitation, other rights of set-off) which the Documentation Agent, the Administrative Agent or such Lender may have.

V. No Subrogation. Notwithstanding any payment or payments made by any Guarantor hereunder, or any set-off or application of funds of such Guarantor by the Documentation Agent, the Administrative Agent or any Lender, such Guarantor shall not be entitled to be subrogated to any of the rights of the Documentation Agent, the Administrative Agent or any Lender against the Company or against any collateral security or guarantee or right of offset held by the Documentation Agent, the Administrative Agent or any Lender for the payment of the Obligations, nor shall any Guarantor seek or be entitled to seek any contribution or reimbursement from the Company in respect of payments made by such Guarantor hereunder, until all amounts owing to the Documentation Agent, the Administrative Agent and the Lenders by the Company on account of the Obligations are paid in full and the Commitments are terminated. If any amount shall be paid to any Guarantor on account of such subrogation rights at any time when all of the Obligations shall not have been paid in full, such amount shall be held by such Guarantor in trust for the Documentation Agent, the Administrative Agent and the Lenders, segregated from other funds of such Guarantor, and shall, forthwith upon receipt by such Guarantor, be turned over to the Documentation Agent in the exact form received by such Guarantor (duly indorsed by such Guarantor to the Administrative Agent, if required), to be applied against the Obligations, whether matured or unmatured, in such order as the Documentation Agent may determine.

VI. Amendments, etc. with respect to the Obligations. Each Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against such Guarantor or any other Guarantor, and without notice to or further assent by such Guarantor or any other Guarantor, any demand for payment of any of the Obligations made by the Documentation Agent, the Administrative Agent or any Lender may be rescinded by the Documentation Agent, the Administrative Agent or such Lender, and any of the Obligations continued, and the Obligations, or the liability of any other party upon or for any part thereof, or any collateral security or guarantee therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Documentation Agent, the Administrative Agent or any Lender, and the Credit Agreement, any Notes, and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Lenders may deem advisable from time to time, and any collateral security, guarantee or right of offset at any time held by the Documentation Agent, the Administrative Agent or any Lender for the payment of the Obligations may be sold, exchanged, waived, surrendered or released. Neither the Documentation Agent, the Administrative Agent nor any Lender shall have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Obligations or for this Guaranty or any property subject thereto.

VII. Guaranty Absolute and Unconditional. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Obligations and notice of or proof of reliance by the Documentation Agent, the Administrative Agent or any Lender upon this Guaranty or acceptance of this Guaranty; the Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Guaranty; and all dealings between the Company or any Guarantor, on the one hand, and the Documentation Agent, the Administrative Agent and the Lenders, on the other, shall likewise be conclusively presumed to have been had or consummated in reliance upon this Guaranty. Each Guarantor waives diligence, presentment, protest, demand for payment and notice of default or nonpayment to or upon the Company or any Guarantor with respect to the Obligations. This Guaranty shall be construed as a continuing, absolute and unconditional guarantee of payment without regard to, and each Guarantor hereby irrevocably waives any defense it may have with respect to, (a) the validity or enforceability of the Credit Agreement, the Notes, or any of the Obligations or any collateral security therefor or guarantee or right of offset with respect thereto at any time or from time to time held by the Documentation Agent, the Administrative Agent or any Lender, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by the Company against the Documentation Agent, the Administrative Agent or any Lender, or (c) any other circumstance whatsoever (with or without notice to or knowledge of the Company or the Guarantor) which constitutes, or might be construed to constitute, an equitable or legal discharge of the Company for the Obligations, or of the Guarantor under this Guaranty, in bankruptcy or in any other instance. When the Documentation Agent is pursuing its rights and remedies hereunder against the Guarantor, the Documentation Agent, the Administrative Agent or any Lender may, but shall be under no obligation to, pursue such rights and remedies as it may have against the Company or any other Person or against any collateral security or guarantee for the Obligations or any right of offset with respect thereto, and any failure by the Documentation Agent, the Administrative Agent or any Lender to pursue such other rights or remedies or to collect any payments from the Company or any such other Person or to realize upon any such collateral security or guarantee or to exercise any such right of offset, or any release of the Company or any such other Person or of any such collateral security, guarantee or right of offset, shall not relieve the Guarantor of any liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Documentation Agent, the Administrative Agent and the Lenders against the Guarantor.

VIII. Reinstatement. This Guaranty shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part

thereof, of any of the Obligations is rescinded or must otherwise be restored or returned by the Documentation Agent, the Administrative Agent or any Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Company or any Guarantor or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Company or any substantial part of its property, or otherwise, all as though such payments had not been made.

IX. Payments. Each Guarantor hereby agrees that the Obligations will be paid to the Administrative Agent without set-off or counterclaim in U.S. Dollars at the office of the Administrative Agent located at 6610 Rockledge Drive, Bethesda MD 20817-1876.

X. Representations and Warranties. Each Guarantor represents and warrants to the Documentation Agent and the Lenders that:

1. such Guarantor has the corporate power and authority and the legal right to execute and deliver, and to perform its obligations under, this Guaranty, and has taken all necessary corporate action to authorize its execution, delivery and performance of this Guaranty;
2. this Guaranty constitutes a legal, valid and binding obligation of such Guarantor enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity;
3. the execution, delivery and performance of this Guaranty will not violate any provision of any Requirement of Law or Contractual Obligation of such Guarantor and will not result in or require the creation or imposition of any Lien on any of the properties or revenues of such Guarantor pursuant to any Requirement of Law or Contractual Obligation of such Guarantor;
4. no consent or authorization of, filing with, or other act by or in respect of, any arbitrator or Governmental Authority and no consent of any other Person (including, without limitation, any stockholder or creditor of such Guarantor) is required in connection with the execution, delivery, performance, validity or enforceability of this Guaranty; and
5. no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of such Guarantor, threatened by or against such Guarantor or against any of its properties or revenues with respect to this Guaranty or any of the transactions contemplated hereby.

XI. Severability. Any provision of this Guaranty which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

XII. Paragraph Headings. The paragraph headings used in this Guaranty are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

XIII. No Waiver; Cumulative Remedies. Neither the Documentation Agent, the Administrative Agent nor any Lender shall by any act (except by a written instrument pursuant to paragraph XIV hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the Documentation Agent, the Administrative Agent or any Lender, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Documentation Agent, the Administrative Agent or any Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Documentation Agent, the Administrative Agent or such Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

XIV. Waivers and Amendments; Successors and Assigns; Governing Law. None of the terms or provisions of this Guaranty may be waived, amended, supplemented or otherwise modified except by a written instrument executed by such Guarantor and the Documentation Agent, provided that any provision of this Guaranty may be waived by the Documentation Agent in a letter or agreement executed by the Documentation Agent or by telex or facsimile transmission from the Documentation Agent. This Guaranty shall be binding upon the successors and assigns of each Guarantor and shall inure to the benefit of the Documentation Agent, the Administrative Agent and the Lenders and their respective successors and assigns. This Guaranty shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

XV. Notices. Notices by the Documentation Agent or the Administrative Agent to each Guarantor may be given by mail, by telex or by facsimile transmission, addressed to each Guarantor at its address or transmission number set forth under its signature below and shall be effective (a) in the case of mail, 5 days after deposit in the postal system, first class postage pre-paid and (b) in the case of telex or facsimile transmissions, when sent. Each Guarantor may change its address and transmission numbers by written notice to the Documentation Agent and the Administrative Agent.

XVI. Submission to Jurisdiction. Each Guarantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Guaranty or for recognition and enforcement of any judgement in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Guarantor at its address set forth under its signature below or at such other address of which the Documentation Agent and the Administrative Agent shall have been notified pursuant thereto; and

(d) agrees that nothing herein shall effect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

XVII. WAIVER OF TRIAL BY JURY. EACH GUARANTOR, THE DOCUMENTATION AGENT AND THE LENDERS EACH HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS GUARANTY OR THE NOTES OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

XVIII. Authority of Administrative Agent. Each Guarantor acknowledges that the rights and responsibilities of the Documentation Agent under this Guaranty with respect to any action taken by the Documentation Agent or the exercise or non-exercise by the Documentation Agent of any option, right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Guaranty shall, as between the Documentation Agent and the Lenders, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Documentation Agent and each Guarantor, the Documentation Agent shall be conclusively presumed to be acting as agent for the Lenders with full and valid authority so to act or refrain from acting, and the Guarantor shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

XIX. Counterparts; Additional Parties. This Guaranty may be executed by one or more of the parties hereto on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Any Subsidiary that is to become a Guarantor after the date hereof pursuant to subsection 6.9 of the Credit Agreement may become a Guarantor party hereto by executing and delivering a counterpart hereof to the Documentation Agent.

IN WITNESS WHEREOF, each of the undersigned has caused this Guaranty to be duly executed and delivered by its duly authorized officer as of the date first above written.

**M. J. BROCK & SONS**

By:  
Title:

**Address for Notices:**

M. J. Brock & Sons  
c/o The Ryland Group, Inc.  
11000 Broken Land Parkway  
Columbia, MD 21044-3562  
Telephone: (410) 715-7026  
Telecopy: (410) 715-7195  
Attention: Timothy J. Geckle, Esq.

**EXHIBIT E-1**

[Form of Legal Opinion of Corporate Counsel]  
[Credit Agreement]

1997

To the Agents and Lenders listed in  
Schedule I annexed hereto

Dear Sirs:

I am Corporate Counsel for The Ryland Group, Inc., a Maryland corporation (the "Company"), and have acted in such capacity in connection with the execution and delivery of the Second Amended and Restated Credit Agreement dated as of , 1997 (the "Credit Agreement") among the Company, the Lenders and Co-Agents parties thereto, The Chase Manhattan Bank, as Syndication Agent and Documentation Agent and NationsBank, N.A., as Administrative Agent for the Lenders, and the execution, issuance and delivery pursuant thereto of the Revolving Credit Notes and the Short Term Funding Line Notes of the Company, dated the date hereof (the "Notes").

This opinion is delivered to you pursuant to subsection 5.1(f) of the Credit Agreement. Terms used herein which are defined in the Credit Agreement shall have the respective meanings set forth in the Credit Agreement, unless otherwise defined herein.

For purposes of this opinion, I have examined the following documents:

- (i) the Credit Agreement and Notes;
- (ii) the Charter and By-Laws of the Company;
- (iii) the records of the corporate proceedings of the Company; and
- (iv) such other documents and matters as I have deemed necessary and appropriate to render the opinions set forth in this letter, subject to the limitations, assumptions, and qualifications noted below.

In reaching the opinions set forth below, I have assumed, and to my knowledge there are no facts inconsistent with, the following:

- (a) each of the parties thereto (other than the Company) has duly and validly executed and delivered each instrument, document, and agreement executed in connection with the Credit Agreement to which such other party is a signatory and that such party's obligations set forth therein are its legal, valid, and binding obligations, enforceable in accordance with their respective terms;
- (b) each person executing any such instrument, document or agreement on behalf of any such party (other than the Company) is duly authorized to do so;
- (c) each natural person executing any such instrument, document or agreement is legally competent to do so;
- (d) there are no modifications or waivers of or amendments to the Credit Agreement; and
- (e) all documents submitted to me as originals are authentic; all documents submitted to me as certified or photostatic copies conform to the original documents; all signatures on all documents submitted to me for examination are genuine; and all public records reviewed are accurate and complete.

Based on my review of the foregoing and subject to the assumptions and qualifications set forth herein, it is my opinion that, as of the date of this letter:

1. The Company (a) is duly organized, validly existing and in good standing under the laws of State of Maryland, (b) has the corporate power to own and operate its property, to lease the property it operates and to conduct the business in which it is currently engaged, and (c) is qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification and where the failure to be so qualified could reasonably be expected to have a Material Adverse Effect.
2. The Company has the corporate power to make, deliver and perform the Credit Agreement and the Notes and to borrow thereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of the Credit Agreement and the Notes and to authorize the execution, delivery and performance of the Credit Agreement and the Notes. No consent or authorization of, filing with, or other act by or in respect of any public authority, is required of the Company in connection with the borrowings thereunder or with the execution or delivery of the Credit Agreement or the Notes.
3. The Credit Agreement and each of the Notes have been duly executed and delivered on behalf of the Company.
4. The execution and delivery of the Credit Agreement and the Notes will not violate any Requirement of Law or, to my knowledge any material Contractual Obligation of the Company, and, to my knowledge will not result in, or require, the creation or imposition of any Lien on any of its properties or revenues pursuant to any Requirement of Law or any material Contractual Obligation.

5. To my knowledge, there is no litigation, investigation or proceeding of or before any court or public authority that is pending or threatened by or against the Company or against any of its properties or revenues (a) with respect to the Credit Agreement or the Notes or any of the transactions contemplated thereby, or (b) which, if adversely determined, would have a Material Adverse Effect, except as described in the financial statements or in the notes thereto referred to in subsection 3.1 of the Credit Agreement, or the Schedule of Litigation attached to the Credit Agreement.

I am a member of the bar of the State of Maryland and the opinions set forth herein are limited solely to Federal law and the laws of the State of Maryland.

The opinions expressed in this letter are solely for the use of the Documentation Agent, the Syndication Agent and the Lenders, and these opinions may not be relied on by any other persons without my express prior written approval. The opinions expressed in this letter are limited to the matters set forth in this letter, and no other opinions should be inferred beyond the matters expressly stated.

Very truly yours,

[Form of Legal Opinion of Corporate Counsel]  
[Affirmation, Restatement and Joinder]

, 1997

To the Agents and Lenders listed in  
Schedule I annexed hereto  
c/o The Chase Manhattan Bank, as Documentation Agent 270 Park Avenue  
New York, New York 10017

Dear Sirs:

I am [corporate counsel] to M.J. Brock & Sons, Inc., a Delaware corporation ("Brock") (the "Guarantors"), and have acted in such capacity in connection with the execution and delivery of the Affirmation, Restatement and Joinder dated as of , 1997 (the "Affirmation, Restatement and Joinder") in connection with the Second Amended and Restated Credit Agreement, dated as of , 1997 (the "Credit Agreement") among the Company, the lenders (the "Lenders") and Co-Agents parties thereto, The Chase Manhattan Bank, as Syndication Agent and Documentation Agent and NationsBank, N.A., as Administrative Agent.

This opinion is delivered to you pursuant to subsection 5.1(f) of the Credit Agreement. Terms used herein which are defined in the Affirmation, Restatement and Joinder or the Credit Agreement shall have the respective meanings set forth in the Affirmation, Restatement and Joinder or the Credit Agreement, unless otherwise defined herein.

For purposes of this opinion, I have examined the following documents:

- (i) the Affirmation, Restatement and Joinder;
- (ii) the Charter and By-Laws of the Guarantors;
- (iii) the records of the corporate proceedings of the Guarantors; and
- (iv) such other documents and matters as I have deemed necessary and appropriate to render the opinions set forth in this letter, subject to the limitations, assumptions, and qualifications noted below.

In reaching the opinion set forth in paragraph 3 below, I have assumed that at each time a Guarantor incurs an obligation under the Guaranty, such Guarantor, after giving effect to such obligation, had the ability to pay its debts as such debts mature and that such Guarantor was solvent.

Based on and subject to the foregoing, it is my opinion that, as of the date of this letter:

1. The Guarantors (a) are duly organized, validly existing and in good standing under the laws of the state of their incorporation, and (b) have the corporate power to own and operate their properties, to lease the properties they operate, and to conduct the businesses in which they are currently engaged.
2. The Guarantors have the corporate power to make, deliver and perform the Affirmation, Restatement and Joinder and have taken all necessary corporate action to authorize the execution, delivery and performance of the Affirmation, Restatement and Joinder. No consent or authorization of, filing with, or other act by or in respect of any public authority, is required of the Guarantors in connection with the execution

or delivery of the Affirmation, Restatement and Joinder.

3. The Affirmation, Restatement and Joinder has been duly executed and delivered on behalf of the Guarantors.

4. The execution and delivery of the Affirmation, Restatement and Joinder will not violate any Requirement of Law or, to my knowledge any material Contractual Obligation of the Guarantors and to my knowledge will not result in, or require, the creation or imposition of any Lien on any of the Guarantors' properties or revenues pursuant to any Requirement of Law or any material Contractual Obligation.

5. To my knowledge, there is no litigation, investigation or proceeding of or before any arbitrator or public authority that is pending or threatened by or against the Guarantors or against any of their properties or revenues

(a) with respect to the Affirmation, Restatement and Joinder or any of the transactions contemplated thereby, or (b) which, if adversely determined, would have a material adverse effect on the financial condition of the Guarantors, the ability of the Guarantors to perform its obligations under the Affirmation, Restatement and Joinder, or the validity or enforceability of the Affirmation, Restatement and Joinder or the rights or remedies of the Agents or the Lenders thereunder, except as described in the financial statements or in the notes thereto referred to in subsection 6.1 of the Credit Agreement, or the Schedule of Litigation attached to the Credit Agreement.

I am a member of the bar of the State of Maryland and the opinions set forth herein are limited solely to Federal law and the laws of the State of Maryland except that I have examined the corporate laws of the State of Delaware solely for the purpose of rendering the opinions concerning the organization of Brock, and the due authorization of the execution and delivery of the Affirmation, Restatement and Joinder by Brock.

The opinions expressed in this letter are solely for the use of the Documentation Agent, the Administrative Agent and the Lenders, and these opinions may not be relied on by any other persons without my express prior written approval. The opinions expressed in this letter are limited to the matters set forth in this letter, and no other opinions should be inferred beyond the matters expressly stated.

Very truly yours,

#### **EXHIBIT E-2**

[Form of Legal Opinion of Piper & Marbury L.L.P.]

, 1997

To the Agents and Lenders listed in  
Schedule I annexed hereto  
c/o The Chase Manhattan Bank, as Documentation Agent 270 Park Avenue  
New York, New York 10017

Dear Sirs:

We have acted as counsel for The Ryland Group, Inc., a Maryland corporation (the "Company"), in connection with the execution and delivery of the Second Amended and Restated Credit Agreement dated as of , 1997 (the "Credit Agreement") among the Company, the lenders (the "Lenders") and Co- Agents parties thereto, The Chase Manhattan Bank, as Syndication Agent and Documentation Agent and NationsBank, N.A., as Administrative Agent for the Lenders, and the execution, issuance and delivery pursuant thereto of the Revolving Credit Notes and the Short Term Funding Line Notes of the Company, dated the date hereof (the "Notes").

This opinion is delivered to you pursuant to subsection 5.1(f) of the Credit Agreement. Terms used herein which are defined in the Credit Agreement shall have the respective meanings set forth in the Credit Agreement, unless otherwise defined herein.

For purposes of this opinion, we have examined the following documents:

(i) the Credit Agreement and Notes;

(ii) the Charter and By-Laws of the Company;

(iii) the records of the corporate proceedings of the Company; and

(iv) such other documents and matters as we have deemed necessary and appropriate to render the opinions set forth in this letter, subject to the limitations, assumptions, and qualifications noted below.

In reaching the opinions set forth below, we have assumed, and to our knowledge there are no facts inconsistent with, the following:

(a) each of the parties thereto (other than the Company) has duly and validly executed and delivered each instrument, document, and agreement executed in connection with the Credit Agreement to which such other party is a signatory and that such party's obligations set forth therein are its legal, valid and binding obligations, enforceable in accordance with their respective terms;

(b) each person executing any such instrument, document or agreement on behalf of any such party (other than the Company) is duly authorized to do so;

(c) each natural person executing any such instrument, document or agreement is legally competent to do so;

(d) there are no modifications or waivers of or amendments to the Credit Agreement; and

(e) all documents submitted to us as originals are authentic; all documents submitted to us as certified or photostatic copies conform to the original documents; all signatures on all documents submitted to us for examination are genuine; and all public records reviewed are accurate and complete.

Based on our review of the foregoing and subject to the assumptions and qualifications set forth herein, it is our opinion that, as of the date of this letter:

1. The Company (a) is duly organized, validly existing and in good standing under the laws of State of Maryland and (b) has the corporate power to own and operate its property, to lease the property it operates and to conduct the business in which it is currently engaged.
2. The Company has the corporate power to make, deliver and perform the Credit Agreement and the Notes and to borrow thereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of the Credit Agreement and the Notes and to authorize the execution, delivery and performance of the Credit Agreement and the Notes. No consent or authorization of, filing with, or other act by or in respect of any public authority, is required of the Company in connection with the borrowings thereunder or with the execution or delivery of the Credit Agreement or the Notes.
3. The Credit Agreement and each of the Notes have been duly executed and delivered on behalf of the Company, and the Credit Agreement constitutes, and each of the Notes when value is received therefor will constitute, legal, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles (whether enforcement is sought by proceedings in equity or at law).
4. The execution and delivery of the Credit Agreement and the Notes will not violate any Requirement of Law.
5. The Company is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.
6. The Company is not a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.
7. All principal and unpaid interest of the Company under the Credit Agreement and the Notes (including interest accruing after the occurrence of any event described in Section 8(f) of the Credit Agreement, whether or not such interest constitutes an allowed claim in any proceeding referred to in Section 8(f) of the Credit Agreement) constitutes "Senior Debt" as such term is used in the 1992 Subordinated Debt Indenture.

We are members of the bar of the State of Maryland and the opinions set forth herein are limited solely to Federal law and the laws of the State of Maryland. We note that the Credit Agreement and the Notes are by their terms governed by the laws of the State of New York and we have, for purposes of this opinion, assumed that the Credit Agreement and the Notes are governed by the laws of the State of Maryland.

The opinions expressed in this letter are solely for the use of the Documentation Agent, the Administrative Agent and the Lenders, and these opinions may not be relied on by any other persons without our express prior written approval. The opinions expressed in this letter are limited to the matters set forth in this letter, and no other opinions should be inferred beyond the matters expressly stated.

Very truly yours,

[Form of Legal Opinion of Piper & Marbury L.L.P.]  
[Affirmation, Restatement and Joinder]

1997

To the Agents and Lenders listed in

Schedule I annexed hereto  
c/o The Chase Manhattan Bank, as Documentation Agent 270 Park Avenue  
New York, New York 10017

Dear Sirs:

We have acted as counsel for M.J. Brock & Sons, Inc., a Delaware corporation (the "Guarantor"), in connection with the execution and delivery of the Affirmation, Restatement and Joinder dated as of , 1997 (the "Affirmation, Restatement and Joinder") in connection with the execution and delivery of the Affirmation, Restatement and Joinder dated as of , 1997 (the "Affirmation, Restatement and Joinder") in connection with the Second Amended and Restated Credit Agreement, dated as of , 1997 (the "Credit Agreement") among the Company, the lenders (the "Lenders") and Co- Agents parties thereto, The Chase Manhattan Bank, as Syndication Agent and Documentation Agent and NationsBank, N.A., as Administrative Agent.

This opinion is delivered to you pursuant to subsection 5.1(f) of the Credit Agreement. Terms used herein which are defined in the Affirmation, Restatement and Joinder or the Credit Agreement shall have the respective meanings set forth in the Affirmation, Restatement and Joinder or the Credit Agreement, unless otherwise defined herein.

For purposes of this opinion, we have examined the following documents:

- (i) the Affirmation, Restatement and Joinder;
- (ii) the Charter and By-Laws of the Guarantor;
- (iii) the records of the corporate proceedings of the Guarantor; and
- (iv) such other documents and matters as we have deemed necessary and appropriate to render the opinions set forth in this letter, subject to the limitations, assumptions, and qualifications noted below.

In reaching the opinion set forth in paragraph 3 below, we have assumed that at each time the Guarantor incurs an obligation under the Guaranty, the Guarantor, after giving effect to such obligation, had the ability to pay its debts as such debts mature and that the Guarantor was solvent.

Based on and subject to the foregoing, it is our opinion that, as of the date of this letter:

1. The Guarantor (a) is duly organized, validly existing and in good standing under the laws of the state of Delaware and (b) has the corporate power to own and operate its properties, to lease the properties it operates, and to conduct the business in which it is currently engaged.
2. The Guarantor has the corporate power to make, deliver and perform the Affirmation, Restatement and Joinder and has taken all necessary corporate action to authorize the execution, delivery and performance of the Affirmation, Restatement and Joinder. No consent or authorization of, filing with, or other act by or in respect of any public authority, is required of the Guarantor in connection with the execution or delivery of the Affirmation, Restatement and Joinder.
3. The Affirmation, Restatement and Joinder has been duly executed and delivered on behalf of the Guarantor, and the Affirmation, Restatement and Joinder constitutes a legal, valid and binding obligation of the Guarantor enforceable against the Guarantors in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles (whether enforcement is sought by proceedings in equity or at law).
4. The execution and delivery of the Affirmation, Restatement and Joinder will not violate any Requirement of Law.
5. The Guarantor is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.
6. The Guarantor is not a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

We are members of the bar of the State of Maryland and the opinions set forth herein are limited solely to Federal law and the laws of the State of Maryland except that we have examined the corporate laws of the State of Delaware solely for the purpose of rendering the opinions concerning the organization of the Guarantor, and the due authorization of the execution and delivery of the Affirmation, Restatement and Joinder by the Guarantor.

The opinions expressed in this letter are solely for the use of the Documentation Agent, the Administrative Agent and the Lenders, and these opinions may not be relied on by any other persons without our express prior written approval. The opinions expressed in this letter are limited to the matters set forth in this letter, and no other opinions should be inferred beyond the matters expressly stated.

Very truly yours,

## EXHIBIT F

### FORM OF ASSIGNMENT AND ACCEPTANCE

Reference is made to the Second Amended and Restated Credit Agreement, dated as of , 1997 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among The Ryland Group, Inc., a Maryland corporation (the "Company"), the Lenders and Co-Agents parties thereto, The Chase Manhattan Bank, as Syndication Agent and Documentation Agent and NationsBank, N.A., as Administrative Agent for the Lenders. Unless otherwise defined herein, terms which are defined in the Credit Agreement and used herein are so used as so defined and the meanings assigned to terms defined herein or in the Credit Agreement shall be equally applicable to both the singular and plural forms of such terms. This Assignment and Acceptance, between the Assignor (as set forth on Schedule 1 hereto and made a part hereof) and the Assignee (as set forth on Schedule 1 hereto and made a part hereof) and for the benefit of the Company and the Administrative Agent, is dated as of the Transfer Effective Date (as set forth on Schedule 1 hereto and made a part hereof, the "Transfer Effective Date").

(i) The Assignor hereby irrevocably sells and assigns to the Assignee without recourse to the Assignor, and the Assignee hereby irrevocably purchases and assumes from the Assignor without recourse to the Assignor, as of the Transfer Effective Date, a % interest (the "Assigned Interest") in and to the Assignor's rights and obligations under the Credit Agreement with respect to each credit facility contained in the Credit Agreement as are set forth on Schedule 1 (individually, an "Assigned Facility"; collectively, the "Assigned Facilities"), in a principal amount for each Assigned Facility as set forth on Schedule 1; provided, however, it is expressly understood and agreed that the Assignor is not assigning to the Assignee and the Assignor shall retain (A) all of the Assignor's rights and obligations under subsections 2.16, 2.17 and 2.18 of the Credit Agreement with respect to any cost, reduction or payment incurred or made prior to the Transfer Effective Date, including, without limitation the rights to indemnification and to reimbursement for taxes, costs and expenses and (B) any and all amounts paid to the Assignor prior to the Transfer Effective Date and both Assignor and Assignee shall be entitled to the benefits of subsection 10.5 of the Credit Agreement.

2. The Assignor (i) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement, any other Loan Document or any other instrument or document furnished pursuant thereto, other than that it has not created any adverse claim upon the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company, any of its Subsidiaries or any other obligor or the performance or observance by the Company, any of its Subsidiaries or any other obligor of any of their respective obligations under the Credit Agreement or any other Loan Document or any other instrument or document furnished pursuant hereto or thereto; and (iii) attaches the Notes held by it evidencing the Assigned Facilities and requests that the Administrative Agent exchange such Notes for new Notes payable to the Assignor (if the Assignor has retained any interest in the Assigned Facility) and new Notes payable to the Assignee in the respective amounts which reflect the assignment being made hereby (and after giving effect to any other assignments which have become effective on the Transfer Effective Date).

3. The Assignee, for the benefit of the Assignor, the Agents and the Company, (i) represents and warrants that it is legally authorized to enter into this Assignment and Acceptance; (ii) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements delivered pursuant to subsection 4.1 and 6.1 of the Credit Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (iii) agrees that it will, independently and without reliance upon the Assignor, the Administrative Agent or any other person which has become a 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 the Credit Agreement; (iv) appoints and authorizes the Administrative Agent and the Documentation Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement and the other Loan Documents as are delegated to the Administrative Agent and the Documentation Agent by the terms thereof, together with such powers as are incidental thereto; and (v) agrees that it will be bound by the provisions of the Credit Agreement and will perform in accordance with its terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender including, if it is organized under the laws of a jurisdiction outside the United States, its obligation pursuant to subsection

2.17 of the Credit Agreement to deliver the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the Credit Agreement.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Company and the Administrative Agent, together with payment to the Administrative Agent of a registration and processing fee of \$2,500, for acceptance by the Company and the Administrative Agent, which acceptance shall not be unreasonably withheld, and recording by the Administrative Agent pursuant to subsections 10.6(d) and 10.6(e) of the Credit Agreement, effective as of the Transfer Effective Date (which shall not, unless otherwise agreed to by the Administrative Agent, be earlier than five Business Days after the date of acceptance and recording by the Company and the Administrative Agent of the

executed Assignment and Acceptance).

5. Upon such acceptance and recording, from and after the Transfer Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignee whether such amounts have accrued prior to the Transfer Effective Date or accrue subsequent to the Transfer Effective Date. The Assignor and the Assignee shall make all appropriate adjustments in payments by the Administrative Agent for periods prior to the Transfer Effective Date or with respect to the making of this assignment directly between themselves.

6. From and after the Transfer Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and under the other Loan Documents and shall be bound by the provisions thereof and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations, and release the Company from its obligations to the Assignor (other than with respect to indemnities which by their terms survive repayment of the Notes under the Credit Agreement).

7. THIS ASSIGNMENT AND ACCEPTANCE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Acceptance to be executed by their respective duly authorized officers on Schedule 1 hereto.

Schedule 1 to Assignment and Acceptance relating to the Second Amended and Restated Credit Agreement, dated as of , 1997, among The Ryland Group, Inc., a Maryland corporation, the lenders from time to time parties thereto and NationsBank, N.A., as administrative agent (the "Credit Agreement")

**Name of Assignor:**

**Name of Assignee:**

**Transfer Effective Date of Assignment:**

Assigned Facility ----- ----- Revolving Credit Commitments	Commitment Amount Assigned -----	Percentage (as defined in the Credit Agreement) Assigned (to at least fifteen decimals)
---	--	--

**[ASSIGNEE]**

By:  
Name:  
Title:

**[ASSIGNOR]**

By:  
Name:  
Title:

**Accepted:**

**THE RYLAND GROUP, INC.**

By:  
Name:  
Title:

**NATIONSBANK, N.A.,**  
as Administrative Agent,

By:  
Name:  
Title:

**EXHIBIT G**

**FORM OF COMPLIANCE CERTIFICATE**

Figures for reporting period ending:

Pursuant to subsection 6.2(b) of the Second Amended and Restated Credit Agreement dated as of , 1997 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among The Ryland Group, Inc. (the "Company"), the Lenders and Co-Agents named therein, The Chase Manhattan Bank (formerly known as Chemical Bank) as Syndication Agent and Documentation Agent and NationsBank, N.A., as Administrative Agent for the Lenders, the undersigned, the duly elected, qualified and acting Responsible Officer of the Company, hereby certifies that:

(a) To the best of such Responsible Officer's knowledge, the Company and each of its Subsidiaries has, during the period or periods referred to above or with respect to each covenant as set forth below, observed and performed all of its covenants and other agreements, and satisfied every condition, contained in the Credit Agreement to be observed, performed or satisfied by such party, and as of the date hereof such Responsible Officer has obtained no knowledge of any Default or Event of Default except as follows:

(b) The calculations set forth below with respect to the covenants listed below, and the information set forth in Appendix A hereto, are based upon the financial statements of the Company and its Subsidiaries for the fiscal quarter of the Company ended

7.1 Financial Condition Covenants: (a), (b), (c), (d)

(a) Maintenance of Consolidated Net Worth of the Company

Covenant-Requirement that the Borrower Maintain a minimum level of Net Worth on a consolidated basis. The amount permitted is based upon the following:

Consolidated Net Worth shall not be less than:

- (i) \$260,000,000 on 3/31/97
- (ii) or on the last day of any quarter after 3/31/97:  
\$260,000,000 + 50% of positive Consolidated Net Income

+ Equity Proceeds

Minimum Consolidated Net Worth

-----

+ 50% of Consolidated Net Income  
at the end of the reporting period

-----

=

-----  
Consolidated Net worth at the end  
of the reporting period

-----

Cushion (Violation)

-----

(b) Maintenance of Total Liabilities in Relation to Adjusted Consolidated Tangible Net Worth of the Homebuilding Segment.

Covenant Limitation on total Homebuilding debt based on a formula. The formula limitation is as follows:

Combined Total Liabilities of Homebuilding Segment ("CTLHS") not to exceed a multiple of Adjust Consolidated Tangible Net Worth ("ACTNW") as set forth below:

**ACTNW =**

i) The first \$218,000,000 of ACTNW X 2.75 ii) Plus amount ACTNW exceeds \$218,000,000 X 2.00

**Permitted CTLHS**

**Total CTLHS**

**Cushion (Violation)**

provided, that in the event that Fixed Charge Coverage is less than 1.75X for any two consecutive quarters the multipliers specified in clauses i) and ii) (i.e. 2.75 and 2.00) shall be reduced by .25 and subsequently reduced by 0.1 for each quarter thereafter until such quarter that the Fixed Charge coverage is greater or equal to 1.75.

**Quarter**

**FIXED CHARGE COVERAGE**

Compliance (yes, no)

Required Reduction

(c) Maintenance of Fixed Charge Coverage.

Covenant - Fixed Charge not to be less than 1.5 to 1 for any three consecutive quarters.

	Quarter Ended -----	Quarter Ended -----	Quarter Ended -----
Fixed Charge Coverage=			
Ratio of Homebuilding:			
Pre-Tax Income			
+Depr & Amort.			
+Previously Capitalized			
Interest Expensed in COS			
+Greater of			
i) FSS Dividends			
ii) 50% FSS Pretax Income			
+Cash Distributions			
from Joint Ventures			
+Equity interest in			
earnings (loss) of			
joint ventures			
+Interest Expensed			
-----	-----	-----	-----
Total			
to			
Cash interest expense			
+Cash interest expense			
constituting capitalized			
interest			
-----	-----	-----	-----
Total			
Resulting Fixed			
Charge Coverage			

(d) Maintenance of Net Worth of the Financial Services Segment

Covenant - Financial Services Segment total liabilities to Consolidated Adjusted Net Worth must be less than or equal to 8.0 to 1.0 at all times.

FSS Total Liabilities

----- =

FSS Cons. Adj. Net Worth

**Compliance (yes/no)**

7.2 Limitation of Indebtedness:

c Limitation of purchase money mortgage debt and assets pledged

Total Purchase Money Mortgage Debt (Land Notes)	-----	
Aggregate Capitalized Cost of Pledged Assets	-----	
At least 50% of Aggregate Capitalized Cost of Pledged Assets have been financed with Purchase Money Mortgage Debt	-----	%
Aggregate Capitalized Cost of Pledged Assets Limit (including JV Assets)	-----	
Aggregate Capitalized Cost of Pledged Assets at end of reporting period (see attached schedule)	-----	%
Cushion (Violation)	=	-----

(m) Limitation on debt incurred to finance the acquisition of Fixed or Capital Assets

Total Financing incurred to acquire Fixed or Capital Assets	-----	
Limitation on Fixed or Capital Asset Financing	-----	
Cushion (Violation)	=	-----

7.4 Limitation of Guarantee Obligations (a) (b)

(a) Covenant - Guarantees by Homebuilding Segment of Ryland Financial Division indebtedness subject to limitations

i) \$50MM plus if a positive number,	-----	
ii) A) FSS dividends less B) excess of 1) TRG Common Stock dividends over 2) 50% of Consol Net Income of Homebuilding Segment	-----	
Total such Guarantees	-----	
Total such Investments	-----	
Total of Investments and Guarantees	-----	
Cushion (Violation)	=	-----

(b) Covenant - Limitation of other Guarantees

Total joint venture and third party guarantees	-----	
Limit: .25 X Adjusted Consolidated Tangible Net Worth	-----	
Cushion (Violation)	=	-----
Total joint venture guarantees	-----	
Limit: .15 X Adjusted Consolidated Tangible Net Worth	-----	

**Ratio of Unsold Housing Inventory to Total Housing Inventory =**

Provided that in the event that Fixed Charge Coverage is less than 1.20 for two consecutive quarters, then for each subsequent quarter total land purchases are limited to 50% of the average quarterly purchase cost of land included in "Cost of Goods Sold" for the four fiscal quarters prior to each quarter effective until such quarter that Fixed Charge Coverage is greater than 1.20.

**Fixed Charge Coverage Last Two Fiscal Quarters:**

If test not met, quarterly land purchase detail for prior 4 fiscal quarters to be included.

It is understood that the foregoing descriptions of provisions of the Credit Agreement are for convenience of reference only, and are not to affect the construction of, or to be taken into consideration in the interpretation of, the terms and provisions of the Credit Agreement.

IN WITNESS WHEREOF, I hereto set my name.

Name: Bruce Haase Title: Treasurer Date:

**Appendix A Supporting Financial Information Compliance Certificate For the Period Ending**

Adjusted Consolidated Tangible Net Worth (ACTNW):  
Consolidated Tangible Net Worth

**Less Intangibles**  
**Less Equity in Ryland Financial Division**

Less Equity in joint ventures with debt greater than 25% of joint ventures total assets

**ACTNW**

**Adjusted Consolidated Net Income**

**X15%**

**EXHIBIT H**

**[FORM OF] AFFIRMATION, RESTATEMENT AND JOINDER**

Reference is made to the (i) Amended and Restated Credit Agreement, dated as of July 19, 1995 (the "Existing Credit Agreement"), among The Ryland Group, Inc., a Maryland corporation, the several lenders and Co-Agents party thereto, The Chase Manhattan Bank, as Documentation Agent and Syndication Agent and NationsBank, N.A., as Administrative Agent and (ii) the Second Amended and Restated Credit Agreement, dated as of , 1997 (the "Second Amended and Restated Credit Agreement"), among The Ryland Group, Inc., a Maryland corporation, the several lenders and Co-Agents party thereto, The Chase Manhattan Bank, as Documentation Agent and Syndication Agent and NationsBank, N.A., as Administrative Agent. All capitalized terms used herein that are not otherwise defined herein shall have the respective meanings ascribed thereto in the Existing Credit Agreement or the Second Amended and Restated Credit Agreement as the context may require.

1. Joinder. [NAME OF NEW GUARANTOR], a [JURISDICTION OF ORGANIZATION OF NEW GUARANTOR/FORM OF ORGANIZATION OF NEW GUARANTOR] is hereby joined as a party to the Guaranty, dated as of July 19, 1995, delivered under the Existing Credit Agreement, and agrees that by its execution hereof (i) it shall be deemed to have executed the Guaranty, and is a Guarantor thereunder for all purposes thereof, (ii) it hereby makes the guarantee contained therein, and undertakes, covenants and agrees to all of the obligations, agreements, waivers and other provisions under the Guaranty as a Guarantor thereunder, and (iii) it hereby affirms and makes all of the representations and warranties made by each Guarantor under the Guaranty.
2. Affirmations; Representations. In connection with the Second Amended and Restated Credit Agreement, each of the undersigned hereby acknowledges receipt thereof and hereby (i) affirms its obligations under each Loan Document to which it is a party, and affirms and agrees that each such Loan Document is and shall remain in full force and effect, in each case upon and after giving effect to the Second Amended and Restated Credit Agreement and (ii) represents and warrants to the Lenders that all representations and warranties made by it under each Loan Document to which it is a party are true and correct as if made on the date hereof, in each case upon and after giving effect to the Second Amended and Restated Credit Agreement and to the affirmations and agreements set forth herein.
3. References. Each of the undersigned parties further agrees that (i) each reference in each Loan Document to the "Credit Agreement" or

"Amended and Restated Credit Agreement" shall hereafter include reference to the Second Amended and Restated Credit Agreement, (ii) each guarantee and other obligation and agreement made, undertaken or agreed to by it in respect of or by reference to the "Credit Agreement" or "Amended and Restated Credit Agreement", any term defined therein or any obligations thereunder shall be deemed to have been, and hereby is, made, undertaken and agreed to, as the case may be, in respect of the Second Amended and Restated Credit Agreement, the terms defined therein and the obligations thereunder, as applicable, and (iii) each Loan Document is hereby affirmed, amended and restated to the extent necessary to effectuate the foregoing.

Each of the undersigned hereby consents to the Company's entering into the Second Amended and Restated Credit Agreement and agrees that the Obligations as defined in the Guaranty shall include the unpaid principal of and interest on the Notes and all other obligations and liabilities of the Company to the Administrative Agent, the Documentation Agent or the Lenders, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter incurred, which may arise under, out of, or in connection with, the Second Amended and Restated Credit Agreement, the Notes or any other documents made, delivered or given in connection therewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including without limitation, all fees and disbursements of counsel to the Administrative Agent, the Documentation Agent or any Lender) or otherwise.

Dated as of: \_\_\_\_\_, 1997

[GUARANTOR]

By:

Title:

[GUARANTOR]

By:

Title:

(..continued)

**SECOND AMENDMENT TO  
RESTATED LOAN AND SECURITY AGREEMENT**

THIS AMENDMENT is entered into as of June 23, 1997, between ASSOCIATES MORTGAGE FUNDING CORPORATION, a Delaware corporation ("Associates"), RYLAND MORTGAGE COMPANY, an Ohio corporation ("Ryland"), BANK ONE, TEXAS, N.A., as Agent ("Agent"), and the Lenders executing this amendment.

Associates and Ryland (the "Companies"), Agent, and certain lenders are party to the Restated Loan and Security Agreement (as renewed, extended, and amended, the "Loan Agreement") dated as of June 16, 1995. This amendment is for the purpose of, among other things, extending the maturity date, reducing the total commitments, reducing the provision for the unilateral increase of total commitments, changing certain collateral and borrowing-base provisions, changing certain financial covenants, revising certain sublimits under the Loan Agreement, and removing certain lenders from and adding others to the Loan Agreement. Accordingly, for adequate and sufficient consideration, the parties to this amendment agree as follows:

1. **TERMS AND REFERENCES.** Unless otherwise stated in this amendment (a) terms defined in the Loan Agreement have the same meanings when used in this amendment and (b) references to "Sections," "Schedules," and "Exhibits" are to the Loan Agreement's sections, schedules, and exhibits.

2. **AMENDMENTS.** The Loan Agreement is amended as follows:

(a) Section 1.1 is amended to add, delete, or amend the following terms, as the case may be:

Acknowledgment Agreement means, at any time and as applicable, the form of Acknowledgement Agreement then required by (a) FHLMC to be executed as a condition to the creation of a security interest in Servicing Rights for Mortgage Pools serviced for FHLMC, completed and executed by Ryland, Agent, (if necessary) each Lender, and FHLMC, and otherwise in form acceptable to Agent, together with every supplement to and replacements for that agreement in accordance with FHLMC Guide, (b) FNMA to be executed as a condition to the creation of a security interest in Servicing Rights for Mortgage Pools serviced for FNMA, completed and executed by Ryland, Agent, (if necessary) each Lender, and FNMA, and otherwise in form acceptable to Agent, together with every supplement to and replacement for that agreement in accordance with the FNMA Guide, or c GNMA to be executed as a condition to the creation of a security interest in Servicing Rights for Mortgage Pools serviced for GNMA, completed and executed by Ryland, (if necessary) each Lender, and GNMA, and otherwise in form acceptable to Agent, together with every supplement to and replacements for that agreement in accordance with GNMA Guide.

Adjusted-Net Worth -- for Ryland, on a consolidated basis, and at any time -- Ryland's stockholders' equity reflected on its balance sheet.

Adjusted-Tangible-Net Worth means -- for Ryland, on a consolidated basis, at any time, and without duplication -- the sum of:

(a) Ryland's Adjusted-Net Worth; plus

(b) Ryland's long-term Debt if its maturity is no earlier than 30 days after the Stated-Termination Date and its payment is subordinated to payment of the Senior Obligations in form and substance acceptable to Determining Lenders; plus

(c) The greater of either (i) 90% of the Appraised Value of Ryland's Eligible-Servicing Portfolio or (ii) 1% of the principal balance of Mortgage Loans in Ryland's Eligible-Servicing Portfolio; minus

(d) Purchasing and originated Servicing Rights as shown on Ryland's balance sheet; minus

(e) Ryland's goodwill, including, without limitation, any amounts representing the excess of the purchase price paid for acquired assets, stock, or interests over the book value assigned to them; minus

(f) Ryland's patents, trademarks, service marks, trade names, and copyrights; minus

(g) Ryland's other intangible assets.

Appraised Value means, at any time for the Servicing Portfolio, the appraised value determined in the then-most recent appraisal provided under Section 7.1(g).

**Closing Date means June 16, 1995.**

**Stated-Termination Date means June 1, 2000.**

**Warehouse Sublimit means \$260,000,000.**

(b) The dollar amount "\$375,000,000" in Section 2.5(a) is entirely amended to be "\$290,000,000."

(c) A new Section 7.1(g) is added as follows:

(g) Appraised Value. Promptly when available but at least within 30 days after the last day of each fiscal quarter of Ryland, an appraisal of Ryland's Servicing Portfolio prepared in a manner acceptable to Agent either (i) by Ryland internally or (ii) if Agent or Determining Lenders ever deem any reduction in the reported appraised value to be material, then by an independent appraiser acceptable to Determining Lenders.

(d) The dollar amount "\$40,000,000" in Section 9.1(b) is entirely amended to be "\$30,000,000."

(e) The dollar amount "\$55,000,000" in Section 9.1(c) is entirely amended to be "\$40,000,000."

(f) Section 9.4 is entirely amended as follows:

9.4 Cash Flow. The sum of Ryland's net income (excluding any recognized non-cash income) or loss plus (to the extent deducted in calculating that net income or loss) amortization, depreciation, and other non-cash charges (on a consolidated basis) may never be less than \$1.00 at the end of any of Ryland's fiscal quarters for the four-fiscal-quarter periods then ended.

(g) The dollar amount "\$4,000,000,000" in Section 9.5(a) is entirely amended to be "\$3,000,000,000."

(h) Part F on Schedule 1.1(c) is entirely amended as follows:

F. Eligible-Servicing Portfolio. All of the Servicing Portfolio (1) for which Ryland owns the Servicing Rights, (2) which cover mortgage loans for residential-real property consisting of land and a one- to four-family dwelling or a condominium unit that is ready for occupancy but not a multi-family dwelling for more than four families or a co-op, and (3) which are not under any sub-servicing or master-servicing arrangements and which arise only under Servicing Contracts with FHLMC, FNMA, or GNMA.

(i) The introductory provisions of Part B on Schedule 1.1(d) are entirely amended as follows:

A. Borrowing Base for Mortgage Collateral means, at any time, an amount equal to the sum of:

(a) The Borrowing Base for Eligible-Gestation Collateral; plus

(b) 99% of the Market Value of all Eligible-Mortgage Securities; plus

(c) An amount (as reduced by any of the matters listed in Items 1 through 7 below) in respect of all Eligible-Mortgage Loans that are not Eligible-Gestation Collateral equal to the least of:

98% of the total outstanding principal balance of those Eligible-Mortgage Loans.

98% of the total Market Value of those Eligible- Mortgage Loans.

100% of the total face amount (less discounts) of those Eligible-Mortgage Loans.

(j) Item 13 on Schedule 8.3 is entirely amended as follows:

Loans or advances by Ryland to Ryland Group in the management of the Companies' cash so long as (a) they are not made at a time when (and do not cause) a Default or any default by Ryland Group in respect of any of its material debt, and (b) the total of those loans and advances never (without the prior written approval by Agent) exceeds 20% of Ryland's consolidated stockholders' equity.

(k) Schedules 1.1(a) and 1.1(b) and Exhibits C-3 and C-6 are respectively amended in the forms of (and each reference in the Loan Papers to those schedules and exhibits are now to) the attached Amended Schedules 1.1(a) and 1.1(b) and Amended Exhibits C-3 and C-6, respectively.

### 3. SETTLEMENT OF FUNDS.

(a) In accordance with Section 2.5(d), Borrower has terminated the Commitments of certain lenders party to the Loan Agreement before the effectiveness of this amendment, and on the effective date of this amendment Borrower shall pay to Agent for the account of those terminated lenders all amounts owing to those lenders in accordance with Sections 2.5(d)(ii).

(b) In accordance with the amendments reflected in the attached Amended Schedule 1.1(a), certain Lenders are added as parties to the Loan

Agreement by the effectiveness of this amendment, and on the effective date of this amendment those Lenders shall each jointly and severally pay to Agent their respective Commitment Percentages of the Principal Debt remaining after the payments by Borrower under Paragraph 3(a) above.

(c) In accordance with the amendments reflected in the attached Amended Schedule 1.1(a), certain Lenders have increased their respective Commitments by the effectiveness of this amendment, and on the effective date of this amendment those Lenders shall each jointly and severally pay to Agent their respective increased Commitment Percentages of the Principal Debt remaining after the payments by Borrower under Paragraph 3(a) above.

(d) In accordance with the amendments reflected in the attached Amended Schedule 1.1(a), certain Lenders have decreased their respective Commitments by the effectiveness of this amendment, and -- subject to the receipt of payments of funds under clauses (b) and (c) above, Agent shall pay to those Lenders their respective decreased Commitment Percentages of the Principal Debt remaining after the payments by Borrower under Paragraph 3(a) above.

Upon receipt of replacement Notes pursuant to this amendment, each Lender severally agrees to return to Companies the Note or Notes being replaced.

4. **CONDITIONS PRECEDENT.** Notwithstanding any contrary provision, the foregoing provisions in this amendment are not effective unless (a) the representations and warranties in this amendment are true and correct and (b) Agent receives (i) counterparts of this amendment executed by the Companies and all Lenders, and (ii) each other document and item listed on the attached Annex A.

5. **REPRESENTATIONS AND WARRANTIES.** To induce Agent and Lenders to enter into this amendment, the Companies jointly and severally represent and warrant to Agent and Lenders that, as of the date of this amendment and on the date of its execution (a) each Company has all requisite authority and power to execute, deliver, perform its obligations under this amendment, which execution, delivery, and performance have been duly authorized by all necessary corporate action, require no action by or filing with any Tribunal, do not violate its corporate charter or bylaw or (except where not a Material-Adverse Event) violate any Law applicable to it or any material agreement to which it or its assets are bound, (b) upon execution and delivery by all parties to it, this amendment will constitute each Company's legal and binding obligation, enforceable against it in accordance with this document's terms except as that enforceability may be limited by Debtor Laws and general principles of equity, (c) all other representations and warranties in the Loan Papers are true and correct in all material respects except to the extent that

(i) a representation or warranty speaks to a specific date or (ii) the facts on which a representation or warranty is based have changed by transactions or conditions contemplated or permitted by the Loan Papers, and (d) no Material- Adverse Event, Default, or Potential Default exists.

6. **RATIFICATION.** To induce Agent and Lenders to enter into this amendment, the Companies ratify and confirm (a) all provisions of the Loan Papers as amended by this amendment and (b) that all guaranties, assurances, and Liens granted, conveyed, or assigned to Agent or Lenders under the Loan Papers (as they may have been revised, extended, and amended) continue to guarantee, assure, and secure the full payment and performance of the Obligation (including, without limitation, all amounts evidenced now or in the future by any note delivered under this amendment).

7. **EXPENSES.** The Companies shall jointly and severally pay all costs, fees, and expenses paid or incurred by Agent incident to this amendment, including, without limitation, the reasonable fees and expenses of Agent's counsel in connection with the negotiation, preparation, delivery, and execution of this amendment and any related documents.

8. **MISCELLANEOUS.** All references in the Loan Papers to the "Loan Agreement" are to the Loan Agreement, as amended by this amendment. This amendment is a "Loan Paper" referred to in the Loan Agreement, and the provisions relating to Loan Papers in the Loan Agreement are incorporated in this amendment by reference. Except as specifically amended and modified in this amendment, the Loan Agreement is unchanged and continues in full force and effect. This amendment may be executed in any number of counterparts with the same effect as if all signatories had signed the same document. All counterparts must be construed together to constitute one and the same instrument. This amendment and the other Loan Papers represent the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements by the parties. There are no unwritten oral agreements between the parties. This amendment binds and inures to the Companies, Agent, Lenders, and their respective successors and permitted assigns.

Remainder of page intentionally blank.  
Signature pages follow.

EXECUTED as of the day and year first stated above.

ASSOCIATES MORTGAGE FUNDING CORPORATION

RYLAND MORTGAGE COMPANY

By: BRUCE N. HAASE  
Name: Bruce N. Haase  
Title: Treasurer

By: BRUCE N. HAASE  
Bruce N. Haase  
Treasurer

BANK ONE, TEXAS, N.A., a Lender and Agent Lender

NATIONSBANK OF TEXAS, N.A., a

By: PAUL J. LAZUSKY  
Paul J. Lazusky, Vice President  
Senior

By: ELIZABETH S. KURILECZ  
Elizabeth S. Kurilecz,  
Vice President

TEXAS COMMERCE BANK NATIONAL ASSOCIATION, a Lender

BANK OF AMERICA, a Lender

By: PAMELA E. SKINNER  
Pamela E. Skinner, Vice President  
President

By: DONALD EPPLEY  
Donald Eppley, Vice

NBD BANK, a Lender

PNC BANK, KENTUCKY, INC., a Lender

By: ANN H. CHUDACOFF  
Ann H. Chudacoff, Vice President  
President

By: SCOTT GOODWIN  
Scott Goodwin, Vice

THE FIRST NATIONAL BANK OF MARYLAND, a Lender

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

By: KELLIE M MATTHEWS  
Kellie M. Matthews, Vice President

By: GREGORY W. JACKSON  
Gregory W. Jackson,  
Senior Vice President

FIRST BANK NATIONAL ASSOCIATION, a Lender

FIRST UNION NATIONAL BANK OF NORTH CAROLINA, a Lender

By: DAVID R. PETERSON  
David R. Peterson, Senior Vice  
President

By: SINCLAIR ELLETT  
Sinclair Ellett, Vice  
President

SUNTRUST BANK, ATLANTA, a Lender

By: CATHIE KISSICK  
Cathie Kissick, Vice President

ANNEX A

## CLOSING DOCUMENTS

Unless otherwise specified, all dated as of June 23, 1997 (the "Amendment Closing Date"), or a date not more than 30 days before that date (a "Current Date").

H&B [1.] SECOND AMENDMENT TO RESTATED LOAN AND SECURITY AGREEMENT (the "Amendment") between ASSOCIATES MORTGAGE FUNDING CORPORATION, a Delaware corporation ("Associates"), RYLAND MORTGAGE COMPANY, an Ohio corporation ("Ryland"), certain lenders ("Lenders"), and BANK ONE, TEXAS, N.A., as agent for itself and the other Lenders ("Agent") -- all of the terms of which or incorporated in which have the same meanings when used in this annex -- accompanied by:

Annex A	-	Closing Documents
Amended Schedule 1.1(a)	-	Lenders and Commitments
Amended Schedule 1.1(b)	-	Wiring Instructions
Amended Exhibit C-3	-	Borrowing-Base Report for Mortgage Collateral
Amended Exhibit C-6	-	Compliance Certificate

H&B [2.] ASSOCIATES NOTES in the total stated principal amounts of \$260,000,000, executed by Associates, one each payable to each Lender's order, in substantially the form of Exhibit A-1 to the Loan Agreement, and otherwise described as follows:

Payee	Amount
Bank One, Texas N.A.	\$39,900,000
NationsBank of Texas, N.A.	39,000,000
Texas Commerce Bank National Association	39,000,000
Bank of America	28,200,000
NBD Bank	21,700,000
PNC Bank, Kentucky, Inc.	18,600,000
The First National Bank of Maryland	17,300,000
Guaranty Federal Bank, F.S.B.	17,300,000
First Bank National Association	13,000,000
First Union National Bank of North Carolina	13,000,000
SunTrust Bank, Atlanta	13,000,000

H&B [3.] RYLAND NOTES in the total stated principal amount of \$40,000,000, executed by Ryland, one each payable to each Lender's order, in substantially the form of Exhibit A-3 to the Loan Agreement, and

otherwise described as follows:

Payee	Amount
Bank One, Texas N.A.	\$6,400,000
NationsBank of Texas, N.A.	6,000,000
Texas Commerce Bank National Association	6,000,000
Bank of America	4,300,000
NBD Bank	3,000,000
PNC Bank, Kentucky, Inc.	2,900,000
The First National Bank of Maryland	2,700,000
Guaranty Federal Bank, F.S.B.	2,700,000
First Bank National Association	2,000,000
First Union National Bank of North Carolina	2,000,000
SunTrust Bank, Atlanta	2,000,000

H&B [4.] INTERCOMPANY NOTE in the stated principal amount of \$500,000,000, executed by Ryland, payable to Associate's order, endorsed to Agent's order on behalf of Lenders, and in substantially the form of Exhibit A-4 to the Loan Agreement.

5. [Intentionally Blank.]

H&B [6.] AMENDMENT TO FHLMC ACKNOWLEDGMENT AGREEMENT executed in the form required by FHLMC by Ryland, Agent, and FHLMC.

H&B [7.] AMENDMENT TO FNMA ACKNOWLEDGMENT AGREEMENT executed in the form required by FNMA by Ryland, Agent, each Lender, and FNMA.

H&B [8.] GNMA ACKNOWLEDGMENT AGREEMENT executed in the form required by GNMA by Ryland, Agent, and GNMA.

Agent[9.] AMENDED CUSTODIAL FEES AGREEMENT between the Companies and Agent.

H&B [10.] OFFICERS' CERTIFICATE for Associates executed by the Treasurer and Assistant Secretary of Associates as to (a) the due incumbency of its officers authorized to execute or attest to the Loan Papers, (b) resolutions duly adopted by its directors approving and authorizing the execution of the Loan Papers, (c) its corporate charter, (d) statement regarding no amendment, and (e) Bylaws, accompanied by:

Exhibit A - Resolutions

H&B [11.] OFFICERS' CERTIFICATE for Ryland executed by the Treasurer and Assistant Secretary of Ryland as to (a) the due incumbency of its officers authorized to execute or attest to the Loan Papers, (b) resolutions duly adopted by its directors approving and authorizing the execution of the Loan Papers, (c) its corporate charter, (d)

statement regarding no amendment, and (e) Bylaws, accompanied by:

#### Exhibit A - Resolutions

12. CERTIFICATES OF QUALIFICATION, GOOD STANDING, AND AUTHORITY for the Companies, issued as of Current Dates by the appropriate Tribunals for the following jurisdictions:

Company	Jurisdiction	Certificate	Date
Associates 05/02/97	DE	Existence/Good Standing	
Ryland 05/02/97	OH	Existence/Good Standing	
05/02/97	MD	Authority/Good Standing	
05/02/97	TX	Authority	
05/02/97		Good Standing	

13. Such other documents and items as Agent or any Lender may deem appropriate.

**AMENDED SCHEDULE 1.1(a)**

**LENDERS AND COMMITMENTS**

Name of Lender	Warehouse Commitment	Receivables/ Working Capital Commitment	Total
Bank One, Texas, N.A. Mortgage Finance Group 1717 Main Street Dallas, TX 75201 Attn: Paul J. Lazusky, Vice President \$46,300,000 Fed Tax ID No. 75-2270994 Tel (214) 290-2780 Fax (214) 290-2054	\$39,900,000	\$6,400,000	

NationsBank of Texas, N.A.  
Financial Institutions Department  
901 Main Street, 66th Floor  
MC # TX1-492-66-01  
Dallas, TX 75283-1000  
Attn: Elizabeth S. Kurilecz,  
Senior Vice President 39,000,000 6,000,000 45,000,000 Fed Tax ID No. 75-2238693  
Tel (214) 508-0975  
Fax (214) 508-0604

Texas Commerce Bank National Association 717 Travis 7th Floor  
07TCB South 56  
Houston, TX 77252-7056  
Attn: Robert A. Salcetti,  
Senior Vice President 39,000,000 6,000,000 45,000,000 Fed Tax ID No. 74-0800980  
Tel (713) 546-7702  
Fax (713) 216-2082

Bank of America  
Commercial Real Estate Services Division Mortgage Warehousing 5134  
24022 Calle de la Plata, Suite 405

Laguna Hills, CA 92653  
Attn: Donald Eppley,  
Vice President 28,200,000 4,300,000  
32,500,000  
Fed Tax ID No. 94-1687665  
Tel (714) 951-4171  
Fax (714) 951-4055

NBD Bank  
One First National Plaza  
Mail Suite 0155  
Chicago, IL 60670-0085  
Attn: Ann H. Chudacoff,  
Vice President 21,700,000 3,000,000  
\$24,700,000  
Fed Tax ID No. 38-0864715  
Tel (312) 732-1100  
Fax (312) 732-6222

PNC Bank, Kentucky, Inc.  
Warehouse Lending  
500 West Jefferson  
Suite 1200  
Louisville, KY 40296  
Attn: Scott Goodwin 18,600,000 2,900,000  
21,500,000  
Fed Tax ID No. 610191580  
Tel (502) 581-2667  
Fax (502) 581-3919

The First National Bank of Maryland  
25 South Charles Street  
Mail Code 101-744  
Corporate Banking Division, 18th Floor

Baltimore, MD 21201  
 Attn: Kellie M. Matthews,  
 Vice President 17,300,000 2,700,000  
 20,000,000  
 Fed Tax ID No. 520312840  
 Tel (410) 244-4864  
 Fax (410) 244-4294

Guaranty Federal Bank, F.S.B.  
 8333 Douglas Ave., 10th Floor  
 Dallas, TX 75225  
 Attn: James B. Clapp,  
 Assistant Vice President 17,300,000 2,700,000  
 20,000,000  
 Fed Tax ID No. 74-2511478  
 Tel (214) 360-1968  
 Fax (214) 360-1660

First Bank National Association  
 Mortgage Banking Services  
 First Bank Place/MPFP0801  
 601 Second Ave. South  
 Minneapolis, MN 55402-4302  
 Attn: John Crenshaw,  
 Vice President 13,000,000 2,000,000  
 15,000,000  
 Fed Tax ID No. 41-0256895  
 Tel (612) 973-0572  
 Fax (612) 973-0826

First Union National Bank of North Carolina  
 Capital Markets  
 One First Union Center, DC-6  
 301 South College Street  
 Charlotte, NC 28228-0600  
 Attn: Sinclair Ellett,  
 Vice President 13,000,000 2,000,000  
 15,000,000  
 Fed Tax ID No. 56-0900030  
 Tel (704) 383-1418  
 Fax (704) 374-7102

SunTrust Bank, Atlanta  
 Mail Code 118, 26th Floor  
 25 Park Place, N.E.  
 Atlanta, GA 30303  
 Attn: Christopher H. Cotter,  
 Banking Officer 13,000,000 2,000,000  
 15,000,000  
 Fed Tax ID No. 580466330  
 Tel (404) 588-7794  
 Fax (404) 658-4905  
 Total 260,000,000 40,000,000  
 \$300,000,000

**AMENDED SCHEDULE 1.1(b)  
 WIRING INSTRUCTIONS**

Party	Location of Account	ABA#	Account
Associates Mortgage Funding Corporation 6301215806500	Chemical, Delaware	0311-0026-7	
Ryland Mortgage Company --	--	--	
Bank One, Texas, N.A. 0100073055	Bank One, Dallas	111000614	
Bank of America 56199-83980	Costa Mesa, California	121-000-358	
First Bank National Association 1702-2508-7585	First Bank, Minn.	091000022	
NBD Bank 1690973	NBD, Detroit	072000326	0093054
The First National Bank of Maryland 0301789102	First National, Baltimore	052000113	
First Union National Bank of North Carolina n/a	First Union, Charlotte	053000219	
Guaranty Federal Bank, F.S.B 19406514043	Guaranty Federal, Dallas	314970664	
NationsBank of Texas, 129-200-088-3	N.A..NationsBank, Dallas	111000025	
PNC Bank, Kentucky, Inc. 3000990597	PNC Kentucky, Louisville	083000108	
SunTrust Bank, Atlanta 8892170730	SunTrust, Atlanta	061000104	
Texas Commerce Bank National Association 001136825800	TCB, Houston	113000609	7

Party	Attention/Phone No.	Reference
Associates Mortgage Funding Corporation Paydown	--	
Ryland Mortgage Company	--	--
Bank One, Texas, N.A. Mfg.	Gloria Sadler (214)290-6069	Ryland
Bank of America	Mr. Sandy Obnillas (213)345-9404	
First Bank National Association	Commercial Loans (213)225-2570 Asso/Ryland	

**AMENDED EXHIBIT C-3**

**BORROWING-BASE REPORT FOR MORTGAGE COLLATERAL**

AGENT: Bank One, Texas, N.A.

DATE: \_\_\_\_\_, 199

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FOR: Associates Mortgage Funding Corporation and Ryland Mortgage Company

This report is delivered to the Companies and Lenders under the Restated

Loan and Security Agreement (as renewed, extended, and amended, the "Loan Agreement") dated as of June 16, 1995, between Associates Mortgage Funding Corporation, Ryland Mortgage Company, Agent, and certain lenders. Terms defined in the Loan Agreement have the same meanings when used (unless otherwise defined) in this report. Agent has calculated the Borrowing Base for Mortgage Collateral and its various components as of the date of this report.

1. Borrowing Base (@ certain advance rates)

- (a) B-Paper Loans (@ 95%) \$--
- (b) Investment-Mortgage Loans (@ 75%) \$--
- (c) Seasoned Loans (@ 95%) \$--
- (d) Other Dry Borrowings (@ 98%) \$--
- (e) Wet Borrowings (@ 98%) \$--
- (f) Gestation Borrowings (@ 99%) \$--
- (g) Mortgage Securities (@ 99%) \$--
- (h) Borrowing Base for Mortgage Collateral Total of Lines 1(a) through 1(g) \$--

2. Principal Debt of Warehouse Borrowings

- (a) Against B-Paper Loans \$--
- (b) Against Investment-Mortgage Loans \$
- (c) Against Seasoned Loans \$--
- (d) Other Dry Borrowings \$--
- (e) Wet Borrowings \$--
- (f) Gestation Borrowings \$--
- (g) Mortgage Securities \$--
- (h) Principal Debt of Warehouse Borrowings Total of Lines 2(a) through 2(g) \$--

3. B-Paper Loans Availability

- (a) B-Paper Sublimit \$20,000,000
- (b) Lesser of either Line 1(a) or Line 3(a) \$--
- (c) Line 3(b) minus Line 2(a) Maximum Borrowings against B-Paper Loans if positive or Borrowing Excess if negative \$--

4. Investment-Mortgage Loan Availability

- (a) Investment-Mortgage Loan Sublimit \$10,000,000
- (b) Lesser of either Line 1(b) or Line 4(a) \$--
- (c) Line 4(b) minus Line 2(b) Maximum Borrowings against Investment-Mortgage Loans if positive or Borrowing Excess if negative \$--

5. Other Dry Borrowing Availability

- (a) Warehouse Sublimit \$260,000,000
- (b) Line 5(a) minus Lines 2(a), 2(b), 2(c), 2(e), 2(f), and 2(g) \$
- (c) Lesser of either Line 1(d) or Line 5(b) \$--
- (d) Line 5(c) minus Line 2(d) maximum other Dry Borrowings if positive or Borrowing Excess if negative \$--

6. Wet Borrowings Availability

(a) Wet Sublimit [30% of Line 5(a)] \$--

(b) Lesser of either Line 1(e) or Line 6(a) \$--

(c) Line 6(b) minus Line 2(e) Maximum Wet Borrowings if positive or Borrowing Excess if negative \$--

7. Gestation Borrowing Availability

(a) Gestation Sublimit [50% of Line 5(a)] \$--

(b) Lesser of either Line 1(f) or Line 7(a) \$--

(c) Line 7(b) minus Line 2(f) Maximum Gestation Borrowing if positive or Borrowing Excess if negative \$--

8. Seasoned Loan Availability

(a) Seasoned-Loan Sublimit \$10,000,000

(b) Lesser of either Line 1(c) or Line 8(a) \$--

(c) Line 8(b) minus Line 2(c) Maximum Borrowings against Seasoned Loans if positive or Borrowing Excess if negative \$--

The Principal Debt of Warehouse Borrowings to each Lender is as follows:

Lender	Commitment Percentage of Line 5(a)	Share of Line
2(h)		
Bank One, Texas, N.A.	--%	\$--
NationsBank of Texas, N.A.	--%	\$--
Texas Commerce Bank National Association	--%	\$--
Bank of America	--%	\$--
NBD Bank	--%	\$--
PNC Bank, Kentucky, Inc.	--%	\$--
The First National Bank of Maryland	--%	\$--
Guaranty Federal Bank, F.S.B.	--%	\$--
First Bank National Association	--%	\$--
First Union National Bank of North Carolina	--%	\$--
SunTrust Bank, Atlanta	--%	\$--

In addition to the above, the total Commitment Usage does not exceed the lesser of either (i) the total Commitments or (ii) the total Borrowing Base.

**BANK ONE, TEXAS, N.A., AGENT**

By  
(Name)  
(Title)

**AMENDED EXHIBIT C-6**

**COMPLIANCE CERTIFICATE**

AGENT: Bank One, Texas, N.A. DATE: \_\_\_\_\_, 199

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ASSOCIATES: Associates Mortgage Funding Corporation

RYLAND: Ryland Mortgage Company

SUBJECT PERIOD: \_\_\_\_\_ ended \_\_\_\_\_, 199

This certificate is delivered under the Restated Loan and Security Agreement (as renewed, extended, and amended, the "Loan Agreement") dated as of June 16, 1995, between Associates, Ryland, Agent, and certain lenders. Terms defined in the Loan Agreement have the same meanings when used (unless otherwise defined) in this certificate.

Solely on behalf of the Company for which each undersigned officer has executed this certificate, that undersigned officer certifies to Agent and Lenders, that on the date of this certificate:

1. That undersigned officer is the officer of that Company designated below.
2. That Company's consolidated Financial Statements that are attached to this certificate were prepared in accordance with GAAP and present fairly that Company's consolidated financial position and results of operations as of and for the one, two, or three quarters of fiscal year, as the case may be, ending on the last day of the Subject Period.
3. That undersigned officer supervised a review of that Company's activities during the Subject Period in respect of the following matters and has determined the following: (a) To that undersigned officer's best knowledge, except to the extent that (i) a representation or warranty speaks to a specific date or (ii) the facts on which a representation or warranty is based have changed by transactions or conditions contemplated or permitted by the Loan Papers, that Company's representations and warranties in Section 6 of the Loan Agreement are true and correct in all material respects, other than for the changes, if any, described on the attached Schedule 1; (b) that Company has complied with all of its obligations under the Loan Papers, other than for the deviations, if any, described on the attached Schedule 1; (c) no Default or Potential Default exists or is imminent, other than those, if any, described on the attached Schedule 1; and (d) that Company's compliance with the financial covenants in Section 9 of the Loan Agreement is accurately calculated on the attached Schedule 1.

(Name)	_____	(Name)	_____
(Title)	_____	(Title)	_____

SCHEDULE 1

A. Describe deviations from compliance with obligations, if any

clause 3(b) of attached Compliance Certificate if none, so state:

B. Describe Potential Defaults or Defaults, if any clause 3(c) of the attached Compliance Certificate if none, so state:

C. Calculate compliance with covenants in Section 9 at end of Subject Period (on a consolidated basis) clause 3(d) of the attached Compliance Certificate:

Period	Covenant	At End of Subject
1.	Associates' Stockholders' Equity -- 9.1(a) (quarterly)	

- (a) Actual \$
- (b) Minimum \$ 1,000,000
- 2. Ryland's Adjusted-Net Worth --  
9.1(b) (quarterly)
- (a) Stockholder's equity \$
- (b) Minimum \$30,000,000
- 3. Ryland's Adjusted-Tangible-Net Worth --

9.1(c) (quarterly)			
(a) Subordinated long-term Debt maturing no earlier than 30 days after the Stated-Termination Date		\$	
(b) Greater of either (i) 90% of Appraised Value of Eligible-Servicing Portfolio or (ii) 1% of Eligible-Servicing Portfolio, as applicable		\$	
(c) Net-book-value of Servicing Rights		\$	
(d) Goodwill, etc.		\$	
(e) Patents, etc.		\$	
(f) Other intangibles		\$	
(g) Actual -- Line 2(c) plus Lines 3(a) and 3(b) minus Lines 3(c) through 3(f)			\$
(h) Minimum			
\$40,000,000			
4. Ryland's Leverage Ratio -- 9.2 (quarterly)			
(a) Total liabilities		\$	
(b) Repurchase obligations permitted to be excluded		\$	
(c) Line 4(a) minus Line 4(b)		\$	
(d) Actual -- Ratio of Line 4(c) to Line 3(g)			-- to --
(e) Maximum			8.0 to
1.0			

5. Associates' Net Income -- 9.3 (annually)

(a) Actual \$

(b) Minimum \$1.00

6. Ryland's Cash Flow -- 9.4 (rolling 4 quarters)

(a) Net income (exclude reported non-cash income) or loss		\$	
(b) Amortization		\$	
(c) Depreciation		\$	
(d) Other noncash charges		\$	
(e) Actual -- Total of Lines 6(a) through 6(d)			\$
(f) Minimum			\$1.00
7. Servicing Portfolio -- 9.5			
(a) Actual -- Servicing Portfolio (Ryland and any Subsidiary)			\$--
billion			
(b) Minimum			\$3.0
billion			
(c) Actual -- Eligible-Servicing Portfolio (Ryland only)			\$--
billion			
(d) Minimum			\$1
billion			

**THIRD AMENDMENT TO  
RESTATED LOAN AND SECURITY AGREEMENT**

THIS AMENDMENT is entered into as of December 31, 1997, between ASSOCIATES MORTGAGE FUNDING CORPORATION, a Delaware corporation ("Associates"), RYLAND MORTGAGE COMPANY, an Ohio corporation ("Ryland"), BANK ONE, TEXAS, N.A., as Agent ("Agent"), and the Lenders executing this amendment.

Associates and Ryland (the "Companies"), Agent, and certain lenders are party to the Restated Loan and Security Agreement (as renewed, extended, and amended, the "Loan Agreement") dated as of June 16, 1995. This amendment is for the purpose of, among other things, reducing the Receivables/Working Capital Sublimit, requiring a mandatory prepayment of Principal Debt (or cash collateralization of LCs) supported by Servicing Rights or Eligible-Servicing Portfolios upon the sale or other disposition of same, and deleting the covenant for minimum Servicing Portfolio and minimum Eligible-Servicing Portfolio. Accordingly, for adequate and sufficient consideration, the parties to this amendment agree as follows:

1. **TERMS AND REFERENCES.** Unless otherwise stated in this amendment (a) terms defined in the Loan Agreement have the same meanings when used in this amendment and (b) references to "Sections," "Schedules," and "Exhibits" are to the Loan Agreement's sections, schedules, and exhibits.

2. **AMENDMENTS.** The Loan Agreement is amended as follows:

(a) Section 1.1 is amended to entirely amend the following terms:

**Receivables/Working-Capital Sublimit means \$30,000,000.**

Servicing Subsidiary means any wholly owned Subsidiary of Ryland that owns servicing rights in respect of mortgage loans.

(b) Section 3.4 is amended by adding the following clause (g) to the end of it:

(g) Sale of Servicing. Without limiting the provisions of clause (e) above, Ryland shall:

(i) Make a mandatory prepayment of the Principal Debt of Receivables Borrowings supported by any Borrowing Base for Receivables related to any Servicing Rights sold or otherwise disposed of by Ryland, which prepayment is due before or concurrent with that sale or disposition; and

(ii) Make a mandatory prepayment of the Principal Debt of (or, as the case may be, cash collateralize, to the satisfaction of Agent, the LC Exposure related to) Working- Capital Credits supported by any Borrowing Base for Working Capital related to any Eligible-Servicing Portfolio sold or disposed of by Ryland, which prepayment or cash collateralization is due before or concurrent with that sale or disposition.

(c) Section 8.6(a) is amended by deleting the words "subject to Section 9.5, part of".

(d) Section 9.5 is entirely deleted.

(e) Schedule 1.1(a) and Exhibit C-6 are respectively amended in the forms of (and each reference in the Loan Papers to that schedule and that exhibit is now to) the attached Second Amended Schedule 1.1(a) and Second Amended Exhibit C-6, respectively.

3. **CONDITIONS PRECEDENT.** Notwithstanding any contrary provision, the foregoing provisions in this amendment are not effective unless

(a) the representations and warranties in this amendment are true and correct and (b) Agent receives counterparts of this amendment executed by the Companies and all Lenders.

4. **REPRESENTATIONS AND WARRANTIES.** To induce Agent and Lenders to enter into this amendment, the Companies jointly and severally represent and warrant to Agent and Lenders that, as of the date of this amendment and on the date of its execution (a) each Company has all requisite authority and power to execute, deliver, perform its obligations under this amendment, which execution, delivery, and performance have been duly authorized by all necessary corporate action, require no action by or filing with any Tribunal, do not violate its corporate charter or bylaw or (except where not a Material-Adverse Event) violate any Law applicable to it or any material agreement to which it or its assets are bound, (b) upon execution and delivery by all parties to it, this amendment will constitute each Company's legal and binding obligation, enforceable against it in accordance with this document's terms except as that enforceability may be limited by Debtor Laws and general principles of equity, (c) all other representations and warranties in the Loan Papers are true and correct in all material respects except to the extent that

(i) a representation or warranty speaks to a specific date or (ii) the facts on which a representation or warranty is based have changed by transactions or conditions contemplated or permitted by the Loan Papers, and (d) no Material- Adverse Event, Default, or Potential Default exists.

5. **RATIFICATION.** To induce Agent and Lenders to enter into this amendment, the Companies ratify and confirm (a) all provisions of the Loan Papers as amended by this amendment and (b) that all guaranties, assurances, and Liens granted, conveyed, or assigned to Agent or Lenders under the Loan Papers (as they may have been revised, extended, and amended) continue to guarantee, assure, and secure the full payment and performance of the Obligation (including, without limitation, all amounts evidenced now or in the future by any note delivered under this amendment).

6. **EXPENSES.** The Companies shall jointly and severally pay all costs, fees, and expenses paid or incurred only by Agent incident to this amendment, including, without limitation, the reasonable fees and expenses of only Agent's counsel in connection with the negotiation, preparation, delivery, and execution of this amendment and any related documents.

7. **MISCELLANEOUS.** All references in the Loan Papers to the "Loan Agreement" are to the Loan Agreement, as amended by this amendment. This amendment is a "Loan Paper" referred to in the Loan Agreement, and the provisions relating to Loan Papers in the Loan Agreement are incorporated in this amendment by reference. Except as specifically amended and modified in this amendment, the Loan Agreement is unchanged and continues in full force and effect. This amendment may be executed in any number of counterparts with the same effect as if all signatories had signed the same document. All counterparts must be construed together to constitute one and the same instrument. This amendment and the other loan papers represent the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements by the parties. There are no unwritten oral agreements between the parties. This amendment binds and inures to the Companies, Agent, Lenders, and their respective successors and permitted assigns.

EXECUTED as of the day and year first stated in this Third Amendment to Restated Loan and Security Agreement.

**ASSOCIATES MORTGAGE FUNDING  
CORPORATION RYLAND MORTGAGE COMPANY**

By BRUCE N. HAASE  
-----  
Bruce N. Haase, Treasurer

BANK ONE, TEXAS, N.A., a  
Lender and Agent

By PAUL J. LAZUSKY  
-----  
Paul J. Lazusky, Vice President

TEXAS COMMERCE BANK NATIONAL  
ASSOCIATION, a Lender

By PAMELA E. SKINNER  
-----  
Pamela E. Skinner, Vice  
President

NBD BANK, a Lender

By ANN H. CHUDACOFF  
-----  
Ann H. Chudacoff, Vice  
President

THE FIRST NATIONAL BANK OF  
F.S.B.,  
MARYLAND, a Lender

By SUSAN BENNINGHOFF  
-----  
Susan Benninghoff, Vice  
Vice  
President

FIRST BANK NATIONAL  
ASSOCIATION, a Lender

By JOHN CRENSHAW  
-----  
John Crenshaw, Vice President

**SUNTRUST BANK, ATLANTA, a Lender**

**By JARRETTE A. WHITE**  
**Jarrette A. White, Vice President**

**SECOND AMENDED SCHEDULE 1.1(a)**  
**LENDERS AND COMMITMENTS**

By BRUCE N. HAASE  
-----  
Bruce N. Haase, Treasurer

NATIONSBANK OF TEXAS, N.A., a  
Lender

By GARRETT DOLT  
-----  
Garrett Dolt, Assistance  
Assistant Vice President

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION, a  
Lender

By DONALD EPPLEY  
-----  
Donald Eppley, Vice  
President

PNC BANK, KENTUCKY, INC., a  
Lender

By DAVID AKENS  
-----  
David Akens, Vice President

GUARANTY FEDERAL BANK,  
a Lender

By JAMES B. CLAPP  
-----  
James B. Clapp, Assistant  
President

FIRST UNION NATIONAL BANK OF  
NORTH CAROLINA, a Lender

By SINCLAIR GILLESPIE  
-----  
Sinclair Gillespie, Vice  
President

Name of Lender	Warehouse Commitment	Receivable / Working Capital Commitment	Total
Bank One, Texas, N.A. Mortgage Finance Group 1717 Main Street Dallas, TX 75201 Attn: Paul J. Lazusky, Vice President Fed Tax ID No. 75-2270994 Tel (214) 290-2780 Fax (214) 290-2054	\$39,900,000	\$4,800,000	\$44,700,000
NationsBank of Texas, N.A. Financial Institutions Department 901 Main Street, 66th Floor MC # TX1-492-66-01 Dallas, TX 75283-1000 Attn: Garrett Dolt, Assistant Vice President Fed Tax ID No. 75-2238693 Tel (214) 508-2664 Fax (214) 508-0604	39,000,000	4,500,000	\$43,500,000
Texas Commerce Bank National Association 717 Travis 7th Floor 07TCBSouth56 Houston, TX 77252-7056 Attn: Robert A. Salcetti, Senior Vice President Fed Tax ID No. 74-0800980 Tel (713) 546-7702 Fax (713) 216-2082	39,000,000	4,500,000	\$43,500,000
Bank of America NT & SA Commercial Real Estate Services Division Mortgage Warehousing 5134 24022 Calle de la Plata, Suite 405 Laguna Hills, CA 92653 Attn: Donald Eppley, Vice President Fed Tax ID No. 94-1687665 Tel (714) 951-4171 Fax (714) 951-4055	28,200,000	3,225,000	\$31,425,000
NBD Bank One First National Plaza Mail Suite 0155 Chicago, IL 60670-0085 Attn: Ann H. Chudacoff, Vice President Fed Tax ID No. 38-0864715 Tel (312) 732-1100 Fax (312) 732-6222	21,700,000	2,250,000	\$23,950,000
PNC Bank, Kentucky, Inc. Warehouse Lending 500 West Jefferson Suite 1200 Louisville, KY 40296 Attn: David Akens Fed Tax ID No. 610191580 Tel (502) 581-2667 Fax (502) 581-3919	18,600,000	2,175,000	\$20,775,000

**SECOND AMENDED EXHIBIT C-6**  
**COMPLIANCE CERTIFICATE**

AGENT: Bank One, Texas, N.A. DATE: \_\_\_\_\_, 19  
---  
ASSOCIATES: Associates Mortgage Funding Corporation  
RYLAND: Ryland Mortgage Company

SUBJECT PERIOD: ended . 19 This certificate is delivered under the Restated Loan and Security Agreement (as renewed, extended, and amended, the "Loan Agreement") dated as of June 16, 1995, between Associates, Ryland, Agent, and certain lenders. Terms defined in the Loan Agreement have the same meanings when used (unless otherwise defined) in this certificate.

Solely on behalf of the Company for which each undersigned officer has executed this certificate, that undersigned officer certifies to Agent and Lenders, that on the date of this certificate:

1. That undersigned officer is the officer of that Company designated below.
2. That Company's consolidated Financial Statements that are attached to this certificate were prepared in accordance with GAAP and present fairly that Company's consolidated financial position and results of operations as of -- and for the one, two, or three quarters of fiscal year, as the case may be, ending on --- the last day of the Subject Period.
3. That undersigned officer supervised a review of that Company's activities during the Subject Period in respect of the following matters and has determined the following: (a) To that undersigned officer's best knowledge, except to the extent that (i) a representation or warranty speaks to a specific date or (ii) the facts on which a representation or warranty is based have changed by transactions or conditions contemplated or permitted by the Loan Papers, that Company's representations and warranties in Section 6 of the Loan Agreement are true and correct in all material respects, other than for the changes, if any, described on the attached Schedule 1; (b) that Company has complied with all of its obligations under the Loan Papers, other than for the deviations, if any, described on the attached Schedule 1; (c) no Default or Potential Default exists or is imminent, other than those, if any, described on the attached Schedule 1; and (d) that Company's compliance with the financial covenants in Section 9 of the Loan Agreement is accurately calculated on the attached Schedule 1. I -

(Name) (Name)

(Title) (Title)

**SCHEDULE 1**

- A. Describe deviations from compliance with obligations, if any --- clause 3(b) of attached Compliance Certificate --- if none, so state:
- B. Describe Potential Defaults or Defaults, if any --- clause 3(c) of the attached Compliance Certificate --- if none, so state:
- C. Calculate compliance with covenants in Section 9 at end of Subject Period (on a consolidated basis) --- clause 3(d) of the attached Compliance Certificate:

Covenant  
-----  
Period

At End of  
Subject

-----

1. Associates' Stockholders' Equity -  
9.1(a) (quarterly)

(a) Actual \$

(b) Minimum \$1,000,000

2. Ryland's Adjusted-Net Worth ---  
9.1(a) (quarterly)

(a) Stockholder's equity \$

(b) Minimum \$30,000,000

3. Ryland's Adjusted-Tangible-Net Worth --- 9.1(c) (quarterly)

(a) Subordinated long-term Debt \$ maturing no earlier than 30 days after the Stated-Termination Date

(b) Greater of either (i) 90% of \$ Appraised Value of Eligible-Servicing Portfolio or (ii) 1% of Eligible-Servicing

Portfolio, as applicable  
c Net-book-value of Servicing Rights  
\$

(d) Goodwill, etc.  
\$

(e) Patents, etc.  
\$

(f) Other intangibles  
\$

(g) Actual -- Line 2(c) plus Lines 3(a)

and 3(b) minus Lines 3(c) through 3(f) \$

(h) Minimum \$40,000,000

4. Ryland's Leverage Ratio --- 9.2  
(quarterly)

(a) Total liabilities  
\$

(b) Repurchase obligations permitted to  
be excluded  
\$

c Line 4(a) minus Line 4(b)  
\$

(d) Actual --- Ratio of Line 4(c) to  
Line 3(g) \_\_\_\_\_ to \_\_\_\_\_

(e) Maximum 8.0 to 1.0

5. Associates' Net Income --- 9.3  
(annually)

(a)	Actual		\$
(b)	Minimum		
	\$1.00		
6.	Ryland's Cash Flow -- 9.4 (rolling 4 quarters)		
(a)	Net income (exclude reported non-cash income) or loss		\$
(b)	Amortization		\$
c	Depreciation		\$
(d)	Other noncash charges		\$
(e)	Actual --- Total of Lines 6(a)		

through 6(d) \$

(f) Minimum \$1.00

**THE RYLAND GROUP, INC.**

**EXECUTIVE AND DIRECTOR DEFERRED**

**COMPENSATION PLAN**

Effective as of March 1, 1997, and constituting an Amendment and Restatement of the following Plans: The Ryland Group, Inc. Deferred Compensation Savings Plan; The Ryland Group, Inc. Salary Deferral Plan; and The Ryland Group, Inc. Unfunded Deferred Director Fee Plan

**THE RYLAND GROUP, INC.**

**EXECUTIVE AND DIRECTOR DEFERRED COMPENSATION PLAN**

**Effective as of March 1, 1997**

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**THE RYLAND GROUP, INC.**

**EXECUTIVE AND DIRECTOR DEFERRED COMPENSATION PLAN**

**Effective as of March 1, 1997**

**RECITALS**

This, The Ryland Group, Inc. Executive and Director Deferred Compensation Plan (the "Plan"), is adopted by The Ryland Group, Inc. (the "Employer"), effective as of March 1, 1997, for certain of its executive employees and Directors. The Plan constitutes an amendment and restatement of each of the following plans, all of which are merged into this Plan as a single plan in connection herewith: The Ryland Group, Inc. Deferred Compensation Savings Plan; The Ryland Group, Inc. Salary Deferral Plan; and The Ryland Group, Inc. Unfunded Deferred Director Fee Plan.

The purpose of the Plan is to offer participants an opportunity to elect to defer the receipt of compensation in order to provide deferred compensation benefits taxable pursuant to section 451 of the Internal Revenue Code of 1986, as amended (the "Code"), and to provide a deferred compensation vehicle to which the Employer may credit certain amounts on behalf of participants. The Plan is intended to be a "top-hat" plan under sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA").

Accordingly, the following Plan is adopted.

**ARTICLE 1**  
**DEFINITIONS**

1.1 ACCOUNT means the balance credited to a Participant's or Beneficiary's Plan account, including contribution credits and deemed income, gains and losses credited thereto. A Participant's or Beneficiary's Account shall be determined as of the date of reference.

1.2 BENEFICIARY means any person or person so designated in accordance with the provisions of Article 7.

1.3 CODE means the Internal Revenue Code of 1986 and the regulations thereunder, as amended from time to time.

1.4 COMPENSATION means the total current cash and, in the case of a member of the Board of Directors, Stock Unit Plan remuneration (exclusive of the Eligible Individual's personal health and service allowance) paid by the Employer to an Eligible Individual with respect to his or her service for the Employer.

1.5 COMPENSATION DEFERRAL ACCOUNT is defined in Section 3.2.

1.6 COMPENSATION DEFERRALS is defined in Section 3.2.

1.7 DESIGNATION DATE means the date or dates as of which a designation of deemed investment directions by an individual pursuant to Section 4.5, or any change in a prior designation of deemed investment directions by an individual pursuant to Section 4.5, shall become effective. The Designation Dates in any Plan Year shall be designated by the Employer.

1.8 EFFECTIVE DATE means the effective date of the Plan, which shall be March 1, 1997.

1.9 ELIGIBLE INDIVIDUAL means, for any Plan Year (or applicable portion thereof), a person who is determined by the Employer, or its designee, to be a member of a select group of management or highly compensated employees of the Employer or a member of the Employer's Board of Directors and who is designated by the Employer, or its designee, to be an Eligible Individual under the Plan. By each December 31, the Employer, or its designee, shall notify those individuals, if any, who will be Eligible Individuals for the next Plan Year. If the Employer, or its designee, determines that an individual first becomes an Eligible Individual during a Plan Year, the Employer, or its designee, shall notify such individual of its determination and of the date during the Plan Year on which the individual shall first become an Eligible Individual.

1.10 EMPLOYER means The Ryland Group, Inc. and its successors and assigns unless otherwise herein provided, or any other corporation or business organization which, with the consent of The Ryland Group, Inc., or its successors or assigns, assumes the Employer's obligations hereunder, or any other corporation or business organization which agrees, with the consent of The Ryland Group, Inc., to become a party to the Plan.

1.11 EMPLOYER CONTRIBUTION CREDIT ACCOUNT is defined Section 3.1.

1.12 EMPLOYER CONTRIBUTION CREDITS is defined in Section 3.1.

1.13 ENTRY DATE with respect to an individual means the first day of the pay

period following the date on which the individual first becomes an Eligible Individual.

1.14 PARTICIPANT means any person so designated in accordance with the provisions of Article 2, including, where appropriate according to the context of the Plan, any former employee or former member of the Board of Directors who is or may become (or whose Beneficiaries may become) eligible to receive a benefit under the Plan.

1.15 PARTICIPANT ENROLLMENT AND ELECTION FORM means the form or forms on which a Participant elects to defer Compensation hereunder and/or on which the Participant makes certain other designations as required thereon.

1.16 PLAN means this The Ryland Group, Inc. Executive and Director Deferred Compensation Plan, an amendment, restatement and consolidation of The Ryland Group, Inc. Deferred Compensation Savings Plan, The Ryland Group, Inc. Salary Deferral Plan, and The Ryland Group, Inc. Unfunded Deferred Director Fee Plan, as amended from time to time.

1.17 PLAN YEAR means the twelve (12) month period ending on the December 31 of each year during which the Plan is in effect.

1.18 TRUST means the Trust established pursuant to Article 11.

1.19 TRUSTEE means the trustee of the Trust established pursuant to Article 11.

1.20 VALUATION DATE means the last day of each Plan Year and any other date

that the Employer, in its sole discretion, designates as a Valuation Date.

## **ARTICLE 2** **ELIGIBILITY AND PARTICIPATION**

2.1 REQUIREMENTS. Every Eligible Individual on the Effective Date shall be eligible to become or continue as a Participant on the Effective Date. Every other Eligible Individual shall be eligible to become a Participant on the first Entry Date occurring on or after the date on which he or she becomes an Eligible Individual. No individual shall become a Participant, however, if he or she is not an Eligible Individual on the date his or her participation is to begin.

Participation in the Participant Compensation Deferral feature of the Plan is voluntary. In order to participate in the Participant Compensation Deferral feature of the Plan, an otherwise Eligible Individual must make written application in such manner as may be required by Section 3.2

and by the Employer and must agree to make Compensation Deferrals as provided in Article 3.

2.2 RE-EMPLOYMENT, ETC. If a Participant whose employment or Director status with the Employer is terminated is subsequently re-employed by or subsequently becomes a Director of the Employer, he or she shall become a Participant in accordance with the provisions of Section 2.1.

2.3 CHANGE OF EMPLOYMENT CATEGORY. During any period in which a Participant remains in the employ of the Employer, but ceases to be an Eligible Individual, he or she shall not be eligible to make Compensation Deferrals hereunder.

**ARTICLE 3**  
**CONTRIBUTIONS AND CREDITS**

3.1 EMPLOYER CONTRIBUTION CREDITS. There shall be established and maintained a separate Employer Contribution Credit Account in the name of each Participant who is an employee of the Employer. Such Account shall be credited or debited, as applicable, with (a) amounts equal to the Employer's Contribution Credits credited to that Account, if any; (b) any deemed earnings and losses (to the extent realized, based upon deemed fair market value of the Account's deemed assets) allocated to that Account; and (c) expenses and/or taxes charged to that Account.

The Employer's Contribution Credits attributable to a Participant who is an employee of the Employer shall consist of the following:

- (i) matching contribution amounts for each pay period equal to the Participant's Participant Compensation Deferral amounts for that pay period, provided however that the total Employer matching contribution amounts under the Employer's 401(k) plan and this Plan for any calendar year shall not exceed six percent (6%) of the Participant's Compensation from the Employer for that year; and
- (ii) for a particular year, any discretionary Employer contribution amounts that the Employer wishes to contribute, but is prohibited under applicable law from contributing, as discretionary Employer contribution amounts, under the Employer's 401(k) plan.

A Participant shall become vested in amounts credited to his or her Employer Contribution Account pursuant to the following vesting schedule:

Years of Service Percentage ----- -----	Vested
Less than 2	
0%	
2	
25%	
3	
50%	
4	
75%	
5	
100%	

For purposes of the foregoing, each Participant will be credited with one Year of Service for each twelve (12) month period of his employment with, or service as a member of the Board of Directors of, the Employer.

Notwithstanding the foregoing, a Participant will become immediately vested in amounts credited to his or her Employer Contribution Account upon his or her death, his or her total and permanent disability (as determined by the Employer, in its discretion), his or her retirement from service to the Employer on or after age sixty-five (65), or a "Change in Control" of the Employer. For this purpose, a Change in Control shall occur upon any of the following:

- (i) the acquisition by any person, other than the Employer or any employee benefit plan(s) of the Employer, of beneficial ownership of twenty percent (20%) or more of the combined voting power of the Employer's then outstanding voting securities;
- (ii) the first purchase under a tender offer or exchange offer, other than an offer by the Employer or any employee benefit plan(s) of the Employer, pursuant to which shares of common stock of the Employer have been purchased;
- (iii) during any period of two (2) consecutive years, individuals who, at the beginning of such period constitute the Board of Directors of the

Employer cease for any reason to constitute at least a majority thereof, unless the election or the nomination for the election by stockholders of the Employer of each new Director was approved by a vote of at least two-thirds (2/3rds) of the Directors then still in office who were Directors at the beginning of the period; or

(iv) approval by stockholders of the Employer of a merger, consolidation, liquidation or dissolution of the Employer, or the sale of all or substantially all of the assets of the Employer.

**3.2 PARTICIPANT COMPENSATION DEFERRALS.** In accordance with rules established by the Employer, a Participant may elect to defer Compensation which is not yet payable and which would otherwise be paid to the Participant. Amounts so deferred will be considered a Participant's "Compensation Deferrals". Ordinarily, a Participant shall make such an election with respect to a coming twelve (12) month Plan Year during the period beginning on the December 1 and ending on the December 31 of the prior Plan Year, or during such other period established by the Employer.

Compensation Deferrals shall be made through regular payroll or retainer/meeting fee deductions and/or through an election by the Participant to defer a bonus payment not yet payable to him or her at the time of the election. The Participant may reduce his or her regular payroll or retainer/meeting fee deduction Compensation Deferral amount for a particular year as of, and by written notice delivered to the Employer at least thirty

(30) days prior to, the beginning of any regular payroll period, with such reduction being first effective for Compensation to be earned in that payroll period. In the case of bonus payment deferrals, the Participant may reduce his or her bonus payment deferral percentage for a particular year by giving notice to the Employer of the reduced bonus payment Compensation Deferral amount prior to the date the applicable bonus is first due to be paid.

Once made, a Compensation Deferral regular payroll or retainer/meeting fee deduction election shall continue in force indefinitely, until reduced by the Participant as aforesaid or until changed by the Participant for a coming year on a subsequent Participant Enrollment and Election Form provided by the Employer. A bonus payment reduction election, or a reduction thereof pursuant to the foregoing, shall continue in force only for the Plan Year for which the election is first effective.

Compensation Deferrals shall be deducted by the Employer from the pay of a deferring Participant. There shall be established and maintained by the Employer a separate Compensation Deferral Account in the name of each Participant to which shall be credited or debited: (a) amounts equal to the Participant's Compensation Deferrals; (b) amounts equal to any deemed earnings or losses (to the extent realized, based upon deemed fair market value of the Account's deemed assets) attributable or allocable thereto; and (c) expenses and/or taxes charged to that Account.

A Participant shall at all times be 100% vested in amounts credited to his or her Participant Compensation Deferral Account.

**3.3 CONTRIBUTIONS TO THE TRUST.** Amounts shall be contributed by the Employer to the Trust maintained under Section 11.1 equal to the amounts required to be credited to the Participant's Account under Sections 3.1 and 3.2. The Employer shall make a good faith effort to contribute these amounts to the Trust as soon as is practicable after such amounts are determined. Employer contributions to the Trust shall be made in cash or Stock Unit Plan credits.

#### **ARTICLE 4** **ALLOCATION OF FUNDS**

**4.1 ALLOCATION OF DEEMED EARNINGS OR LOSSES ON ACCOUNTS.** Subject to Section

4.5, each Participant shall have the right to direct the Employer as to how amounts in his or her Plan Account shall be deemed to be invested. Subject to such limitations as may from time to time be required by law, imposed by the Employer or the Trustee or contained elsewhere in the Plan, and subject to such operating rules and procedures as may be imposed from time to time by the Employer, prior to the date on which a direction will become effective, the Participant shall have the right to direct the Employer as to how amounts in his or her Account shall be deemed to be invested.

The Employer shall direct the Trustee to invest the account maintained in the Trust on behalf of the Participant pursuant to the deemed investment directions the Employer properly has received from the Participant. The value of the Participant's Account shall be equal to the value of the account maintained under the Trust on behalf of the Participant. As of each valuation date of the Trust, the Participant's Account will be credited or debited to reflect the Participant's deemed investments of the Trust.

The Participant's Plan Account will be credited or debited with the increase or decrease in the realizable net asset value or credited interest, as applicable, of the designated deemed investments, as follows. As of each Valuation Date, an amount equal to the net increase or decrease in realizable net asset value or credited interest, as applicable (as determined by the Employer or the Trustee, as applicable), of each deemed investment option within the Account since the preceding Valuation Date shall be allocated among all Participants' Accounts deemed to be invested in that investment option in accordance with the ratio which the portion of the Account of each Participant which is deemed to be invested within that investment option, determined as provided herein, bears to the aggregate of all amounts deemed to be invested within that

investment option.

4.2 ACCOUNTING FOR DISTRIBUTIONS. As of the date of any distribution hereunder, the distribution made hereunder to the Participant or his or her Beneficiary or Beneficiaries shall be charged to such Participant's Account. Such amounts shall be charged on a pro rata basis against the investments of the Trust in which the Participant's Account is deemed to be invested.

4.3 SEPARATE ACCOUNTS. A separate account under the Plan shall be established and maintained hereunder to reflect the Account for each Participant with sub-accounts to show separately the applicable deemed investments of the Account.

4.4 INTERIM VALUATIONS. If it is determined by the Employer that the value of a Participant's Account as of any date on which distributions are to be made differs materially from the value of the Participant's Account on the prior Valuation Date upon which the distribution is to be based, the Employer, in its discretion, shall have the right to designate any date in the interim as a Valuation Date for the purpose of revaluing the Participant's Account so that the Account will, prior to the distribution, reflect its share of such material difference in value.

4.5 DEEMED INVESTMENT DIRECTIONS OF PARTICIPANTS. Subject to such limitations as may from time to time be required by law, imposed by the Employer or the Trustee or contained elsewhere in the Plan, and subject to such operating rules and procedures as may be imposed from time to time by the Employer, prior to and effective for each Designation Date, each Participant may communicate to the Employer a direction as to how his or her Plan Accounts should be deemed to be invested among such categories of deemed investments as may be made available by the Employer hereunder. Such direction shall designate the percentage (in any whole percent multiples) of the Participant's Plan Account which is requested to be deemed to be invested in such categories of deemed investments.

An election concerning deemed investment choices shall continue indefinitely until changed by the Participant in a manner specified by the Employer. If the Employer receives an initial or revised deemed investment direction which it deems to be incomplete, unclear or improper, the Participant's investment direction then in effect shall remain in effect (or, in the case of a deficiency in an initial deemed investment direction, the Participant shall be deemed to have filed no deemed investment direction) until the next Designation Date, unless the Employer provides for, and permits the application of, corrective action prior thereto.

If the Employer possesses (or is deemed to possess as provided above) at any time directions as to the deemed investment of less than all of a Participant's Account, the Participant shall be deemed to have directed that the undesignated portion of the Account be deemed to be invested in a money market, fixed income, stable value or similar fund made available under the Plan as determined by the Employer in its discretion.

Each Participant hereunder, as a condition to his or her participation hereunder, agrees to indemnify and hold harmless the Employer and its agents and representatives from any losses or damages of any kind relating to the deemed investment of the Participant's Account hereunder.

Each reference in this Section to a Participant shall be deemed to include, where applicable, a reference to a Beneficiary.

4.6 EXPENSES. Expenses, including Trustee fees, allocable to the administration or operation of an Account maintained under the Plan shall be paid by the Employer unless, in the discretion of the Employer, the Employer elects to charge such expenses, or any portion thereof, against the appropriate Participant's Account or Participants' Accounts. If an expense, or any portion thereof, is charged against a Participant's Account, at the discretion of the Employer, such expense, or portion thereof, either (i) will reduce the contribution to the Trust under Section 3.3 next due to be made by the Employer in respect of the Account, or (ii) will be paid from the Trust to the Employer out of assets of the Trust corresponding to the Participant's Account hereunder.

4.7 TAXES. Any taxes generated by earnings in an Account, as determined by the Employer, shall be paid by the Employer unless, in the discretion of the Employer, the Employer elects to charge such taxes against the appropriate Participant's Account or Participants' Accounts. If a tax amount is charged against a Participant's Account, at the discretion of the Employer, such expense either (i) will reduce the contribution to the Trust under Section 3.3 next due to be made by the Employer in respect of the Account, or (ii) will be paid from the Trust to the Employer out of assets of the Trust corresponding to the Participant's Account.

## **ARTICLE 5** **ENTITLEMENT TO BENEFITS**

5.1 FIXED PAYMENT DATES; TERMINATION OF EMPLOYMENT. On his or her Participant Enrollment and Election Form, a Participant may select a fixed payment date for the payment or commencement of payment of his or her vested Account, which will be valued and payable according to the provisions of Article 6. Such payment dates may be extended to later dates so long as elections to so extend are made by the Participant prior to the then applicable fixed date. Such payment dates may not be accelerated.

Alternatively, on his or her Participant Enrollment and Election Form, a Participant may select payment or commencement of payment of his or her vested Account at his or her termination of employment or Director status with the Employer, or at the earlier of a fixed payment date or his or her termination of employment or Director status with the Employer. In either of these cases, the extension and non-acceleration rules

discussed above shall apply to such fixed payment date and/or termination of employment date, as applicable.

Any fixed payment date elected by a Participant as provided above must be no earlier than the January 1 of the third calendar year after the calendar year in which the election is made. If a Participant does not select a payment date or dates as aforesaid, his or her vested account shall be distributed or commence to be distributed, as provided in Article 6, at the termination of his or her employment of Director status with the Employer.

**5.2 HARDSHIP DISTRIBUTIONS** In the event of financial hardship of the Participant, as hereinafter defined, the Participant may apply to the Employer for the distribution of all or any part of his or her vested Account. The Employer shall consider the circumstances of each such case, and the best interests of the Participant and his or her family, and shall have the right, in its sole discretion, if applicable, to allow such distribution, or, if applicable, to direct a distribution of part of the amount requested, or to refuse to allow any distribution. Upon a finding of financial hardship, the Employer shall make the appropriate distribution to the Participant from amounts held by the Employer in respect of the Participant's vested Account. In no event shall the aggregate amount of the distribution exceed either the full value of the Participant's vested Account or the amount determined by the Employer to be necessary to alleviate the Participant's financial hardship (which financial hardship may be considered to include any taxes due because of the distribution occurring because of this Section), and which is not reasonably available from other resources of the Participant. For purposes of this Section, the value of the Participant's vested Account shall be determined as of the date of the distribution.

"Financial hardship" means (a) a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Code section 152(a)) of the Participant, (b) loss of the Participant's property due to casualty, or (c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, each as determined to exist by the Employer. A distribution may be made under this Section only with the consent of the Employer.

**5.3 APPLICATION TO TRUSTEE** On the date or dates on which a Participant or Beneficiary is entitled to payment under Section 5.1, the Participant or Beneficiary need not make application for payment to the Employer, but instead may make application for payment directly to the Trustee who shall pay the Participant or Beneficiary the appropriate amount directly from the Trust without the consent of the Employer. The Trustee shall report the amount of each such payment, and any withholding thereon, to the Employer.

**5.4 RE-EMPLOYMENT OF RECIPIENT, ETC..** If a Participant receiving installment distributions pursuant to Section 6.2 is re-employed by the Employer (or becomes a member of the Employer's Board of Directors), the remaining distributions due to the Participant shall be suspended until such time as the Participant (or his or her Beneficiary) once again becomes eligible for benefits under Section 5.1 or 5.2, at which time such distribution shall commence, subject to the limitations and conditions contained in this Plan.

## **ARTICLE 6** **DISTRIBUTION OF BENEFITS**

**6.1 AMOUNT.** A Participant (or his or her Beneficiary) shall become entitled to receive, on or about the date or dates selected by the Participant on his or her Participant Enrollment and Election Form or, if none, on or about the date of the Participant's termination of employment or Director status with the Employer (or earlier as provided in Article 5), a distribution in an aggregate amount equal to the Participant's vested Account. Any payment due hereunder from the Trust which is not paid by the Trust for any reason will be paid by the Employer from its general assets.

### **6.2 METHOD OF PAYMENT**

(a) **Cash Or In-Kind Payments.** Payments under the Plan shall be made in cash or in-kind, as elected by the Participant, as permitted by the Employer and the Trustee in their sole and absolute discretion and subject to applicable restrictions on transfer as may be applicable legally or contractually. Notwithstanding the foregoing, payments in respect of Stock Unit Plan credits held in a Participant's Account in all cases will be paid in the form of Employer stocks.

(b) **Timing and Manner of Payment.** In the case of distributions to a Participant or his or her Beneficiary by virtue of an entitlement pursuant to Sections 5.1, an aggregate amount equal to the Participant's vested Account will be paid by the Trust or the Employer, as provided in Section 6.1, in a lump sum or in five (5) or ten (10) substantially equal annual installments (adjusted for gains and losses), as selected by the Participant as provided in Article 5. If a Participant fails to designate properly the manner of payment of the Participant's benefit under the Plan, such payment will be in a lump sum.

If the whole or any part of a payment hereunder is to be in installments, the total to be so paid shall continue to be deemed to be invested pursuant to Sections 4.1 and 4.5 under such procedures as the Employer may establish, in which case any deemed income, gain, loss or expense or tax allocable thereto (as determined by the Trustee, in its discretion) shall be reflected in the installment payments, in such equitable manner as the Trustee shall determine.

**6.3 DEATH BENEFITS.** If a Participant dies before terminating his or her employment or Director status with the Employer and before the commencement of payments to the Participant hereunder, the entire value of the Participant's Account shall be paid, at the time(s) selected by the Participant under Article 5 and in the manner provided in Section 6.2, to the person or persons designated in accordance with Section 7.1.

Upon the death of a Participant after payments hereunder have begun but before he or she has received all payments to which he or she is entitled under the Plan, the remaining benefit payments shall be paid to the person or persons designated in accordance with Section 7.1, in the manner in which such benefits were payable to the Participant.

## **ARTICLE 7** **BENEFICIARIES; PARTICIPANT DATA**

7.1 DESIGNATION OF BENEFICIARIES. Each Participant from time to time may designate any person or persons (who may be named contingently or successively) to receive such benefits as may be payable under the Plan upon or after the Participant's death, and such designation may be changed from time to time by the Participant by filing a new designation. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Employer, and will be effective only when filed in writing with the Employer during the Participant's lifetime.

In the absence of a valid Beneficiary designation, or if, at the time any benefit payment is due to a Beneficiary, there is no living Beneficiary validly named by the Participant, the Employer shall pay any such benefit payment to the Participant's spouse, if then living, but otherwise to the Participant's then living descendants, if any, per stripes, but, if none, to the Participant's estate. In determining the existence or identity of anyone entitled to a benefit payment, the Employer may rely conclusively upon information supplied by the Participant's personal representative, executor or administrator.

If a question arises as to the existence or identity of anyone entitled to receive a benefit payment as aforesaid, or if a dispute arises with respect to any such payment, then, notwithstanding the foregoing, the Employer, in its sole discretion, may distribute such payment to the Participant's estate without liability for any tax or other consequences which might flow therefrom, or may take such other action as the Employer deems to be appropriate.

7.2 INFORMATION TO BE FURNISHED BY PARTICIPANTS AND BENEFICIARIES; INABILITY TO LOCATE PARTICIPANTS OR BENEFICIARIES. Any communication, statement or notice addressed to a Participant or to a Beneficiary at his or her last post office address as shown on the Employer's records shall be binding on the Participant or Beneficiary for all purposes of the Plan. The Employer shall not be obliged to search for any Participant or Beneficiary beyond the sending of a registered letter to such last known address. If the Employer notifies any Participant or Beneficiary that he or she is entitled to an amount under the Plan and the Participant or Beneficiary fails to claim such amount or make his or her location known to the Employer within three (3) years thereafter, then, except as otherwise required by law, if the location of one or more of the next of kin of the Participant is known to the Employer, the Employer may direct distribution of such amount to any one or more or all of such next of kin, and in such proportions as the Employer determines. If the location of none of the foregoing persons can be determined, the Employer shall have the right to direct that the amount payable shall be deemed to be a forfeiture, except that the dollar amount of the forfeiture, unadjusted for deemed gains or losses in the interim, shall be paid by the Employer if a claim for the benefit subsequently is made by the Participant or the Beneficiary to whom it was payable. If a benefit payable to an unlocated Participant or Beneficiary is subject to escheat pursuant to applicable state law, the Employer shall not be liable to any person for any payment made in accordance with such law.

## **ARTICLE 8** **ADMINISTRATION**

ADMINISTRATIVE AUTHORITY. Except as otherwise specifically provided herein, the Employer, acting through its Board of Directors or the designee or designees thereof, shall have the sole responsibility for and the sole control of the operation and administration of the Plan, and shall have the power and authority to take all action and to make all decisions and interpretations which may be necessary or appropriate in order to administer and operate the Plan, including, without limiting the generality of the foregoing, the power, duty and responsibility to:

- (a) Resolve and determine all disputes or questions arising under the Plan, and to remedy any ambiguities, inconsistencies or omissions in the Plan.
- (b) Adopt such rules of procedure and regulations as in its opinion may be necessary for the proper and efficient administration of the Plan and as are consistent with the Plan.
- (c) Implement the Plan in accordance with its terms and the rules and regulations adopted as above.
- (d) Make determinations with respect to the eligibility of any Eligible Individual as a Participant and make determinations concerning the crediting of Plan Accounts.
- (e) Appoint any persons or firms, or otherwise act to secure specialized advice or assistance, as it deems necessary or desirable in connection with the administration and operation of the Plan, and the Employer shall be entitled to rely conclusively upon, and shall be fully protected in any action or omission taken by it in good faith reliance upon, the advice or opinion of such firms or persons. The Employer shall have the

power and authority to delegate from time to time by written instrument all or any part of its duties, powers or responsibilities under the Plan, both ministerial and discretionary, as it deems appropriate, to any person or committee, and in the same manner to revoke any such delegation of duties, powers or responsibilities. Any action of such person or committee in the exercise of such delegated duties, powers or responsibilities shall have the same force and effect for all purposes hereunder as if such action had been taken by the Employer. Further, the Employer may authorize one or more persons to execute any certificate or document on behalf of the Employer, in which event any person notified by the Employer of such authorization shall be entitled to accept and conclusively rely upon any such certificate or document executed by such person as representing action by the Employer until such notified person shall have been notified of the revocation of such authority.

**8.2 UNIFORMITY OF DISCRETIONARY ACTS.** Whenever in the administration or operation of the Plan discretionary actions by the Employer are required or permitted, such actions shall be consistently and uniformly applied to all persons similarly situated, and no such action shall be taken which shall discriminate in favor of any particular person or group of persons.

**8.3 LITIGATION.** Except as may be otherwise required by law, in any action or judicial proceeding affecting the Plan, no Participant or Beneficiary shall be entitled to any notice or service of process, and any final judgment entered in such action shall be binding on all persons interested in, or claiming under, the Plan.

**8.4 CLAIMS PROCEDURE.** Any person claiming a benefit under the Plan (a "Claimant") shall present the claim, in writing, to the Employer or the Trustee, and the Employer or the Trustee shall respond in writing. If the claim is denied, the written notice of denial shall state, in a manner calculated to be understood by the Claimant:

- (a) The specific reason or reasons for the denial, with specific references to the Plan provisions on which the denial is based;
- (b) A description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or information is necessary; and
- (c) An explanation of the Plan's claims review procedure.

The written notice denying or granting the Claimant's claim shall be provided to the Claimant within ninety (90) days after the Employer's or Trustee's receipt of the claim, unless special circumstances require an extension of time for processing the claim. If such an extension is required, written notice of the extension shall be furnished by the Employer or Trustee to the Claimant within the initial ninety (90) day period and in no event shall such an extension exceed a period of ninety (90) days from the end of the initial ninety (90) day period. Any extension notice shall indicate the special circumstances requiring the extension and the date on which the Employer or Trustee expects to render a decision on the claim. Any claim not granted or denied within the period noted above shall be deemed to have been denied.

Any Claimant whose claim is denied, or deemed to have been denied under the preceding sentence (or such Claimant's authorized representative), may, within sixty (60) days after the Claimant's receipt of notice of the denial, or after the date of the deemed denial, request a review of the denial by notice given, in writing, to the Employer or Trustee. Upon such a request for review, the claim shall be reviewed by the Employer or Trustee (or its designated representative) which may, but shall not be required to, grant the Claimant a hearing. In connection with the review, the Claimant may have representation, may examine pertinent documents, and may submit issues and comments in writing.

The decision on review normally shall be made within sixty (60) days of the Employer's receipt of the request for review. If an extension of time is required due to special circumstances, the Claimant shall be notified, in writing, by the Employer or Trustee, and the time limit for the decision on review shall be extended to one hundred twenty (120) days. The decision on review shall be in writing and shall state, in a manner calculated to be understood by the Claimant, the specific reasons for the decision and shall include references to the relevant Plan provisions on which the decision is based. The written decision on review shall be given to the Claimant within the sixty (60) day (or, if applicable, the one hundred twenty (120) day) time limit discussed above. If the decision on review is not communicated to the Claimant within the sixty (60) day (or, if applicable, the one hundred twenty (120) day) period discussed above, the claim shall be deemed to have been denied upon review. All decisions on review shall be final and binding with respect to all concerned parties.

## **ARTICLE 9** **AMENDMENT**

**9.1 RIGHT TO AMEND.** The Employer, by written instrument executed by a duly authorized representative of the Employer, shall have the right to amend the Plan, at any time and with respect to any provisions hereof, and all parties hereto or claiming any interest hereunder shall be bound by such amendment; provided, however, that no such amendment shall deprive a Participant or a Beneficiary of a right accrued hereunder prior to the date of the amendment.

**9.2 AMENDMENTS TO ENSURE PROPER CHARACTERIZATION OF PLAN.** Notwithstanding the provisions of Section 9.1, the Plan may be amended by the Employer at any time, retroactively if required in the opinion of the Employer, in order to ensure that the Plan is characterized as "top-hat" plan as described under ERISA sections 201(2), 301(a)(3), and 401(a)(1), and to conform the Plan to the provisions

and requirements of any applicable law (including ERISA and the Code). No such amendment shall be considered prejudicial to any interest of a Participant or a Beneficiary hereunder.

## **ARTICLE 10** **TERMINATION**

10.1 EMPLOYER'S RIGHT TO TERMINATE OR SUSPEND PLAN. The Employer reserves the right to terminate the Plan and/or its obligation to make further credits to Plan Accounts. The Employer also reserves the right to suspend the operation of the Plan for a fixed or indeterminate period of time.

10.2 AUTOMATIC TERMINATION OF PLAN. The Plan automatically shall terminate upon the dissolution of the Employer, or upon its merger into or consolidation with any other corporation or business organization if there is a failure by the surviving corporation or business organization to adopt specifically and agree to continue the Plan.

10.3 SUSPENSION OF DEFERRALS. In the event of a suspension of the Plan, the Employer shall continue all aspects of the Plan, other than Compensation Deferrals and Employer Contribution Credits, during the period of the suspension, in which event payments hereunder will continue to be made during the period of the suspension in accordance with Articles 5 and 6.

10.4 ALLOCATION AND DISTRIBUTION. This Section shall become operative on a complete termination of the Plan. The provisions of this Section also shall become operative in the event of a partial termination of the Plan, as determined by the Employer, but only with respect to that portion of the Plan attributable to the Participants to whom the partial termination is applicable. Upon the effective date of any such event, notwithstanding any other provisions of the Plan, no persons who were not theretofore Participants shall be eligible to become Participants, the value of the interest of all Participants and Beneficiaries shall be determined and, after deduction of estimated expenses in liquidating and, if applicable, paying Plan benefits, paid to them as soon as is practicable after such termination.

10.5 SUCCESSOR TO EMPLOYER. Any corporation or other business organization which is a successor to the Employer by reason of a consolidation, merger or purchase of substantially all of the assets of the Employer shall have the right to become a party to the Plan by adopting the same by resolution of the entity's board of directors or other appropriate governing body. If, within ninety (90) days from the effective date of such consolidation, merger or sale of assets, such new entity does not become a party hereto, as above provided, the Plan automatically shall be terminated, and the provisions of Section 10.4 shall become operative.

## **ARTICLE 11** **THE TRUST**

11.1 ESTABLISHMENT OF TRUST. The Employer shall establish the Trust with the Trustee pursuant to such terms and conditions as are set forth in the Trust agreement to be entered into between the Employer and the Trustee. The Trust is intended to be treated as a "grantor" trust under the Code and the establishment of the Trust is not intended to cause the Participant to realize current income on amounts contributed thereto, and the Trust shall be so interpreted.

## **ARTICLE 12** **MISCELLANEOUS**

12.1 LIMITATIONS ON LIABILITY OF EMPLOYER. Neither the establishment of the Plan nor any modification thereof, nor the creation of any account under the Plan, nor the payment of any benefits under the Plan shall be construed as giving to any Participant or other person any legal or equitable right against the Employer, or any officer or employer thereof except as provided by law or by any Plan provision. The Employer does not in any way guarantee any Participant's Account from loss or depreciation, whether caused by poor investment performance of a deemed investment or the inability to realize upon an investment due to an insolvency affecting an investment vehicle or any other reason. In no event shall the Employer, or any successor, employee, officer, director or stockholder of the Employer, be liable to any person on account of any claim arising by reason of the provisions of the Plan or of any instrument or instruments implementing its provisions, or for the failure of any Participant, Beneficiary or other person to be entitled to any particular tax consequences with respect to the Plan, or any credit or distribution hereunder.

12.2 CONSTRUCTION. If any provision of the Plan is held to be illegal or void, such illegality or invalidity shall not affect the remaining provisions of the Plan, but shall be fully severable, and the Plan shall be construed and enforced as if said illegal or invalid provision had never been inserted herein. For all purposes of the Plan, where the context admits, the singular shall include the plural, and the plural shall include the singular. Headings of Articles and Sections herein are inserted only for convenience of reference and are not to be considered in the construction of the Plan. The laws of the State of Maryland shall govern, control and determine all questions of law arising with respect to the Plan and the interpretation and validity of its respective provisions, except where those laws are preempted by the laws of the United States. Participation under the Plan will not give any Participant the right to be retained in the service of the Employer nor any right or claim to any benefit under the Plan unless such right or claim has specifically accrued hereunder.

The Plan is intended to be and at all times shall be interpreted and administered so as to qualify as a top-hat plan (as aforesaid), and no provision of the Plan shall be interpreted so as to give any individual any right in any assets of the Employer which right is greater than the rights of a general unsecured creditor of the Employer.

12.3 SPENDTHRIFT PROVISION. No amount payable to a Participant or a Beneficiary under the Plan will, except as otherwise specifically provided by law, be subject in any manner to anticipation, alienation, attachment, garnishment, sale, transfer, assignment (either at law or in equity), levy, execution, pledge, encumbrance, charge or any other legal or equitable process, and any attempt to do so will be void; nor will any benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled thereto. Further, (i) the withholding of taxes from Plan benefit payments, (ii) the recovery under the Plan of overpayments of benefits previously made to a Participant or Beneficiary, (iii) if applicable, the transfer of benefit rights from the Plan to another plan, or (iv) the direct deposit of benefit payments to an account in a banking institution (if not actually part of an arrangement constituting an assignment or alienation) shall not be construed as an assignment or alienation.

In the event that any Participant's or Beneficiary's benefits hereunder are garnished or attached by order of any court, the Employer or Trustee may bring an action or a declaratory judgment in a court of competent jurisdiction to determine the proper recipient of the benefits to be paid under the Plan. During the pendency of said action, any benefits that become payable shall be held as credits to the Participant's or Beneficiary's Account or, if the Employer or Trustee prefers, paid into the court as they become payable, to be distributed by the court to the recipient as the court deems proper at the close of said action.

IN WITNESS WHEREOF, the Employer has caused the Plan to be executed and its seal to be affixed hereto, effective as of the 1st day of March, 1997.

**ATTEST/WITNESS THE RYLAND GROUP, INC.**

KELLY ELINSKY  
(SEAL)

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Print: Kelly Elinsky

By: EDWARD W. GOLD

Print Name: Edward W. Gold

Date: March 19, 1997

**AMENDMENT NO. 1 TO  
THE RYLAND GROUP, INC.  
EXECUTIVE AND DIRECTOR DEFERRED COMPENSATION PLAN**

The Ryland Group, Inc. (the "Company") wishes to amend The Ryland Group, Inc. Executive and Director Deferred Compensation Plan (the "Plan") pursuant to proper authorization by the Board of Directors of the Company.

Accordingly, effective January 1, 1998, the Plan hereby is amended as follows:

Section 3.1 of the Plan is amended by replacing the Years of Service and Vested Percentage chart in that Section with the following, revised Years of Service and Vested Percentage chart:

Years of Service ----- -----	Vested Percentage
Less than 1	0%
1	20%
2	40%
3	60%
4	80%
5	100%

IN WITNESS WHEREOF, the Company has executed this Amendment No. 1 to the Plan, effective as specified herein.

WITNESS/ATTEST:

KELLY ELINSKY  
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Print Name: Kelly Elinsky

THE RYLAND GROUP, INC.

By: EDWARD W. GOLD

Print Name: Edward W. Gold

Title: Sr. VP, Human Resources

Date: November 6, 1997

**THE RYLAND GROUP, INC.**  
**NON-EMPLOYEE DIRECTORS' STOCK UNIT PLAN**

1. **PURPOSE.** The Ryland Group, Inc. Non-Employee Directors' Stock Unit Plan grants Awards of Stock Units to non-employee members of the Board to align their compensation program with the interests of the Company's stockholders. The Plan provides for annual grants of Stock Units to Directors as part of their Annual Retainer. The effective date of the Plan is January 1, 1998.

2. **DEFINITIONS.**

"ANNUAL RETAINER" shall mean the annual retainer fee paid to a Director for services on the Board exclusive of any meeting fees or expense reimbursement.

"AWARD" shall mean an award of Stock Units pursuant to the Plan.

"BOARD" shall mean the Board of Directors of the Company.

"COMMITTEE" shall mean the Compensation Committee of the Board or such other committee as may be designated by the Board.

"COMPANY" shall mean The Ryland Group, Inc.

"DIRECTOR" shall mean a non-employee director of the Company.

"EFFECTIVE DATE" shall mean January 1, 1998.

"FAIR MARKET VALUE" of the Stock shall mean on a particular date or if a price is not available for that date, the last prior date for which a price is determined in accordance herewith, the last reported sale price of the Stock on the New York Stock Exchange; or, if the Stock is not listed on the New York Stock Exchange, the closing price on such other exchange on which the Stock is traded; or, if quoted on the NASDAQ National Market System or other over-the-counter market, the last reported sales price on the NASDAQ National Market System or other over-the-counter market; or, if the Stock is not publicly traded, such price as determined by the Committee to be the fair market value.

"PLAN" shall mean The Ryland Group, Inc. Non-Employee Directors' Stock Unit Plan.

"STOCK" shall mean shares of common stock, par value \$1.00 per share, of the Company.

"STOCK UNIT" shall mean a right to receive one share of Stock.

3. **SOURCE OF SHARES DELIVERED UNDER STOCK UNITS.** Any Stock delivered pursuant to an Award shall consist of shares of Stock acquired by the Company on the open market.

4. **DIRECTOR COMPENSATION.**

(a) Each non-employee Director shall receive 50% of the Annual Retainer in cash and 50% in Stock Units. The Stock Unit portion of the Annual Retainer shall be awarded on the date of payment of the Annual Retainer or any portion of the Annual Retainer to which it relates (the Award Date) in Stock Units having a Fair Market Value on the Award Date or, if Fair Market Value cannot be determined on the Award Date, the closest prior date to the Award Date as determined in accordance with Section 2, equal to 50% of the Annual Retainer. Any fractions of Stock Units are paid in cash.

(b) If a Director elects to defer the receipt of a payment of Stock in relation to a Stock Unit, such Stock is credited to and shall be payable in accordance with the deferred account established for the Director pursuant to the Executive and Director Deferred Compensation Plan. During the elective deferral period, the Stock is held in the Director's deferred account under the trust maintained in connection with the Executive and Director Deferred Compensation Plan. All deferral elections are made in writing prior to the Award Date for the applicable Stock Unit.

5. **TIME OF VESTING AND PAYMENT.** Unless otherwise provided herein or deferred in accordance with Section 4(b), all payments of Stock and transmittal of Stock certificates or other evidence of Stock ownership in relation to Stock Units will be distributed as soon as practicable after the Award Date.

6. FORM OF PAYMENT. Stock Units are paid in shares of Stock. Each Stock Unit equals one share of Stock. The Company shall not issue fractions of a share of Stock. Whenever under the terms of the Plan a fractional share is required to be issued, the Director is paid in cash for such fractional share.

7. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Committee. The Committee shall have full power, discretion and authority to interpret and administer the Plan.

8. AMENDMENT OR TERMINATION OF THE PLAN. The Committee may, at any time, amend or terminate the Plan.

9. GOVERNING LAW. The Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Maryland and the applicable laws of the United States.

**Exhibit 11 Statement RE Computation of Per Share Earnings**

	December 31,		
Basic:	1997	1996	1995
Net earnings (loss) from continuing operations	\$21,882	\$15,839	
Discontinued operations	0	0	22,856
Net earnings (loss) (2,618)	21,882	15,839	
Adjustment for dividends on convertible preferred shares (2,193)	(1,630)	(1,974)	
Adjusted net earnings (loss) (4,811)	\$20,252	\$13,865	\$
Weighted average common shares outstanding	15,227,829	15,789,184	15,585,254
Net earnings (loss) per share from continuing operations	\$1.33	\$0.88	
Discontinued operations	0.00	0.00	1.47
Net earnings (loss) per share \$(0.31)	\$1.33	\$0.88	
Diluted:			
Net earnings (loss) from continuing operations	\$21,882	\$15,839	
Discontinued operations	0	0	22,856
Net earnings (loss) (2,618)	21,882	15,839	
Adjustment for dividends on convertible preferred shares (2) (2,193)	(1,630)	(1,974)	
Adjustment for incremental dividends on convertible preferred shares	0	0	0
Adjusted net earnings (loss) (4,811)	\$20,252	\$13,865	\$
Weighted average common shares outstanding	15,227,829	15,789,184	15,585,254
Common stock equivalents:			
Stock options	5,387		0
Equity incentive plan	107,661	134,240	0
Convertible preferred stock	0	0	0

(1) For 1995 average shares outstanding have not been increased by the common stock equivalents relating to the employee stock option and employee incentive plans as the effect would be anti-dilutive.

(2) For all periods the net earnings (loss) was adjusted for dividends on convertible preferred shares as the adjustment for incremental dividends related to the assumed conversion of convertible preferred shares would be anti-dilutive.

SELECTED FINANCIAL DATA

(dollar amounts in millions, except unit and per share data) unaudited

	1997	1996	1995
-----			
Annual Results:			
Revenues			
Homebuilding	\$ 1,557	\$ 1,473	\$ 1,458
Financial services and limited- purpose subsidiaries	93	107	127
Total	1,650	1,580	1,585
Cost of sales - homebuilding	1,346	1,277	1,280
Selling, general and administrative expenses	211	203	211
Interest expense	57	74	91
Impairment of inventories and joint- venture investments (1)	0	0	45
Earnings (loss) from continuing operations before taxes	36	26	(42)
Tax expense (benefit)	14	10	(17)
Net earnings (loss) from continuing operations	22	16	(25)
Discontinued operations, net of taxes (2)	0	0	22
Net earnings (loss) before cumulative effect of accounting change	22	16	(3)
Cumulative effect of accounting change, net of taxes (3)	0	0	0
Net earnings (loss)	\$ 22	\$ 16	\$ (3)
-----			
Year-End Position:			
Assets			
Housing inventories	\$ 555	\$ 575	\$ 538
Mortgage loans held for sale	200	180	285
Mortgage-backed securities and notes receivable	153	144	113
Collateral for bonds payable of limited-purpose subsidiaries	142	214	375
Other assets	233	226	270
Total assets	\$ 1,283	\$ 1,339	\$ 1,581
-----			
Liabilities			
Long-term debt	\$ 310	\$ 354	\$ 397
Short-term notes payable	341	326	367
Bonds payable of limited- purpose subsidiaries	137	207	365
Other liabilities	190	142	151
Total liabilities	\$ 978	\$ 1,029	\$ 1,280
-----			
Stockholders' equity	\$ 305	\$ 310	\$ 301
-----			
Per Common Share Data (4):			
Basic			
Net earnings (loss) from continuing operations	\$ 1.33	\$ 0.88	\$ (1.78)
Net earnings (loss) before cumulative effect of accounting change	\$ 1.33	\$ 0.88	\$ (0.31)
Net earnings (loss)	\$ 1.33	\$ 0.88	\$ (0.31)

Basic

Net earnings (loss) from continuing operations from  [2002](#) EDGAR Online, Inc. \$ 1.33 \$ 0.88 \$ (1.78)

Net earnings (loss) before cumulative effect of accounting change \$ 1.33 \$ 0.88 \$ (0.31)

Net earnings (loss) \$ 1.33 \$ 0.88 \$ (0.31)

- (1) 1995 and 1993 reflect \$45 million pretax charges related to homebuilding inventories and investments in unconsolidated joint ventures.
- (2) The Company sold its institutional mortgage-securities administration business in the second quarter of 1995. 1995 results from discontinued operations include the second-quarter gain on the sale and the results of operations for the first half of 1995.
- (3) The Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," in 1994.
- (4) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements beginning on page 30.

**The Ryland Group, Inc. and Subsidiaries**  
**SELECTED FINANCIAL DATA**

(dollar amounts in millions, except unit and per share data) unaudited

	1994	1993
-----		
Annual Results:		
Revenues		
Homebuilding	\$ 1,443	\$ 1,204
Financial services and limited- purpose subsidiaries	176	247
Total	----- 1,619	----- 1,451
Cost of sales - homebuilding	1,262	1,059
Selling, general and administrative expenses	225	201
Interest expense	105	162
Impairment of inventories and joint- venture investments (1)	0	45
Earnings (loss) from continuing operations before taxes	----- 27	----- (16)
Tax expense (benefit)	11	(6)
Net earnings (loss) from continuing operations	----- 16	----- (10)
Discontinued operations, net of taxes (2)	6	7
Net earnings (loss) before cumulative effect of accounting change	----- 22	----- (3)
Cumulative effect of accounting change, net of taxes (3)	2	0
Net earnings (loss)	----- \$ 24	----- \$ (3)
Year-End Position:		
Assets		
Housing inventories	\$ 600	\$ 492
Mortgage loans held for sale	215	536
Mortgage-backed securities and notes receivable	171	192
Collateral for bonds payable of limited-purpose subsidiaries	459	798
Other assets	259	298
Total assets	----- \$ 1,704	----- \$ 2,316
Liabilities		
Long-term debt	\$ 409	\$ 381
Short-term notes payable	378	717
Bonds payable of limited- purpose subsidiaries	447	778
Other liabilities	158	147
Total liabilities	----- \$ 1,392	----- \$ 2,023
Stockholders' equity	----- \$ 312	----- \$ 293
Per Common Share Data (4):		
Basic		
Net earnings (loss) from continuing operations	\$ 1.30	\$ (0.79)
Net earnings (loss) before cumulative effect of accounting change	\$ 1.42	\$ (0.34)
Net earnings (loss)	\$ 1.42	\$ (0.34)

Basic

Net earnings (loss) from continuing operations from  2002 EDGAR Online Inc. \$ (0.79)

Net earnings (loss) before cumulative effect of accounting change \$ 1.30 \$ (0.34)

Net earnings (loss) \$ 1.42 \$ (0.34)

- (1) 1995 and 1993 reflect \$45 million pretax charges related to homebuilding inventories and investments in unconsolidated joint ventures.
- (2) The Company sold its institutional mortgage-securities administration business in the second quarter of 1995. 1995 results from discontinued operations include the second-quarter gain on the sale and the results of operations for the first half of 1995.
- (3) The Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," in 1994.
- (4) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements beginning on page 30.

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

### THE COMPANY

Operations of The Ryland Group, Inc. and subsidiaries (the "Company") consist of two business segments: homebuilding and financial services. The Company's homebuilding segment constructs and sells single-family attached and detached homes in 23 divisions in 20 states throughout the United States. The financial services segment provides mortgage-related products and services for retail customers and conducts investment activities.

### RESULTS OF OPERATIONS CONSOLIDATED

The Company reported consolidated net earnings of \$21.9 million, or \$1.33 per share, for 1997, compared with consolidated net earnings of \$15.8 million, or \$.88 per share, for 1996, and a consolidated net loss of \$2.6 million, or \$.31 per share, for 1995.

The homebuilding segment recorded pretax earnings of \$35.2 million for 1997, compared with pretax earnings of \$22.6 million for 1996 and a pretax loss of \$47.5 million for 1995. Homebuilding results in 1997 increased from 1996 primarily due to higher gross profit margins combined with lower interest expense. Homebuilding results in 1996 increased from 1995, excluding a \$45 million pretax impairment charge, primarily due to improved gross profit margins combined with lower selling, general and administrative expenses.

The Company's homebuilding results for 1995 include a pretax impairment charge of \$45 million, primarily related to the Company's adoption of Statement of Financial Accounting Standards No. 121 (FASB 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," that resulted in a reduction in the carrying value of certain inventories and joint-venture investments to fair value.

The financial services segment reported pretax earnings of \$15.6 million for 1997, compared with \$15.8 million for 1996 and \$17.9 million for 1995. Retail earnings increased \$.6 million in 1997 over 1996 as higher gains on the sale of mortgages and servicing rights and reduced general and administrative expenses were partially offset by a decline in loan servicing income and lower loan originations. Investment earnings declined as a result of lower gains on the sale of mortgage-backed securities. The decline in 1996 from 1995 was primarily attributable to a decrease in investment earnings due to lower gains from sales of mortgage-backed securities. Retail earnings for 1996 were comparable to 1995.

The Company's 1995 results also include net after-tax earnings of \$22.9 million related to the second-quarter sale of the Company's institutional mortgage-securities administration business which has been reported as discontinued operations. The results from discontinued operations include a net after-tax gain on the sale of \$19.5 million. The sale of this business was consistent with the Company's long-term strategy to focus on its core homebuilding and retail mortgage-finance operations and to invest additional capital into its homebuilding operations.

Corporate expenses represent the costs of corporate functions, which support the business segments. Corporate expenses of \$14.3 million were up \$2.2 million from 1996 primarily due to increases in incentive compensation attributable to the higher earnings level in 1997. Corporate expenses for 1996 were down \$.9 million from 1995 primarily due to the Company's efforts to reduce operating expenses.

Though the Company's limited-purpose subsidiaries no longer issue mortgage-backed securities and mortgage-participation securities, they continue to hold collateral for previously issued mortgage-backed bonds in which the Company maintains a residual interest. Revenues, expenses and portfolio balances continue to decline as the mortgage collateral pledged to secure the bonds decreases due to scheduled payments, prepayments and exercises of early redemption provisions. Revenues have approximated expenses for the last three years.

### HOMEBUILDING SEGMENT

Results of operations for the homebuilding segment are summarized as follows (amounts in thousands, except average closing price):

	1997	1996	1995
Revenues			
Residential	\$1,527,107	\$1,456,634	\$1,456,767
Other	30,219	16,641	1,407
	-----		
Total	1,557,326	1,473,275	1,458,174
Gross profit	211,185	196,398	178,428
Selling, general and administrative expenses	152,071	146,285	151,087
Interest expense	23,964	27,517	29,807
Impairment of inventories and joint-venture investments	0	0	45,000
	-----		
Homebuilding pretax earnings (loss) (47,466)	\$ 35,150	\$ 22,596	\$
	-----		
Average closing price	\$ 182,000	\$174,000	\$ 164,000

The Company's homebuilding segment reported pretax earnings of \$35.2 million in 1997, compared with pretax earnings of \$22.6 million in 1996 and a pretax loss of \$47.5 million in 1995. Results for 1997 and 1996 included pretax gains from land sales of \$4.8 million and \$3.7 million, respectively. The increase in 1997 over 1996 was primarily due to higher gross profit margins and lower interest expense partially offset by an increase in selling, general and administrative expenses. The improvement in 1996, compared with 1995, excluding the \$45 million pretax impairment charge, was primarily attributable to improved gross profit margins as well as lower selling, general and administrative expenses. The 1995 pretax impairment charge of \$45 million was primarily related to the Company's adoption of FASB 121 and the resultant adjustments to fair value of certain homebuilding inventories and investments in joint ventures. Of the total impairment charge, \$31 million related to California inventories and \$14 million related to assets to be disposed of.

Homebuilding revenues increased 5.7 percent in 1997, compared with 1996, primarily due to an \$8,000 increase in the average closing price and increased revenues from land sales, which more than offset the slight decline in closings. Homebuilding revenues increased 1.0 percent in 1996, compared with 1995, due to a \$10,000 increase in average closing price and increased revenues from land sales. The increase in average closing price was partially offset by a 6.3 percent decline in closings reflecting a reduction in new orders resulting from increased competitive pressures in certain markets and the Company's reduced inventory investment in the Mid-Atlantic region.

Gross profit margins averaged 13.6 percent for 1997, an increase from the 13.3 percent for 1996 primarily due to increased closings from newer communities, where better land purchases and reduced direct construction costs have led to improved margins. Gross profit margins have improved over 1996 despite the continuing challenge of strong competitive market conditions in the Mid-Atlantic region. Gross profit margins of 13.3 percent for 1996 increased 1.1 percentage points from 1995, excluding the impairment charge. Increased closings from higher-margin new communities and the aforementioned gains from land sales contributed to the 1996 margin improvement. In addition, the Company's gross profit margins during 1995 were negatively impacted by the build-out of older inventories in California that were affected by a decline in economic and market conditions.

Selling, general and administrative expenses as a percent of revenues were 9.8 percent for 1997, 9.9 percent for 1996 and 10.4 percent for 1995. The percentage declines in 1997 and 1996 primarily reflect the Company's continued focus on cost control and improving the efficiency of homebuilding operations. Included in selling, general and administrative expenses for 1995 were \$2.2 million of reorganization costs associated with the Company's initiatives to restructure certain divisions within its Mid-Atlantic and Southwest operations.

Interest expense decreased \$3.6 million, or 12.9 percent in 1997 due to a decline in average homebuilding borrowings primarily attributable to a decrease in average inventories. Interest expense decreased in 1996 due to a lower average cost of funds.

## HOMEBUILDING OPERATIONAL DATA

	New Orders (units)			Closings (units)		
	1997	1996	%Change	1997	1996	%Change
Mid-Atlantic	1,256	1,194	5	1,243	1,470	(15)
Midwest	1,509	1,345	12	1,372	1,370	0
Southeast	1,792	1,450	24	1,653	1,401	18
Southwest	2,027	1,578	28	1,716	1,806	(5)
West	2,410	2,272	6	2,393	2,341	2
Total	8,994	7,839	15	8,377	8,388	(0)

	Outstanding Contracts December 31, 1997				Outstanding Contracts December 31, 1996		
	Units	% Change	Dollars in Millions	Average Price	Units	Dollars in Millions	Average Price
Mid-Atlantic	383	4	\$ 81	\$212,000	370	\$74	\$
200,000							
Midwest	606	29	106	174,000	469	77	
165,000							
Southeast	637	28	117	183,000	498	87	
175,000							
Southwest	645	93	95	148,000	334	52	
155,000							
West	541	3	110	203,000	524	115	
219,000							
Total	2,812	28	\$509	\$181,000	2,195	\$405	\$
185,000							

New orders in 1997 increased 15 percent compared with 1996 as all regions showed increases. The Company had strong new order growth in some newer markets, as well as in some existing markets. The largest increase in new orders was in the Southwest region where Houston, Dallas and San Antonio reflected strong increases of 30 percent or more. The Southeast region showed growth in all divisions with significant growth in the newer market of Tampa. The Midwest region recorded a strong increase in Chicago, its largest new market, while the West region had a substantial increase in Phoenix and its first new orders in Portland. The Mid-Atlantic region achieved a 5 percent increase in new orders in the face of intense competition and reduced investment.

As of December 31, 1997, the Company had outstanding contracts for 2,812 units, up 28 percent from year-end 1996 due to the increase in new orders. Outstanding contracts represent the Company's backlog of sold but not closed homes, which generally are built and closed, subject to cancellation, over the next two quarters. The \$509 million value of outstanding contracts increased 26 percent from year-end 1996.

#### FINANCIAL SERVICES SEGMENT

The Company's financial services segment reported pretax earnings of \$15.6 million in 1997, compared with \$15.8 million in 1996 and \$17.9 million in 1995.

Pretax earnings by line of business were as follows (amounts in thousands):

	1997	1996	
1995			
Retail	\$ 10,093	\$ 9,539	\$
9,672			
Investments	5,492	6,308	
8,198			
-----			
Total	\$ 15,585	\$ 15,847	\$
17,870			

The 1997 results from retail operations were favorably impacted by higher gains on sales of mortgages and servicing rights and reduced general and administrative expenses which more than offset the effect of lower loan originations and reduced loan servicing income. Lower retail originations and revenues in 1996 were substantially offset by reduced general and administrative expenses and a higher net interest spread. The declines in investment earnings in 1997 and 1996 were primarily due to lower gains on the sale of mortgage-backed securities.

During 1996, the Company sold its wholesale mortgage origination business based on expectations that the business would not contribute significantly to the Company's future earnings. Included in 1996 originations were 1,776 wholesale originations. The disposition of this business reduced mortgage originations and revenues of the financial services segment in 1996 but did not have a material effect on the Company's earnings for the year.

Future earnings of the financial services segment will be negatively impacted due to reductions in loan servicing income attributable to the decline in the Company's loan servicing portfolio which has decreased by \$1.8 billion during 1997. The Company is currently evaluating a potential sale of a significant portion of its remaining loan servicing portfolio. Earnings may also be negatively impacted if the Company has lower gains from sales of mortgage servicing rights in the future.

Revenues and expenses for the financial services segment were as follows (amounts in thousands):

	1997	1996	1995
Retail revenues:			
Interest and net origination fees	\$ 7,651	\$ 13,210	\$
16,727			
Gains on sales of mortgages and servicing rights	21,968	15,543	
17,362			
Loan servicing	24,464	29,684	
32,650			
Title/escrow	6,394	5,733	
5,246			
-----			
Total retail revenues	60,477	64,170	
71,985			
Revenues from investment operations	16,452	15,354	
17,626			
-----			
Total	76,929	79,524	
89,611			
Expenses:			
General and administrative	43,454	44,723	
47,991			
Interest	17,890	18,954	
23,750			
-----			
Total expenses	61,344	63,677	
71,741			
-----			
Pretax earnings	\$ 15,585	\$ 15,847	\$
17,870			

Revenues for the financial services segment decreased in 1997 compared with the same period of 1996 due to fewer mortgage loan originations and lower loan servicing revenues which were partially offset by higher gains on sales of mortgages and servicing rights. Loan servicing revenues declined as a result of a lower portfolio balance and changes in the portfolio product mix. Investment revenues increased 7.2 percent in 1997 due to a higher average investment portfolio balance. Revenues decreased in 1996 compared with 1995 primarily due to reduced mortgage originations, which declined by 27.2 percent principally due to the sale of the wholesale mortgage origination business in May 1996. The decrease in loan servicing revenue in 1996 was a result of lower revenue per loan primarily due to changes in the portfolio product mix.

Declines in interest expense for 1997, 1996 and 1995 were directly related to the reduced warehouse borrowings required to fund the lower origination volume, offset partially by an increase in interest expense in 1997 in the Company's investment operations due to a higher average portfolio balance. General and administrative expenses for the financial services segment declined 2.8 percent in 1997 due to improved efficiencies in the mortgage origination process, cost savings related to the disposition of the Company's wholesale mortgage origination business in 1996 and continued cost reduction efforts. General and administrative expenses for the financial services segment declined 6.8 percent in 1996 compared with 1995 due to the disposition of the Company's wholesale mortgage origination business combined with the Company's cost reduction efforts.

Retail Operations Retail operations include mortgage origination, loan servicing, title, escrow and homeowners insurance services for retail customers.

A summary of mortgage origination activities is as follows:

	1997	1996	1995
Dollar volume of mortgages originated (in millions) 1,952	\$ 1,005	\$ 1,466	\$
Number of mortgages originated 15,330	7,248	11,161	
Percentage			
Ryland home settlements 35%	66%	47%	
Other settlements 65%	34%	53%	
----- Total settlements 100%	100%	100%	

Mortgage originations decreased in 1997 by 35.1 percent primarily due to the sale of the wholesale mortgage operations which was completed in May 1996 as well as lower closing volume from spot and homebuilder loan originations. Mortgage originations for 1996 decreased by 27.2 percent from 1995 due to the sale of the wholesale mortgage origination business. Excluding wholesale originations, originations for 1996 decreased by 2.0 percent compared with 1995, primarily due to the lower volume of closings from the Company's homebuilding segment.

The Company earns interest on mortgages held for sale and pays interest on borrowings secured by the mortgages. Significant data related to these activities are as follows:

	1997	1996	1995
Net interest earned (in thousands)	\$ 4,527	\$ 6,458	\$ 5,766
Average balance of mortgages held for sale (in millions)	\$ 106	\$ 168	\$ 211
Net interest spread 2.7%	4.3%	3.8%	

Net interest earned decreased in 1997 primarily due to a lower average balance of mortgages held for sale. Net interest earned increased in 1996 due to a higher net interest spread resulting from lower average borrowing costs.

The Company services loans that it originates, as well as loans originated by others. Loan servicing portfolio balances were as follows at December 31 (amounts in billions):

	1997	1996	
1995			
Originated	\$ 1.0	\$ 2.1	\$
2.4			
Acquired	2.2	3.0	
3.5			
Subserviced	1.3	1.2	
.3			
-----			
Total serviced	\$ 4.5	\$ 6.3	\$
6.2			

The decrease in the originated and acquired portfolio balances in 1997 are mainly attributable to servicing sales from the originated portfolio in excess of amounts originated in 1997, combined with mortgage prepayment activity and the call of a security and related servicing transfer. The decreases in the originated and acquired portfolio balances in 1996 is primarily attributable to normal mortgage prepayment activity.

Investment Operations The Company's investment operations hold certain assets, primarily mortgage-backed securities which were obtained as a result of the exercise of redemption rights on various mortgage-backed bonds previously owned by the Company's limited-purpose subsidiaries. Pretax earnings were as follows (amounts in thousands):

	1997	1996	1995
Sale of mortgage-backed securities	\$ 75	\$ 1,138	\$
4,839			
Interest and other income	16,377	14,216	
12,787			
-----			
Total revenues	16,452	15,354	
17,626			
Interest and other expenses	10,960	9,046	
9,428			
-----			
Pretax earnings	\$ 5,492	\$ 6,308	\$
8,198			

Pretax earnings for 1997 and 1996 were down primarily due to the lower gains from the sale of mortgage-backed securities. Interest and other income includes \$.8 million and \$1.3 million, for 1997 and 1996, respectively, in gains related to the redemption of certain securities.

Significant data from investment operations are as follows:

	1997	1996	1995
Net interest earned			
(in thousands)	\$ 5,702	\$ 4,744	\$ 4,433
Average balance outstanding			
(in millions)	\$ 153	\$ 123	\$ 122
Net interest spread	3.7%	3.8%	
3.6%			

The Company earns a net interest spread on the investment portfolio, which represents the difference between the interest rates on the mortgage-backed securities and notes receivable and the related borrowing rates. Net interest earned increased for 1997 due to the higher average investment portfolio balance. A small increase in the average investment portfolio balance outstanding combined with a higher net interest spread resulted in an increase in net interest earned for 1996.

### **DISCONTINUED INSTITUTIONAL OPERATIONS**

In the second quarter of 1995, the Company sold its institutional mortgage securities administration business which included master servicing, securities administration, investor information services, and tax calculation and reporting. The net after-tax earnings from operations of the discontinued business of \$3.3 million for 1995, as well as the \$19.5 million net after-tax gain on the sale of the business, have been reported as discontinued operations in the accompanying consolidated statements of earnings. Revenues from operations of the discontinued business were \$11.4 million for 1995.

### **FINANCIAL CONDITION AND LIQUIDITY**

The Company generally provides for the cash requirements of the homebuilding and financial services businesses from outside borrowings and internally generated funds. The Company believes that its current sources of cash are sufficient to finance its requirements.

The homebuilding segment borrowings include senior notes, senior subordinated notes, an unsecured revolving credit facility and nonrecourse secured notes payable. Senior and senior subordinated notes outstanding totaled \$308.0 million as of December 31, 1997 and \$318.0 million as of December 31, 1996. Senior notes amounting to \$10 million matured and were paid off in January 1997. The Company uses its unsecured revolving credit facility to finance increases in its homebuilding inventory and changes in working capital. This facility, which was amended in June 1997 and extended to July 2000, provides for total borrowings of up to \$300 million. There were no outstanding borrowings as of December 31, 1997, compared with \$34.0 million as of December 31, 1996. The Company had letters of credit outstanding under this facility totaling \$22.3 million at December 31, 1997 and \$18.3 million at December 31, 1996. To finance land purchases, the Company may also use seller-financed, non-recourse secured notes payable. At December 31, 1997, such notes payable outstanding amounted to \$2.2 million, compared with \$1.5 million at December 31, 1996. Total homebuilding debt outstanding was reduced by \$44.0 million during 1997 to \$310.2 million as of December 31, 1997.

Housing inventories decreased to \$554.8 million as of December 31, 1997, from \$574.6 million as of the end of 1996 despite an increase in sold inventory. The decrease is primarily due to lower investment in unsold homes under construction and land under development.

The financial services segment uses cash generated from operations and borrowing arrangements to finance its operations. A bank credit facility, which was amended in 1997 and extended to June 1, 2000, provides up to \$260 million for mortgage warehouse funding and \$30 million for working capital advances. Other borrowing arrangements as of December 31, 1997 included repurchase agreement facilities aggregating \$370.0 million, a \$100 million revolving credit facility used to finance investment portfolio securities and a \$35 million credit facility used for the short-term financing of optional bond redemptions. At December 31, 1997 and December 31, 1996, the combined borrowings of the financial services segment outstanding under all agreements were \$340.6 million and \$325.7 million, respectively.

Mortgage loans, notes receivable, mortgage-backed securities and other assets held by the limited-purpose subsidiaries are pledged as collateral for the issued bonds, the terms of which provide for the retirement of all bonds from the proceeds of the collateral.

The Ryland Group, Inc. has not guaranteed the debt of the financial services segment or the limited-purpose subsidiaries.

During 1997, the Company's board of directors authorized the repurchase of up to 2,000,000 shares of common stock. As of December 31, 1997, the Company had repurchased approximately 1.7 million shares of its outstanding common stock in accordance with this program at a cost of approximately \$25.5 million. The Company's stock repurchase program was funded through a combination of internally generated funds and a reduction in the Company's quarterly dividend rate from \$0.15 to \$0.04 per share. The reduction in the dividend has more closely aligned the Company's dividend yield with that of other public homebuilders.

### **YEAR 2000 ISSUE**

The Company began its assessment of the Year 2000 issue in 1996 and has assigned personnel to ensure the Company is compliant. At December 31, 1997, all systems have been evaluated and projects have been defined. The Company intends to complete the necessary projects during 1998 and conduct a Year 2000 simulation during 1999. It is the opinion of management that achieving Year 2000 compliance will not have a material impact on the Company's results of operations, capital spending, or business operations, including its operating systems and equipment.

Note: Certain statements in this Annual Report may be "forward-looking statements" within the meaning of the Private Securities Litigation Act of 1995. Forward-looking statements are based on various factors and assumptions that include known and unknown risks and uncertainties, the completion and profitability of sales reported, changes in economic conditions and interest rates, increases in raw material and labor costs, and general competitive factors, that may cause actual results to differ materially.

**The Ryland Group, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

(amounts in thousands except share data)

**Year ended December 31, 1997 1996 1995**

**REVENUES:**

Homebuilding:

Residential revenue	\$ 1,527,107	\$ 1,456,634	\$ 1,456,767
Other revenue	30,219	16,641	1,407
	-----	-----	-----
Total homebuilding revenue	1,557,326	1,473,275	1,458,174
Financial services	76,929	79,524	89,611
Limited-purpose subsidiaries	15,551	27,387	37,267
	-----	-----	-----
Total revenues	1,649,806	1,580,186	1,585,052

EXPENSES:

Homebuilding:

Cost of sales	1,346,141	1,276,877	1,279,746
Selling, general and administrative	152,071	146,285	151,087
Interest	23,964	27,517	29,807
Impairment of inventories and joint-venture investments	0	0	45,000
	-----	-----	-----
Total homebuilding expenses	1,522,176	1,450,679	1,505,640

Financial services:

General and administrative	43,454	44,723	47,991
Interest	17,890	18,954	23,750
	-----	-----	-----
Total financial services expenses	61,344	63,677	71,741

Limited-purpose subsidiaries  
expenses

15,551	27,387	37,215
--------	--------	--------

Corporate expenses

14,265	12,046	12,913
--------	--------	--------

Total expenses	1,613,336	1,553,789	1,627,509
----------------	-----------	-----------	-----------

Earnings (loss) from continuing  
operations before taxes  
(42,457)

36,470	26,397
--------	--------

Tax expense (benefit)  
(16,983)

14,588	10,558
--------	--------

NET EARNINGS (LOSS) FROM  
CONTINUING OPERATIONS  
(25,474)

21,882	15,839
--------	--------

Discontinued operations  
(net of taxes of \$15,237)

0	0	22,856
---	---	--------

Net earnings (loss)  
(2,618)

\$ 21,882	\$ 15,839	\$
-----------	-----------	----

Preferred dividends  
Net earnings (loss) applicable  
to common stockholders  
(4,811)

\$ 1,630	\$ 1,974	\$ 2,193
----------	----------	----------

\$ 20,252	\$ 13,865	\$
-----------	-----------	----

NET EARNINGS (LOSS) PER COMMON SHARE:

Basic:

Net earnings (loss) from  
continuing operations  [2012](#) [EDGAR](#) [33](#) [Inc.](#) 0.88 \$  
(1.78)

Discontinued operations	0.00	0.00	1.47
-------------------------	------	------	------

See notes to consolidated statements.  
The Ryland Group, Inc. and Subsidiaries  
**CONSOLIDATED BALANCE SHEETS**

(amounts in thousands)  
**December 31, 1997 1996**

**Assets**

Homebuilding:

Cash and cash equivalents	\$	33,065	\$	27,852
Housing inventories:				
Homes under construction		332,452		336,782
Land under development and improved lots		222,379		237,808
		-----		
Total inventories		554,831		574,590
Property, plant and equipment		26,463		31,560
Purchase price in excess of net assets acquired		19,511		20,543
Other assets		37,359		40,739
		-----		
		671,229		695,284
		-----		

Financial Services:

Cash and cash equivalents		3,066		856
Mortgage loans held for sale		199,857		180,149
Mortgage-backed securities and notes receivable		153,022		143,508
Mortgage servicing rights		8,242		9,903
Other assets		46,715		48,015
		-----		
		410,902		382,431
		-----		

Other Assets:

Collateral for bonds payable of limited-purpose subsidiaries		142,303		214,443
Net deferred taxes		35,764		31,806
Other		23,211		14,560
		-----		
Total assets	\$	1,283,409	\$	1,338,524
		-----		

See notes to consolidated financial statements.

**The Ryland Group, Inc. and Subsidiaries  
CONSOLIDATED BALANCE SHEETS**

(amounts in thousands)

December 31, 1997 1996

**Liabilities**

Homebuilding:

Accounts payable and other liabilities	\$ 117,326	\$ 84,651
Long-term debt	310,221	354,267
-----	-----	-----
	427,547	438,918

Financial Services:

Accounts payable and other liabilities	17,382	18,754
Short-term notes payable	340,632	325,650
-----	-----	-----
	358,014	344,404

Other Liabilities:

Bonds payable of limited-purpose subsidiaries	136,865	206,891
Other	55,860	37,862
-----	-----	-----
Total liabilities	978,286	1,028,075
-----	-----	-----

Stockholders' Equity:

Convertible preferred stock, \$1 par value:		
Authorized - 1,400,000 shares		
Issued - 502,833 shares (861,741 for 1996)	503	862
Common stock, \$1 par value:		
Authorized - 78,600,000 shares		
Issued - 14,521,859 shares (15,852,729 for 1996)	14,522	15,853
Paid-in capital	88,502	116,652
Retained earnings	199,114	184,678
Net unrealized gain on mortgage-backed securities	2,482	2,758
Due from RSOP Trust (10,354)	0	
-----	-----	-----
Total stockholders' equity	305,123	310,449
-----	-----	-----
Total liabilities and		

stockholders' equity \$ 1,283,409 \$ 1,338,524 See notes to consolidated financial statements.

The Ryland Group, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity

(amounts in thousands, except share data)

	Preferred Stock	Common Stock
Balance at January 1, 1995	\$ 1,073	\$ 15,475
Net loss		
Preferred stock dividends (per share \$2.21)		
Common stock dividends (per share \$0.60)		
Conversion of preferred stock	(130)	130
Reclassification of preferred paid-capital and proportionate amount of RSOP receivable		
RSOP debt repayments		
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$525		
Employee stock plans (77,181 shares)		77
Balance at December 31, 1995	943	15,682
Net earnings		
Preferred stock dividends (per share \$2.21)		
Common stock dividends (per share \$0.60)		
Conversion of preferred stock	(81)	81
Reclassification of preferred paid-in capital and proportionate amount of RSOP receivable		
RSOP debt repayments		
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$139		
Employee stock plans (89,482 shares)		90
Balance at December 31, 1996	862	15,853
Net earnings		
Preferred stock dividends (per share \$2.21)		
Common stock dividends (per share \$0.27)		
Repurchase of common stock		(1,689)
Conversion of preferred stock	(110)	110
Retirement of preferred stock and related RSOP debt	(249)	
Reclassification of preferred paid-in capital and proportionate amount of RSOP receivable		
RSOP debt repayments		
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$ (184)		
Employee stock plans (248,017 shares)		248
Balance at December 31, 1997	\$ 503	\$ 14,522

See notes to consolidated financial statements.

The Ryland Group, Inc. and Subsidiaries Consolidated Statements of Stockholders' Equity

(amounts in thousands, except share data)

	Paid-In Capital	Retained Earnings
Balance at January 1, 1995	\$ 115,863	\$ 193,635
Net loss		(2,618)
Preferred stock dividends (per share \$2.21)		(2,193)
Common stock dividends (per share \$0.60)		(9,358)
Conversion of preferred stock	(1,387)	
Reclassification of preferred paid-capital and proportionate amount of RSOP receivable	151	
RSOP debt repayments		
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$525		
Employee stock plans (77,181 shares)	984	471
Balance at December 31, 1995	115,611	179,937
Net earnings		15,839
Preferred stock dividends (per share \$2.21)		(1,974)
Common stock dividends (per share \$0.60)		(9,475)
Conversion of preferred stock	(961)	
Reclassification of preferred paid-in capital and proportionate amount of RSOP receivable	828	
RSOP debt repayments		
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$139		
Employee stock plans (89,482 shares)	1,174	351
Balance at December 31, 1996	116,652	184,678
Net earnings		21,882
Preferred stock dividends (per share \$2.21)		(1,630)
Common stock dividends (per share \$0.27)		(4,155)
Repurchase of common stock	(23,824)	
Conversion of preferred stock	(1,474)	
Retirement of preferred stock and related RSOP debt	(9,293)	(1,850)
Reclassification of preferred paid-in capital and proportionate amount of RSOP receivable	2,400	
RSOP debt repayments		
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$ (184)		
Employee stock plans (248,017 shares)	4,041	189
Balance at December 31, 1997	\$ 88,502	\$ 199,114

See notes to consolidated financial statements.

The Ryland Group, Inc. and Subsidiaries Consolidated Statements of Stockholders' Equity

(amounts in thousands, except share data)

Net Unrealized  
Gain on Mortgage-  
Backed Securities

Balance at January 1, 1995	\$	1,763
Net loss		
Preferred stock dividends (per share \$2.21)		
Common stock dividends (per share \$0.60)		
Conversion of preferred stock		
Reclassification of preferred paid-capital and proportionate amount of RSOP receivable		
RSOP debt repayments		
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$525		787
Employee stock plans (77,181 shares)		
		-----
Balance at December 31, 1995		2,550
		-----
Net earnings		
Preferred stock dividends (per share \$2.21)		
Common stock dividends (per share \$0.60)		
Conversion of preferred stock		
Reclassification of preferred paid-in capital and proportionate amount of RSOP receivable		
RSOP debt repayments		
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$139		208
Employee stock plans (89,482 shares)		
		-----
Balance at December 31, 1996		2,758
		-----
Net earnings		
Preferred stock dividends (per share \$2.21)		
Common stock dividends (per share \$0.27)		
Repurchase of common stock		
Conversion of preferred stock		
Retirement of preferred stock and related RSOP debt		
Reclassification of preferred paid-in capital and proportionate amount of RSOP receivable		
RSOP debt repayments		
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$ (184)		(276)
Employee stock plans (248,017 shares)		
		-----
Balance at December 31, 1997		2,482
		-----
See notes to consolidated financial statements.		

The Ryland Group, Inc. and Subsidiaries Consolidated Statements of Stockholders' Equity

(amounts in thousands, except share data)

Stockholders	Due from RSOP Trust	Total Equity
Balance at January 1, 1995	\$ (15,687)	\$ 312,122
Net loss (2,618)		
Preferred stock dividends (per share \$2.21) (2,193)		
Common stock dividends (per share \$0.60) (9,358)		
Conversion of preferred stock (1,387)		
Reclassification of preferred paid-capital and proportionate amount of RSOP receivable	251	402
RSOP debt repayments	1,837	1,837
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$525		787
Employee stock plans (77,181 shares)		1,532
Balance at December 31, 1995	(13,599)	301,124
Net earnings		15,839
Preferred stock dividends (per share \$2.21) (1,974)		
Common stock dividends (per share \$0.60) (9,475)		
Conversion of preferred stock (961)		
Reclassification of preferred paid-in capital and proportionate amount of RSOP receivable	(1,759)	
(931)		
RSOP debt repayments	5,004	5,004
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$139		208
Employee stock plans (89,482 shares)		1,615
Balance at December 31, 1996	(10,354)	310,449
Net earnings		21,882
Preferred stock dividends (per share \$2.21) (1,630)		
Common stock dividends (per share \$0.27) (4,155)		
Repurchase of common stock (25,513)		
Conversion of preferred stock (1,474)		
Retirement of preferred stock and related RSOP debt	11,392	0
Reclassification of preferred paid-in capital and proportionate amount of RSOP receivable	(6,037)	
(3,637)		
RSOP debt repayments	4,999	4,999
Change in net unrealized gain on mortgage-backed securities, net of taxes of \$ (184)		(276)
Employee stock plans (248,017 shares)		4,478

**Balance at December 31, 1997 \$ 0 \$ 305,123**

See notes to consolidated financial statements.

**The Ryland Group, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(amounts in thousands)

**Year ended December 31, 1997 1996 1995**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net earnings (loss)	\$	21,882	\$	15,839	\$
(2,618)					
Adjustments to reconcile net earnings (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization		31,396		31,373	34,512
Gain on sale of mortgage-backed securities - available-for-sale	(4,772)	(75)		(1,138)	
Gain on sale of discontinued operations	(32,563)	0		0	
Decrease (increase) in inventories		19,759		(36,672)	62,195
Net change in other assets, payables and other liabilities	(16,953)	35,133		(3,311)	
Equity in (earnings) losses of/distributions from unconsolidated joint ventures		(774)		1,080	8,973
(Increase) decrease in mortgage loans held for sale	(70,229)	(19,708)		104,852	
-----					
Net cash provided by (used for) operating activities	(21,455)	87,613		112,023	
-----					

CASH FLOWS FROM INVESTING ACTIVITIES:

Net additions to property, plant and equipment	(30,152)	(17,568)		(19,500)	
Principal reduction of mortgage collateral		41,537		64,230	56,257
Principal reduction of mortgage-backed securities - available-for-sale		11,969		20,362	5,264
Purchase of mortgage-backed securities-available-for-sale		0		(8,572)	0
Sales of mortgage-backed securities-available-for-sale		2,222		21,937	68,539
Principal reduction of mortgage-backed securities - held-to-maturity		15,064		19,818	13,612
(Increase) decrease in funds by trustee		(6,808)		17,133	5,718
Proceeds from sale of discontinued operations		0		0	47,000
Other investing activities, net	(470)	(3,237)		(2,884)	
-----					
Net cash provided by investing activities		43,179		112,524	165,768
-----					

CASH FLOWS FROM FINANCING ACTIVITIES:

Cash proceeds of long-term debt		2,475		103,145	14,747
Reduction of long-term debt	(26,884)	(46,522)		(145,485)	
Increase (decrease) in short-term notes payable	(10,160)	14,982		(41,819)	
Bond principal	(83,279)				159,665
Common and preferred stock dividends	(11,551)	(7,320)		(11,449)	

See notes to consolidated financial statements.

## **The Ryland Group, Inc. and Subsidiaries**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(amounts in thousands, except share data, in all notes unless otherwise noted)

#### **NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Organization**

The Ryland Group, Inc. is a leading national homebuilder and mortgage-related financial services firm. The Company builds homes in 23 divisions in 20 states and is one of the largest single-family on-site homebuilders in the United States. The Company's homebuilding segment specializes in the sale and construction of single-family attached and detached housing. The financial services segment provides mortgage-related products and services for retail customers, including loan origination, loan servicing, title, escrow and homeowners insurance services, and also conducts investment activities.

##### **Basis of Presentation**

The consolidated financial statements include the accounts of The Ryland Group, Inc. and its wholly owned subsidiaries (the "Company"). Intercompany transactions have been eliminated in consolidation. Certain amounts in the consolidated statements of prior years have been reclassified to conform to the 1997 presentation.

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### **Per Share Data**

Basic net earnings (loss) per common share is computed by dividing net earnings (loss), after considering preferred stock dividend requirements, by the weighted average number of common shares outstanding.

Diluted net earnings (loss) per common share additionally gives effect to dilutive common stock equivalent shares, including the assumed conversion of the preferred shares held by The Ryland Group, Inc. Retirement Savings Opportunity Plan Trust (RSOP Trust) into common stock. The effect of the RSOP Trust was not dilutive for the years presented. In addition, common stock equivalent shares were not dilutive for 1995.

##### **Income Taxes**

The Company files a consolidated federal income tax return. Certain items of income and expense are included in one period for financial reporting purposes and another for income tax purposes. Deferred income taxes are provided in recognition of these differences. Deferred tax assets and liabilities are determined based on the enacted tax rates and are subsequently adjusted for changes in these rates. A change in the deferred tax assets or liabilities results in a charge or credit to deferred tax expense.

##### **Property, Plant and Equipment**

Property, plant and equipment, which includes model home furnishings, are carried at cost, less accumulated depreciation and amortization. Depreciation is provided for, principally, by the straight-line method over the estimated useful lives of the assets. Model home furnishings are amortized over the life of the community as homes are closed.

##### **Homebuilding Revenues**

Homebuilding revenues are recognized when home sales are completed and title passes to the customer at closing.

##### **Service Liabilities**

Service and warranty costs are estimated and accrued for at the time a home closes.

##### **Housing Inventories**

Housing inventories consist principally of homes under construction and land under development and improved lots.

Inventories to be held and used are stated at cost, unless a subdivision is determined to be impaired, in which case the impaired inventories are written down to fair value. Writedowns of impaired inventories to fair value are recorded as adjustments to the cost basis of the respective inventory.

Inventories to be disposed of are stated at the lower of cost or fair value less cost to sell and are reported net of valuation reserves. Valuation reserves related to inventories to be disposed of amounted to \$3.0 million at December 31, 1997, and \$3.1 million at December 31, 1996. The carrying value of the related inventories amounted to \$8.9 million and \$8.0 million at December 31, 1997 and 1996, respectively.

Costs of inventory include direct costs of land, material acquisition, home construction and related direct overhead expenses. Real estate taxes, insurance and interest are capitalized during the land development stage. The costs of acquiring and developing land and constructing certain related amenities are allocated to the parcels to which these costs relate.

The following table is a summary of capitalized interest:

	1997	1996
Capitalized interest as of January 1,	\$ 27,589	\$ 27,649
Interest capitalized	17,636	16,975
Interest amortized to cost of sales (17,035)	(21,581)	
Capitalized interest as of December 31,	\$ 23,644	\$ 27,589

#### **Purchase Price in Excess of Net Assets Acquired**

Cost in excess of net assets of acquired businesses (goodwill) is being amortized on a straight-line basis over 30 years. On a periodic basis, the Company evaluates the businesses to which goodwill relates in order to insure that the carrying value of goodwill has not been impaired.

#### **Mortgage Loans Held For Sale**

Mortgage loans held for sale are reported net of discounts and are valued at the lower of cost or market determined on an aggregate basis. Any gain or loss on the sale of the loans is recognized at the time of sale.

#### **Mortgage-Backed Securities**

The Company classifies its mortgage-backed securities into three categories: held-to-maturity, available-for-sale and trading. Management determines the appropriate classification of investment securities at the time of purchase and re-evaluates such designations as of each balance sheet date.

Investment securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities classified as held-to-maturity are stated at amortized cost. Securities classified as available-for-sale are measured at fair value with the unrealized gains and losses, net of tax, reflected as a component of stockholders' equity. Securities classified as trading are measured at fair value with gains and losses, both realized and unrealized, recognized in the statement of earnings. The Company may at times have investments in each category.

#### **Loan Origination Fees, Costs and Mortgage Discounts**

Loan origination fees, net of the related direct origination costs, and loan discount points are deferred as an adjustment to the carrying value of the related mortgage loans held for sale and are recognized into income upon the sale of the mortgage loans.

Discounts on mortgage collateral for the bonds of the limited-purpose subsidiaries primarily represent loan origination discount points and purchase price discounts. These discounts are deferred as an adjustment to the recorded book value of the related mortgage loans. They are amortized into interest income over their respective lives using the interest method, which is adjusted for the effect of prepayments.

## **Hedging Contracts**

The Company enters into forward delivery contracts, options on forward delivery contracts, futures contracts and options on futures contracts, as an end-user, for the purpose of minimizing its exposure to movements in interest rates on mortgage loan commitments, mortgage loans held for sale and mortgage-backed securities classified as trading. These contracts primarily represent commitments or options to purchase or sell mortgages or securities generally within 90 days and at a specified price or yield. Forward delivery contracts and futures are commitments only and, as such, are not recorded on the Company's balance sheet or statement of earnings. Option premiums are deferred when paid and recognized as an adjustment to gains on sales of mortgages over the lives of the options on a straight-line basis. Changes in the fair value of contracts are deferred and included in mortgage loans held for sale and mortgage-backed securities classified as trading. Changes in fair value are recognized in income as an adjustment to gains on sales of mortgages when the mortgages and securities are sold.

In addition, the Company enters into interest rate swap and collar agreements to moderate the interest rate risks inherent in the financing of its investment securities classified as available-for-sale. During the terms of the agreements, the net settlements are accrued and recognized as an adjustment to interest expense. The agreements are not required to be marked to market and therefore are not recorded on the Company's balance sheet.

## **Deferred Financing Costs**

Financing costs incurred in connection with the issuance of bonds by the limited-purpose subsidiaries are capitalized and amortized over the respective lives of the bonds using the interest method.

## **Mortgage Servicing Rights**

Retained mortgage servicing rights on originated loans are capitalized by allocating the total cost of the mortgage loans between the mortgage servicing rights and the loans based on their relative fair values. Mortgage servicing rights, which include purchased servicing rights, are amortized in proportion to and over the period of estimated net servicing revenue.

The book value of capitalized mortgage-servicing rights at December 31, 1997 and 1996, was \$8.2 million and \$9.9 million, respectively, and the aggregate fair value totaled \$8.9 million and \$10.9 million, respectively. Comparable market values and the present value of future cash flows are used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates are used to stratify mortgage-servicing rights. A valuation allowance is recorded for each stratum in which the fair value is below the carrying amount.

## **Stock Based Compensation**

As described in Note N, the Company has elected to follow the intrinsic value method to account for compensation expense related to the award of stock options and to furnish the pro forma disclosures required under Statement of Financial Accounting Standards No. 123 (FASB 123), "Accounting for Stock-Based Compensation." Since stock option awards are granted at prices no less than the fair-market value of the shares at the date of grant, no compensation expense is recognized.

## **New Accounting Pronouncements**

### **FASB 128**

In 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128 (FASB 128), "Earnings per Share." FASB 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Earnings per share amounts for all periods have been restated to conform to the FASB 128 requirements.

### **FASB 125**

On January 1, 1997, the Company adopted Statement of Financial Accounting Standards No. 125 (FASB 125), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The statement supersedes Statement of Financial Accounting Standards No. 122 (FASB 122), "Accounting for Mortgage Servicing Rights," and now requires all capitalized servicing rights (including those acquired prior to the adoption of FASB 122) to be stratified for impairment measurement based upon one or more of the predominant risk characteristics of the underlying assets, regardless of the servicer's pre-FASB 122 stratification policy. In accordance with FASB 125, prior period financial statements have not been restated. The adoption of FASB 125 did not have a significant impact on the Company's financial statements for the year ended December 31, 1997.

### **FASB 121**

In March 1995, the FASB issued Statement of Financial Accounting Standards No. 121 (FASB 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The Company adopted this new standard for its inventories, joint-venture investments and other long-lived assets in the fourth quarter of 1995. In accordance with FASB 121, prior period financial statements were not restated to reflect the change in accounting principle.

FASB 121 provides that when events or changes in circumstances indicate that the carrying amount of assets might not be recoverable, companies should evaluate the need for an impairment writedown. In the fourth quarter of 1995, in response to competitive market pressures in California, the Company determined that some product repositioning, increased homebuyer incentives and reduced selling prices would be necessary in certain of its California subdivisions. The land inventory in most of these subdivisions was acquired in 1988 and 1989 and had a cost basis substantially in excess of current market values. Accordingly, the Company evaluated the affected California subdivisions and determined that certain subdivision inventories were impaired. Under FASB 121, a writedown of \$31 million was required to state the impaired inventories at their fair value. Fair value was based upon an evaluation of comparable market prices, discounted cash flow analysis and expected returns for comparable properties.

In addition, the Company decided in the fourth quarter of 1995 to dispose of certain joint-venture investments and certain other subdivision inventories because the Company believed that it could achieve higher returns on alternative uses of its capital. As a result, the Company recorded a reserve of \$14 million in the fourth quarter of 1995 to reduce the carrying value of these assets to their fair value less cost to sell. Of the total reserve, \$7 million pertained to the planned disposal of joint-venture investments and the remaining \$7 million primarily pertained to the planned disposal of certain subdivision lots.

### **FASB 131**

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131 (FASB 131), "Disclosures about Segments for an Enterprise and Related Information." FASB 131 establishes standards for the way that public business enterprises report selected information about operating segments in financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. FASB 131 is effective for financial statements for fiscal years beginning after December 15, 1997. The adoption of FASB 131 is not expected to have a significant impact on the Company's definition of operating segments and related disclosures.

### **NOTE B: SEGMENT INFORMATION**

Segment information in the following table is presented on the basis of continuing operations and excludes amounts related to the institutional mortgage-securities administration business, which was sold in 1995 and is reported as discontinued operations. For additional information, refer to Note K: Discontinued Operations. In addition, amounts related to the limited- purpose subsidiaries are combined with corporate expenses and corporate assets in the following table as "Other."

Segment Information	1997	1996	1995
-----			
Revenues:			
Homebuilding	1,557,326	\$ 1,473,275	\$ 1,458,174
Financial services	76,929	79,524	89,611
Other	15,551	27,387	37,267
-----			
Total	\$ 1,649,806	\$ 1,580,186	\$ 1,585,052
-----			
Pretax Earnings (Loss):			
Homebuilding	\$ 35,150	\$ 22,596	\$
(47,466)			
Financial services	15,585	15,847	17,870
Corporate and other	(14,265)	(12,046)	
(12,861)			
-----			
Total	\$ 36,470	\$ 26,397	\$
(42,457)			
-----			
Depreciation and Amortization:			
Homebuilding	\$ 23,479	\$ 25,762	\$ 28,410
Financial services	5,901	3,296	4,846
Corporate and other	2,016	2,315	1,256
-----			
Total	\$ 31,396	\$ 31,373	\$ 34,512
-----			
Identifiable Assets:			
Homebuilding	\$ 671,229	\$ 695,284	\$ 696,576
Financial services	410,902	382,431	449,419
Corporate and other	201,278	260,809	434,794
-----			
Total	\$ 1,283,409	\$ 1,338,524	\$ 1,580,789
-----			

**NOTE C: EARNINGS PER SHARE RECONCILIATION**

The following table sets forth the computation of basic and diluted earnings per share from continuing operations:

	1997	1996	1995
-----			
Numerator:			
Net earnings (loss) from continuing operations	\$21,882	\$15,839	
\$(25,474)			
Preferred stock dividends	(1,630)	(1,974)	
(2,193)			
-----			
Numerator for basic and diluted earnings (loss) per share from continuing operations - income (loss) from continuing operations available to common stockholders	\$20,252	\$13,865	
\$(27,667)			
Denominator:			
Denominator for basic earnings (loss) per share - weighted-average shares	15,227,829	15,789,184	15,585,254
Effect of dilutive securities:			
Stock options	69,577	5,387	0
Equity incentive plan	107,661	134,240	0
	-----	-----	-----
Dilutive potential common shares	177,238	139,627	0
Denominator for diluted earnings (loss) per share - adjusted weighted-average shares and assumed conversions	15,405,067	15,928,811	15,585,254
Basic earnings (loss) per share from continuing operations	\$1.33	\$0.88	
\$(1.78)			
Diluted earnings (loss) per share from continuing operations	\$1.32	\$0.87	
\$(1.78)			

The assumed conversion of preferred stock was anti-dilutive for all periods presented.

#### **NOTE D: ASSETS OF FINANCIAL SERVICES AND THE LIMITED-PURPOSE SUBSIDIARIES**

##### **FINANCIAL SERVICES**

Mortgage loans held for sale consist of loans collateralized by first mortgages or first deeds of trust on single-family attached or detached houses. Mortgage-backed securities and notes receivable consist of GNMA certificates, FNMA mortgage pass-through certificates, FHLMC participation certificates, notes receivable secured by mortgage-backed securities, whole loans and funds held by trustee.

Mortgage loans held for sale were reported net of mortgage discounts/(premiums) of \$658 and \$871 at December 31, 1997 and 1996, respectively. Mortgage loans held for sale, which are generally sold within 90 days of being funded, mortgage-backed securities and notes receivable are pledged as collateral for certain short-term notes payable (see Note E).

The financial services segment serviced 62,000 and 83,000 loans with principal balances totaling \$4.5 billion and \$6.3 billion at December 31, 1997 and 1996, respectively, including loans subserviced for others of \$1.3 billion in 1997 and \$1.2 billion in 1996. As a mortgage servicer, the Company may incur risk with respect to mortgages that are delinquent or in foreclosure to the extent that losses are not covered by a mortgage insurer or guarantor. The Company has no risk in the event of foreclosure for loans subserviced for others. The reserve for potential losses on

the servicing portfolio was \$1,784 and \$1,685, at December 31, 1997 and 1996, respectively. These reserves are established based on the current economic environment and historical experience for foreclosures and delinquencies.

### LIMITED-PURPOSE SUBSIDIARIES

Collateral for bonds payable consists of notes receivable secured by mortgage-backed securities and mortgage loans, mortgage-backed securities, fixed-rate mortgage loans and funds held by trustee. Mortgage-backed securities consist of GNMA certificates, FNMA mortgage pass-through certificates and FHLMC participation certificates. All principal and interest on the collateral is remitted directly to a trustee and is available for payment on the bonds.

The components of collateral for bonds payable at December 31 are summarized as follows:

	1997	1996
Notes receivable	\$40,409	\$ 71,145
Mortgage-backed securities	81,089	113,567
Mortgage loans	7,939	17,932
Funds held by trustee	14,426	15,669
Mortgage discounts (3,870)	(1,560)	
Total	\$142,303	\$214,443

Neither The Ryland Group, Inc. nor its homebuilding and financial services subsidiaries have guaranteed or are otherwise obligated with respect to these bond issues.

#### Mortgage-Backed Securities: Unrealized Gains and Losses

Mortgage-backed securities are held by the financial services segment and reported in the balance sheet caption, "Mortgage-backed securities and notes receivable," and are also held by the limited-purpose subsidiaries and reported in the balance sheet caption, "Collateral for bonds payable."

The following is a consolidated summary of mortgage-backed securities classified as available-for-sale and held-to-maturity as of:

Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair
-----				
December 31, 1997				
Available-for-sale	\$ 50,453	\$ 4,153	\$17	\$ 54,589
Held-to-maturity	76,229	5,761	0	81,990
-----				
Total	\$126,682	\$ 9,914	\$17	\$136,579
-----				
December 31, 1996				
Available-for-sale	\$ 64,018	\$ 4,640	\$43	\$ 68,615
Held-to-maturity	90,886	5,925	17	96,794
-----				
Total	\$154,904	\$10,565	\$60	\$165,409
-----				

**NOTE E: FINANCIAL SERVICES SHORT-TERM NOTES PAYABLE**

Financial services had outstanding borrowings at December 31 as follows:

	1997	1996
-----		
Mortgage warehouse and working capital facility	\$191,352	\$
188,046		
Repurchase agreements	88,162	
82,157		
Revolving credit agreement	53,542	
55,447		
Bond redemption financing agreement	7,576	
0		
-----		
Total outstanding borrowings	\$340,632	
\$325,650		
-----		

During 1997, the Company amended its bank facility which provides up to \$260 million for mortgage warehouse funding and \$30 million for working capital advances and extended the maturity of the facility to June 2000. Warehouse advances are secured by mortgage loans held for sale, and working capital advances are secured by certain loan servicing rights and loan servicing advances. Borrowings outstanding under this bank facility totaling \$191,352 at December 31, 1997, were collateralized by mortgage loans held for sale with outstanding principal balances of \$159,358, servicing rights of \$10,252 and certain loan servicing advances of \$21,906. Borrowings outstanding under this bank facility totaling \$188,046 at December 31, 1996, were collateralized by mortgage loans held for sale with outstanding principal balances of \$161,735, servicing rights of \$14,144 and certain loan servicing advances of \$29,379. The effective interest rates on these borrowings were 3.0 percent, 3.1 percent and 4.1 percent for 1997, 1996 and 1995, respectively. The agreement contains certain financial covenants, which the Company met at December 31, 1997.

The repurchase agreements represent short-term borrowings that are collateralized by mortgage loans, mortgage-backed securities and investments in securities issued by one of the Company's limited-purpose subsidiaries with outstanding balances at December 31, 1997 and 1996, of \$88,198 and \$82,208, respectively, with related fair values of \$91,806 and \$85,660. As of December 31, 1997, \$50 million of the Company's variable-rate short-term borrowings had been effectively converted by interest rate swap and collar agreements to fixed-rate borrowings. The notional amount of the swap and collar agreements will decline to \$40 million and \$30 million in 1998 and 1999, respectively. The effective interest rates on the repurchase agreements, including the effect of the interest rate swap and collar agreements, were 6.0 percent, 5.8 percent and 6.4 percent for 1997, 1996 and 1995, respectively.

The following table provides additional information relating to the mortgage loans and mortgage-backed securities collateralizing the repurchase agreements at December 31, 1997:

<b><u>ASSETS</u></b>					
Interest Maturity	Carrying Value	Accrued Interest	Fair Value	Repurchase Liability	Rate
31 to 90 days	\$ 50,245	\$ 409	\$ 51,422	\$ 48,945	6.45%
Demand	37,953	299	40,384	39,217	5.90%
-----					
Total	\$ 88,198	\$ 708	\$ 91,806	\$ 88,162	

In October 1996, the Company renewed and extended its \$100 million credit facility used to finance investment securities in the financial services segment. The agreement was extended to May 1998, bears interest at market rates and is collateralized by investment portfolio securities. Borrowings outstanding under this facility, totaling \$53,542 and \$55,447, were collateralized by investment portfolio securities with principal balances of \$53,482 and \$54,624 at December 31, 1997 and 1996, respectively. The fair values of the investment securities at December 31, 1997 and 1996 were \$56,207 and \$57,745, respectively.

The Company also has a \$35 million credit agreement used for the short-term financing of optional bond redemptions. The agreement is collateralized by the security being redeemed and bears interest at market rates. The agreement was renewed for a one-year term in January 1998. At December 31, 1997, outstanding borrowings were \$7,576. No borrowings were outstanding under this agreement at December 31, 1996. The effective interest rates for this credit agreement during 1997, 1996 and 1995 were 6.5 percent, 6.0 percent and 6.5 percent, respectively.

The weighted-average interest rates at the end of the period on all short-term borrowings were 4.9 percent, 4.2 percent and 4.6 percent for 1997, 1996 and 1995, respectively. The weighted-average interest rates during the period on all short-term borrowings were 4.6 percent, 4.3 percent and 4.8 percent for 1997, 1996 and 1995, respectively.

#### **NOTE F: OFF BALANCE SHEET FINANCIAL INSTRUMENTS RELATED TO MORTGAGE LOAN ORIGINATIONS**

The Company is a party to financial instruments in the normal course of business. The financial services segment uses financial instruments to meet the financing needs of its customers and reduce its exposure to fluctuations in interest rates. These instruments involve, to varying degrees, elements of credit and market risk not recognized in the consolidated balance sheets. The Company has no derivative financial instruments that are held for trading purposes.

The contract or notional amounts of these financial instruments as of December 31 are as follows:

	1997	1996
-----		
Commitments to originate mortgage loans	\$ 29,765	\$
28,821		
Hedging contracts:		
Forward delivery contracts	\$ 159,878	\$
138,560		
Options on futures contracts	0	
5,000		

In addition, to protect against exposure to interest rate fluctuations on adjustable-rate mortgage-loan commitments, at December 31, 1997 and 1996, the Company contracted with various parties to deliver \$24,440 and \$30,004, respectively, in adjustable and fixed-rate mortgage loans for a specified price on primarily a best-efforts basis.

Commitments to originate mortgage loans represent loan commitments with customers at market rates up to 120 days before settlement. Loan commitments have no carrying value on the balance sheet. These commitments expose the Company to market risk as a result of increases in mortgage interest rates. The amount of risk is limited to the difference between the contract price and current market value, and is mitigated by fees collected from the customer and by the Company's hedging activities. Loan commitments had interest rates ranging from 6.5 percent to 10.3 percent as of December 31, 1997, and 6.8 percent to 9.3 percent as of December 31, 1996.

Hedging contracts are regularly entered into by the Company for the purpose of mitigating its exposure to movements in interest rates on mortgage loan commitments and mortgage loans held for sale. The selection of these hedging contracts is based upon the Company's secondary marketing strategy, which establishes a risk tolerance level. The major factors influencing the use of the various hedging contracts include general market conditions, interest rate, types of mortgages originated and the percentage of mortgage loan commitments expected to be funded. The market risk assumed, while holding the hedging contracts, generally mitigates the market risk associated with the mortgage loan commitments and mortgage loans held for sale.

The Company is exposed to credit related losses in the event of non-performance by counterparties to certain hedging contracts. Credit risk is limited to those instances where the Company is in a net unrealized gain position. The Company manages this credit risk by entering into agreements with counterparties meeting the credit standards of the Company and monitoring position limits.

#### **NOTE G: FAIR VALUES OF FINANCIAL INSTRUMENTS**

The Company's financial instruments, both on and off the balance sheet, are held for purposes other than trading, except as noted. The fair values of these financial instruments are based on quoted market prices, where available, or are estimated using present value or other valuation techniques. Estimated fair values are significantly affected by the assumptions used, including the discount rate and estimates of cash flows. In that regard, the derived fair-value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

The table below sets forth the carrying values and fair values of the Company's financial instruments, except for those financial instruments noted below for which the carrying values approximate fair values at the end of the year. It excludes non-financial instruments and, accordingly, the aggregate fair-value amounts presented do not represent the underlying value of the Company.

	1997		1996	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Homebuilding:				
Liabilities				
Secured notes payable	\$ 2,221	\$ 2,221	\$ 1,517	\$ 1,517
Senior notes	108,000	119,360	118,000	123,110
Senior subordinated notes	200,000	207,000	200,000	202,500
Financial Services:				
Assets				
Mortgage loans held for sale	\$199,857	\$201,583	\$ 180,149	\$ 182,205
Mortgage-backed securities, available-for-sale	50,678	50,678	47,290	47,290
Mortgage-backed securities, trading	0	0	3,287	3,287
Notes receivable, whole loans and funds held by trustee	102,334	110,339	92,931	100,206
Off-balance sheet financial instruments				
Forward delivery contracts	0	(196)	0	381
Options on futures contracts	0	0	0	
(29)				
Commitments to originate mortgage loans	0	386	0	
(92)				
Interest rate swaps and collars	0	(146)	0	0
Call right options	0	2,430	0	2,691
Other Assets:				
Collateral for bonds payable of the limited-purpose subsidiaries	\$142,303	\$152,133	\$214,443	\$227,067
Other Liabilities:				
Bonds payable of the limited-purpose subsidiaries	\$136,865	\$151,053	\$206,891	\$226,727

The Company used the following methods and assumptions in estimating fair values:

Cash and cash equivalents, bank credit agreement, secured notes payable, loan servicing receivables, funds held by trustee and short-term notes payable: The carrying amounts reported in the balance sheet approximate fair values.

Senior notes, senior subordinated notes, mortgage loans held for sale, mortgage-backed securities, notes receivable and whole loans, the various hedging contracts if settled on December 31, 1997 and 1996 and mortgage loan commitments: The fair values of these financial instruments are estimated based on quoted market prices for similar financial instruments.

Call right options: In estimating the fair value, independent mortgage prepayment forecasts were used to estimate mortgage collateral balances at the dates when the call rights would be exercisable. Based on December 31, 1997 and 1996 collateral prices the implied net gains that could be realized upon exercise of the options and sale of the mortgage collateral were estimated. These net gains were then discounted using a current long-term market interest rate. This fair value is significantly affected by the assumptions used and cannot be substantiated by comparisons to independent markets.

**NOTE H: LIMITED-PURPOSE SUBSIDIARIES' BONDS PAYABLE**

The Company's limited-purpose subsidiaries are no longer issuing mortgage-backed bonds and mortgage-participation securities. Previously, they issued mortgage-backed bonds, and the Company retained residual interests in some of these bonds. Payments are made on the bonds on a periodic basis as a result of, and in amounts relating to, corresponding payments received on the underlying mortgage collateral.

The following table sets forth information with respect to the limited-purpose subsidiaries' bonds payable outstanding at December 31:

	1997	1996
-----		
Bonds payable, net of discounts: 1997-\$3,795; 1996-\$4,779	\$136,865	\$206,891
Range of interest rates 7.25%-12.625%	7.25%-12.625%	
Stated maturities	2006-2019	2006-2019
-----		

**NOTE I: LONG-TERM DEBT**

Long-term debt consists of the following:

December 31,	1997	1996
-----		
Bank credit agreement	\$ 0	\$ 34,000
Senior subordinated notes	200,000	200,000
Senior notes	108,000	118,000
Other	2,221	2,267
	-----	
	310,221	354,267
Less current portion (10,255)	(1,572)	
	-----	
	\$ 308,649	\$ 344,012
-----		

The Company has an unsecured credit agreement with a group of banks, which matures in July 2000, with a total borrowing capacity of \$300 million. Borrowings under this agreement bear interest at variable short-term rates. The effective interest rates for 1997, 1996 and 1995 were 7.1 percent, 7.1 percent and 8.0 percent, respectively.

The Company has \$100 million of 10.5% senior subordinated notes outstanding, due July 15, 2002, with interest payable semi-annually, which may be redeemed at the option of the Company, in whole or in part, at any time on or after July 15, 1997. The Company also has \$100 million of 9.625% senior subordinated notes, due 2004, with interest payable semi-annually, which may be redeemed at the option of the Company, in whole or in part, at any time on or after December 1, 2000. Senior subordinated notes are subordinated to all existing and future senior debt of the Company.

The Company has \$100 million of 10.5% senior notes due 2006, with interest payable semi-annually, which may be redeemed at the option of the Company, in whole or in part, at any time on or after July 1, 2001. At December 31, 1997, the Company also has \$8 million of senior notes bearing a fixed rate of 10.5% which mature in 2000. Senior notes amounting to \$10 million matured and were paid off in 1997.

Maturities of long-term debt for each of the next five years are as follows:

1998	\$
1,572	
1999	
180	
2000	
8,180	
2001	
180	
2002	
100,109	

The bank credit agreement, senior subordinated indenture agreements and senior note agreements contain certain financial covenants. Under the loan covenants, the Company has \$35.1 million of retained earnings available for dividends at December 31, 1997. At December 31, 1997, the Company is in compliance with its covenants.

**NOTE J: INCOME TAXES**

The Company's expense (benefit) for income taxes relating to earnings (loss) from continuing operations is summarized as follows:

	1997	1996	1995
Current:			
Federal	\$ 14,931	\$ 954	\$
(1,257)			
State	3,167	203	
(266)			
Total current	18,098	1,157	
(1,523)			
Deferred:			
Federal	(2,896)	7,756	
(12,754)			
State	(614)	1,645	
(2,706)			
Total deferred	(3,510)	9,401	
(15,460)			
Total expense (benefit)	\$ 14,588	\$10,558	\$
(16,983)			

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

A reconciliation between the total income tax expense (benefit) and the income tax expense (benefit) computed by applying the statutory federal income tax rate to earnings (loss) from continuing operations before income taxes is as follows:

	1997	1996	1995
Computed income taxes at statutory rate (35%)	\$ 12,765	\$ 9,239	
\$(14,860)			
Applicable state taxes (1,932)	1,659	1,201	
Goodwill amortization	408	408	408
RSOP dividend (401)	(458)	(431)	
Other, net (198)	214	141	
Total actual income tax expense (benefit)	\$ 14,588	\$ 10,558	
\$(16,983)			

Significant components of the Company's deferred tax assets and liabilities as of December 31 were as follows:

	1997	1996
Deferred tax assets:		
Inventory valuation provisions and operational reserves	\$ 25,786	\$ 26,301
Employee benefit plans	6,954	4,743
Capitalization of costs to inventory	7,775	5,910
Other	2,383	3,192
Total deferred tax assets	42,898	40,146
Deferred tax liabilities:		
Gross profit from sales reported on the installment method	(3,404)	
(4,339)		
Unrealized market gain	(475)	
(1,135)		
Other	(3,255)	
(2,866)		
Total deferred tax liabilities	(7,134)	
(8,340)		
Net deferred tax asset	\$ 35,764	\$
31,806		

The Company has determined that no valuation allowance for the deferred tax asset is necessary due to tax carrybacks, tax planning strategies and estimated future taxable earnings. The Company had a current tax liability of \$7,608 and a current tax asset of \$3,761 as of December 31, 1997 and 1996, respectively.

**NOTE K: DISCONTINUED OPERATIONS**

On June 30, 1995, pursuant to an Asset Purchase Agreement dated April 10, 1995, the Company completed the sale of its institutional mortgage-securities administration business for a purchase price of \$47 million in cash. The Company's institutional mortgage-securities administration business included master servicing, securities administration, investor information services, and tax calculation and reporting. The results for this business include the net gain on the sale of the business of \$19.5 million (net of taxes of \$13.0 million) and have been reported as discontinued operations in the accompanying consolidated statements of earnings.

There were no operating results from the discontinued business for the second half of 1995 as the sale occurred in the second quarter. Revenues from operations of the discontinued business were \$11.4 million for 1995. Net earnings from operations of the discontinued business excluding the gain on the sale were \$3.3 million (net of taxes of \$2.2 million) for 1995.

**NOTE L: INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES**

The Company participates in homebuilding joint ventures. Summarized financial information for all joint-venture entities accounted for under the equity method is as follows:

Statements of Earnings

Year ended December 31,	1997	1996	1995
Revenues	\$ 4,402	\$ 1,122	\$ 23,045
Expenses	21,850	4,867	22,181
-----			
Pretax earnings (loss)	\$ (17,448)	\$ (3,745)	\$ 864
-----			
The Company's share of pretax earnings (loss), net of reserve (6,594)	\$ (942)	\$ 120	\$

Balance Sheets

December 31,	1997	1996
-----		
Assets:		
Housing inventories	\$ 1,753	\$ 14,149
Other assets	2,291	3,905
-----		
Total assets	\$ 4,044	\$ 18,054
-----		
Liabilities and Partners' Equity:		
Debt	\$ 0	\$ 11,055
Other liabilities	1,319	4,891
Due to the Company	197	5,867
-----		
Total liabilities	1,516	21,813
-----		
The Company's equity	2,010	(4,420)
Other partners' equity	518	661
-----		
Total equity	2,528	(3,759)
-----		
Total liabilities and equity	\$ 4,044	\$18,054

The Company's share of operating results is not in proportion to its ownership interest. The joint-venture pretax losses for 1997 and 1996 reflected in the above table include losses related to sales of assets that were reserved for by the Company in 1995 and earlier years. The Company's share of pretax earnings (loss) reflected in the above table for 1995 included a charge to earnings of \$7,000 in 1995 related to joint-venture investments in the Mid- Atlantic region.

The joint ventures primarily use non-recourse financing arrangements collateralized by joint-venture land and improvements.

## **NOTE M: STOCKHOLDERS' EQUITY**

### **Preferred Stock**

On August 31, 1989, the Company sold 1,267,327 shares of non-transferable convertible preferred stock, par value \$1.00, to the RSOP Trust for \$31.5625 per share, or an aggregate purchase price of approximately \$40,000.

Each share of preferred stock pays an annual cumulative dividend of \$2.21. During 1997, 1996 and 1995, the Company paid \$1,630, \$1,974 and \$2,193, respectively, in dividends on the preferred stock. Each share of preferred stock is entitled to a number of votes equal to the shares into which it is convertible, and the holders of the preferred stock generally vote together with the common stockholders on all matters.

Under the RSOP Trust, at the option of the trustee, the Company may be obligated to redeem the preferred stock to satisfy distribution obligations to or investment elections of participants. For purposes of these redemptions, the value of each share of preferred stock is determined monthly by an independent appraiser, with a minimum guaranteed value of \$25.25 per share. The Company may issue common stock to satisfy this redemption obligation, with any excess redemption price to be paid in cash. At December 31, 1997 and 1996, the maximum cash obligation for such redemptions was shown outside of stockholders' equity as part of other liabilities. This obligation is calculated assuming that all preferred shares outstanding were submitted for redemption.

Based upon the appraised value of each share of preferred stock (\$38.6875 and \$25.50) and the market value of each share of common stock (\$23.50 and \$13.625) at December 31, 1997 and 1996, respectively, and the application in 1996 of a proportionate amount of the note due from the RSOP Trust, the redemption obligation at December 31, 1997 and 1996 was \$7,618 and \$3,981, respectively. During 1997 and 1996, 110,027 and 81,356 shares of preferred stock, respectively, were converted into shares of common stock. In addition during 1997, 248,881 shares of preferred stock were retired (See Note N).

### **Common Share Purchase Rights**

In 1996, the Company adopted a new shareholder rights plan which replaced the original plan dated December 17, 1986. Under the new plan, the Company distributed one common share purchase right for each share of common stock outstanding on January 13, 1997. Each right entitles the holder to purchase one share of common stock at an exercise price of \$70. The rights become exercisable 10 business days after any party acquires or announces an offer to acquire 20 percent or more of the Company's common stock. The rights expire January 13, 2007, and are redeemable at \$0.01 per right at any time before 10 business days following the time that any party acquires 20 percent or more of the Company's common stock.

In the event the Company enters into a merger or other business combination, or if a substantial amount of its assets are sold after the time that the rights become exercisable, the rights provide that the holder will receive, upon exercise, shares of the common stock of the surviving or acquiring company having a market value of twice the exercise price. Until the earlier of the time that the rights become exercisable, are redeemed or expire, the Company will issue one right with each new share of common stock issued.

## **NOTE N: EMPLOYEE INCENTIVE AND STOCK PLANS**

### **Retirement Savings Opportunity Plan (RSOP)**

In 1989, the Company established a retirement and employee stock ownership plan that purchased shares of preferred stock from the Company. The purchase of preferred stock by the plan was financed by a loan from the Company in the amount of \$40,000. The interest rate on the loan was 9.99% and through September, 1997, the loan was being repaid by the plan through dividends received on the preferred stock and Company contributions. On October 1, 1997, the Company purchased 248,881 shares of preferred stock at fair market value from the plan representing preferred shares that secured the loan and had not been released for allocation to participant's accounts. The plan used the proceeds to payoff the related loan balance and the Company retired the preferred shares. The RSOP Trust incurred interest on the loan in 1997, 1996 and 1995 of \$930, \$1,794 and \$2,229, respectively. As of December 31, 1997, 501,605 shares of preferred stock are allocated to participant's accounts. Beginning January 1, 1998, participants will no longer receive preferred stock in connection with Company matching contributions to their accounts.

All full-time employees are eligible to participate in the RSOP the first pay period of the quarter following 30 days of employment. Pursuant to Section

401(k) of the Internal Revenue Code, the plan permits deferral of a portion of a participant's income into a variety of investment options. Compensation expense reflects the Company's matching contributions of the employee 401(k) contributions. Total compensation expense amounted to \$4,039, \$5,230 and \$4,695 in 1997, 1996 and 1995, respectively.

### **Equity Incentive Plan and Other Related Plans**

The Company's 1992 Equity Incentive Plan permits the Company to provide equity incentives in the form of stock options, stock appreciation

rights, performance shares, restricted stock and other stock-based awards to employees. Under the Company's 1992 Equity Incentive Plan, options are granted to purchase shares at prices not less than the fair-market value of the shares at the date of grant. The options are exercisable at various dates over one- to 10-year periods. Stock options granted during 1997 generally have a maximum term of 10 years and vest over three years. At the beginning of each year, 2 1/2 percent of the number of common shares outstanding at the beginning of the year are authorized for grants of options and other equity instruments.

Under the Company's Non-Employee Director Equity Plan, stock options are granted to directors to purchase shares at prices not less than the fair market value of the shares at the date of grant. A maximum of 100,000 shares of common stock has been reserved for issuance under this plan.

The following is a summary of the transactions relating to all stock option plans for each year ended December 31:

	1997		1996		1995
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares
Options outstanding beginning of year	1,783,738	\$ 16.70	1,545,700	\$ 17.44	1,262,599
Granted	619,500	13.49	539,500	14.85	620,270
Exercised (47,600)	(211,110)	16.33	(4,950)	15.00	
Forfeited (289,569)	(252,068)	16.47	(211,362)	16.27	
Expired	(7,500)	26.00	(85,150)	19.48	0
Options outstanding end of year	1,932,560	15.71	1,783,738	16.70	1,545,700
Available for future grant	478,309		561,715		530,729
Total shares reserved	2,410,869		2,345,453		2,076,429
Options exercisable at December 31	966,065	17.39	923,119	18.16	701,262

Prices related to options exercised

during the year \$13.50-\$20.75 \$15.00 \$10.94-\$15.25

Exercise prices related to options outstanding on December 31, 1997, ranged from \$11.50 to \$24.13. The weighted-average remaining contractual life for options outstanding on December 31, 1997, is approximately 7.6 years.

The Company has adopted the disclosure-only provisions of FASB 123. Accordingly, no compensation expense has been recognized for the stock option plans. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards in 1997, 1996 and 1995 consistent with the provisions of FASB 123, the Company's net earnings (loss) and net earnings (loss) per share would have been reduced to the pro-forma amounts indicated in the following table:

	1997	1996	1995
Net earnings (loss)- as reported \$(2,618)	\$21,882	\$15,839	
Net earnings (loss)- pro forma \$(3,058)	\$20,808	\$15,154	
Basic net earnings (loss) per share - as reported (0.31)	\$ 1.33	\$ 0.88	\$
Basic net earnings (loss) per share - pro forma (0.34)	\$ 1.26	\$ 0.83	\$
Diluted net earnings (loss) per share - as reported (0.31)	\$ 1.32	\$ 0.87	\$
Diluted net earnings (loss) per share - pro forma (0.34)	\$ 1.25	\$ 0.83	\$

For 1996 and 1995, the pro-forma effect on net earnings (loss) and net earnings (loss) per share may not be representative of the pro-forma effect on net earnings (loss) and earnings (loss) per share in future years because it does not take into consideration pro-forma compensation expense related to grants made prior to 1995.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997, 1996 and 1995, respectively: a risk-free interest rate of 6.3%, 5.6% and 7.6%; an expected volatility factor for the market price of the Company's common stock of 34%; a dividend yield of 1.2%, 4.0% and 4.0%; and an expected life of 5 years, 6 years and 6 years. The weighted-average fair value as of the grant date for options granted in 1997, 1996 and 1995 was \$4.90, \$4.07 and \$4.55, respectively.

In November 1993, the Company entered into a stock unit agreement with an officer, pursuant to the Equity Incentive Plan. The Company granted the officer 75,000 stock units. Each stock unit is payable in one share of the Company's common stock. The units vest in increments of 15,000 units for five years beginning November 1, 1994. In January 1997, the Company granted the officer 45,000 additional stock units that vest and are payable in the amount of 15,000 and 30,000 shares of common stock on November 1, 1999 and 2000, respectively. The Company recognizes compensation expense related to these agreements over the vesting period, valued at the market price of the Company's common stock on the vesting date. For 1997, 1996 and 1995, the Company recognized compensation expense of \$325, \$198 and \$267, respectively, related to these agreements.

#### **NOTE O: COMMITMENTS AND CONTINGENCIES**

##### **Commitments**

In the normal course of business, the Company acquires rights under option agreements to purchase land for use in future homebuilding operations. As of December 31, 1997, the Company had deposits and letters of credit outstanding of \$29,769 for options and land purchase contracts having a total purchase price of \$310,777.

Rent expense primarily relates to office facilities, model home furniture and equipment. Total rent expense amounted to \$10,634, \$10,191 and \$11,681 for the years ended December 31, 1997, 1996 and 1995, respectively. Future minimum rental commitments under non-cancelable leases with remaining terms in excess of one year are as follows:

1998	\$
6,015	
1999	
5,634	
2000	
4,693	
2001	
3,758	
2002	
1,625	
After 2002	
91	
-----	
Total lease commitments	\$
21,816	

## Contingencies

Contingent liabilities may arise from the obligations incurred in the ordinary course of business, or from the usual obligations of on-site housing producers for the completion of contracts. Some municipalities require the Company to issue development bonds or maintain letters of credit to assure completion of public facilities within a project. Total development bonds at December 31, 1997, were \$157,634, and total letters of credit at December 31, 1997, were \$8,199.

In 1995, one current and two former officers of Ryland Mortgage Company ("RMC") were notified that they were targets of a federal grand jury investigation concerning alleged misappropriation of funds from the Resolution Trust Corporation ("RTC") for activities during 1993. Subsequently, a federal grand jury in Jacksonville, Florida returned indictments against RMC and the three individuals. The indictments charge that RMC, acting through the three individuals, conspired to defraud approximately \$3.5 million from the RTC in connection with the reconciliation of payments and disbursements handled by RMC in its capacity as a servicer for certain mortgage servicing contracts with the RTC. The prosecuting assistant United States attorney indicated that the Company is responsible for restitution of the amount allegedly defrauded and, if convicted on all counts, RMC could receive fines of a significant but undetermined amount. RMC intends to vigorously defend the allegations contained in the indictment. No prediction can be made at this time regarding the results of the indictment or whether any civil action against the Company may be initiated by the RTC or its successor.

The Company is party to various other legal proceedings generally incidental to its businesses. Based on evaluation of these other matters and discussions with counsel, management believes that liabilities to the Company arising from these other matters will not have a material adverse effect on the financial condition of the Company.

## The Ryland Group, Inc. and Subsidiaries REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders  
The Ryland Group, Inc.

We have audited the accompanying consolidated balance sheets of The Ryland Group, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Ryland Group, Inc. and subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note A to the financial statements, in the fourth quarter of 1995, the Company changed its method of accounting for impairment of long-lived assets in accordance with the adoption of FASB No. 121.

**ERNST & YOUNG LLP**

Baltimore, Maryland  
January 29, 1998

**The Ryland Group, Inc. and Subsidiaries**  
**REPORT OF MANAGEMENT**

Management of the Company is responsible for the integrity and accuracy of the financial statements and all other annual report information. The financial statements are prepared in conformity with generally accepted accounting principles and include amounts based on management's judgments and estimates.

The accounting systems, which record, summarize and report financial information, are supported by internal control systems, which are designed to provide reasonable assurance, at an appropriate cost, that the assets are safeguarded and that transactions are recorded in accordance with Company policies and procedures. Proper selection, training and development of personnel also contribute to the effectiveness of the internal control systems. These systems are the responsibility of management and are regularly tested by the Company's internal auditors. The external auditors also review and test the effectiveness of these systems to the extent they deem necessary to express an opinion on the consolidated financial statements.

The Audit Committee of the Board of Directors periodically meets with management, the internal auditors and the external auditors to review accounting, auditing and financial matters. Both the internal auditors and the external auditors have unrestricted access to the Audit Committee.

**MICHAEL D. MANGAN**

Michael D. Mangan  
Executive Vice President  
Chief Financial Officer

**STEPHEN B. COOK**

Stephen B. Cook  
Vice President  
Corporate Controller and  
Chief Accounting Officer

**The Ryland Group, Inc. and Subsidiaries**

**QUARTERLY FINANCIAL DATA**

(amounts in thousands, except per share data)		1997	
unaudited			
Quarter Ended		Dec. 31	Sept. 30
Consolidated Results:			
Revenues	\$	499,062	\$
421,604			
Earnings before taxes		15,891	
11,235			
Income tax expense		6,356	
4,494			
-----			
Net earnings	\$	9,535	
6,741			
Basic net earnings per			
common share (1)	\$	0.64	\$
0.42			
Diluted net earnings per			
common share	\$	0.62	\$
0.41			
Weighted average common			
shares outstanding			
Basic		14,433	
14,916			
Diluted		15,317	
15,907			
-----			

(1) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128 "Earnings Per Share." For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements beginning on page 30.

**The Ryland Group, Inc. and Subsidiaries**

**QUARTERLY FINANCIAL DATA**

(amounts in thousands, except per share data)		1997	
unaudited			
Quarter Ended	June 30	March	
31			
-----			
Consolidated Results:			
Revenues	\$ 399,620	\$ 329,520	
Earnings before taxes	6,451	2,893	
Income tax expense	2,581	1,157	
	-----	-----	
Net earnings	\$ 3,870	1,736	
Basic net earnings per common share (1)	\$ 0.22	\$ 0.08	
Diluted net earnings per common share	\$ 0.22	\$ 0.08	
Weighted average common shares outstanding			
Basic	15,684	15,878	
Diluted	15,772	16,001	
-----			

(1) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128 "Earnings Per Share." For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements beginning on page 30.

#### The Ryland Group, Inc. and Subsidiaries

#### QUARTERLY FINANCIAL DATA

(amounts in thousands, except per share data)		1996	
unaudited			
Quarter Ended	Dec. 31	Sept. 30	
-----			
Consolidated Results:			
Revenues	\$ 436,041	\$ 402,458	
Earnings before taxes	8,325	7,462	
Income tax expense	3,329	2,985	
	-----	-----	
Net earnings	\$ 4,996	4,477	
Basic net earnings per common share (1)	\$ 0.29	\$ 0.25	
Diluted net earnings per common share	\$ 0.28	\$ 0.25	
Weighted average common shares outstanding			
Basic	15,834	15,807	
Diluted	15,950	15,935	
-----			

(1) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128 "Earnings Per Share." For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements beginning on page 30.

**The Ryland Group, Inc. and Subsidiaries**

**QUARTERLY FINANCIAL DATA**

(amounts in thousands, except per share data)		1996	
unaudited			
Quarter Ended		June 30	March
31			
-----			
Consolidated Results:			
Revenues	\$	414,254	\$ 327,433
Earnings before taxes		9,045	1,565
Income tax expense		3,618	626
		-----	-----
Net earnings	\$	5,427	939
Basic net earnings per common share (1)	\$	0.31	\$ 0.03
Diluted net earnings per common share	\$	0.31	\$ 0.03
Weighted average common shares outstanding			
Basic		15,787	15,728
Diluted		16,868	15,924
-----			

(1) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128 "Earnings Per Share." For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements beginning on page 30.

**COMMON STOCK PRICE AND DIVIDENDS**

The Ryland Group, Inc. lists its common shares on the New York Stock Exchange, trading under the symbol RYL. The table below presents the high and low market prices and dividend information for the Company. The number of common stockholders of record as of February 18, 1998, was 1,764. (See Note I for

dividend restrictions)

Dividends

Declared 1997 Share	High	Low	Per
-----			
First quarter	\$ 14	\$ 11 3/4	\$ 0.15
Second quarter	14 1/8	11 3/8	0.04
Third quarter	18 1/2	13 3/4	0.04
Fourth quarter	24 7/8	17 5/8	0.04

## COMMON STOCK PRICE AND DIVIDENDS

The Ryland Group, Inc. lists its common shares on the New York Stock Exchange, trading under the symbol RYL. The table below presents the high and low market prices and dividend information for the Company. The number of common stockholders of record as of February 18, 1998, was 1,764. (See Note I for

dividend restrictions)

### Dividends

Declared  
1996  
Share

High

Low

Per

---

First quarter	\$	16 3/8	\$	14 1/8	\$	0.15
Second quarter		16 7/8		13 5/8		0.15
Third quarter		15 3/8		13 1/2		0.15
Fourth quarter		15 1/4		11 1/4		0.15

**Exhibit 21 List of Subsidiaries of Registrant**

**Ryland Mortgage Company (an Ohio Corporation)**

**M.J. Brock & Sons, Inc. (a Delaware Corporation)**

**LPS Holdings Corporation (a Maryland Corporation)**

**Page 3**

## Exhibit 23 Consent of Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of The Ryland Group, Inc., of our report dated January 29, 1998, included in the 1997 Annual Report to the Shareholders of The Ryland Group, Inc.

Our audits also included the financial statement schedule of The Ryland Group, Inc., listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-32431, Form S-3 No. 33-48071, Form S-3 No. 33- 50933, Form S-8 No. 33-56905, Form S-8 No. 33-56917, Form S-3 No. 333-03791) of The Ryland Group, Inc., and in the related Prospectuses of our report dated January 29, 1998, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) for the year ended December 31, 1997.

*/s/ERNST & YOUNG  
LLP*

Baltimore, Maryland  
March 9, 1998

**Page 21**

**Exhibit 24 - Power of Attorney**

KNOW ALL MEN BY THESE PRESENTS that the undersigned directors and officers of The Ryland Group, Inc., a Maryland corporation, constitute and appoint Timothy J. Geckle and Michael D. Mangan and either of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority in said agents and attorneys-in-fact, and in either of them, to sign for the undersigned in their respective names as directors and officers of The Ryland Group, Inc., the Annual Report on Form 10-K of The Ryland Group, Inc., for the fiscal year ended December 31, 1997, to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934. We hereby confirm all acts taken by such agents and attorneys-in-fact, or either of them, as herein authorized.

DATED: January 28, 1998

**R. CHAD DREIER**

R. Chad Dreier, Chairman of the Board, President, and Chief Executive Officer  
(Principal Executive Officer)

**JAMES A. FLICK, JR.**  
James A. Flick, Jr., Director

**ROBERT J. GAW**  
Robert J. Gaw, Director

**LEONARD M. HARLAN**  
Leonard M. Harlan, Director

**WILLIAM L. JEWS**  
William L. Jews, Director

**WILLIAM G. KAGLER**  
William G. Kagler, Director

**JOHN H. MULLIN, III**  
John H. Mullin, III, Director

**CHARLOTTE ST. MARTIN**  
Charlotte St. Martin, Director

**JOHN O. WILSON**  
John O. Wilson, Director

**ARTICLE 5**

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE RYLAND GROUP INC. FORM 10-K FOR THE YEAR ENDED 12/31/97 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	DEC 31 1997
CASH	36,131
SECURITIES	153,022
RECEIVABLES	199,857
ALLOWANCES	0
INVENTORY	554,831
CURRENT ASSETS	0
PP&E	26,463
DEPRECIATION	0
TOTAL ASSETS	1,283,409
CURRENT LIABILITIES	0
BONDS	477,497
PREFERRED MANDATORY	0
PREFERRED	503
COMMON	14,522
OTHER SE	290,098
TOTAL LIABILITY ANDEQUITY	1,283,409
SALES	1,557,326
TOTAL REVENUES	1,649,806
CGS	1,346,141
TOTAL COSTS	1,541,757
OTHER EXPENSES	14,265
LOSS PROVISION	0
INTEREST EXPENSE	57,314
INCOME PRETAX	36,470
INCOME TAX	14,588
INCOME CONTINUING DISCONTINUED	21,882
EXTRAORDINARY	0
CHANGES	0
NET INCOME	21,882
EPS PRIMARY	1.33
EPS DILUTED	1.32

# End of Filing