THE RYLAND GROUP, INC.

AUDIT COMMITTEE

Charter

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of The Ryland Group, Inc. (the "Company") has the oversight responsibility, authority and duties described in this Charter.

Purpose

The primary purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to (1) the integrity of the Company's financial statements and other financial information provided by the Company to its stockholders, (2) the Company's compliance with legal and regulatory requirements, (3) the Company's retention of its independent auditors, including oversight of the terms of their engagement and their performance, qualifications and independence, (4) the performance of the Company's internal audit function, internal controls and disclosure controls, (5) the financial plans and programs and capital structure of the Company and (6) the Company's risk assessment and risk management processes. The Committee shall prepare the report of the Committee included in the Company's annual proxy statement as required by the Securities and Exchange Commission (the "SEC"). In addition, the Committee provides an avenue for communication among the internal auditors, the independent auditors, financial management and the Board. The Committee's responsibility is one of oversight, recognizing that the Company's management is responsible for preparing the Company's financial statements and that the independent auditors are responsible for auditing those financial statements. The independent auditors report directly to the Committee and are ultimately accountable to the Committee and the Board for such auditors' audit of the financial statements of the Company.

Composition

The Committee shall be appointed annually by the Board on the recommendation of the Nominating and Governance Committee and shall be composed of at least three independent directors, as defined in the Company's Guidelines on Significant Corporate Governance Issues. Additionally, each Committee member shall meet the independence requirements of the New York Stock Exchange ("NYSE") and the SEC for audit committee members and shall be financially literate. In addition, at least one member of the Committee will be an "audit committee financial expert," as defined by the SEC rules. The Board shall designate one member as Chair of the Committee. The Committee may, at its discretion in accordance with

applicable law or regulation, delegate to one or more of its members the authority to act on behalf of the Committee.

Meetings

The Committee shall hold meetings as deemed necessary or desirable by the Chair of the Committee. In addition to such meetings of the Committee as may be required to perform the functions described under "Duties and Powers" below, the Committee shall meet separately, periodically with the Company's management, the internal auditors and the independent auditors to discuss any matters that the Committee or any of these persons or firms believe should be discussed. The Committee may, at its discretion, meet in separate sessions with or without the presence of the independent auditors, the internal auditors or corporate officers.

Duties and Powers

The following shall be the principal recurring functions of the Committee in carrying out its oversight responsibilities. The functions are set forth as a guide with the understanding that the Committee may modify or supplement them as appropriate. The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.

<u>Independent Auditors</u>

1. Appoint, approve audit fees for and oversee the Company's independent auditors. Review the performance and audit fee arrangements of the independent auditors at least annually.

2. Review and provide approval of the engagement of the Company's independent auditors to perform non-audit services. The Chair of the Committee may represent and act on behalf of the entire Committee for purposes of this review and approval.

3. At least annually, obtain and review a report by the independent auditors delineating all relationships between the independent auditors and the Company or individuals in financial reporting oversight roles at the Company that may reasonably be thought to bear on independence consistent with applicable requirements of the Public Company Accounting Oversight Board ("PCAOB").

4. Discuss with the independent auditors any disclosed relationships or services that may impact the objectivity and independence of the independent auditors.

5. Obtain and review at least annually a report by the independent auditors describing: (a) the auditing firm's internal quality-control procedures, (b) any material issues raised (i) by the most recent internal quality-control review or peer review of the auditing firm or (ii) by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting any

independent audit carried out by the independent auditors and (c) any steps taken to deal with any such issues.

6. Obtain from the independent auditors assurance that their audit of the Company's financial statements was conducted in accordance with auditing standards generally accepted in the United States.

7. Confirm that the Company's independent auditors have complied with any applicable rotation requirements for the lead audit partner and any reviewing audit partner with responsibility for the Company's audit.

8. Review and discuss with the independent auditors the matters required to be discussed by the independent auditors under Auditing Standard No. 16, as adopted by the PCAOB and amended from time to time.

9. Oversee compliance with regulatory requirements and set clear policies applicable to the hiring of employees and former employees of the independent auditors.

Internal Auditors

10. Discuss with management before the appointment or replacement of the Director of Internal Audit.

11. Review with the Director of Internal Audit the significant reports to management prepared by the internal auditors and management's responses thereto, and also such other reports or matters as the Committee or the Director of Internal Audit deems necessary or desirable.

Financial Statements, Controls and Reports

12. Obtain, review and approve, if applicable, a timely analysis from management relating to any significant proposed or contemplated changes to the Company's accounting principles, policies, estimates, internal controls, disclosure controls, procedures, practices and auditing plans (including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof).

13. Review disclosures made to the Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

14. Periodically discuss with the internal auditors and the independent auditors, without management being present, (a) their judgments about the quality, appropriateness, and acceptability of the Company's accounting principles and

financial disclosure practices, as applied in its financial reporting, and (b) the completeness and accuracy of the Company's financial statements.

15. Review and discuss individual earnings releases prior to their publication and review and discuss generally with management and the independent auditors the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. The Chair of the Committee may represent and act on behalf of the entire Committee for purposes of these reviews.

16. Meet to review and discuss the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q in advance of such filings, the financial statements contained therein with management and the independent auditors, including the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the independent auditors' reports related to such financial statements.

17. Meet separately, periodically with management, the Director of Internal Audit, and the independent auditors to:

    - review the respective annual audit plans of the internal auditors and the independent auditors, including the adequacy of staffing and compensation;
    - discuss any significant matters arising from any audit or report or communication relating to the consolidated financial statements, including any material audit problems, disagreements or difficulties and responses by management;
    - understand the significant judgments made and alternatives considered in the Company's financial reporting, including the appropriateness of the alternatives ultimately chosen; and
    - discuss policies with respect to significant risks and exposures, if any, and the steps taken to assess, monitor and manage such risks.

18. Review with the Company's internal and external counsel any legal matters that could have a significant impact on the Company's financial statements.

Reporting and Recommendations

19. Determine, based on the reviews and discussions noted above, whether to recommend to the Board that the audited financial statements be included in the Company's Annual Report to Stockholders and on Form 10-K for filing with the SEC.

20. Prepare any report, including any recommendation of the Committee, required to be included in the Company's annual proxy statement.

21. Maintain minutes or other records of meetings and activities of the Committee.

22. Report the Committee's activities to the Board on a regular basis and make such recommendations with respect to the above as the Committee or the Board may deem necessary or appropriate.

Financial and Capital Structure Responsibilities

23. Review and approve the Company's financing and capital markets agreements, plans, programs, capital structure and stock repurchases.

24. Review and approve the specific terms of any issuances of debt and equity securities and matters relating thereto.

25. In its discretion and to the extent permitted by law, delegate to the officers of the Company the authority to set the specific terms of any issuances of debt and equity securities, financing plans and agreements and matters relating thereto.

26. Review and approve the acquisition and divesture of businesses by the Company.

27. Review and approve the dividend policy of the Company and make recommendations to the Board of Directors.

28. Review and approve the investment policy of the Company.

Other Responsibilities

29. Establish and maintain procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

30. Take such other actions as the Committee or the Board may deem necessary or appropriate.

31. Review the Committee's performance of the foregoing duties on an annual basis.

Resources and Authority

The Committee shall have the resources and authority appropriate to discharge its responsibilities, including the authority to retain independent auditors for special audits, reviews and other procedures, counsel and other experts, consultants and advisors, in each case as the Committee determines necessary or appropriate to carry out its activities and the appropriate funding, as determined by the Committee, from the Company for payment of compensation to any such advisors and for the payment of ordinary administrative expenses that are necessary or appropriate in carrying out the Committee's duties.

Annual Review

The Committee shall review, on at least an annual basis, this Charter and the scope of the responsibilities of this Committee. Any proposed changes, where indicated, shall be referred to the Board for appropriate action.

Operating Procedures

Formal actions to be taken by the Committee shall be by unanimous written consent or by a majority of the persons present (in person or by conference telephone) at a meeting at which a quorum is present. A quorum shall consist of at least 50% of the members of the Committee.