

Section 1: 10-K (10-K)

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018
- OR
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NO. 001-36491

Century Communities, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

68-0521411
(I.R.S. Employer
Identification No.)

8390 East Crescent Parkway, Suite 650
Greenwood Village, Colorado
(Address of Principal Executive Offices)

80111
(Zip Code)

(Registrant's Telephone Number, Including Area Code): (303) 770-8300

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

<u>Title of each Class</u>	<u>Name of each Exchange on which registered</u>
Common Stock, par value \$0.01 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ 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. ☐

[Table of Contents](#)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ☐ No ☒

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant on June 30, 2018 was approximately \$821.2 million based on the closing price of \$31.55 per share as reported on the New York Stock Exchange on June 29, 2018.

As of February 6, 2019, the registrant had 30,077,486 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III of this Annual Report on Form 10-K incorporates by reference certain portions of the registrant’s definitive proxy statement for its 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this report.

CENTURY COMMUNITIES, INC.
ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended December 31, 2018

Table of Contents

	<u>Page No.</u>
<u>PART I</u>	
Cautionary Note About Forward-Looking Statements	1
Item 1. Business	2
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	33
Item 2. Properties	33
Item 3. Legal Proceedings	33
Item 4. Mine Safety Disclosures	33
<u>PART II</u>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
Item 6. Selected Financial Data	36
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	58
Item 8. Consolidated Financial Statements	59
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	59
Item 9A. Controls and Procedures	59
Item 9B. Other Information	62
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	62
Item 11. Executive Compensation	62
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Matters	62
Item 13. Certain Relationships and Related Transactions, and Director Independence	62
Item 14. Principal Accounting Fees and Services	62
<u>PART IV</u>	
Item 15. Exhibits and Financial Statement Schedules	63

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

Some of the statements included in or incorporated by reference this Annual Report on Form 10-K (which we refer to as this “Form 10-K”) constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, forecasts, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. These statements are only predictions. Actual events and results of operations could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements are typically identified by the use of terms such as “may,” “will,” “should,” “expect,” “could,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “continue,” “predict,” “potential” the negative of such terms and other comparable terminology, and the use of future dates. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due a number of factors.

The forward-looking statements included in this Form 10-K reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. Statements regarding the following subjects, among others, may be forward-looking:

- economic changes either nationally or in the markets in which we operate, including declines in employment, volatility of mortgage interest rates and inflation;
- a downturn in the homebuilding industry, including a decline in real estate values or market conditions resulting in impairment of our assets;
- changes in assumptions used to make industry forecasts;
- continued volatility and uncertainty in the credit markets and broader financial markets;
- our future operating results and financial condition;
- our business operations;
- changes in our business and investment strategy;
- availability of land to acquire, and our ability to acquire such land on favorable terms or at all;
- availability, terms and deployment of capital;
- availability of mortgage financing or an increase in the number of foreclosures in the market;
- shortages of or increased prices for labor, land or raw materials used in housing construction;
- delays in land development or home construction resulting from adverse weather conditions or other events outside our control;
- impact of construction defect, product liability, and/or home warranty claims, including the adequacy of accruals and the applicability and sufficiency of our insurance coverage;
- changes in, or the failure or inability to comply with, governmental laws and regulations;
- the timing of receipt of regulatory approvals and the opening of projects;
- the degree and nature of our competition;
- our leverage and debt service obligations;
- availability of qualified personnel and our ability to retain our key personnel; and
- changes in United States generally accepted accounting principles (which we refer to as “GAAP”).

The forward-looking statements are based on our beliefs, assumptions and expectations of future events, taking into account all information currently available to us. Forward-looking statements are not guarantees of future events or of our performance. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these events and factors are described in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in “Part I, Item 1A. Risk Factors” in this Form 10-K, and other risks and uncertainties detailed in this and our other reports and filings with the SEC. If a change occurs, our business, financial condition, liquidity, cash flows and results of operations may vary materially from those expressed in or implied by our forward-looking statements. New risks and uncertainties arise over time, and it is not possible for us to predict the occurrence of those matters or the manner in which they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Therefore, you should not rely on these forward-looking statements as of any date subsequent to the date of this Form 10-K.

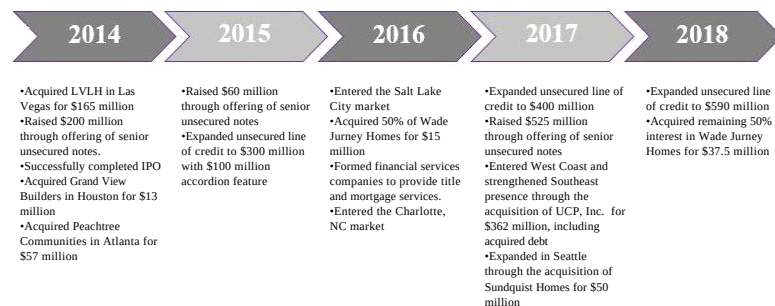
PART I

ITEM 1. BUSINESS.

General

Century Communities, Inc., a Delaware corporation (which we refer to as “we,” “us,” “our,” “CCS,” or the “Company”), is engaged in the development, design, construction, marketing and sale of single-family attached and detached homes in the States of Alabama, Arizona, California, Colorado, Florida, Georgia, Indiana, Nevada, North Carolina, Ohio, South Carolina, Tennessee, Texas, Utah, and Washington. In many of our projects, in addition to building homes, we are responsible for the entitlement and development of the underlying land. We build and sell homes under our Century Communities and Wade Journey Homes brands. Our Century Communities brand targets a wide range of buyer profiles including: first time, first and second time move up, and lifestyle homebuyers, and provides our homebuyers with the ability to personalize their homes through certain option and upgrade selections. Our Wade Journey Homes brand solely targets first time homebuyers, sells homes through retail studios or over the internet, and provides no option or upgrade selections. Our homebuilding operations are organized into the following five reportable segments: West, Mountain, Texas, Southeast, and Wade Journey Homes. Additionally, our indirect wholly-owned subsidiaries, Inspire Home Loans, Inc., Parkway Title, LLC, and IHL Home Insurance Agency, LLC, which provide mortgage, title and insurance services, respectively, to our home buyers have been identified as our Financial Services segment.

We have grown rapidly through the acquisitions of other homebuilders and organic entrance into new markets, as outlined below:



Description of Business

Land acquisition process

We acquire land for our homebuilding operations with the primary intent to develop and construct single family detached or attached homes for sale on the acquired land. From time to time we may sell land to other developers and homebuilders where we have excess land positions. We generally acquire land for cash, either through bulk acquisitions of land or through option contracts. Option contracts are generally structured where we have the right, but not the obligation, to buy land at predetermined prices on a defined schedule. Potential land acquisitions are identified by our local management within the markets in which we operate. Our land acquisition process typically includes soil tests, independent environmental studies, other engineering work and financial analysis which include an evaluation of expected returns, projected gross margins, estimated sales paces and pricing. Potential land acquisitions are approved by our Corporate office to ensure appropriate capital allocations taking into consideration current and projected inventory levels and risk adjusted returns.

Homebuilding marketing and sales process – Century Communities brand

Our Century Communities brand builds an extensive range of home types across a variety of price points. The core of our business plan is to acquire and develop land strategically, based on our understanding of population growth patterns, local markets, entitlement restrictions and infrastructure development. We focus on locations within our markets that are generally characterized by diverse economic and employment bases and demographics and increasing populations. We believe these conditions create strong demand for

[Table of Contents](#)

new housing, and these locations represent what we believe to be attractive opportunities for long-term growth. We also seek assets that have desirable characteristics, such as good access to major job centers, schools, shopping, recreation and transportation facilities, and we strive to offer a broad spectrum of product types in these locations. Location, product, price point and customer service are key components of the connection we seek to establish with each individual homebuyer. Our construction expertise across an extensive product offering allows us flexibility to pursue a wide array of land acquisition opportunities and appeal to a broad range of potential homebuyers, from entry-level to first- and second-time move-up buyers and lifestyle homebuyers. Additionally, we believe our diversified product strategy enables us to adapt quickly to changing market conditions and to optimize returns while strategically reducing portfolio risk.

Our goal is to provide a positive experience to our homeowners by actively engaging them in the homebuying process. In many of our communities, we provide our customers with customization options to suit their lifestyle needs and have developed a number of home designs with features such as outdoor living spaces, one-story living and first floor master bedroom suites to appeal to broad design needs. We also engineer our homes for energy efficiency, which is aimed at reducing the impact on the environment and lowering energy costs to our homebuyers. As part of these efforts, we often offer homebuyers environmentally friendly alternatives, such as solar power to supplement a home's energy needs.

We sell our homes through our own sales representatives and through independent real estate brokers. Our in-house sales force typically works from sales offices located in model homes close to or in each community. Sales representatives assist potential buyers by providing them with basic floor plans, price information, development and construction timetables, tours of model homes where available and the selection of available options. Sales personnel are trained by us and generally have had prior experience selling new homes in the local market. Our personnel, along with subcontracted marketing and design consultants, carefully design the exterior and interior of each home to coincide with the needs of targeted homebuyers.

We advertise directly to potential homebuyers through the internet and digital marketing, marketing brochures and to a lesser extent newspapers. We may also use billboards, radio and television advertising, along with our website, to market the location, price range and availability of our homes. We also attempt to operate in conspicuously located areas that permit us to take advantage of local traffic patterns. Model homes play a significant role in our marketing efforts by not only creating an attractive atmosphere, but also by displaying options and upgrades. Our Century Complete line, which is geared towards the entry level buyer, provides for limited options and design choices.

Homebuilding marketing and sales process – Wade Journey brand

Our Wade Journey Homes brand primarily sells homes through our own sales representatives located in retail locations which we refer to as Studios, as opposed to model homes. We lease our Studios within strip malls or other high traffic retail centers, located centrally to our homes under construction. Our Studios are generally leased for a period of three years and average approximately 1,500 square feet. We also sell homes directly through our Wade Journey Homes website, as well as through independent real estate brokers.

Our Wade Journey brand primarily competes with resales within the submarkets in which we operate and strives to offer a new home offering to our customers at prices that are equal or lower than resale competition, and significantly lower than other new home offerings. Our philosophy is to be the price leader through providing a limited number of floor plans, with no options or upgrades offered. Our advertising and marketing efforts are focused on cost effective means of reaching potential customers including centralized digital marketing, and direct outreach to independent real estate brokers. Our goal is to leverage our Studios, and advertising and marketing efforts to generate homebuyer leads, which are then actively pursued by our sales associates.

Customer relations and warranty programs

We pay particular attention to the product design process and carefully consider choice of materials in order to attempt to eliminate building deficiencies. We maintain customer service staff whose role includes providing a positive experience for each customer throughout the homebuying process and beyond. This group is also responsible for providing after sales customer service. Our customer service initiatives include using customer survey results to improve our standards of customer satisfaction. Generally, we provide each homeowner with product warranties covering workmanship and materials for one year from the time of closing, and warranties covering structural systems from the time of closing through the statute of repose with the states we operate in, or ten years, whichever is shorter. The subcontractors who perform most of the actual construction also provide to us customary warranties on workmanship.

Financial services

We offer home financing for our customers through our wholly owned subsidiary, Inspire Home Loans, Inc. (which we refer to as "Inspire"). Inspire is authorized to originate Federal National Mortgage Association ("Fannie Mae"), Federal Housing Administration-insured ("FHA"), and Department of Veterans Affairs-guaranteed ("VA") mortgages (which we refer to collectively as the "government

[Table of Contents](#)

sponsored entities"). We also offer title and home owners insurance services through our wholly owned subsidiaries, Parkway Financial Group, LLC (which we refer to as "Parkway") and IHL Home Insurance Agency, LLC (which we refer to as "IHL"). These operations along with Inspire collectively comprise our Financial Services operating segment. We believe that our customers' use of Inspire, Parkway, and IHL provides us with a competitive advantage by enabling more control over the quality of the overall home buying process for our customers, while also helping us align the timing of the house construction process with our customers' financing, title and insurance needs.

The results of operations of our Financial Services operating segment are primarily driven by the results of Inspire. Because Inspire originates mortgage loans almost exclusively for our homebuilding customers, Inspire is dependent on our homebuilding operations and its results of operations are highly correlated with our homebuilding operations, and to a lesser degree the overall market demand for mortgages.

Inspire finances the origination of these loans primarily with borrowings under its mortgage repurchase facilities. As of December 31, 2018, Inspire had facilities maturing through September 2019, with a total maximum aggregate commitment of \$160 million including an uncommitted amount of \$55.4 million. We expect the facilities to be renewed or replaced with other facilities when they mature.

Inspire sells substantially all of the loans it originates and their related servicing rights in the secondary mortgage market within a short period of time after origination, generally within 30 days. This strategy results in owning the loans and related servicing rights for only a short period of time. After the loans are sold, Inspire may be responsible for potential losses associated with mortgage loans originated and sold in the event of errors or omissions relating to customary industry-standard representations and warranties made by Inspire that the loans met certain requirements, including representations as to underwriting standards, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loans.

The mortgage industry is highly competitive, and Inspire competes with other mortgage bankers, as well as mortgage brokers, credit unions and banks, over speed, efficiency, quality of customer service, the variety and attractiveness of mortgage products offered, interest rates offered, financing availability and costs, in order to provide mortgage financing to our customers. We compete with other title insurance agencies and underwriters for closing services and title insurance. Principal competitive factors include service and price.

Inspire is also subject to various state and federal statutes, rules, and regulations, including those that relate to licensing, lending operations, and other areas of mortgage origination and financing, rules and regulations of the government sponsored entities, and other rules of investors that purchase the mortgages we originate. We are also subject to regulations of those that have oversight over the government sponsored entities, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, which contains a number of requirements relating to mortgage lending and securitization. These include, among others, minimum standards for lender practices, limitations on certain fees and a requirement that the originator of loans that are securitized retain a portion of the risk, either directly or by holding interests in the securitizations. The impact of those statutes, rules, and regulations can be to increase our home buyers' cost of financing, increase our cost of doing business, and restrict our home buyers' access to some types of loans.

Design and construction

We engage architects, engineers and other professionals in connection with the home design process who are familiar with local market preferences, constraints, conditions and requirements. We serve as the general contractor, with all construction work typically performed by subcontractors. While we maintain long-standing relationships with many of our subcontractors and design professionals, we typically do not enter into long-term contractual commitments with them.

When constructing homes, we use various construction materials and components including lumber, steel and concrete. It has typically taken us four to eight months or more to construct a home, during which time materials are subject to price fluctuations. Such price fluctuations are caused by several factors, among them seasonal variation in availability and demand for materials. We may experience shortages in the availability of materials and/or labor in each of our markets. These shortages and delays may result in delays in the delivery of homes under construction, and/or reduced gross margins from home sales.

Seasonality

We experience seasonal variations in our quarterly operating results and capital requirements. Historically, new order activity is highest during the spring and summer months. As a result, we typically have more homes under construction, close more homes, and have

greater revenues and operating income in the second half of our fiscal year. Historical results are not necessarily indicative of current or future homebuilding activities.

Governmental regulation and environmental matters

We are subject to numerous local, state, federal and other statutes, ordinances, rules and regulations concerning zoning, development, building design, construction and similar matters which impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular area. Projects that are not entitled may be subjected to periodic delays, changes in use, less intensive development or elimination of development in certain specific areas due to government regulations. We may also be subject to periodic delays or may be precluded entirely from developing in certain communities due to building moratoriums or “slow-growth” or “no-growth” initiatives that could be implemented in the future. Local and state governments also have broad discretion regarding the imposition of development fees for projects in their jurisdiction. Projects for which we have received land use and development entitlements or approvals may still require a variety of other governmental approvals and permits during the development process and can also be impacted adversely by unforeseen municipal, regulatory, health, safety and welfare issues, which can further delay these projects or prevent their development.

We are also subject to a variety of local, state, federal and other statutes, ordinances, rules and regulations concerning the environment. The particular environmental laws which apply to any given homebuilding site vary according to the site's location, its environmental conditions, and the present and former uses of the site, as well as adjoining properties. Environmental laws and conditions may result in delays, may cause us to incur substantial compliance and other costs, and can prohibit or severely restrict homebuilding activity in environmentally sensitive regions or areas. From time to time, the Environmental Protection Agency and similar federal or state agencies review homebuilders' compliance with environmental laws and may levy fines and penalties for failure to strictly comply with applicable environmental laws or impose additional requirements for future compliance as a result of past failures. Any such actions taken with respect to us may increase our costs. Further, we expect that increasingly stringent requirements will be imposed on homebuilders in the future. Environmental regulations can also have an adverse impact on the availability and price of certain raw materials such as lumber.

Under various environmental laws, current or former owners of real estate, as well as certain other categories of parties, may be required to investigate and clean up hazardous or toxic substances or petroleum product releases, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with the contamination. In addition, in those cases where an endangered species is involved, environmental rules and regulations can result in the elimination of development in identified environmentally sensitive areas.

Our mortgage, title, and insurance subsidiaries must comply with applicable real estate, lending and insurance laws and regulations. The subsidiaries are licensed in the states in which they do business and must comply with laws and regulations in those states. These laws and regulations include provisions regarding capitalization, operating procedures, investments, lending and privacy disclosures, forms of policies and premiums. The Dodd-Frank Wall Street Reform and Consumer Protection Act contains a number of requirements relating to mortgage lending and securitizations. These include, among others, minimum standards for lender practices, limitations on certain fees and a requirement that the originator of loans that are securitized retain a portion of the risk, either directly or by holding interests in the securitizations.

Several federal, state and local laws, rules, regulations and ordinances, including, but not limited to, the Federal Fair Debt Collection Practices Act (“FDCPA”) and the Federal Trade Commission Act and comparable state statutes, regulate consumer debt collection activity. Although, for a variety of reasons, we may not be specifically subject to the FDCPA or to some state statutes that govern debt collectors, it is our policy to comply with applicable laws in our collection activities. To the extent that some or all of these laws apply to our collection activities, our failure to comply with such laws could have a material adverse effect on us. We are also subject to regulations promulgated by the Federal Consumer Financial Protection Bureau regarding residential mortgage loans.

Segment and geographic area disclosures

We have broken our homebuilding operations into the following reportable segments:

- West (California and Washington)
- Mountain (Colorado, Nevada and Utah)
- Texas
- Southeast (Georgia, North Carolina, South Carolina and Tennessee)

[Table of Contents](#)

- Wade Journey Homes (Alabama, Arizona, Florida, Georgia, Indiana, North Carolina, Ohio, South Carolina, Tennessee and Texas)

We have also identified our Financial Services operations, which provides mortgage, title and insurance services to our homebuyers, as a sixth reportable segment. Our Corporate operations are a nonoperating segment, as it serves to support our homebuilding and other operations through functions, such as our executive, finance, treasury, human resources, legal, and accounting departments.

Footnote 2 (Reporting Segments) of our Consolidated Financial Statements contains information regarding the operations of our reportable segments.

Competition

We face competition in the homebuilding industry, which is characterized by relatively low barriers to entry. Homebuilders compete for, among other things, home buying customers, desirable land parcels, employees, financing, raw materials and skilled labor. Increased competition may prevent us from acquiring attractive land parcels on which to build homes or make such acquisitions more expensive, hinder our market share expansion or lead to pricing pressures on our homes that may adversely impact our margins and revenues. Our competitors may independently develop land and construct housing units that are superior or substantially similar to our products, or may be significantly larger, have a longer operating history and have greater resources or lower cost of capital than us; accordingly, they may be able to compete more effectively in one or more of the markets in which we operate or plan to operate. We also compete with other homebuilders that have long-standing relationships with subcontractors and suppliers in the markets in which we operate or plan to operate and we compete for sales with individual resales of existing homes and with available rental housing.

Our Financial Services operations compete with other mortgage lenders, including national, regional and local mortgage bankers and brokers, banks, savings and loan associations and other financial institutions, in the origination and sale of residential mortgage loans. Principal competitive factors include interest rates and other features of mortgage loan products available to the consumer. We compete with other title insurance agencies and underwriters for closing services and title insurance. We also compete with other insurance agencies. Principal competitive factors include service and price.

Employees

The total number of employees as of December 31, 2018 was 1,389. We consider our employee relations to be good. We do not have collective bargaining agreements relating to any of our employees. However, we subcontract many phases of our homebuilding operations and some of the subcontractors we use have employees who are represented by labor unions.

Available Information

We are a Delaware corporation and a U.S. public reporting company under the Securities Exchange Act of 1934, as amended (which we refer to as the “Exchange Act”), and file reports, proxy statements, and other information with the U.S. Securities and Exchange Commission (which we refer to as the “SEC”). Copies of these reports, proxy statements, and other information can be accessed from the SEC’s home page on the Internet at <http://www.sec.gov>. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K are available on our website at www.centurycommunities.com as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC. The information contained on our website or connected to our website is not incorporated by reference into this Form 10-K and should not be considered part of this report.

ITEM 1A. RISK FACTORS.

Our business routinely encounters and attempts to address risks, some of which will cause our future results to differ, sometimes materially, from those originally anticipated. Below, we have described our present view of the most significant risks facing the Company. The risk factors set forth below are not the only risks that we may face or that could adversely affect us. If any of the circumstances described in the risk factors discussed in this Form 10-K actually occur, our business, prospects, liquidity, financial condition and results of operations could be materially and adversely affected. If this were to occur, the trading price of our securities could decline significantly and stockholders may lose all or part of their investment.

The following discussion of risk factors contains “forward-looking statements,” which may be important to understanding any statement in this Form 10-K or in our other filings and public disclosures. In particular, the following information should be read in conjunction with the sections in this Form 10-K entitled, “Cautionary Note about Forward-Looking Statements,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Item 8. Financial Statements and Supplementary Data.”

Risks Related to Our Business

We are subject to demand fluctuations in the housing industry. Any reduction in demand would adversely affect our business, results of operations, and financial condition.

Demand for our homes is subject to fluctuations, often due to factors outside of our control. In a housing market downturn, our revenues and results of operations may be adversely affected; we may have significant inventory impairments and other write-offs; our gross margins may decline significantly from historical levels; and we may incur substantial losses from operations. At any particular time, we cannot predict whether housing market conditions existing at that time will continue. While rising interest rates and tightening affordability created an industry-wide deceleration in housing growth during the second half of 2018, underlying job and population growth still remained positive in our markets. We are unable to predict if such deceleration will continue or whether it will deepen. Further, if the duration of the deceleration becomes a long-term trend, we cannot assure you that any efforts to mitigate its adverse effects will be successful.

Adverse changes in general economic conditions could reduce the demand for homes and, as a result, could have a material adverse effect on our business and results of operations.

The residential homebuilding industry is cyclical and is highly sensitive to changes in local and general economic conditions that are outside our control, including:

- consumer confidence, levels of employment, spending levels, personal income growth and household debt-to-income levels of potential homebuyers;
- the availability of financing for homebuyers or restrictive mortgage standards, including private and federal mortgage financing programs and federal, state, and provincial regulation of lending practices;
- real estate taxes and federal and state income tax provisions, including provisions for the deduction of mortgage interest payments;
- U.S. and global financial system and credit markets, including short- and long-term interest rates and inflation;
- housing demand from population growth, demographic changes (including immigration levels and trends in urban and suburban migration) or otherwise, or perceptions regarding the strength of the housing market;
- competition from other real estate investors with significant capital, including other real estate operating companies and developers, institutional investment funds and companies solely focused on single family rentals; and
- the supply of new or existing homes, including foreclosures, and other housing alternatives, such as apartments and other residential rental property.

In the event these economic and business factors occur, we could experience a decline in the demand and pricing for our homes, an increase in customer cancellations, an increase in selling concessions and downward pressure on the market value of our inventory, which could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations and increase the risk for asset impairments. A significant or sustained downturn in the homebuilding market would likely have an adverse effect on our business and results of operations for multiple years.

The health of the residential homebuilding industry may also be significantly affected by “shadow inventory” levels. “Shadow inventory” refers to the number of homes with a mortgage that are in some form of distress but that have not yet been listed for sale. Shadow inventory can occur when lenders put properties that have been foreclosed or forfeited to lenders on the market gradually, rather than all at once, or delay the foreclosure process. They may choose to do so because of regulations and foreclosure moratoriums, because of the additional costs and resources required to process and sell foreclosed properties, or because they want to avoid depressing housing prices further by putting many distressed properties up for sale at the same time. A significant supply of shadow inventory in our markets could, were it to be released into our markets, adversely impact home prices and demand for our homes, which could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

In addition, an important segment of our customer base consists of first- and second-time move-up buyers, who often purchase homes subject to contingencies related to the sale of their existing homes. If these potential buyers face difficulties in selling their homes, whether due to periods of weak economic conditions, oversupply, restrictive mortgage standards or otherwise, our sales may be adversely affected. Moreover, we may need to reduce our sales prices and offer greater incentives to buyers to compete for sales that may result in reduced margins.

[Table of Contents](#)

Deployments of U.S. military personnel to foreign regions, terrorist attacks, other acts of violence or threats to national security and any corresponding response by the United States or others, related domestic or international instability or civil unrest may cause an economic slowdown in the markets where we operate, which could adversely affect our homebuilding business.

Our long-term growth depends upon our ability to successfully identify and acquire desirable land parcels for residential build-out.

Our future growth depends upon our ability to successfully identify and acquire attractive land parcels for development of our homes at reasonable prices and with terms that meet our underwriting criteria. Our ability to acquire land parcels for new homes may be adversely affected by changes in the general availability of land parcels, the willingness of land sellers to sell land parcels at reasonable prices, competition for available land parcels, availability of financing to acquire land parcels, zoning and other market conditions. If the supply of land parcels appropriate for development of homes is limited because of these factors, or for any other reason, our ability to grow could be significantly limited, and the number of homes that we build and sell could decline. Additionally, our ability to begin new projects could be impacted if we elect not to purchase land parcels under option contracts. To the extent that we are unable to purchase land parcels timely or enter into new contracts for the purchase of land parcels at reasonable prices, our home sales revenue and results of operations could be negatively impacted.

Our geographic concentration could materially and adversely affect us if the homebuilding industry in our current markets should decline.

Our business strategy is focused on the design, construction and sale of single-family detached and attached homes in 15 states across the West, Mountain, Texas and Southeast U.S. regions. Because our operations are concentrated in these areas, a prolonged economic downturn in one or more of these areas could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations, and a disproportionately greater impact on us than other homebuilders with more diversified operations.

Any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and have an adverse impact on us.

In the United States, the unemployment rate was 3.9% as of the end of December 2018, according to the U.S. Bureau of Labor Statistics. People who are not employed, are underemployed or are concerned about the loss of their jobs are less likely to purchase new homes, may be forced to try to sell the homes they own and may face difficulties in making required mortgage payments. Therefore, any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and have an adverse impact on us both by reducing the demand for the homes we build and by increasing the supply of homes for sale. This would also likely adversely affect our Financial Services business.

If homebuyers are not able to obtain suitable financing, our results of operations may decline.

The success of homebuilders depends on the ability of potential homebuyers to obtain mortgages for the purchase of homes. If the home financing market is unstable or contracts, our revenues and results of operations could be adversely affected. A substantial majority of our homebuyers finance their home purchases through lenders that provide mortgage financing or through our Financial Services business. First-time homebuyers are generally more affected by the availability of financing than other potential homebuyers. These buyers are an important source of our demand, especially in light of our Wade Journey Homes segment. A limited availability of home mortgage financing may adversely affect the volume of our home sales and the sales prices we achieve. This environment would also likely adversely affect our Financial Services business.

During the recent past, the mortgage lending industry in the United States experienced significant instability, beginning with increased defaults on subprime loans and other nonconforming loans and compounded by expectations of increasing interest payment requirements and further defaults. This in turn resulted in a decline in the market value of many mortgage loans and related securities. In response, lenders, regulators and others questioned the adequacy of lending standards and other credit requirements for several loan products and programs offered in recent years. Credit requirements tightened, and investor demand for mortgage loans and mortgage-backed securities declined. The deterioration in credit quality during the economic downturn caused almost all lenders to stop offering subprime mortgages and most other loan products that were not eligible for sale to Fannie Mae or Freddie Mac, or loans that did not conform to Fannie Mae, Freddie Mac, Federal Housing Administration (which we refer to as the “FHA”) or Veterans Administration (which we refer to as the “VA”) requirements. Fewer loan products and tighter loan qualifications may continue to make it more difficult for certain buyers to finance the purchase of our homes. These factors may reduce the pool of qualified homebuyers and make it more difficult to sell to first-time and move-up buyers who have historically made up a substantial part of our customers and especially in light of our Wade Journey Homes segment will likely continue to make up a substantial part of our customers. Reductions in demand adversely affected our business and financial results during that downturn. The liquidity provided by Fannie Mae and Freddie Mac to the mortgage industry has been very important to the housing market. These entities in the past have required substantial injections of capital from the federal government and may require additional government support in the future. Several federal government officials have proposed changing

[Table of Contents](#)

the nature of the relationship between Fannie Mae and Freddie Mac and the federal government and even nationalizing or eliminating these entities entirely. If Fannie Mae and Freddie Mac were dissolved or if the federal government determined to stop providing liquidity support to the mortgage market, there would be a reduction in the availability of the financing provided by these institutions. Any such reduction would likely have an adverse effect on interest rates, mortgage availability and our sales of new homes.

The FHA insures mortgage loans that generally have lower loan payment requirements and qualification standards compared to conventional guidelines, and as a result, continue to be a particularly important source for buyers financing the purchase of our homes. In recent years, lenders have taken a more conservative view of FHA guidelines causing significant tightening of borrower eligibility for approval. Availability of condominium financing and minimum credit score benchmarks has reduced opportunity for those purchasers. In the future, there may be further restrictions on FHA-insured loans, including limitations on seller-paid closing costs and concessions, stricter loan qualification standards, and an increase in minimum down payment requirements. This or any other restriction may negatively affect the availability or affordability of FHA financing, which could adversely affect our potential homebuyers' ability to secure adequate financing and, accordingly, our ability to sell homes in the United States. In addition, changes in federal and provincial regulatory and fiscal policies aimed at aiding the home buying market (including repeal or another limitation of the home mortgage interest tax deduction) may also negatively affect potential homebuyers' ability or desire to purchase homes.

Decreases in the availability of credit and increases in the cost of credit adversely affect the ability of homebuyers to obtain or service mortgage debt. Even if potential buyers of our homes do not themselves need mortgage financing, where our potential buyers must sell their existing homes in order to buy one of our homes, increases in mortgage costs, lack of availability of mortgages and/or regulatory changes could delay or adversely affect such a sale, which would result in our potential customers' inability to buy a new home. Similar risks apply to those buyers who are awaiting delivery of their homes and are currently in backlog. If our customers (or potential buyers of our customers' existing homes) cannot obtain suitable financing, our sales and results of operations could be adversely affected.

Interest rate increases or changes in federal lending programs or other regulations could lower demand for our homes, which could materially and adversely affect us.

Most of the purchasers of our homes finance their acquisitions with mortgage financing. Mortgage interest rates have remained near historic lows for the past several years, however, interest rates are currently rising and may continue to rise in the near term. Increases in interest rates increase the costs of owning a home and could adversely affect the purchasing power of consumers and lower demand for the homes we sell, which could result in a decrease in sales, adversely affecting our results of operations. Increased interest rates can also decrease homebuyer confidence and hinder our ability to realize our backlog because our home purchase contracts typically provide customers with a financing contingency. Financing contingencies allow customers to cancel their home purchase contracts in the event that they cannot arrange for adequate financing. As a result, rising interest rates can decrease our home sales and mortgage originations. In addition, monetary policy actions affecting interest rates or fiscal policy actions and new legislation related to taxation, spending levels or borrowing limits, along with the related political debates, conflicts and compromises associated with such actions, may negatively impact the financial markets and consumer confidence. Such events could hurt the U.S. economy and the housing market and in turn, could adversely affect our operating results.

In addition, the federal government plays a significant role in supporting mortgage lending through its conservatorship of Fannie Mae and Freddie Mac, both of which purchase home mortgages and mortgage-backed securities originated by mortgage lenders, and its insurance of mortgages originated by lenders through the FHA and the VA. Changes in these programs could materially adversely affect the mortgage market, which would have a negative impact on our business. The FHA may continue to impose stricter loan qualification standards, raise minimum down payment requirements, impose higher mortgage insurance premiums and other costs, and/or limit the number of mortgages it insures. Several bills have been introduced in Congress over the past several years concerning the future status of Fannie Mae and Freddie Mac and the mortgage finance system, including bills which provided for the wind-down of Fannie Mae and Freddie Mac or proposed modifications to the financial relationship between Fannie Mae and Freddie Mac and the federal government. The liquidity provided by Fannie Mae and Freddie Mac to the mortgage industry has been very important to the housing market. Eliminating Fannie Mae and Freddie Mac would mean that conventional loans, like the 30-year mortgage, would no longer be guaranteed, which would be likely to result in the elimination of these traditional, long-term, fixed-rate loans, and result in an increase in interest rates for longer term products. If Fannie Mae and Freddie Mac were dissolved or if the federal government determined to stop providing liquidity support to the mortgage market, there would be a reduction in the availability of the financing provided by these institutions. Any such reduction would likely have an adverse effect on interest rates and mortgage availability, and we would expect our sales of new homes to decline.

Our home purchase contracts typically provide our customers with a financing contingency, which allows our customers to cancel their home purchase contracts in the event that they cannot arrange for adequate financing. Increased interest rates, restrictions or reductions in government backed mortgage financing or the tightening of lenders' borrowing standards may make it more difficult for our customers to obtain financing, which would decrease our home sales and mortgage originations and have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

Any limitation on, or reduction or elimination of, tax benefits associated with owning a home would have an adverse effect on the demand for our home products, which could be material to our business.

Prior to the enactment of the Tax Cuts and Jobs Act (which we refer to as the “TCJA”), which was enacted into law on December 22, 2017, significant expenses of owning a home, including mortgage loan interest and state and local taxes, generally were deductible expenses for an individual’s U.S. federal income taxes and in some cases, state income taxes, subject to various limitations. The TCJA establishes new limits on the federal tax deductions individual taxpayers may take on mortgage loan interest payments and on state and local taxes, including property taxes. Under the TCJA, through the end of 2023, the mortgage interest deduction cap on a newly purchased home was decreased to \$750,000 a year (\$375,000 in the case of a separate return filed by a married individual) from the prior \$1,000,000 threshold, and the annual deduction for real estate property taxes and state and local income or sales taxes has been limited to a combined amount of \$10,000 (or \$5,000 in the case of a separate return filed by a married individual). These changes could reduce the actual or perceived affordability of homeownership, which could adversely affect demand for and sales prices of new homes, especially in areas with relatively high housing prices or high state and local income taxes and real estate taxes, including in California, Colorado, Nevada and Washington. Any further change in income tax laws by the federal or state government to eliminate or substantially reduce income tax benefits associated with homeownership could adversely affect demand for and sales prices of new homes.

Increases in property and sales taxes could prevent potential customers from buying our homes and adversely affect our business or financial results.

Increases in property tax rates by local governmental authorities, as experienced in response to reduced federal and state funding, can adversely affect the ability of potential customers to obtain financing or their desire to purchase new homes. Fees imposed on developers to fund schools, open spaces or road improvements, and/or to provide low and moderate income housing, could increase our costs and have an adverse effect on our operations. In addition, increases in sales taxes could adversely affect our potential customers who may consider those costs in determining whether to make a new home purchase and decide, as a result, not to purchase one of our homes.

The Tax Cuts and Jobs Act could adversely affect our business and financial condition.

The TCJA significantly reforms the Internal Revenue Code of 1986, as amended. The TCJA, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income, elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. As a result of the reduction in the corporate tax rates, we recorded a reduction in the value of our deferred tax assets, as discussed in the notes to our financial statements.

Changes to the population growth rates in certain of the markets in which we operate or plan to operate could affect the demand for homes in these regions.

Slower rates of population growth or population declines in the markets where we do business, or other key markets in the United States we plan to enter, especially as compared to the high population growth rates in prior years, could adversely affect the demand for housing, causing home prices in these markets to fall, and adversely affect our plans for growth, business, financial condition and operating results.

Difficulty in obtaining sufficient capital could result in an inability to acquire land for our developments or increased costs and delays in the completion of development projects.

The homebuilding industry is capital-intensive and requires significant up-front expenditures to acquire land parcels and begin development. If internally generated funds are not sufficient, we may seek additional capital in the form of equity or debt financing from a variety of potential sources, including additional bank financings and/or securities offerings. The availability of borrowed funds, especially for land acquisition and construction financing, may be greatly reduced nationally, and the lending community may require increased amounts of equity to be invested in a project by borrowers in connection with both new loans and the extension of existing loans. The credit and capital markets have recently experienced significant volatility. If we are required to seek additional financing to fund our operations, continued volatility in these markets may restrict our flexibility to access such financing. If we are not successful in obtaining sufficient capital to fund our planned capital and other expenditures, we may be unable to acquire land for our housing developments and/or to develop the housing. Additionally, if we cannot obtain additional financing to fund the purchase of land under our option contracts or purchase contracts, we may incur contractual penalties and fees. Any difficulty in obtaining sufficient capital for planned development expenditures could also cause project delays and any such delay could result in cost increases. Any one or more

[Table of Contents](#)

of the foregoing events could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

We face potentially substantial risk with respect to our land and lot inventory arising from significant changes in economic or market conditions, which could adversely affect our results of operations and result in write-downs of the carrying values of land we own.

We face substantial risk in owning developed and undeveloped land. We acquire undeveloped land, buildable lots and housing inventories in the markets where we build homes. The market value of land, building lots, and housing inventories can fluctuate significantly as a result of changing market conditions, and the measures we employ to manage inventory risk may not be adequate to insulate our operations from a severe drop in inventory values. The risks inherent in purchasing and developing land parcels increase as consumer demand for housing decreases. If housing demand decreases below what we anticipated when we acquired our inventory, our results of operations may be adversely affected and we may not be able to recover our costs when we sell and build houses.

When market conditions are such that land values are not appreciating, previously entered into option agreements may become less desirable, at which time we may elect to forego deposits and pre-acquisition costs and terminate the agreements. In addition, inventory carrying costs can be significant, particularly if inventory must be held for longer than planned, and can result in losses on poorly performing projects or markets. Factors, such as changes in regulatory requirements and applicable laws (including in relation to building regulations, taxation and planning), political conditions, the condition of financial markets, both local and national economic conditions, the financial condition of customers, potentially adverse tax consequences, and interest and inflation rate fluctuations, subject land valuations to uncertainty.

We regularly review the value of our land holdings and continue to review our holdings on a periodic basis. In the face of adverse market conditions, we may have substantial inventory carrying costs, and may have to write down our inventory to its fair value, and/or sell land or homes at a loss. In the past, we have been required to record significant write-downs of the carrying value of our land inventory, and have elected not to exercise options to purchase land, even though that required us to forfeit deposits and write-off pre-acquisition costs. Although we have taken efforts to reduce our exposure to costs of that type, a certain amount of exposure is inherent in our homebuilding business. If market conditions were to deteriorate in the future, we could again be required to record significant write downs to our land inventory, which would decrease the asset values reflected on our balance sheet and could adversely affect our results of operations and financial condition and result in write-downs of the carrying values of land we own.

If we are unable to develop our communities successfully or within expected timeframes, our results of operations could be adversely affected.

Before a community generates any revenues, time and material expenditures are required to acquire land, obtain development approvals and construct significant portions of project infrastructure, amenities, model homes and sales facilities. A decline in our ability to develop and market our communities successfully, especially in our more recent or new markets where it may be more difficult to do so, and to generate positive cash flow from these operations in a timely manner could have a material adverse effect on our business and results of operations and on our ability to service our debt and to meet our working capital requirements.

Adverse weather and geological conditions may increase costs, cause project delays and reduce consumer demand for housing, all of which could materially and adversely affect us.

Significant weather conditions and natural disasters in the geographic areas where we operate, such as hurricanes, tornadoes, earthquakes, volcanic activity, wildfires, ice storms, snow storms, landslides and soil subsidence, droughts and floods, could damage projects, cause delays in completion of projects, or reduce consumer demand for housing. Extreme weather conditions and natural disasters could also disrupt or cause shortages in labor or materials, which could delay project completion or result in increases in the prices for labor or materials, thereby affecting our sales and profitability. The climates of certain of the states in which we operate present increased risks of adverse weather or natural disasters. For example, Colorado has historically experienced seasonal wildfires, snow storms, and soil subsidence; Texas has historically experienced tornadoes, coastal flooding and hurricanes; California and Nevada have historically experienced earthquakes, extreme temperatures, wildfires, and droughts and water shortages; and Florida and the Carolinas have historically experienced a risk of hurricanes and coastal flooding. As an example, during the third quarter or 2018, in the Southeast, we experienced severe weather during September, mainly affecting our Wade Journey Homes segment, which pushed the portion of deliveries into the fourth quarter and constrained our selling activity in the region for a period of time. In addition to directly damaging or delaying our projects, natural disasters and extreme weather events could damage roads and highways providing access to those projects, thereby adversely affecting our ability to market homes in those areas and possibly increasing the costs of completion. Some conditions, such as severe drought or risk of flooding, may cause state and local governments to take restrictive actions, such as placing moratoriums on the issuance of new building permits or issuing new building codes and standards that increase building costs. Our insurance policies may not fully cover losses resulting from these events or any related business interruption. For example, losses associated with floods, landslides, earthquakes and other geological events may not be insurable and other losses, such as those arising

from terrorism, may not be economically insurable. A significant uninsured loss could materially and adversely affect our business, prospects, liquidity, financial condition and results of operations.

Changes in global or regional climate conditions and governmental actions in response to such changes may adversely affect us by increasing the costs of, or restricting, our planned or future growth activities.

Projected climate change, if it occurs, may exacerbate the scarcity or presence of water and other natural resources in affected regions, which could limit, prevent or increase the costs of residential development in certain areas. In addition, there is a variety of new legislation being enacted, or considered for enactment, at the federal, state and local level relating to energy and climate change, and as climate change concerns continue to grow, legislation and regulations of this nature are expected to continue. This legislation relates to items such as carbon dioxide emissions control and building codes that impose energy efficiency standards. Government mandates, standards or regulations intended to mitigate or reduce greenhouse gas emissions or projected climate change impacts could result in prohibitions or severe restrictions on land development in certain areas, increased energy and transportation costs, and increased compliance expenses and other financial obligations to meet permitting, land development, or home construction-related requirements that we may be unable to fully recover (due to market conditions or other factors), any of which could cause a reduction in our homebuilding gross margins and materially and adversely affect our results of operations. Energy-related initiatives could similarly affect a wide variety of companies throughout the United States and the world, and because our results of operations are heavily dependent on purchasing significant amounts of raw materials, these initiatives could have an indirect adverse impact on our results of operations and profitability to the extent the manufacturers and suppliers of our materials are burdened with expensive cap and trade, tariffs, or other climate related regulations.

As a result, climate change impacts, and the laws and land development and home construction standards implemented to address potential climate change concerns, could result in an increase in our costs and have a long-term adverse impact on our business and results of operations. This is a particular concern in the western United States, which have instituted some of the most extensive and stringent environmental laws and residential building construction standards in the country.

Failure to recruit, retain and develop highly skilled, competent personnel may have a material adverse effect on our standards of service.

Key employees, including management team members, are fundamental to our ability to obtain, generate and manage business opportunities. Key employees working in the homebuilding and construction industries are highly sought after. Failure to attract and retain such personnel or to ensure that their experience and knowledge is not lost when they leave the business through retirement, redundancy or otherwise may adversely affect the standards of our service and may have an adverse impact on our business, financial condition and operating results. In addition, we do not maintain key person insurance in respect of any member of our senior management team. The loss of any of our management members or key personnel could adversely impact our business, financial condition and operating results.

Failure to find suitable contractors may have a material adverse effect on our standards of service.

Substantially all of our construction work is done by third-party subcontractors with us acting as the general contractor. Accordingly, the timing and quality of our construction depend on the availability and skill of our subcontractors. An increase in levels of homebuilding in the markets in which we operate has occasionally led to some difficulty in securing the services of skilled tradesmen who are currently in high demand. While we believe that our existing relationships with subcontractors are good, we do not have long-term contractual commitments with any subcontractors, and there can be no assurance that skilled subcontractors will continue to be available at reasonable rates and in the areas in which we conduct our operations.

In the future, certain of the subcontractors engaged by us may be represented by labor unions or subject to collective bargaining arrangements. A strike or other work stoppage involving any of our subcontractors could also make it difficult for us to retain subcontractors for our construction work. In addition, union activity could result in higher costs to retain subcontractors. The inability to contract with skilled subcontractors at reasonable costs on a timely basis could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

Our reliance on contractors can expose us to various liability risks.

We rely on third-party contractors in order to perform the construction of our homes, and in many cases, to select and obtain raw materials. We are exposed to various risks as a result of our reliance on these contractors and their respective subcontractors and suppliers, including the possibility of defects in our homes due to improper practices or materials used by contractors, which may require us to comply with our warranty obligations and/or bring a claim under an insurance policy. For example, despite our quality control efforts, we may discover that our subcontractors were engaging in improper construction practices or installing defective materials in

[Table of Contents](#)

our homes. When we discover these issues, we repair the homes in accordance with our new home warranty and as required by law. We establish warranty and other reserves for the homes we sell based on market practices, our historical experiences, and our judgment of the qualitative risks associated with the types of homes built. However, the cost of satisfying our warranty and other legal obligations in these instances may be significantly higher than our warranty reserves, and we may be unable to recover the cost of repair from such subcontractors. Regardless of the steps we take, we can in some instances be subject to fines or other penalties, and our reputation may be injured.

In addition, several other homebuilders have received inquiries from regulatory agencies concerning whether homebuilders using contractors are deemed to be employers of the employees of such contractors under certain circumstances. Although contractors are independent of the homebuilders that contract with them under normal management practices and the terms of trade contracts and subcontracts within the homebuilding industry, if regulatory agencies reclassify the employees of contractors as employees of homebuilders, homebuilders using contractors could be responsible for wage, hour and other employment-related liabilities of their contractors, which could adversely affect our results of operations. Century has not received similar inquiries.

If we experience shortages in labor supply, increased labor costs or labor disruptions, there could be delays or increased costs in developing our communities or building homes, which could adversely affect our operating results.

We require a qualified labor force to develop our communities. Access to qualified labor may be affected by circumstances beyond our control, including:

- work stoppages resulting from labor disputes;
- shortages of qualified trades people, such as carpenters, roofers, electricians and plumbers, especially in our key markets in the United States;
- changes in laws relating to union organizing activity;
- changes in immigration laws and trends in labor force migration; and
- increases in subcontractor and professional services costs.

Any of these circumstances could give rise to delays in the start or completion of, or could increase the cost of, developing one or more of our communities and building homes. We may not be able to recover these increased costs by raising our home prices because the price for each home is typically set months prior to its delivery pursuant to sales contracts with our homebuyers. In such circumstances, our operating results, including in particular, our margin, could be adversely affected. Additionally, market and competitive forces may also limit our ability to raise the sales prices of our homes.

Utility and resource shortages or rate fluctuations could have an adverse effect on our operations.

Several of the markets in which we operate and in which we may operate in the future have historically been subject to utility and resource shortages, including significant changes to the availability of electricity and water and seasonal fluctuation in the ability of certain commodities, particularly lumber. Shortages of natural resources in our markets, particularly of water, may make it more difficult for us to obtain regulatory approval of new developments. We have also experienced material fluctuations in utility and resource costs across our markets, and we may incur additional costs and may not be able to complete construction on a timely basis if such fluctuations arise. In particular, as the housing market has improved and the number of new homes being constructed has increased, we have experienced increased construction costs due to additional competition for labor and materials. Furthermore, these shortages and rate fluctuations may adversely affect the regional economies in which we operate, which may reduce demand for our homes and negatively affect our business and results of operations.

Government regulations and legal challenges may delay the start or completion of our communities, increase our expenses or limit our homebuilding or other activities, which could have a negative impact on our results of operations.

Various local, state and federal statutes, ordinances, rules and regulations concerning building, health and safety, environment, zoning, sales and similar matters apply to and/or affect the housing industry, and the approval of numerous governmental authorities must be obtained in connection with our development activities. These governmental authorities often have broad discretion in exercising their approval authority. We incur substantial costs related to compliance with legal and regulatory requirements in the markets in which we operate. Changes in legal and regulatory requirements may cause us to incur substantial additional costs, or in some cases cause us to determine that a property we acquired is not feasible for development.

[Table of Contents](#)

Municipalities may restrict or place moratoriums on the availability of utilities, such as water and sewer taps. If municipalities in which we operate take such actions, it could have an adverse effect on our business by causing delays, increasing our costs or limiting our ability to build in those municipalities. In addition, we may become subject to various state and local “slow growth” or “no growth” initiatives and other restrictions that could negatively impact the availability of land and building opportunities within those localities.

Governmental regulation affects not only construction activities but also sales activities, mortgage lending activities and other dealings with consumers. In addition, it is possible that some form of expanded energy efficiency legislation may be passed by the U.S. Congress or federal agencies and certain state and provincial legislatures, which may, despite being phased in over time, significantly increase our costs of building homes and the sale price to our buyers, and adversely affect our sales volumes. We may be required to apply for additional approvals or modify our existing approvals because of changes in local circumstances or applicable law. Further, we may experience delays and increased expenses as a result of legal challenges to our proposed communities, whether brought by governmental authorities or private parties.

An inability to obtain additional performance, payment and completion surety bonds and letters of credit could limit our future growth.

We are often required to provide performance, payment and completion surety bonds or letters of credit to secure the completion of our construction contracts, development agreements and other arrangements. We have obtained facilities to provide the required volume of these surety bonds and letters of credit for our expected growth in the medium term; however, unexpected growth may require additional facilities.

We may also be required to renew or amend our existing facilities. Our ability to obtain additional performance, payment and completion surety bonds and letters of credit primarily depends on our credit rating, capitalization, working capital, past performance, management expertise and certain external factors, including the capacity of the markets for such bonds. Surety bond and letter of credit providers consider these factors in addition to our performance and claims record and provider-specific underwriting standards, which may change from time to time.

If our performance record or our providers’ requirements or policies change and we are unable provide performance, payment and completion surety bonds to ensure the completion of our projects, our business operations and financial condition could be adversely affected. If market conditions become unfavorable, we may not be able to obtain new surety bonds, or and some providers might request credit enhancements (such as cash deposits or letters of credit) in order to maintain existing bonds or to issue new bonds. If we are unable to obtain new bonds in the future, or are required to provide credit enhancements with respect to our current or future bonds, our liquidity could be negatively impacted, and our growth and results of operations will be adversely affected.

A major health and safety incident relating to our business could be costly in terms of potential liabilities and reputational damage.

Building sites are inherently dangerous, and operating in the homebuilding industry poses certain inherent health and safety risks. Given the number of projects we work on, health and safety performance is critical to the success of all areas of our business. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly in terms of potential liabilities incurred as a result. Such a failure could also generate significant negative publicity, which could adversely impact our reputation, relationships with relevant regulatory agencies and governmental authorities, and our ability to win new business, which in turn could have a material adverse effect on our business, financial condition and operating results.

We are subject to environmental laws and regulations, which may increase our costs, limit the areas in which we can build homes and delay completion of our projects.

We are subject to a variety of local, state and federal statutes, rules and regulations concerning land use and the protection of health and the environment, including those governing discharge of pollutants to water and air, the handling of hazardous materials, including asbestos, and the cleanup of contaminated sites. We may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on, under, from or in a property currently or formerly owned, leased or occupied by us, whether or not we caused or knew of the pollution. The costs of any required removal, investigation or remediation of such substances or the costs of defending against environmental claims may be substantial. The presence of such substances, or the failure to remediate such substances properly, may also adversely affect our ability to sell the land or to borrow using the land as security. Environmental impacts from historical activities have been identified at some of the projects we have developed in the past and additional projects may be located on land that may have been contaminated by previous use. Although we are not aware of any projects requiring material remediation activities by us as a result of historical contamination, no assurances can be given that material claims or liabilities relating to such developments will not arise in the future.

[Table of Contents](#)

The particular impact and requirements of environmental laws that apply to any given site vary greatly according to the community, the site's environmental conditions and the present and former use of the site. From time to time, the United States Environmental Protection Agency and other federal or state agencies review homebuilders' compliance with environmental laws and may levy fines and penalties for failure to comply with applicable environmental laws or impose additional requirements for future compliance as a result of past failures. Any such actions taken with respect to us may increase our costs. We expect that increasingly stringent requirements may be imposed on homebuilders in the future. Compliance with environmental laws that affect our building sites or our business may result in delays, cause us to implement time consuming and expensive compliance programs and prohibit or severely restrict development in certain environmentally sensitive regions or areas, such as wetlands. It may not be obvious during our pre-development review of project sites whether a site has environmental concerns, which could cause us to unnecessarily expend time and resources. Environmental regulations can also have an adverse impact on the availability and price of certain raw materials, such as lumber. Furthermore, we could incur substantial costs, including cleanup costs, fines, and penalties, as well as damages from third-parties for property damage or personal injury as a result of our failure to comply with applicable environmental laws and regulations.

In addition, we are subject to third-party challenges to the permits and other approvals required for our projects and operations, such as by environmental groups, under environmental laws and regulations. These matters could adversely affect our business, financial condition and operating results.

We may be liable for claims for damages as a result of use of hazardous materials.

As a homebuilding business with a wide variety of historic homebuilding and construction activities, we could be liable for future claims for damages as a result of our past or present use of hazardous materials, including building materials which in the future become known or are suspected to be hazardous. Any such claims may adversely affect our business, financial condition and operating results. Insurance coverage for such claims may be limited or non-existent.

Our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

Litigation and concern about indoor exposure to certain types of toxic molds have been increasing as the public becomes increasingly aware that exposure to mold can cause a variety of health effects and symptoms, including allergic reactions. Toxic molds can be found almost anywhere as they can grow on virtually any organic substance as long as moisture and oxygen are present. There are molds that can grow on wood, paper, carpet, foods and insulation. When excessive moisture accumulates in buildings or on building materials, mold growth will often occur, particularly if the moisture problem remains undiscovered or unaddressed. It is impossible to eliminate all mold and mold spores in the indoor environment. If mold or other airborne contaminants exist or appear at our properties, we may have to undertake a costly remediation program to contain or remove the contaminants or increase indoor ventilation. If indoor air quality were impaired, we could be liable to our homebuyers or others for property damage or personal injury.

We may not be able to compete effectively against competitors in the homebuilding industry, especially in our recent markets and new markets we plan to enter.

Competition in the homebuilding industry is intense, and there are relatively low barriers to entry into our business. We compete with large national and regional homebuilding companies and with smaller local homebuilders for home buying customers, land, financing, raw materials and skilled management and labor resources. A number of our primary competitors are significantly larger, have a longer operating history and may have greater resources or lower cost of capital than ours; accordingly, they may be able to compete more effectively in one or more of the markets in which we operate. In addition, many of these competitors have long-standing relationships with subcontractors and suppliers in the markets in which we operate. As we have expanded our operations into new markets, we have faced and will likely continue to face new competition from many established homebuilders in those markets, and we will not have the benefit of the extensive relationships and strong reputations with subcontractors, suppliers and homebuyers that we have historically enjoyed in our Colorado and other legacy markets. Increased competition could hurt our business, as it could prevent us from acquiring attractive land parcels on which to build homes or make such acquisitions more expensive, hinder our growth plans, lead to pricing pressures on our homes; cause us to increase selling concessions; and cause impairments in the value of our inventory or other assets, all of which may adversely impact our revenues, margins and other operating results. We also compete with sellers of existing homes, including foreclosed homes, and with rental housing. If we are unable to successfully compete in this industry, our business, prospects, liquidity, financial condition and results of operations could be materially and adversely affected.

Raw materials and building supply shortages and price fluctuations could delay or increase the cost of home construction and adversely affect our operating results.

The homebuilding industry has, from time to time, experienced raw material shortages and been adversely affected by volatility in global commodity prices. In particular, shortages and fluctuations in the price of concrete, drywall, steel, lumber or other important raw

[Table of Contents](#)

materials could result in delays in the start or completion of, or increase the cost of, developing one or more of our residential communities. These shortages can be more severe during periods of strong demand for housing or during periods following natural disasters that have a significant impact on existing residential and commercial structures. The cost of raw materials may also be materially and adversely affected during periods of shortages or high inflation. Shortages or increases in the price of raw materials could cause delays in and increase our costs of home construction. We generally are unable to pass on increases in construction costs to customers who have already entered into home purchase contracts and may not be able to sufficiently increase the price of homes remaining to be sold. Sustained increases in construction costs may adversely affect our gross margins, which in turn could materially and adversely affect our business, liquidity, financial condition and results of operations.

The cost of petroleum products, which are used both to deliver our materials and to transport workers to our job sites, fluctuates and may be subject to increased volatility as a result of geopolitical events or accidents. Increases in such costs could also result in higher prices for any product utilizing petrochemicals. These cost increases may have an adverse effect on our operating margin and results of operations and may result in a decline in the price of our common stock. Furthermore, any such cost increase may adversely affect the regional economies in which we operate and reduce demand for our homes.

Recent legislation and government action related to tariffs imposed on imported building supplies, such as lumber, concrete, plumbing supplies and wiring, could increase the cost to construct our homes. If we are unable to offset these higher costs with increases in the sales prices for our homes, our margins on the homes we sell will decrease, and our financial condition could be adversely affected.

Increases in our home cancellation rate could have a negative impact on our home sales revenue and homebuilding margins.

Our backlog reflects sales contracts with homebuyers for homes that have not yet been delivered. We have received a deposit from a homebuyer for most homes reflected in our backlog, and generally we have the right to retain the deposit if the homebuyer fails to comply with his or her obligations under the sales contract, subject to certain exceptions, including as a result of state and local law, the homebuyer's inability to sell his or her current home or, in certain circumstances, the homebuyer's inability to obtain suitable financing. Home order cancellations negatively impact the number of closed homes, net new home orders, home sales revenue and results of operations, as well as the number of homes in backlog. Home order cancellations can result from a number of factors, including declines or slow appreciation in the market value of homes, increases in the supply of homes available to be purchased, increased competition, higher mortgage interest rates, homebuyers' inability to sell their existing homes, homebuyers' inability to obtain suitable financing, including providing sufficient down payments, and adverse changes in economic conditions. An increase in the level of our home order cancellations could have a negative impact on our business, prospects, liquidity, financial condition and results of operations.

Homebuilding is subject to product liability and warranty claims arising in the ordinary course of business that can be significant.

As a homebuilder, we are subject to home warranty and construction defect claims arising in the ordinary course of business. There can be no assurance that any developments we undertake on homes we construct will be free from defects once completed. Construction defects may in projects, developments and homes and may arise during a significant period of time after completion. Defects arising on a development or a home attributable to us may lead to significant contractual or other liabilities. As a consequence, we maintain products and completed operations excess liability insurance, obtain indemnities and certificates of insurance from subcontractors generally covering claims related to damages resulting from their faulty workmanship and materials, and create warranty and other reserves for the homes we sell based on historical experience in our markets and our judgment of the risks associated with the types of homes built. Although we actively monitor our insurance reserves and coverage, because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractor arrangements and our reserves will be adequate to address all of our warranty and construction defect claims in the future. In addition, contractual indemnities can be difficult to enforce. We may also be responsible for applicable self-insured retentions, and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered by and the availability of products and completed operations excess liability insurance for construction defects is becoming increasingly expensive and the scope of coverage is restricted. There is no assurance that adequate insurance coverage will continue to be available with acceptable price and terms. If we cannot recover from our subcontractors or their insurance carriers, we may suffer even greater losses.

Unexpected expenditures attributable to defects or previously unknown sub-surface conditions arising on a development project may also have a material adverse effect on our business, financial condition and operating results. In addition, severe or widespread incidents of defects giving rise to unexpected levels of expenditure, to the extent not covered by insurance or redress against subcontractors, may adversely affect our business, reputation, financial condition and operating results.

We may suffer uninsured losses or suffer material losses in excess of insurance limits.

We could suffer physical damage to property and liabilities resulting in losses that may not be fully compensated by insurance. In addition, certain types of risks, such as personal injury claims, may be, or may become in the future, either uninsurable or not

[Table of Contents](#)

economically insurable, or may not be currently or in the future covered by our insurance policies. Should an uninsured loss or a loss in excess of insured limits occur, we could sustain financial loss or lose capital invested in the affected property as well as anticipated future income from that property. In addition, we could be responsible for repairing damages or covering liabilities caused by uninsured risks. We may be liable for any debt or other financial obligations related to affected property.

In the United States, the coverage offered and the availability of general liability insurance for construction defects is currently limited and is costly. As a result, an increasing number of our subcontractors in the United States may be unable to obtain insurance. If we cannot effectively recover construction defect liabilities and costs of defense from our subcontractors or their insurers, or if we have self-insured subcontractors who cannot cover the losses they cause, we may suffer losses. Insurance coverage may be further restricted and become even more costly in our industry. Such circumstances could adversely affect our business, financial condition and operating results.

Our operating performance is subject to risks associated with the real estate industry.

Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond our control. Certain events may decrease cash available for operations, as well as the value of our real estate assets. These events include, but are not limited to:

- adverse changes in financial conditions of buyers and sellers of properties, particularly residential homes and land suitable for development of residential homes;
- adverse changes in international, national or local economic and demographic conditions;
- competition from other real estate investors with significant capital, including other real estate operating companies and developers and institutional investment funds;
- reductions in the level of demand for and increases in the supply of land suitable for development;
- fluctuations in interest rates, which could adversely affect our ability, or the ability of homebuyers, to obtain financing on favorable terms, or at all;
- unanticipated increases in expenses, including, without limitation, insurance costs, development costs, real estate assessments and other taxes and costs of compliance with laws, regulations and governmental policies; and
- changes in enforcement of laws, regulations and governmental policies, including, without limitation, health, safety, environmental, zoning, tax and disability rights laws.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in the purchase of homes or an increased incidence of home order cancellations. If we cannot successfully implement our business strategy, our business, prospects, liquidity, financial condition and results of operations will be adversely affected.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties for reasonable prices in response to changing economic, financial and investment conditions may be limited and we may be forced to hold non-income producing properties for extended periods of time.

Real estate investments are relatively difficult to sell quickly. As a result, our ability to promptly sell one or more properties in response to changing economic, financial and investment conditions is limited. We may be forced to sell an asset at significantly lower margins or at a loss, if we are able to sell them at all, or hold non-income producing assets for an extended period of time, which could have a negative impact on our liquidity or results of operations.

Inflation could adversely affect our business and financial results.

Inflation could adversely affect us by increasing the costs of land, materials and labor needed to operate our business. In the event of an increase in inflation, we may seek to increase the sales prices of homes in order to maintain satisfactory margins. However, an oversupply of homes relative to demand and home prices being set several months before homes are delivered may make any such increase difficult or impossible. In addition, inflation is often accompanied by higher interest rates, which historically have had a negative impact on housing demand. In such an environment, we may not be able to raise home prices sufficiently to keep up with the rate of inflation and our margins could decrease. Moreover, the cost of capital increases as a result of inflation and the purchasing power of our cash resources declines. Actions by the government to stimulate the economy may increase the risk of significant inflation, which may have an adverse impact on our business or financial results.

Our quarterly operating results may fluctuate because of the seasonal nature of our business and other factors.

Our quarterly operating results generally fluctuate by season. Historically, we have entered into a larger percentage of contracts for the sale of our homes during the spring and summer months. Weather-related problems, typically in the fall, late winter and early spring, may delay starts or closings and increase costs and thus reduce profitability. Seasonal natural disasters such as floods and fires could cause delays in the completion of, or increase the cost of, developing one or more of our communities, causing an adverse effect on our sales and revenues. In many cases, we may not be able to recapture increased costs by raising prices. In addition, deliveries may be staggered over different periods of the year and may be concentrated in particular quarters. Our quarterly operating results may fluctuate because of these and other factors.

Negative publicity may affect our business performance and could affect the value of our common stock.

Unfavorable media related to the Company, our industry, or Company brands, marketing, personnel, operations, business performance or prospects may affect the value of our securities and the performance of our business, regardless of its accuracy or inaccuracy. Our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment. Adverse publicity or negative commentary on social media outlets, such as blogs, websites or newsletters, could hurt operating results, as consumers might avoid brands that receive bad press or negative reviews. Negative publicity may result in a decrease in operating results that could lead to a decline in the value of our common stock.

Poor relations with the residents of our communities could negatively impact sales, which could cause our revenues or results of operations to decline.

Residents of communities we develop rely on us to resolve issues or disputes that may arise in connection with the operation or development of their communities. Efforts made by us to resolve these issues or disputes could be deemed unsatisfactory by the affected residents and subsequent actions by these residents could adversely affect sales or our reputation. In addition, we could be required to make material expenditures related to the settlement of such issues or disputes or to modify our community development plans, which could adversely affect our results of operations.

Failure to manage land acquisitions and development and construction processes could result in significant cost overruns or errors in valuing sites.

We own and purchase a large number of sites each year and are therefore dependent on our ability to process a very large number of transactions (which include, among other things, evaluating the site purchase, designing the layout of the development, sourcing materials and subcontractors and managing contractual commitments) efficiently and accurately. Errors by employees, failure to comply with regulatory requirements and conduct of business rules, failings or inadequacies in internal control processes, inability to obtain desired approvals and entitlements, cost overruns, equipment failures, natural disasters or the failure of external systems, including those of our suppliers or counterparties, could result in operational losses that could adversely affect our business, financial condition and operating results and our relationships with our customers.

Information technology failures or data security breaches could expose us to liability and materially adversely affect our financial condition and results of operations.

We rely on accounting, financial and operational management information systems to conduct our operations and maintain critical business records. Many of these resources are provided to us and/or maintained on our behalf by third-party service providers pursuant to agreements that specify to varying degrees certain security and service level standards. Our information technology systems are dependent upon these providers, as well as global communications providers, telephone systems and other aspects of the Internet infrastructure, which have experienced significant systems failures and electrical outages in the past, and are susceptible to damage or interruption from fire, floods, power outages, or telecommunications failures, or cybersecurity threats such as computer viruses, break-ins, security breaches, and similar events. The occurrence of any of these events to us directly or any of our third-party service providers could adversely affect our ability to operate our business, damage our reputation, result in the loss of customers, suppliers, or revenues, or result in the misappropriation or public disclosure of our confidential information. As a result, we may be required to incur significant costs to remediate the damage caused by these disruptions or to prevent security breaches in the future.

In the ordinary course of our business, we collect and store certain confidential information, including personal information of homebuyers/borrowers and information about our employees, contractors, vendors and suppliers. This information is entitled to protection under a number of regulatory regimes. We may share some of this information with vendors who assist us with certain aspects of our business, particularly with respect to our mortgage lending business. If these vendors or we fail to maintain the security of the data which we are required to protect, including via the penetration of network security and the misappropriation of confidential and personal information, we could face business disruption, damage to our reputation, financial obligations to third parties, fines, penalties,

[Table of Contents](#)

regulatory proceedings and private litigation with potentially large costs, any of which could have a material adverse impact on our financial condition and results of operations. We maintain cyber liability insurance; however, this insurance may not be sufficient to cover the financial, legal, business or reputational losses that may result from an interruption or breach of our systems.

Risk Related to Our Financial Services Business

We are subject to various risks relating to our Financial Services business.

We have vertically integrated financial services into our business, which has enabled us to provide mortgage, title and insurance services to our homebuyers. Our home buying customers account for substantially all loan production and substantially all of the loans we originate are sold in the secondary market within a short period of time after origination, generally within 30 days, either as whole loans or pursuant to a securitization. During 2018, we originated and closed 2,176 loans, with an aggregate total principal amount of \$682.8 million. Mortgage loans in process for which interest rates were committed to borrowers totaled approximately \$26.2 million at December 31, 2018 and carried a weighted average interest rate of approximately 4.7%. As of December 31, 2018, we had mortgage loans held for sale with an aggregate fair value of \$114.1 million and an aggregate outstanding principal balance of \$108.0 million. Interest rate risks related to these obligations are mitigated by the preselling of loans to investors or through our interest rate hedging program.

There are numerous risks involved with engaging in our mortgage lending business, which risks may be exacerbated for us in light of the fact that we do not have a long history this business. Because we have limited experience in originating and underwriting home loans, our underwriting standards may not be as stringent as a more traditional lender, and accordingly, we may experience a higher rate of default than lenders who have engaged in the mortgage lending industry for a longer period of time. Moreover, the loans we originate are limited primarily to buyers of our homes, so our pool of borrowers is generally less diverse than as is the case with a traditional lender, and thus there could be a higher correlation in the default rate with our borrowers. In addition, because we originate loans to buyers of our homes, there is the risk that we may be more incentivized, compared to more traditional lenders, to lower our underwriting standards in order to close home sales. Should we be able to establish sufficiently stringent underwriting standards, or if our underwriting standards do not adequately screen quality applicants, the default rate on the loans we originate may be higher, which could have an adverse impact on our results of operations and financial condition, either because the borrowers under loans we own are no longer performing, or because we are required to repurchase or otherwise indemnify purchasers, guarantors or insurers of the loans we sold or securitized. Further, if we face a high default rate on the mortgages we originate, we may be unable to sell mortgages or the pricing we receive upon the sale of mortgages may not meet our expectations. Although we have established reserves for potential losses on mortgage loans we originate and sell or securitize, which we believe are adequate, if either actual repurchases or the losses incurred resolving those repurchases exceed our expectations, additional expense may be incurred. There can be no assurance that we will not have significant liabilities in respect of such claims in the future, which could exceed our reserves, or that the impact of such claims on our results of operations will not be material.

Our mortgage lending business requires substantial capital, which may not continue to be available to us in the amounts we require.

On May 4, 2018 and September 14, 2018, Inspire entered into mortgage warehouse facilities, with Comerica Bank, and J.P. Morgan, respectively. The mortgage warehouse lines of credit (which we refer to as the “Repurchase Facilities”) provide Inspire with uncommitted repurchase facilities of up to \$140 million, secured by the mortgage loans financed thereunder. On December 20, 2018, we temporarily increased our facility with J.P. Morgan through February 28, 2019 by \$20 million, thus bringing our total capacity under the Repurchase Facilities to \$160 million as of December 31, 2018. Amounts outstanding under the Repurchase Facilities are not guaranteed by us or any of our subsidiaries and the agreements contain various affirmative and negative covenants applicable to Inspire that are customary for arrangements of this type. The mortgage repurchase facilities must be renewed annually and currently expire in May 2019 and September 2019 for Comerica Bank and J.P. Morgan, respectively. We expect to renew and extend the term of the Repurchase Facilities with similar terms prior to their maturity. Adverse changes in market conditions could make the renewal of these facilities more difficult or could result in an increase in the cost of these facilities or a decrease in the committed amounts. Such changes affecting our Repurchase Facilities may also make it more difficult or costly to sell the mortgages that we originate. As of December 31, 2018, we had \$104.6 million outstanding under these Repurchase Facilities and were in compliance with all covenants thereunder. No assurance can be provided, however, that we will remain in compliance with the covenants or have continued access to these facilities or substitute or replacement facilities in an amount sufficient to fund our mortgage lending business.

Our Financial Services segment can be adversely affected by reduced demand for our homes or by a slowdown in mortgage refinancings.

Approximately 96.0% of the mortgage loans made by our Financial Services segment in 2018 were made to buyers of homes we built. Therefore, a decrease in the demand for our homes would adversely affect the revenues of this segment of our business. In addition, the

[Table of Contents](#)

revenues of our Financial Services segment would be adversely affected by a decrease in refinance transactions, if mortgage interest rates continue to rise.

If our ability to sell mortgages into the secondary market is impaired, that could significantly reduce our ability to sell homes unless we are willing to become a long-term investor in the loans we originate.

We sell substantially all of the loans we originate and the related servicing rights in the secondary mortgage market within a short period of time after origination, generally within 30 days, on a servicing released, non-recourse basis. If we became unable to sell loans into the secondary mortgage market or directly to Fannie Mae and Freddie Mac, we would have to either curtail our origination of residential mortgage loans, which among other things, could significantly reduce our ability to sell homes, or commit our own funds to long term investments in mortgage loans, which, in addition to requiring us to deploy substantial amounts of our own funds, could delay the time when we recognize revenues from home sales on our statements of operations.

We may be liable for certain limited representations and warranties we make in connection with sale of loans.

When we sell the loans we originate, we make customary representations and warranties to purchasers, guarantors and insurers about the mortgage loans and the manner in which they were originated, and offer certain indemnities and guaranties to the purchasers, guarantors and insurers of which we are responsible. In the event of defaults on the loans we originate, we may be required to repurchase or substitute mortgage loans, or indemnify buyers, guarantors or insurers of our loans. If we have significant liabilities with respect to such claims or future, it could have an adverse effect on our results of operations, and possibly our financial condition.

Our Financial Services business is competitive and we may not be able to compete effectively in this area.

The competitors to our Financial Services business include other insurance agencies, title companies and mortgage lenders, including national, regional and local mortgage banks and other financial institutions. Some of these competitors are subject to fewer governmental regulations and have greater access to capital than we do, and some of them may operate with different criteria than we do. These competitors may offer a broader or more attractive array of financing and other products and services to potential customers than we do. For these reasons, we may not be able to compete effectively in the financial services business.

Governmental regulation of our Financial Services operations could adversely affect our business or financial results.

Our Financial Services operations are subject to extensive state and federal laws and regulations, which are administered by numerous agencies, including but not limited to the CFPB, Federal Housing Finance Agency, U.S. Department of Housing and Urban Development, FHA, VA, USDA, Fannie Mae, Freddie Mac and Ginnie Mae. These laws and regulations include many compliance requirements, including but not limited to licensing, consumer disclosures, fair lending and real estate settlement procedures. As a result, our financial services operations are subject to regular, extensive examinations by the applicable agencies. In addition, the possibility of additional future regulations, changing rule interpretations and examinations by regulatory agencies may result in more stringent compliance standards and could adversely affect the results of our operations.

Our ability to collect upon mortgage loans may be limited by the application of state laws.

Our mortgage loans typically permit us to accelerate the debt upon default by the borrower. The courts of all states will enforce acceleration clauses in the event of a material payment default, subject in some cases to a right of the court to revoke the acceleration and reinstate the mortgage loan if a payment default is cured. The equity courts of a state, however, may refuse to allow the foreclosure of a mortgage or to permit the acceleration of the indebtedness in instances in which they decide that the exercise of those remedies would be inequitable or unjust or the circumstances would render an acceleration unconscionable.

Further, the ability to collect upon mortgage loans may be limited by the application of state and federal laws. For example, Nevada has enacted a law providing that if the amount an assignee of a mortgage note paid to acquire the note is less than the face amount of the note, the assignee cannot recover more through a deficiency action than the amount it paid for the note. If the Nevada law is upheld, or similar laws are enacted in other jurisdictions, it could materially and adversely affect our ability and the ability of funds we manage to profit from purchases of distressed debt.

Risk Related to Our Prior and Any Future Acquisitions

The WJH acquisition may result in unexpected costs and the anticipated benefits may never be realized.

In November 2016, we acquired a 50% ownership of WJH LLC (which we refer to as “WJH”), which is a successor to Wade Journey Homes, Inc. and Wade Journey of Florida, Inc., and in June 2018, we acquired the remaining 50% ownership interest in WJH. WJH

[Table of Contents](#)

primarily targets first-time homebuyers in the Southeastern United States and has since expanded into Texas, Arizona, Indiana and Ohio. While we believe the acquisition of WJH will produce many benefits, such as expanding our investment into a proven and profitable operation, enhancing our geographic and product diversification through additional exposure to new markets and first-time buyers, driving additional growth avenues for ancillary revenue streams, including our mortgage, title and insurance operations, and improving access to capital to accelerate WJH's expansion efforts into additional markets, these benefits may not come to fruition or materialize to the extent we anticipate and within anticipated time periods. In addition, we still need to complete the integration of this business to some extent, which can be costly and involves risk. These issues could adversely affect our business and financial results.

We may be unable to continue to successfully integrate our and UCP's businesses or realize the anticipated benefits of the UCP Merger.

The UCP Merger, completed in August 2017, involved the combination of two companies that previously operated as independent public companies. We continue to devote management attention and resources to continue to integrate our and UCP's business practices and operations, and will continue to incur expenses associated with the integration process, including with respect to the integration of processes, policies, procedures, operations, technologies and systems. There are many factors beyond our control that could affect the total amount or the timing of the integration expenses. Expenses associated with the integration could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings, and significantly reduce the expected benefits associated with the UCP Merger. The costs of integration described above, as well as other unanticipated costs and expenses, could have a material adverse effect on our financial condition and operating results.

We may incur a variety of costs to engage in future growth or expansion of our operations or acquisitions or disposals of businesses, and the anticipated benefits may never be realized.

As a part of our business strategy, we have made seven acquisitions since 2013 and may continue to make acquisitions, or significant investments in, and/or disposals of businesses. Any future acquisitions, investments and/or disposals would be accompanied by risks such as:

- difficulties in assimilating the operations and personnel of acquired companies or businesses;
- diversion of our management's attention from ongoing business concerns;
- our potential inability to maximize our financial and strategic position through the successful incorporation or disposition of operations;
- maintenance of uniform standards, controls, procedures and policies; and
- impairment of existing relationships with employees, contractors, suppliers and customers as a result of the integration of new management personnel and cost-saving initiatives.

We cannot guarantee that we will be able to successfully integrate any company or business that we might acquire in the future, and our failure to do so could harm our current business.

In addition, we may not realize the anticipated benefits of these transactions at all or within a reasonable time period and there may be other unanticipated or unidentified effects. While we would seek protection, for example, through warranties and indemnities in the case of acquisitions, significant liabilities may not be identified in due diligence or come to light after the expiry of warranty or indemnity periods. Additionally, while we would seek to limit our ongoing exposure, for example, through liability caps and period limits on warranties and indemnities in the case of disposals, some warranties and indemnities may give rise to unexpected and significant liabilities. Any claims arising in the future may adversely affect our business, financial condition and operating results.

A portion of our historical growth has been due to our prior acquisitions and we may not be able to continue to grow through acquisitions.

Our recent growth has been due in part to our prior acquisitions and we intend to continue to grow through future acquisitions of, or significant investments in, businesses that offer complementary products and services or otherwise support our growth objectives. However, we cannot assure you that we will continue to identify attractive acquisition targets and consummate acquisitions. As a result of our prior acquisitions and the incurrence of debt in connection therewith, the amount of our indebtedness is significantly higher than prior to the consummation of such acquisitions. As a result, we cannot assure you that we will be able to arrange financing for future acquisitions on terms acceptable to us. In addition, as a result of our prior acquisitions, our company is substantially larger than we have been in the past, and we may face additional scrutiny in connection with federal and state governmental approvals in connection with any future acquisitions of attractive targets or may not be able to obtain such approvals at all. The realization of any of these risks could adversely affect our business.

Our future results will suffer if we do not effectively manage our expanded operations.

As a result of our recent acquisitions, including UCP, Sundquist Homes and WJH, the size of our business has increased significantly during the past several years. Our future success will depend, in part, upon our ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurances that we will be successful or that we will realize the expected operating efficiencies, cost savings, revenue enhancements or other benefits from these acquisitions.

We have intangible assets, including goodwill, primarily as a result of our prior acquisitions. If these assets become impaired, then our result of operations may be adversely affected.

As of December 31, 2018, we had \$35.5 million in intangible assets, including \$30.4 million in goodwill, related primarily to our prior business combinations and acquisitions. If the carrying value of our intangible assets is deemed impaired, the carrying value is written down to fair value. This would result in a charge to our earnings. If management's expectations of future results and cash flows decrease significantly, impairments of the remaining intangible assets may occur, which would adversely affect our results of operations.

Our future operating results may be adversely affected as a result of our prior acquisitions.

Our prior acquisitions, including the UCP Merger in August 2017, our acquisition of Sundquist Homes in October 2017 and acquisition of the remaining ownership interest WJH in June 2018, were accounted for as business combinations in accordance with our accounting policies and GAAP with the acquired assets and assumed liabilities recorded at their estimated fair values as of the acquisition date. Based upon estimates of the fair value of the assets to be acquired and the liabilities to be assumed, we have recorded a step-up to the historical basis of an acquired home under construction inventory. As homes are delivered in future periods, this step-up will initially result in gross margins from home sales revenues that are commensurate with the stage of completion of the acquired inventory and the related risk assumed by us for its completion. The ultimate gross margins from home sales revenues that we will be able to achieve from our acquired businesses will be impacted by (1) our ability to construct homes at prices consistent with our forecasted budgets, and (2) future pricing increases or decreases based on market demand.

Risks Related to Our Indebtedness and Potential Need for Additional Capital

We have substantial indebtedness and expect to continue to use leverage in executing our business strategy, which could have important consequences on our business and adversely affect the return on our assets.

As of December 31, 2018, we had approximately \$1.092 billion in outstanding indebtedness, consisting of \$380.6 million outstanding on our 6.875% Senior Notes due 2022 (which we refer to as our "Existing 6.875% Notes"), \$395.4 million outstanding on our 5.875% Senior Notes due 2025 (which we refer to as our "Existing 5.875% Notes"), \$202.5 million in borrowings outstanding under our revolving line of credit, \$104.6 million in borrowings outstanding under our mortgage repurchase facilities, and \$8.8 million outstanding under other financing obligations. As of December 31, 2018, we had \$387.5 million in availability under our revolving line of credit. Our board of directors will consider a number of factors when evaluating our level of indebtedness and when making decisions regarding the incurrence of new indebtedness, including the purchase price of assets to be acquired with debt financing, the estimated market value of our assets and the ability of particular assets, and the Company as a whole, to generate cash flow to cover the expected debt service. Our charter does not contain a limitation on the amount of debt we may incur and our board of directors may change our target debt levels at any time without the approval of our stockholders.

This substantial indebtedness as well as any future indebtedness we may incur could have important consequences for our business, including:

- making it more difficult for us to satisfy our obligations with respect to our debt or to our trade or other creditors;
- increasing our vulnerability to adverse economic or industry conditions;
- limiting our ability to obtain additional financing to fund capital expenditures and acquisitions, particularly when the availability of financing in the capital markets is limited;
- requiring a substantial portion of our cash flows from operations for the payment of interest on our debt and reducing our ability to use our cash flows to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our business and the homebuilding industry; and
- placing us at a competitive disadvantage to less leveraged competitors.

[Table of Contents](#)

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us through capital markets financings or under our credit facilities or otherwise in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before its maturity. A substantial majority of our indebtedness matures in 2022. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms, or at all. In addition, we may incur additional indebtedness in order to finance our operations, make acquisitions or to repay existing indebtedness. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional debt or equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances. We cannot assure you that any such actions, if necessary, could be effected on commercially reasonable terms, or at all, or on terms that would be advantageous to our stockholders or on terms that would not require us to breach the terms and conditions of our existing or future debt agreements.

Access to future financing sources may not be available on favorable terms, or at all, especially in light of current market conditions, which could adversely affect our ability to maximize our returns.

We expect to continue to employ prudent levels of leverage to finance the acquisition and development of our lots and construction of our homes. Our access to additional third-party sources of financing will depend, in part, on:

- general market conditions;
- the market's perception of our growth potential;
- with respect to acquisition and/or development financing, the market's perception of the value of the land parcels to be acquired and/or developed;
- our current debt levels;
- our current and expected future earnings;
- our cash flows; and
- the market price per share of our common stock.

If the capital and credit markets experience increased volatility or weakness, potential lenders may be unwilling or unable to provide us with financing that is attractive to us or may charge us prohibitively high fees in order to obtain financing. In such a situation, investment returns on our assets and our ability to make acquisitions could be adversely affected by our inability to secure additional financing on reasonable terms, if at all.

In addition, while we have not encountered any such issues to date, if the credit rating agencies that rate our debt were to downgrade our credit ratings, it would likely increase our cost of capital and make it more difficult for us to obtain new financing and access the capital and credit markets, which could also have a material adverse effect on our business, financial condition, results of operations, or cash flows.

Depending on market conditions at the relevant time, we may have to rely more heavily on additional equity financings, which would cause dilution to our existing stockholders, or on less efficient forms of debt financing that require a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities and other purposes. We may not have access to such equity or debt capital on favorable terms at the desired times, or at all.

Increased demand for homes could require us to further increase our indebtedness and credit facilities, and our inability to do that could limit our ability to take full advantage of market opportunities.

Our business requires that we be able to continue to finance the development of our residential communities. One of the ways we do this is with bank borrowings. At December 31, 2018, we had a \$590.0 million revolving line of credit, plus a \$50.0 million accordion feature, subject in part to additional commitments, of which \$387.5 million was available. If market conditions strengthen to the point that we need additional funding but we are not able to increase this facility or obtain funds from other types of financings, that could prevent us from taking full advantage of the enhanced market opportunities.

Interest expense on our debt limits our cash available to fund our growth strategies.

As of December 31, 2018, we had approximately \$1.092 billion in outstanding indebtedness, consisting of \$380.6 million outstanding on our 6.875% Senior Notes due 2022 (which we refer to as our "Existing 6.875% Notes"), \$395.4 million outstanding on our 5.875% Senior Notes due 2025 (which we refer to as our "Existing 5.875% Notes"), \$202.5 million in borrowings outstanding under our revolving line of credit, \$104.6 million in borrowings outstanding under our mortgage repurchase facilities, and \$8.8 million outstanding

[Table of Contents](#)

under other financing obligations. As part of our growth strategy, we may incur a significant amount of additional debt. Borrowings under our revolving line of credit bear interest at a floating rate equal to the adjusted Eurodollar Rate plus an applicable margin between 2.60% and 3.10% per annum, or, in the Administrative Agent's discretion, a base rate plus an applicable margin between 1.60% and 2.10% per annum. Higher interest rates could increase debt service requirements on our current floating rate debt and on any floating rate debt we subsequently incur, and could reduce funds available for operations, future business opportunities or other purposes. If we need to repay existing debt during periods of rising interest rates, we could be required to refinance our then-existing debt on unfavorable terms or liquidate one or more of our assets to repay such debt at times which may not permit realization of the maximum return on such assets and could result in a loss. The occurrence of either such event or both could materially and adversely affect our cash flows and results of operations.

Interest rate changes may adversely affect us.

We currently do not hedge against interest rate fluctuations associated with our debt obligations. We may obtain in the future one or more forms of interest rate protection—in the form of swap agreements, interest rate cap contracts or similar agreements—to hedge against the possible negative effects of interest rate fluctuations. However, we cannot assure you that any hedging will adequately relieve the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations thereunder. In addition, we may be subject to risks of default by hedging counterparties. Adverse economic conditions could also cause the terms on which we borrow to be unfavorable. We could be required to liquidate one or more of our assets at times which may not permit us to receive an attractive return on our assets in order to meet our debt service obligations.

We may not be able to generate sufficient cash flows to meet our debt service obligations.

Our ability to generate sufficient cash flows from operations to make scheduled payments on our debt obligations will depend on our current and future financial performance, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In the future, we may fail to generate sufficient cash flows from the sales of our homes and land to meet our cash requirements. Further, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels or we have to incur unforeseen capital expenditures and make investments to maintain our competitive position. If we do not generate sufficient cash flows from operations to satisfy our debt obligations, including interest payments and the payment of principal at maturity, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot provide assurance that any refinancing would be possible, that any assets could be sold, or, if sold, of the timeliness and amount of proceeds realized from those sales, that additional financing could be obtained on acceptable terms, if at all, or that additional financing would be permitted under the terms of our various debt instruments then in effect. Furthermore, our ability to refinance would depend upon the condition of the finance and credit markets. Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms or on a timely basis, would materially affect our business, financial condition or results of operations and may delay or prevent the expansion of our business.

The agreements governing our debt include covenants and other provisions that may restrict our financial and business operations. Failure to comply with the covenants and conditions imposed by our debt agreements could restrict future borrowings or cause our debt to become immediately due and payable.

The agreements governing our indebtedness, including our revolving line of credit and the indentures that govern our senior notes, contain negative covenants customary for such financings, such as limiting our ability to sell or dispose of assets, incur additional indebtedness or liens, make certain restricted payments, make certain investments, consummate mergers, consolidations or other business combinations or engage in other lines of business. These restrictions may interfere with our ability to engage in other necessary or desirable business activities, which could materially affect our business, financial condition or results of operations. Our revolving line of credit also requires us to comply with certain financial ratios and covenants, such as maximum consolidated leverage ratios, minimum consolidated interest coverage ratios and minimum tangible net worth. Our ability to comply with these covenants depends on our financial condition and performance and also is subject to events outside our control. Asset write-downs, other non-cash charges and other one-time events also impact our ability to comply with these covenants. In addition, these restrictions may interfere with our ability to obtain financing or to engage in other necessary or desirable business activities, which may have a material effect on our operations. These covenants are subject to important exceptions and qualifications. Moreover, if we fail to comply with these covenants and are unable to obtain a waiver or amendment, an event of default would result. Our revolving line of credit and other debt agreements, including the indentures governing our senior notes, also contain other events of default customary for such financings. In addition, the indentures governing our senior notes and the agreement governing our revolving line of credit contain cross default provisions. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would likely have an adverse effect, which could be material, on our business, financial condition, and operating results. We cannot provide assurance that we would have sufficient liquidity to repay or refinance our debt if

[Table of Contents](#)

such amounts were accelerated upon an event of default. If we are unable to service our debt, this could materially affect our business, financial condition or results of operations.

We are dependent upon payments from our subsidiaries to fund payments on our indebtedness and our ability to receive funds from our subsidiaries is dependent upon the profitability of our subsidiaries and restrictions imposed by law and contracts.

We are dependent on the cash flow of, and dividends and distributions to us from, our subsidiaries in order to service our existing indebtedness. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to any indebtedness of ours or to make any funds available therefor, except for those subsidiaries that have guaranteed our obligations under our outstanding indebtedness. The ability of our subsidiaries to pay any dividends and distributions will be subject to, among other things, the terms of any debt instruments of our subsidiaries then in effect as well as among other things, the availability of profits or funds and requirements of applicable laws, including surplus, solvency and other limits imposed on the ability of companies to pay dividends. There can be no assurance that our subsidiaries will generate cash flow sufficient to pay dividends or distributions to us that enable us to pay interest or principal on our existing indebtedness.

We may require additional capital in the future and may not be able to secure adequate funds on terms acceptable to us.

Although it is difficult for us to predict our future liquidity requirements, we believe that we will be able to fund our current and foreseeable liquidity needs with our cash on hand, cash generated from operations, and cash expected to be available from our revolving line of credit or through accessing debt or equity capital, as needed. The expansion and development of our business may require significant additional capital, which we may be unable to obtain, to fund our capital expenditures and operating expenses, including working capital needs. At December 31, 2018, we had a \$590.0 million revolving line of credit, plus a \$50.0 million accordion feature, subject in part to additional commitments, of which \$387.5 million was available. In addition, in accordance with our growth strategy, we expect to opportunistically raise additional capital to help fund the growth of our business, subject to market and other conditions, but such capital may not be available to us on a timely basis at reasonable rates, or at all. Under our shelf registration statement, which we filed with the SEC in July 2018 and was automatically effective upon filing, we have the ability to access the debt and equity capital markets in an aggregate offering amount of up to \$869 million, as needed as part of our ongoing financing strategy and subject to market conditions. If we raise additional funds by issuing equity securities, our stockholders may experience dilution. Additional debt financing, if available, may involve additional covenants restricting our operations or our ability to incur additional debt, in addition to those under our existing indentures and revolving line of credit. Any additional debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders.

Risk Related to Conflicts of Interest

As a result of Dale Francescon's and Robert Francescon's relationship with the Company, conflicts of interest may arise with respect to any transactions involving or with Dale Francescon, Robert Francescon, or their affiliates, and their interests may not be aligned with yours.

Dale Francescon and Robert Francescon are our Co-Chief Executive Officers, sit on our board of directors, are brothers, and collectively beneficially own 3,938,938 shares of our common stock, which represents 13.1% of our common stock outstanding as of December 31, 2018. For so long as Dale and Robert Francescon control such a significant percentage of our common stock, they will have significant influence over the power to:

- elect our directors and exercise overall control over the Company;
- agree to sell or otherwise transfer a controlling stake in the Company; and
- determine the outcome of substantially all actions requiring the majority approval of our stockholders, including transactions with related parties, corporate reorganizations, mergers, acquisitions and dispositions of assets.

The interests of Dale Francescon and Robert Francescon may not be fully aligned with yours, and this could lead to a strategy that is not in your best interests. In addition, their significant ownership in us and resulting ability to effectively control us will limit your ability to influence corporate matters and may discourage someone from making a significant equity investment in us, or could discourage transactions involving a change in control.

In addition, there may be transactions between us and Dale Francescon, Robert Francescon, or their affiliates that could present an actual or perceived conflict of interest. These conflicts of interest may lead Dale and/or Robert Francescon to recuse himself or themselves from actions of our board of directors with respect to any transactions involving or with Dale or Robert Francescon or their affiliates. For example, we have entered into employment agreements with Dale Francescon and Robert Francescon, our Co-Chief Executive Officers, in their capacities as officers, pursuant to which they are required to devote substantially full-time attention to our affairs. We

may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationship with Dale Francescon and Robert Francescon.

Risks Related to Our Organization and Structure

We depend on key personnel, the loss of which could have a material adverse effect on our business.

Our success depends to a significant degree upon the contributions of certain key personnel including, but not limited to, Dale Francescon and Robert Francescon, our Co-Chief Executive Officers, each of whom would be difficult to replace. Although we have entered into employment agreements with Dale Francescon and Robert Francescon, there is no guarantee that these executives will remain employed with us. If any of our key personnel were to cease employment with us, our operating results could suffer. Further, the process of attracting and retaining suitable replacements for key personnel whose services we may lose would result in transition costs and would divert the attention of other members of our senior management from our existing operations. The loss of services from key personnel or a limitation in their availability could materially and adversely impact our business, prospects, liquidity, financial condition and results of operations. Further, such a loss could be negatively perceived in the capital markets. We have not obtained and do not expect to obtain key person life insurance that would provide us with proceeds in the event of death or disability of any of our key personnel.

Termination of the employment agreements with the members of our management team could be costly and prevent a change in control of the Company.

The employment agreements we have entered into with Dale Francescon and Robert Francescon, our Co-Chief Executive Officers, and Dave Messenger, our Chief Financial Officer, each provide that if their employment with us terminates under certain circumstances, we may be required to pay them significant amounts of severance compensation, thereby making it costly to terminate their employment. In addition, under certain circumstances, the termination of employment of one of our Co-Chief Executive Officers could result in the termination of employment of our other Co-Chief Executive Officer which would result in a requirement for us to pay severance compensation to both former executives. Furthermore, these provisions could delay or prevent a transaction or a change in control of the Company that might involve a premium paid for shares of our common stock or otherwise be in the best interests of our stockholders, which could adversely affect the market price of our common stock.

Certain anti-takeover defenses and applicable law may limit the ability of a third party to acquire control of the Company.

Our charter and bylaws and Delaware law contain provisions that may delay or prevent a transaction or a change in control of the Company that might involve a premium paid for shares of our common stock or otherwise be in the best interests of our stockholders, which could adversely affect the market price of our common stock.

Selected provisions of our charter and bylaws. Our charter and/or bylaws contain anti-takeover provisions that:

- authorize our board of directors, without further action by the stockholders, to issue up to 50 million shares of preferred stock in one or more series, and with respect to each series, to fix the number of shares constituting that series, the powers, rights and preferences of the shares of that series, and the qualifications, limitations and restrictions of that series;
- require that actions to be taken by our stockholders may be taken only at an annual or special meeting of our stockholders and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairman of our board of directors, our chief executive officer, or our president;
- provide that our bylaws may be amended by our board of directors without stockholder approval;
- provide that directors may be removed from office only by the affirmative vote of the holders of 66 2/3% of the voting power of our capital stock entitled to vote generally in the election of directors;
- provide that vacancies on our board of directors or newly created directorships resulting from an increase in the number of our directors may be filled only by a vote of a majority of directors then in office, even though less than a quorum;
- provide that, subject to the express rights, if any, of the holders of any series of preferred stock, any amendment, modification or repeal of, or the adoption of any new or additional provision, inconsistent with our charter provisions relating to the removal of directors, exculpation of directors, indemnification, the prohibition against stockholder action by written consent, and the vote of our stockholders required to amend our bylaws requires the affirmative vote of the holders of at least 66 2/3% of the voting power of our capital stock entitled to vote generally in the election of directors;

[Table of Contents](#)

- provide that the stockholders may amend, modify or repeal our bylaws, or adopt new or additional provisions of our bylaws, only with the affirmative vote of 66 2/3% of the voting power of our capital stock entitled to vote generally; and
- establish advance notice procedures for stockholders to submit nominations of candidates for election to our board of directors and other proposals to be brought before a stockholders meeting.

Selected provisions of Delaware law. We are a Delaware corporation, and we have elected to be subject to Section 203 of the DGCL by provision of our charter. In general, Section 203 of the DGCL prevents an “interested stockholder” (as defined in the DGCL) from engaging in a “business combination” (as defined in the DGCL) with us for three years following the date that person becomes an interested stockholder unless one or more of the following occurs:

- Before that person became an interested stockholder, our board of directors approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination;
- Upon consummation of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) stock held by directors who are also officers of the Company and by employee stock plans that do not provide employees with the right to determine confidentially whether shares held under the plan will be tendered in a tender or exchange offer; or
- Following the transaction in which that person became an interested stockholder, the business combination is approved by our board of directors and authorized at a meeting of stockholders by the affirmative vote of the holders of at least 66 2/3% of our outstanding voting stock not owned by the interested stockholder.

The DGCL generally defines “interested stockholder” as any person who, together with affiliates and associates, is the owner of 15% or more of our outstanding voting stock or is our affiliate or associate and was the owner of 15% or more of our outstanding voting stock at any time within the three-year period immediately before the date of determination.

We may change our operational policies, investment guidelines and business and growth strategies without stockholder consent, which may subject us to different and more significant risks in the future.

Our board of directors determines our operational policies, investment guidelines and business and growth strategies. Our board of directors may make changes to, or approve transactions that deviate from, those policies, guidelines and strategies without a vote of, or notice to, our stockholders. Under any of these circumstances, we may expose ourselves to different and more significant risks in the future, which could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

If we fail to maintain an effective system of internal controls, we may not be able to accurately determine our financial results or prevent fraud. As a result, our stockholders could lose confidence in our financial results, which could materially and adversely affect us.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. There is no assurance that material weaknesses or significant deficiencies will not be identified in the future or that we will be successful in adequately remediating any such material weaknesses and significant deficiencies. We may in the future discover areas of our internal controls that need improvement. We cannot be certain that we will be successful in maintaining adequate internal control over our financial reporting and financial processes. Furthermore, as we grow our business, including through acquisition, our internal controls will become more complex, and we will require significantly more resources to ensure our internal controls remain effective. Additionally, the existence of any material weakness or significant deficiency would require management to devote significant time and incur significant expense to remediate any such material weaknesses or significant deficiencies, and management may not be able to remediate any such material weaknesses or significant deficiencies in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our reporting obligations, subject us to investigations from regulatory authorities or cause stockholders to lose confidence in our reported financial information, all of which could materially and adversely affect us.

Changes in accounting rules, assumptions and/or judgments could materially and adversely affect us.

Accounting rules and interpretations for certain aspects of our operations are highly complex and involve significant assumptions and judgment. We refer you to footnote 1 for a description of certain changes in accounting rules and interpretations that may affect our future results of operations. These complexities could lead to a delay in the preparation and dissemination of our financial statements. Furthermore, changes in accounting rules and interpretations or in our accounting assumptions and/or judgments, such as asset

[Table of Contents](#)

impairments, could significantly impact our financial statements. In some cases, we could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. Any of these circumstances could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

We may face substantial damages or be enjoined from pursuing important activities as a result of existing or future litigation, arbitration or other claims.

In our homebuilding activities, we are exposed to potentially significant litigation, including breach of contract, contractual disputes and disputes relating to defective title, property misdescription or construction defects, including use of defective materials. Although we have established warranty, claim and litigation reserves that we believe are adequate, due to the uncertainty inherent in litigation, legal proceedings may result in the award of substantial damages against us that exceed our reserves. Furthermore, plaintiffs may in certain of these legal proceedings seek class action status with potential class sizes that vary from case to case. Class action lawsuits can be costly to defend and settle, and if we were to lose any certified class action suit, it could result in substantial liability for us. In addition, we are subject to potential lawsuits, arbitration proceedings and other claims in connection with our business.

With respect to certain general liability exposures, including construction defect and product liability claims, interpretation of underlying current and future trends, assessment of claims and the related liability and reserve estimation process require us to exercise significant judgment due to the complex nature of these exposures, with each exposure often exhibiting unique circumstances. Furthermore, once claims are asserted for construction defects, it is difficult to determine the extent to which the assertion of these claims will expand geographically. As a result, our insurance policies may not be available or adequate to cover any liability for damages, the cost of repairs, and/or the expense of litigation surrounding current claims, and future claims may arise out of events or circumstances not covered by insurance and not subject to effective indemnification agreements with our subcontractors. Should such a situation arise, it may have a material adverse effect on our business, financial condition and operating results.

Failure by our directors, officers or employees to comply with applicable codes of conduct could materially and adversely affect us.

We have adopted a code of business conduct and ethics for our directors, officers and employees. Our adoption of this code and other standards of conduct is not a representation or warranty that all persons subject to this code or standards are or will be in complete compliance. The failure of a director, officer or employee to comply with the applicable code or standards of conduct may result in termination of the relationship and/or adverse publicity, which could materially and adversely affect us.

Any joint venture investments that we make could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial conditions and disputes between us and our co-venturers.

Prior to acquiring Wade Turney Homes, we first acquired a 50% ownership interest and held this investment as a joint venture. Although it is currently not a focus in our business strategy, we may in the future continue to co-invest with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a land acquisition and/or a development. In this event, we may not be in a position to exercise sole decision-making authority regarding the acquisition and/or development, and our investment may be illiquid due to our lack of control. Investments in partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt, fail to fund their share of required capital contributions, make poor business decisions or block or delay necessary decisions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers.

Risks Related to Ownership of our Common Stock

A trading market for our common stock may not be sustained and our common stock prices could decline.

Although our common stock is listed on the New York Stock Exchange under the symbol, "CCS," an active trading market for the shares of our common stock may not be sustained. Accordingly, no assurance can be given as to the following:

- the likelihood that an active trading market for shares of our common stock will be sustained;
- the liquidity of any such market;
- the ability of our stockholders to sell their shares of common stock; or

[Table of Contents](#)

- the price that our stockholders may obtain for their common stock.

In addition, our common stock has experienced price and volume volatility over the past year. During 2018, the sale price of our common stock ranged from \$16.35 to \$36.00 per share and the trading volume ranged from 82,500 to 1.2 million shares. The market price and volume of our common stock may continue to experience fluctuations not only due to general stock market conditions but also due to government regulatory action, tax laws, interest rates, the condition of the U.S. economy and a change in sentiment in the market regarding our industry, operations or business prospects. In addition to other factors, the price and volume volatility of our common stock may be affected by:

- factors influencing home purchases, such as availability of home mortgage loans and interest rates, credit criteria applicable to prospective borrowers, ability to sell existing residences, and homebuyer sentiment in general;
- the operating and securities price performance of companies that investors consider comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors;
- changes in global financial markets and global economies and general market conditions, such as interest rates, commodity and equity prices and the value of financial assets;
- additions or departures of key personnel;
- operating results that vary from the expectations of securities analysts and investors;
- sales of our equity securities by stockholders or managements or sales of additional equity securities by us;
- changes in our stock repurchase or dividend policies;
- actions by stockholders; and
- passage of legislation or other regulatory developments that adversely affect us or the homebuilding industry.

If an active market is not maintained, or if our common stock continues to experience price and volume volatility, the market price of our common stock may decline.

Stockholders of a public company sometimes bring securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our results of operations and financial condition.

Furthermore, our ability to raise funds through the issuance of equity or otherwise use our common stock as consideration is impacted by the price of our common stock. A low stock price may adversely impact our ability to reduce our financial leverage, as measured by the ratio of total debt to total capital. Continued high levels of leverage or significant increases may adversely affect our credit ratings and make it more difficult for us to access additional capital. These factors may limit our ability to implement our operating and growth plans.

If securities analysts do not publish, or cease publishing, research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, the price of our common stock and trading volume could decline.

The trading market for our common stock could be influenced by any research and reports that securities or industry analysts publish about us, our business or our market. If one or more of the analysts who covers us downgrades our common stock or publishes inaccurate or unfavorable research about us, our business or our market, the price of our common stock would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause the price of our common stock and trading volume to decline.

Future offerings of debt securities, which would rank senior to our common stock upon a bankruptcy liquidation, and future offerings of equity securities, including those that may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.

To raise capital resources, we have offered and sold debt and equity securities, including securities that rank senior to our common stock and may continue to do so in the future. Upon a bankruptcy or liquidation, holders of our debt securities and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings

[Table of Contents](#)

may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments or both that could limit our ability to pay dividends or make liquidating distributions to the holders of our common stock. Our decision to issue securities in any future offering will depend on market conditions at the time and other factors, some of which may be beyond our control. As a result, we cannot predict or estimate the amount, timing or nature of our future offerings, and holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their ownership interest in the Company.

We cannot guarantee that our stock repurchase program will be fully consummated or that our stock repurchase program will enhance long-term stockholder value, and stock repurchases could increase the volatility of the price of our stock and diminish our cash reserves.

In November 2018, we authorized a stock repurchase program, under which we may repurchase up to 4,500,000 shares of our outstanding common stock. As of December 31, 2018, the number of shares that remained available for repurchase pursuant to our stock repurchase program is 3,895,939 shares. Under the terms of the program, the shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws. The actual manner, timing, amount and value of repurchases under the stock repurchase program will be determined by management at its discretion and will depend on a number of factors, including the market price of our common stock, trading volume, other capital management objectives and opportunities, applicable legal requirements, and general market and economic conditions. We intend to finance any stock repurchases through available cash and our revolving line of credit. Repurchases also may be made under a trading plan under Rule 10b5-1, which would permit shares to be repurchased when we might otherwise may be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. There is no guarantee as to the number of shares that will be repurchased, and the stock repurchase program may be extended, suspended or discontinued at any time without notice at our discretion, which may result in a decrease in the trading price of our stock. The stock repurchase program could increase volatility in and affect the price of our common stock. The existence of our stock repurchase program could also cause the price of our common stock to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our common stock. Additionally, repurchases under our stock repurchase program will diminish our cash reserves and could increase our indebtedness. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased such shares. Any failure to repurchase shares after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and may negatively impact our stock price. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

Our actual operating results may differ significantly from our guidance, which could cause the market price of our common stock to decline.

From time to time, we release guidance regarding our future performance, such as our anticipated annual revenue and home deliveries, that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither any independent registered public accounting firm nor any other independent expert or outside party compiles, examines or reviews the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent that actual results could not fall outside of these ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results, particularly any guidance relating to the results of operations of acquired businesses or companies as our management will, necessarily, be less familiar with their business, procedures and operations. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data will diminish the farther in the future that the data are forecast. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it.

[Table of Contents](#)

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this Annual Report on Form 10-K could result in the actual operating results being different than our guidance, and such differences may be adverse and material. The failure to achieve such guidance could disappoint investors and analysts, and cause the market price of our common stock to decline.

Non-U.S. holders may be subject to United States federal income tax on gain realized on the sale or disposition of shares of our common stock.

Because of our holdings in United States real property interests, we believe we are and will remain a “United States real property holding corporation” (which we refer to as “USRPHC”) for United States federal income tax purposes. As a USRPHC, our stock may be treated as a United States real property interest (which we refer to as “USRPI”), gains from the sale of which by non-U.S. holders would be subject to U.S. income tax and reporting obligations pursuant to the Foreign Investment in Real Property Tax Act (which we refer to as “FIRPTA”). Our common stock will not be treated as a USRPI if it is regularly traded on an established securities market, except in the case of a non-U.S. holder that actually or constructively holds more than five percent of such class of stock at any time during the shorter of the five-year period preceding the date of disposition or the holder’s holding period for such stock. We anticipate that our common stock will continue to be regularly traded on the New York Stock Exchange. However, no assurance can be given that our common stock will remain regularly traded in the future. If our stock is treated as a USRPI, a non-U.S. holder would be subject to regular United States federal income tax with respect to any gain on such stock in the same manner as a taxable U.S. holder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). In addition, the purchaser of the stock would be required to withhold and remit to the I.R.S. 10% of the purchase price unless an exception applies. A non-U.S. holder also would be required to file a U.S. federal income tax return for any taxable year in which it realizes a gain from the disposition of our common stock that is subject to U.S. federal income tax.

Non-U.S. holders should consult their tax advisors concerning the consequences of disposing of shares of our common stock.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have not declared or paid dividends on our common stock and we do not intend to do so in the near term. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock in the near term, and capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We lease our corporate headquarters located at 8390 East Crescent Parkway, Greenwood Village, Colorado. We also lease offices in other markets where we conduct business, but none of these properties are material to the operation of our business. All facilities are in good condition, adequately utilized, and sufficient to meet our present operating needs.

Because of the nature of our homebuilding operations, significant amounts of property are held as inventory in the ordinary course of our homebuilding business. We discuss these properties in the discussion of our homebuilding operations elsewhere in this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS.

Because of the nature of the homebuilding business, we and certain of our subsidiaries and affiliates have been named as defendants in various claims, complaints and other legal actions arising in the ordinary course of business. In the opinion of our management, the outcome of these ordinary course matters will not have a material adverse effect upon our financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

The shares of our common stock are listed on the New York Stock Exchange under the symbol, "CCS."

Holders

As of February 6, 2019, there were approximately 54 stockholders of record of our common stock.

Dividends

During the years ended December 31, 2018 and 2017, we did not declare or pay any dividends. The agreements governing our indebtedness, including our revolving line of credit and the indentures that govern our senior notes, limit our ability to pay dividends.

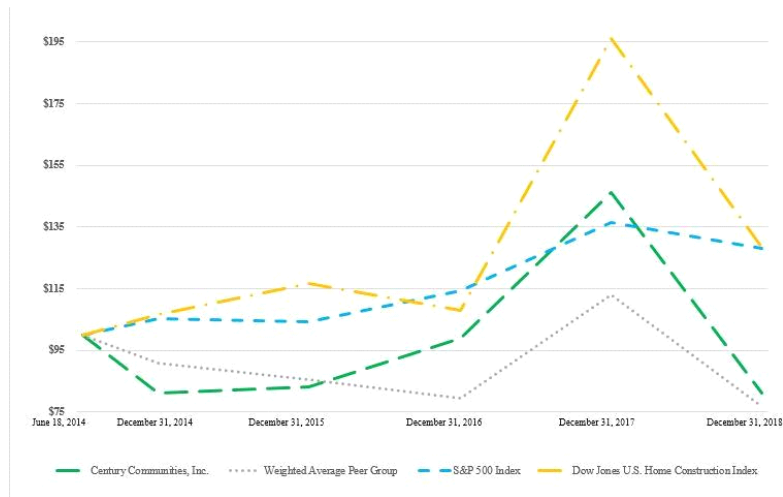
Stock Performance Graph

The graph below compares the cumulative total return of our common stock, the S&P 500 Index, the Dow Jones US Home Construction Index, and peer group companies for the periods from June 18, 2014, the date our common stock commenced trading on the New York Stock Exchange, to December 31, 2018.

It is assumed in the graph that \$100 was invested in (1) our common stock; (2) the stocks of the companies in the Standard & Poor's 500 Stock Index; (3) the stocks of the Dow Jones U.S. Home Construction Index; and (4) the stocks of the peer group companies, just prior to the commencement of the period and that all dividends received within a quarter were reinvested in that quarter. The peer group index is composed of the following companies: AV Homes Inc., Beazer Homes USA, Inc., Inc., M/I Homes, Inc., M.D.C. Holdings, Inc., Tripointe Homes and William Lyon Homes.

The stock price performance shown on the following graph is not indicative of future price performance.

Comparison of Cumulative Total Return from June 18, 2014 (the Date our Common Stock Commenced Trading on the New York Stock Exchange) to December 31, 2018



Issuer Purchases of Equity Securities

The following table summarizes the number of shares of our common stock that were purchased by the Company during each of the three fiscal months in our fourth quarter ended December 31, 2018.

	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Maximum number of shares that may yet be purchased under the plans or programs</u>
October				
Purchased 10/1 through 10/31	—	\$ —	N/A	N/A
November				
Purchased 11/1 through 11/30	—	—	—	4,500,000
December				
Purchased 12/1 through 12/31	604,061	18.11	604,061	3,895,939
Total	604,061	\$ 18.11		

(1) On November 6, 2018, the Company's Board of Directors authorized a stock repurchase program, under which we may repurchase up to 4,500,000 shares of our outstanding common stock. Under the terms of the program, the shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws. This program has no expiration date but may be terminated by the Board of Directors at any time. The Company repurchased 604,061 shares during the period indicated above under this program and 3,895,939 shares remained available to repurchase under this program as of December 31, 2018.

ITEM 6. SELECTED FINANCIAL DATA.

The data in this table should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes thereto, which are included in “Item 8. Consolidated Financial Statements.”

(in thousands, except per share amounts)

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Consolidated Statements of Operations:					
Total revenues	\$ 2,147,413	\$ 1,423,799	\$ 994,440	\$ 734,489	\$ 362,392
Income before income tax expense	\$ 128,530	\$ 84,164	\$ 73,149	\$ 60,305	\$ 30,959
Net income	\$ 96,455	\$ 50,295	\$ 49,540	\$ 39,890	\$ 20,022
Basic earnings per share	\$ 3.20	\$ 2.06	\$ 2.34	\$ 1.88	\$ 1.03
Diluted earnings per share	\$ 3.17	\$ 2.03	\$ 2.33	\$ 1.88	\$ 1.03
Balance Sheet Data (end of period):					
Cash and cash equivalents	\$ 32,902	\$ 88,832	\$ 29,450	\$ 29,287	\$ 33,462
Inventories	\$ 1,848,243	\$ 1,390,354	\$ 857,885	\$ 810,137	\$ 556,323
Total assets	\$ 2,254,255	\$ 1,735,022	\$ 1,007,528	\$ 917,741	\$ 670,616
Total debt	\$ 1,091,832	\$ 824,602	\$ 454,008	\$ 390,243	\$ 224,247
Total liabilities	\$ 1,394,896	\$ 999,789	\$ 533,892	\$ 508,262	\$ 305,411
Total stockholders' equity	\$ 859,359	\$ 735,233	\$ 473,636	\$ 409,479	\$ 365,205
Other Operating Information (dollars in thousands):					
Number of homes delivered	6,099	3,640	2,825	2,401	1,046
Average sales price of homes delivered	\$ 346.0	\$ 386.1	\$ 346.5	\$ 302.1	\$ 336.4
Backlog at end of period, number of homes	2,181	1,320	749	714	772
Backlog at end of period, aggregate sales value	\$ 669,526	\$ 572,888	\$ 302,823	\$ 271,138	\$ 246,327
Average sales price of homes in backlog	\$ 306.9	\$ 434.0	\$ 404.3	\$ 379.7	\$ 319.1
Net new home contracts	5,657	3,814	2,860	2,356	1,042
Selling communities at period end	122	119	89	88	75

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations is intended to help the reader understand our Company, business, operations and present business environment and is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the related notes to those statements included elsewhere in this Form 10-K. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under “Risk Factors” and elsewhere in this Annual Report on Form 10-K. We use certain non-GAAP financial measures that we believe are important for purposes of comparison to prior periods. This information is also used by our management to measure the profitability of our ongoing operations and analyze our business performance and trends. Some of the numbers included herein have been rounded for the convenience of presentation.

Business Overview

We are engaged in the development, design, construction, marketing and sale of single-family attached and detached homes in metropolitan areas in the States of Alabama, Arizona, California, Colorado, Florida, Georgia, Indiana, Nevada, North Carolina, Ohio, South Carolina, Tennessee, Texas, Utah, and Washington. In many of our projects, in addition to building homes, we are responsible for the entitlement and development of the underlying land. We build and sell homes under our Century Communities and Wade Journey Homes brands. Our Century Communities brand targets a wide range of buyer profiles including: first time, first and second time move up, and lifestyle homebuyers, and provides our homebuyers with the ability to personalize their homes through certain option and upgrade selections. Our Wade Journey Homes brand solely targets first time homebuyers, sells homes through retail studios and over the

internet, and provides no option or upgrade selections. Our homebuilding operations are organized into the following five reportable segments: West, Mountain, Texas, Southeast, and Wade Journey Homes. Additionally, our indirect wholly-owned subsidiaries, Inspire Home Loans, Inc., Parkway Title, LLC, and IHL Home Insurance Agency, LLC, which provide mortgage, title and insurance services, respectively, to our home buyers have been identified as our Financial Services segment.

We build and sell an extensive range of home types across a variety of price points.

Results of Operations – Years Ended December 31, 2018 and 2017

During the year ended December 31, 2018, we experienced a changing homebuilding environment whereby the first half of the year was much stronger than the second half. Our markets were generally characterized by low unemployment, rising median household incomes, availability of affordable financing, and a low but increasing supply of inventory. These factors were moderated by an increase in average sales prices and interest rates across the country, which outpaced the increase in median incomes, negatively impacting affordability. These factors, along with our acquisition of WHJ LLC (which we refer to as “WJH”) and continued investment in our operating segments resulted in increases in net new home contracts and home deliveries for the year ended December 31, 2018 of 48.3% and 67.6%, respectively, as compared to the year ended December 31, 2017. The increases in net new home contracts and home deliveries, along with our continued focus on cost control and investing in our infrastructure prudently as we expand, resulted in total revenue and income before tax of \$2.1 billion and \$128.5 million, respectively for the year ended December 31, 2018, which represented a 50.1% and 52.7% increase, respectively, over the year ended December 31, 2017. ■

On June 14 2018, we acquired the remaining 50% ownership interest in WJH, LLC for \$37.5 million. Wade Journey Homes specializes in providing single family homes for first time buyers. On the acquisition date, WJH had operations in Alabama, Florida, Georgia, North Carolina and South Carolina. The results of WJH are included in our financial statements from June 14, through December 31, 2018 and consisted of \$210.1 million in revenue related to 1,377 home deliveries.

Subject to deteriorating market conditions, we believe our operations are well positioned for future growth as a result of the markets in which we operate, our product offerings which span the home buying segment, as well as current and future inventories of attractive land positions. As we have grown, we have continued to focus on maintaining prudent leverage, and, as a result, we believe we are well positioned to execute on our growth strategy in order to optimize our stockholder returns.

We anticipate the homebuilding markets in each of our operating segments to continue to be tied to both the local economy and the macro-economic environment. Accordingly, our net sales, home deliveries, and average sales price in future years could be negatively affected by economic conditions such as decreases in employment and median household incomes, as well as decreases in household formations and increasing supply of inventories. Additionally, our results could be impacted by a decrease in home affordability as a result of price appreciation or increases in mortgage interest rates or tightening of mortgage lending standards.

Strategy

Our strategy is focused on increasing the returns on our inventory while generating strong profitability. In general, we are focused on the following initiatives:

- Maintaining a strong balance sheet and prudent use of leverage as we grow;
- Offering products that appeal to a broad range of entry-level, move-up and, lifestyle homebuyers based on each local market in which we operate, given the significant increases in average home sales prices across our markets we are focused on offering affordable housing options in each of our homebuyer segments
- Maintaining a strong pipeline of future land holdings, including utilizing lot option contracts to manage our risk to land holdings;
- Expanding into new markets that meet our underwriting criteria either through organic start-up operations or through acquisitions of existing homebuilders; and
- Controlling costs, including costs of home sales revenue and selling and general administrative expenses, to achieve increased profitability.

Our operating strategy has resulted in growth in revenue and income before income taxes over the last five years, and we believe it will continue to produce positive results. Our operating strategy will continue to evolve to market changes, and we cannot provide any assurances that our strategies will continue to be successful.

The following table summarizes our results of operations for the years ended December 31, 2018 and 2017.

(in thousands, except per share amounts)

	Year ended December 31,			
	2018	2017	Amount	%
Consolidated Statements of Operations:				
Revenue				
Home sales revenues	\$ 2,110,058	\$ 1,405,443	\$ 704,615	50.1 %
Land sales revenues	5,631	8,503	(2,872)	(33.8) %
	2,115,689	1,413,946	701,743	49.6 %
Financial services revenue	31,724	9,853	21,871	222.0 %
Total revenues	2,147,413	1,423,799	723,614	50.8 %
Homebuilding cost of revenues				
Cost of home sales revenues	(1,741,619)	(1,153,359)	(588,260)	51.0 %
Cost of land sales and other revenues	(3,832)	(6,516)	2,684	(41.2) %
	(1,745,451)	(1,159,875)	(585,576)	50.5 %
Financial services costs	(22,958)	(8,664)	(14,294)	165.0 %
Selling, general, and administrative	(263,981)	(176,304)	(87,677)	49.7 %
Acquisition expense	(437)	(9,905)	9,468	(95.6) %
Equity in income of unconsolidated subsidiaries	14,849	12,176	2,673	22.0 %
Other income (expense)	(905)	2,937	(3,842)	(130.8) %
Income before income tax expense	128,530	84,164	44,366	52.7 %
Income tax expense	(32,075)	(33,869)	1,794	(5.3) %
Net income	\$ 96,455	\$ 50,295	\$ 46,160	91.8 %
Earnings per share:				
Basic	\$ 3.20	\$ 2.06	\$ 1.14	55.3 %
Diluted	\$ 3.17	\$ 2.03	\$ 1.14	56.2 %
Adjusted diluted earnings per share ⁽¹⁾	\$ 3.94	\$ 2.87	\$ 1.07	37.2 %
Other Operating Information (dollars in thousands):				
Number of homes delivered	6,099	3,640	2,459	67.6 %
Average sales price of homes delivered	\$ 346.0	\$ 386.1	\$ (40.1)	(10.4) %
Homebuilding gross margin percentage	17.5 %	17.9 %	(0.4)	(2.2) %
Adjusted homebuilding gross margin excluding interest and purchase price accounting for acquired work in process inventory ⁽¹⁾	21.6 %	21.4 %	0.2	0.9 %
Backlog at end of period, number of homes	2,181	1,320	861	65.2 %
Backlog at end of period, aggregate sales value	\$ 669,526	\$ 572,888	\$ 96,638	16.9 %
Average sales price of homes in backlog	\$ 306.9	\$ 434.0	\$ (127.1)	(29.3) %
Net new home contracts	5,657	3,814	1,843	48.3 %
Selling communities at period end	122	119	3	2.5 %
Average selling communities	120	101	19	18.8 %
Total owned and controlled lot inventory	37,919	30,784	7,135	23.2 %
Adjusted EBITDA ⁽¹⁾	\$ 227,865	\$ 150,477	\$ 77,388	51.4 %
Adjusted income before income tax expense ⁽¹⁾	\$ 159,860	\$ 109,694	\$ 50,166	45.7 %
Adjusted net income ⁽¹⁾	\$ 119,895	\$ 71,082	\$ 48,813	68.7 %
Net homebuilding debt to net capital ⁽¹⁾	52.0 %	46.9 %	5.1	10.8 %

(1) This is a non-GAAP financial measure and should not be used as a substitute for the Company's operating results prepared in accordance with GAAP. See the reconciliations to the most comparable GAAP measure and other information under " - Non-GAAP Financial Measures." An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP.

Results of Operations by Segment

(in thousands)

	New Homes Delivered		Average Sales Price of Homes Delivered		Home Sales Revenues		Income before Income Tax	
	Year ended December 31,		Year ended December 31,		Year ended December 31,		Year ended December 31,	
	2018	2017	2018	2017	2018	2017	2018	2017
West	806	398	\$ 569.5	\$ 529.4	\$ 459,038	\$ 210,696	\$ 38,380	\$ 14,640
Mountain	1,625	1,465	\$ 429.3	\$ 418.0	\$ 697,609	\$ 612,392	\$ 89,048	\$ 75,704
Texas	688	413	\$ 309.4	\$ 389.6	\$ 212,838	\$ 160,891	\$ 13,682	\$ 10,952
Southeast	1,603	1,364	\$ 331.0	\$ 309.0	\$ 530,522	\$ 421,464	\$ 33,267	\$ 29,662
Wade Journey Homes	1,377	—	\$ 152.5	\$ —	\$ 210,051	\$ —	\$ (754)	\$ —
Financial Services	—	—	\$ —	\$ —	\$ —	\$ —	\$ 8,766	\$ 1,225
Corporate	—	—	\$ —	\$ —	\$ —	\$ —	\$ (53,859)	\$ (48,019)
Total	6,099	3,640	\$ 346.0	\$ 386.1	\$ 2,110,058	\$ 1,405,443	\$ 128,530	\$ 84,164

West

In our West segment, for the year ended December 31, 2018, our income before income tax increased by \$23.7 million to \$38.4 million. Our income before income tax is inclusive of \$14.3 million and \$14.7 million of purchase accounting adjustments for the year ended December 31, 2018 and 2017, respectively. We acquired the entirety of our operations in the West operating segment in conjunction with our acquisitions of UCP, Inc. and Sundquist Homes in August and October of 2017, respectively. During the year ended December 31, 2018, we delivered 806 homes with an average sales price of \$569.5 thousand and generated \$459.0 million in home sales revenue in the West.

Mountain

In our Mountain segment, for the year ended December 31, 2018, our income before income tax increased by \$13.3 million to \$89.0 million, as compared to \$75.7 million for the same period in 2017. This increase is related to an increase in the number of homes delivered of 11% and an increase in the average selling price of those homes of 3% as compared to 2017.

Texas

In our Texas segment, for the year ended December 31, 2018, our income before income tax increased by \$2.7 million to \$13.7 million as compared to \$11.0 million for the same period in 2017. This increase is primarily related to an increase in the number of homes delivered in 2018, of 67%, which was partially offset by a decrease in the average sales price as we shifted our focus towards first time homebuyers.

Southeast

In our Southeast segment, for the year ended December 31, 2018, our income before income tax increased by \$3.6 million to \$33.3 million as compared to \$29.7 million for the same period in 2017. Our income before income tax is inclusive of \$2.2 million and \$0.8 million of purchase accounting adjustments for the year ended December 31, 2018 and 2017, respectively. This increase is primarily related to an increase in the number of homes delivered of 17% as well as an increase in the average selling price of those homes in 2018.

Wade Journey Homes

On June 14, 2018, we acquired the remaining 50% ownership interest in WJH for \$37.5 million. Since completing this acquisition, we delivered 1,377 new homes with an average price of \$152.5 thousand and generated \$210.1 million in home sales revenues in our WJH segment, our income before income tax of \$(0.8) million is inclusive of \$21.6 million of purchase accounting adjustment.

Financial Services

Our indirect wholly-owned subsidiaries, Inspire Home Loans, Inc., Parkway Title, LLC, and IHL Home Insurance Agency, LLC, which provide mortgage, title and insurance services, respectively, to our home buyers have been identified as our Financial Services segment. We began providing mortgage services to our customers during the second quarter of 2017. Substantially all of the loans we originate are sold in the secondary market within a short period of time after origination, generally within 30 days. The increase in our income before income tax of \$7.5 million is a result of an increase in the number of mortgages originated of 295.6% as compared to

[Table of Contents](#)

2017. During the year ended December 31, 2018, we originated and closed 2,176 loans with a total principal amount of \$682.8 million, as compared to 550 loans for a total principal of \$172.2 million during 2017. The results of Parkway Title, LLC and IHL Home Insurance Agency, LLC for the years ended December 31, 2018 and 2017 were not material to our Financial Services segment.

Corporate

During the year ended December 31, 2018, our Corporate segment generated losses of \$53.9 million, as compared to losses of \$48 million for the same period in 2017. The increase in expenses during the year ended December 31, 2018 was primarily attributed to the following: (1) an increase of \$13.8 million in compensation related expenses, including non-cash expenses for share based payments and an increase in the number of employees by growth and our acquisition of WJH, (2) an increase of \$2.0 million in information technology related expenses, and (3) an increase of \$1.7 million in depreciation expense. These increases were partially offset by a decrease of \$9.5 million in acquisition expense and an additional \$2.7 million of equity in income of unconsolidated subsidiaries.

Homebuilding Gross Margin

Homebuilding gross margin represents home sales revenue less cost of home sales revenues. Our homebuilding gross margin percentage, which represents homebuilding gross margin divided by home sales revenues, decreased for the year ended December 31, 2018 to 17.5%, as compared to 17.9% for the year ended December 31, 2017. The decrease is primarily driven by purchase accounting for acquired work in process inventory.

In the following table, we calculate our homebuilding gross margin adjusted to exclude interest in cost of home sales and purchase price accounting for acquired work in process inventory. See "Critical Accounting Policies" below and Footnote 3 (Business Combinations) of our Consolidated Financial Statements for additional discussion regarding our methodology for estimating the fair value of acquired work in process inventory.

(dollars in thousands)

	Year ended December 31,			
	2018	%	2017	%
Home sales revenues	\$ 2,110,058	100.0 %	\$ 1,405,443	100.0 %
Cost of home sales revenues	(1,741,619)	(82.5) %	(1,153,359)	(82.1) %
Gross margin from home sales	368,439	17.5 %	252,084	17.9 %
Add: Interest in cost of home sales revenues	48,692	2.3 %	32,898	2.3 %
Adjusted homebuilding gross margin excluding interest ⁽¹⁾	417,131	19.8 %	284,982	20.3 %
Add: Purchase price accounting for acquired work in process inventory	38,112	1.8 %	15,625	1.1 %
Adjusted homebuilding gross margin excluding interest and purchase price accounting for acquired work in process inventory ⁽¹⁾	\$ 455,243	21.6 %	\$ 300,607	21.4 %

⁽¹⁾ This non-GAAP financial measure should not be used as a substitute for the Company's operating results in accordance with GAAP. See the reconciliations to the most comparable GAAP measure and other information under " - Non-GAAP Financial Measures." An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP.

Excluding interest in cost of home sales and purchase price accounting, our adjusted homebuilding gross margin percentage was 21.6% for the year ended December 31, 2018, as compared to 21.4% for the year ended December 31, 2017. We believe the above information is meaningful as it isolates the impact that indebtedness and acquisitions have on homebuilding gross margin and allows for comparability of our gross margins to previous periods and our competitors.

Selling, General and Administrative Expense

(dollars in thousands)

	Year ended December 31,		Increase (Decrease)	
	2018	2017	Amount	%
Selling, general and administrative	\$ (263,981)	\$ (176,304)	\$ (87,677)	49.7 %
As a percentage of home sales revenue	(12.5) %	(12.5) %		

Our selling, general and administrative costs increased \$87.7 million for the year ended December 31, 2018 as compared to 2017. The increase was primarily attributable to the following: (1) an increase of \$23.2 million in commission expense resulting from a 50.1% increase in home sales revenues, (2) an increase of \$40.4 million in compensation related expenses, including incentive compensation as a result of higher head count to support our growth, (3) an increase of \$4.8 million in advertising expenses, (4) an increase of \$2.1

[Table of Contents](#)

million in information technology expenses, (5) an increase of \$5.4 million in depreciation and amortization, (6) an increase of \$2.0 million in taxes and licenses, and (7) a net increase of \$9.7 million related to individually insignificant changes in other expenses, including rent, insurance, legal, travel and entertainment, consulting fees, and office related expenses.

Other Income (Expense)

For the year ended December 31, 2018, other income (expense) decreased to \$(0.9) million from \$2.9 million for the same period in 2017. The decrease was related to decreases in interest income and forfeited deposits, in addition to an increase in losses on disposition of assets.

Income Tax Expense

Our income tax expense for the year ended December 31, 2018 was \$32.1 million, as compared to \$33.9 million for the year ended December 31, 2017. Our income tax expense for the year ended December 31, 2018 results in an effective tax rate of 25.0%, as compared to an effective tax rate of 40.2% for the year ended December 31, 2017. Our effective tax rate for 2018 and 2017 is driven by our blended federal and state statutory rate of 24.8% and 37.8%, respectively.

Segment Assets

(dollars in thousands)

	December 31, 2018		December 31, 2017		Increase (Decrease)	
					Amount	Change
West	\$	502,381	\$	394,215	\$ 108,166	27.4 %
Mountain		621,757		571,880	49,877	8.7 %
Texas		209,550		192,078	17,472	9.1 %
Southeast		448,681		401,618	47,063	11.7 %
Wade Journey Homes		204,925		—	204,925	NM
Financial Services		146,710		63,137	83,573	132.4 %
Corporate		120,251		112,094	8,157	7.3 %
Total assets	\$	2,254,255	\$	1,735,022	\$ 519,233	29.9 %

Lots owned and controlled

	December 31, 2018			December 31, 2017			% Change		
	Owned	Controlled	Total	Owned	Controlled	Total	Owned	Controlled	Total
West	3,457	1,790	5,247	3,742	3,179	6,921	(7.6)%	(43.7)%	(24.2)%
Mountain	5,335	5,641	10,976	4,666	4,856	9,522	14.3 %	16.2 %	15.3 %
Texas	3,943	2,616	6,559	2,517	3,489	6,006	56.7 %	(25.0)%	9.2 %
Southeast	4,828	2,808	7,636	4,827	3,508	8,335	0.0 %	(20.0)%	(8.4)%
Wade Journey Homes	3,447	4,054	7,501	—	—	—	NM	NM	NM
Total	21,010	16,909	37,919	15,752	15,032	30,784	33.4 %	12.5 %	23.2 %

Of our total lots owned and controlled as of December 31, 2018, 55.4% were owned and 44.6% were controlled, as compared to 51.2% owned and 48.8% controlled as of December 31, 2017.

Total assets increased by \$519.2 million, or 29.9%, to \$2.3 billion at December 31, 2018, as compared to \$1.7 billion at December 31, 2017. The increase is related to the increase in assets from our acquisition of WJH, as well as the increased investments in all of our operating segments.

Other Homebuilding Operating Data
Net new home contracts

	Year ended December 31,		Increase	
	2018	2017	Amount	% Change
West	754	296	458	154.7 %
Mountain	1,571	1,591	(20)	(1.3) %
Texas	654	477	177	37.1 %
Southeast	1,693	1,450	243	16.8 %
Wade Journey Homes	985	—	985	NM
Total	5,657	3,814	1,843	48.3 %

Net new home contracts (new home contracts net of cancellations) for the year ended December 31, 2018 increased by 1,843 homes, or 48.3%, to 5,657, as compared to 3,814 for the year ended December 31, 2017. The increase in our net new home contracts was driven by our acquisition of WJH.

Our overall monthly “absorption rate” (the rate at which home orders are contracted, net of cancelations) for the years ended December 31, 2018 and 2017 by segment are included in the table below:

	Year ended December 31,		Increase	
	2018	2017	Amount	% Change
West	3.7	3.7	—	— %
Mountain	3.4	4.0	(0.6)	(15.0) %
Texas	2.6	1.7	0.9	52.9 %
Southeast	3.1	3.4	(0.3)	(8.8) %
Wade Journey Homes	N/A	N/A	N/A	N/A
Total	3.2	3.2	—	— %

Our absorption rate remained consistent at 3.2 per month during the years ended December 31, 2018 and 2017.

Selling communities at period end

	As of December 31,		Increase/(Decrease)	
	2018	2017	Amount	% Change
West	17	19	(2)	(10.5) %
Mountain	38	33	5	15.2 %
Texas	21	27	(6)	(22.2) %
Southeast	46	40	6	15.0 %
Wade Journey Homes	N/A	N/A	N/A	N/A
Total	122	119	3	2.5 %

Our selling communities increased by 3 communities to 122 communities at December 31, 2018, as compared to 119 communities at December 31, 2017. Since Wade Journey Homes does not sell from traditional model homes, we do not calculate selling communities for this segment.

Backlog (dollars in thousands)	As of December 31,								
	2018			2017			% Change		
	Homes	Dollar Value	Average Sales Price	Homes	Dollar Value	Average Sales Price	Homes	Dollar Value	Average Sales Price
West	218	\$ 120,042	\$ 550.7	270	\$ 164,071	\$ 607.7	(19.3) %	(26.8) %	(9.4) %
Mountain	401	183,938	458.3	455	200,887	441.2	(11.9) %	(8.4) %	3.9 %
Texas	181	68,265	377.2	215	82,886	385.5	(15.8) %	(17.6) %	(2.2) %
Southeast	470	156,491	333.0	380	125,044	329.1	23.7 %	25.1 %	1.2 %
Wade Journey Homes	911	140,790	154.5	—	—	—	NM	NM	NM
Total / Weighted Average	2,181	\$ 669,526	\$ 306.9	1,320	\$ 572,888	\$ 434.0	65.2 %	16.9 %	(29.3) %

Backlog reflects the number of homes, net of cancellations experienced during the period, for which we have entered into a sales contract with a customer but for which we have not yet delivered the home. At December 31, 2018, we had 2,181 homes in backlog with a total value of \$669.5 million, which represents an increase of 65.2% and 16.9%, respectively, as compared to 1,320 homes in backlog with a total value of \$572.9 million at December 31, 2017. The increase in backlog and backlog value is primarily attributable to our acquisition of WJH. The decrease in average sales price of homes in backlog is also driven by the acquisition of WJH, which targets first time home buyers.

Supplemental Pro Forma Information

As we completed significant acquisitions in 2017 and 2018 that are not included in our results of operations for the years ended December 31, 2018, 2017 and 2016, and to aid readers with year over year comparability for the entire business, we are including limited supplemental pro forma information below for those periods. The supplemental pro forma information below for the years ended December 31, 2018, 2017, and 2016 give effect to the results of the acquisitions of WJH, UCP and Sundquist Homes. The effect of the WJH acquisition is reflected as though the acquisition date was as of January 1, 2017. The effect of the UCP and Sundquist Homes acquisitions is reflected as though the acquisition date was as of January 1, 2016. The pro forma information is for informational purposes only and supplements our Condensed Consolidated Financial Statements prepared in accordance with US GAAP. We believe that the pro forma information is useful as it provides additional information given the significant impact of these acquisitions, and a reflection of how the combined business performed year over year that is not readily discernible from the actual year over year comparison. The pro forma information below does not purport to reflect the results of operations that would have occurred had the acquisition of WJH occurred on January 1, 2017 and the acquisitions of UCP and Sundquist Homes occurred on January 1, 2016, nor does the pro forma information purport to represent the results of operations of the Company for any future dates or periods.

(in thousands, except net new home contract and delivery information):

	Year ended December 31,					
	2018		2017		2016	
Pro forma home sales revenues	\$	2,260,449	\$	1,971,725	\$	1,382,358
Pro forma net new home contracts		7,071		6,739		3,793
Pro forma deliveries		7,092		5,985		3,645
Pro forma average sales price	\$	318.7	\$	329.5	\$	379.2

During the year ended December 31, 2017, we experienced moderate improvement in the homebuilding market throughout our operating segments. The homebuilding market during 2017 enjoyed a stable macro-economic environment, which included stable employment growth as well as growth in median household incomes. These factors along with low levels of existing housing inventory resulted in an environment in which we were able to achieve increases in net new home contracts, home deliveries, and average sales price for the year ended December 31, 2017 of 33.4%, 28.8%, and 11.4%, respectively, as compared to the year ended December 31, 2016. The increases in net new home contracts, home deliveries and average sales price, along with our focus on cost control and investing in our infrastructure prudently as we expanded, resulted in total revenue and income before tax of \$1.4 billion and \$84.2 million, respectively for the year ended December 31, 2017, which represented a 43.2% and 15.1% increase, respectively, over the year ended December 31, 2016.

In August 2017, we acquired UCP, Inc. (which we refer to as “UCP”), which was a homebuilder and land developer with expertise in residential land acquisition, development and entitlement, as well as home design, construction and sales. Our acquisition of UCP included approximately 4,199 owned lots within 43 total communities located in the States of California, Washington, North Carolina, South Carolina and Tennessee. The 4,199 lots included 346 homes in backlog and 59 model homes. The results of UCP are included in our financial statements from August 4, 2017 through December 31, 2017 and consisted of \$201.4 million in revenue related to 403 home deliveries.

Additionally in October 2017, we acquired substantially all the assets and operations and assumed certain liabilities of Sundquist Homes and affiliates, a homebuilder with operations in the greater Seattle, Washington area, for approximately \$50 million. The acquired assets consisted of approximately 147 owned lots. The 147 lots included 45 homes in backlog. The results of Sundquist Homes are included in our financial statements from October 31, 2017 through December 31, 2017 and consisted of \$18.7 million in revenue related to 24 deliveries.

The following table summarizes our results of operations for the years ended December 31, 2017 and 2016.

(in thousands, except per share amounts)

	Year Ended December 31,		Increase (Decrease)	
	2017	2016	Amount	%
Consolidated Statements of Operations:				
Revenue				
Home sales revenues	\$ 1,405,443	\$ 978,733	\$ 426,710	43.6 %
Land sales revenues	8,503	15,707	(7,204)	(45.9)%
	1,413,946	994,440	419,506	42.2 %
Financial services revenue	9,853	—	9,853	—
Total revenues	1,423,799	994,440	429,359	43.2 %
Homebuilding cost of revenues				
Cost of home sales revenues	(1,153,359)	(786,127)	(367,232)	46.7 %
Cost of land sales and other revenues	(6,516)	(14,217)	7,701	(54.2)%
	(1,159,875)	(800,344)	(359,531)	44.9 %
Financial services costs	(8,664)	—	(8,664)	—
Selling, general, and administrative	(176,304)	(122,224)	(54,080)	44.2 %
Acquisition expense	(9,905)	(490)	(9,415)	1,921.4 %
Equity in income of unconsolidated subsidiaries	12,176	191	11,985	6,274.9 %
Other income (expense)	2,937	1,576	1,361	86.4 %
Income before income tax expense	84,164	73,149	11,015	15.1 %
Income tax expense	(33,869)	(23,609)	(10,260)	43.5 %
Net income	\$ 50,295	\$ 49,540	\$ 755	1.5 %
Earnings per share:				
Basic	\$ 2.06	\$ 2.34	\$ (0.28)	(12.0)%
Diluted	\$ 2.03	\$ 2.33	\$ (0.30)	(12.9)%
Adjusted diluted earnings per share ⁽¹⁾	\$ 2.87	\$ 2.36	\$ 0.51	21.6 %
Other Operating Information (dollars in thousands):				
Number of homes delivered	3,640	2,825	815.0	28.8 %
Average sales price of homes delivered	\$ 386.1	\$ 346.5	\$ 39.6	11.4 %
Homebuilding gross margin percentage	17.9 %	19.7 %	(1.8)%	(9.1)%
Adjusted homebuilding gross margin excluding interest and purchase price accounting for acquired work in process inventory ⁽¹⁾	21.4 %	21.7 %	(0.3)%	(1.4)%
Backlog at end of period, number of homes	1,320	749	571	76.2 %
Backlog at end of period, aggregate sales value	\$ 572,888	\$ 302,823	\$ 270,065	89.2 %
Average sales price of homes in backlog	\$ 434.0	\$ 404.3	\$ 29.7	7.3 %
Net new home contracts	3,814	2,860	954	33.4 %
Selling communities at period end	119	89	30	33.7 %
Average selling communities	101	89	12	13.5 %
Total owned and controlled lot inventory	30,784	18,296	12,488	68.3 %
Adjusted EBITDA ⁽¹⁾	\$ 150,477	\$ 100,343	\$ 50,134	50.0 %
Adjusted income before income tax expense ⁽¹⁾	\$ 109,694	\$ 74,028	\$ 35,666	48.2 %
Adjusted net income ⁽¹⁾	\$ 71,082	\$ 50,135	\$ 20,947	41.8 %
Net homebuilding debt to net capital ⁽¹⁾	46.9 %	46.0 %	2.9 %	2.0 %

⁽¹⁾ This is a non-GAAP financial measure and should not be used as a substitute for the Company's operating results prepared in accordance with GAAP. See the reconciliations to the most comparable GAAP measure and other information under "—Non-GAAP Financial Measures." An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP.

Results of Operations by Segment

(dollars in thousands)	New Homes Delivered		Average Sales Price of Homes Delivered		Home Sales Revenues		Income before Income Tax	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016	2017	2016	2017	2016
West	398	—	\$ 529.4	\$ —	\$ 210,696	\$ —	\$ 14,640	\$ —
Mountain	1,465	1,222	\$ 418.0	\$ 409.5	612,392	500,386	75,704	66,613
Texas	413	338	\$ 389.6	\$ 400.0	160,891	135,207	10,952	2,686
Southeast	1,364	1,265	\$ 309.0	\$ 271.3	421,464	343,140	29,662	31,138
Financial Services	—	—	\$ —	\$ —	—	—	1,225	—
Corporate	—	—	\$ —	\$ —	—	—	(48,019)	(27,288)
Total	3,640	2,825	\$ 386.1	\$ 346.5	\$ 1,405,443	\$ 978,733	\$ 84,164	\$ 73,149

West

In our West segment, for the year ended December 31, 2017, our income before income tax increased by \$14.6 million to \$14.6 million. We acquired the entirety of our operations in our West segment in conjunction with our acquisitions of UCP and Sundquist Homes as discussed above. Since completing these acquisitions, we delivered 398 new homes with an average price of \$529.4 thousand and generated \$210.7 million in home sales revenues in our West segment.

Mountain

In our Mountain segment, for the year ended December 31, 2017, our income before income tax increased by \$9.1 million to \$75.7 million, as compared to \$66.6 million for the same period in 2016. This increase is related to an increase in the number of homes delivered and an increase in the average selling price of those homes in 2017.

Texas

In our Texas segment, for the year ended December 31, 2017, our income before income tax increased by \$8.3 million to \$11.0 million as compared to \$2.7 million for the same period in 2016. This increase is primarily related to an increase in the number of homes delivered in 2017.

Southeast

In our Southeast segment, for the year ended December 31, 2017, our income before income tax decreased by \$1.5 million to \$29.7 million, as compared to \$31.1 million for the same period in 2016. The number of homes delivered, home sales revenue and average selling price all increased in our Southeast segment year over year. However, as we have recently started operations in North Carolina, our selling, general and administrative expenses have increased without a corresponding increase in revenues.

Financial Services

Our indirect wholly-owned subsidiaries, Inspire Home Loans Inc. and Parkway Title, LLC, which provide mortgage services and title services, respectively, to our home buyers have been identified as our Financial Services segment. We began providing mortgage services to our customers during the second quarter of 2017. Substantially all of the loans we originate are sold in the secondary market within a short period of time after origination, generally within 30 days. During the year ended December 31, 2017, we originated and closed 550 loans with a total principal amount of \$172.2 million.

Corporate

During the year ended December 31, 2017, our Corporate segment generated losses of \$48.0 million, as compared to losses of \$27.3 million for the same period in 2016. The increase in expenses during the year ended December 31, 2017 was primarily attributed to the following: (1) an increase of \$9.4 million in acquisition expenses, (2) an increase of \$11.6 million in compensation related expenses, including non-cash expenses for share based payments and an increase in the number of employees after our acquisition of UCP and Sundquist Homes, (3) an increase of \$3.4 million in information technology related expenses, and (4) an increase of \$1.0 million in advertising costs, partially offset by an increase in equity in income from unconsolidated subsidiaries.

Homebuilding Gross Margin

Homebuilding gross margin represents home sales revenue less cost of home sales revenues. Our homebuilding gross margin percentage,

[Table of Contents](#)

which represents homebuilding gross margin divided by home sales revenues, decreased for the year ended December 31, 2017 to 17.9%, as compared to 19.7% for the year ended December 31, 2016. The decrease is primarily driven by purchase accounting for acquired work in process inventory.

In the following table, we calculate our gross margins adjusting for interest in cost of sales, and purchase price accounting for acquired work in process inventory. See “Critical Accounting Policies” below and Footnote 3 (Business Combinations) of our Consolidated Financial Statements for additional discussion regarding our methodology for estimating the fair value of acquired work in process inventory.

(dollars in thousands)

	Year Ended December 31,			
	2017	%	2016	%
Home sales revenues	\$ 1,405,443	100.0 %	\$ 978,733	100.0 %
Cost of home sales revenues	(1,153,359)	82.1 %	(786,127)	80.3 %
Gross margin from home sales	252,084	17.9 %	192,606	19.7 %
Add: Interest in cost of home sales revenues	32,898	2.3 %	19,502	2.0 %
Adjusted homebuilding gross margin excluding interest ⁽¹⁾	284,982	20.3 %	212,108	21.7 %
Add: Purchase price accounting for acquired work in process inventory	15,625	1.1 %	389	0.0 %
Adjusted homebuilding gross margin excluding interest and purchase price accounting for acquired work in process inventory ⁽¹⁾	\$ 300,607	21.4 %	\$ 212,497	21.7 %

⁽¹⁾ This non-GAAP financial measure should not be used as a substitute for the Company’s operating results in accordance with GAAP. See the reconciliations to the most comparable GAAP measure and other information under “—Non-GAAP Financial Measures.” An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP.

Excluding interest in cost of home sales and purchase price accounting, our adjusted homebuilding gross margin percentage was 21.4% for the year ended December 31, 2017, as compared to 21.7% for the year ended December 31, 2016. We believe the above information is meaningful as it isolates the impact that indebtedness and acquisitions have on homebuilding gross margin and allows for comparability of our gross margins to previous periods and our competitors.

Selling, General and Administrative Expense

(dollars in thousands)

	Year Ended December 31,		Increase	
	2017	2016	Amount	%
Selling, general and administrative	\$ (176,304)	\$ (122,224)	\$ (54,080)	44.2 %
As a percentage of homes sales revenue	(12.5) %	(12.5) %		

Our selling, general and administrative costs increased \$54.1 million for the year ended December 31, 2017 as compared to 2016. The increase was primarily attributable to the following: (1) an increase of \$12.1 million in commission expense resulting from a 44% increase in home sales revenues, (2) an increase of \$26.2 million in compensation related expenses, including incentive compensation as a result of higher head count to support our growth, (3) an increase of \$4.7 million in advertising expenses, (4) an increase of \$2.0 million in information technology expenses, and (5) a net increase of \$9.0 million related to individually insignificant changes in other expenses, including rent, insurance, depreciation and legal.

Other Income (Expense)

For the year ended December 31, 2017, other income (expense) increased to \$2.9 million from \$1.6 million for the same period in 2016. The increase was related to increases in interest income and forfeited deposits.

Equity in Income from Unconsolidated Subsidiaries

As of December 31, 2017, our investment in WJH was \$28.2 million and we recognized \$12.2 million and \$0.2 million of equity in income of unconsolidated subsidiaries during the years ended December 31, 2017 and 2016, respectively. Our investment in WJH was made in November 2016, and as such there were limited earnings during 2016. WJH had 1,742 home deliveries with an average sales price of \$148.2 thousand during the year ended December 31, 2017.

Income Tax Expense

[Table of Contents](#)

Our income tax expense for the year ended December 31, 2017 was \$33.9 million, as compared to \$23.6 million for the year ended December 31, 2016. Our income tax expense for the year ended December 31, 2017 results in an effective tax rate of 40.2%, as compared to an effective tax rate of 32.3% for the year ended December 31, 2016. Our effective tax rate is driven by our blended federal and state statutory rate of 37.8%. Our blended federal and state statutory tax rate is reflective of the states in which we operate, including Nevada, Texas and Washington which generally do not have corporate income tax. As a result of the Tax Cuts and Jobs Act signed into law on December 22, 2017, we recorded a provisional remeasurement of our deferred tax assets totaling \$2.8 million. Our blended federal and state statutory tax rate is partially offset by benefits from additional deductions for domestic production activities in 2017.

Segment Assets

(dollars in thousands)

	December 31, 2017	December 31, 2016	Increase (Decrease)	
			Amount	Change
West	\$ 273,749	\$ —	\$ 273,749	NM
Mountain	571,880	541,657	30,223	5.6 %
Texas	192,078	138,392	53,686	38.8 %
Southeast	401,618	262,448	139,170	53.0 %
Financial Services	63,137	—	63,137	NM
Corporate	232,560	65,031	167,529	257.6 %
Total assets	\$ 1,735,022	\$ 1,007,528	\$ 727,494	72.2 %

Lots owned and controlled

	December 31, 2017			December 31, 2016			% Change		
	Owned	Controlled	Total	Owned	Controlled	Total	Owned	Controlled	Total
West	3,742	3,179	6,921	—	—	—	NM	NM	NM
Mountain	4,666	4,856	9,522	4,354	2,959	7,313	7.2 %	64.1 %	30.2 %
Texas	2,517	3,489	6,006	1,356	3,420	4,776	85.6 %	2.0 %	25.8 %
Southeast	4,827	3,508	8,335	2,953	3,254	6,207	63.5 %	7.8 %	34.3 %
Total	15,752	15,032	30,784	8,663	9,633	18,296	81.8 %	56.0 %	68.3 %

Of our total lots owned and controlled as of December 31, 2017, 51.2% were owned and 48.8% were controlled, as compared to 47.3% owned and 52.7% controlled as of December 31, 2016.

Total assets increased by \$727.5 million, or 72.2%, to \$1.7 billion at December 31, 2017, as compared to \$1.0 billion at December 31, 2016. The increase is related to the increase in assets from our acquisitions of UCP and Sundquist Homes, as well as the increased investments in all of our operating segments.

Other Homebuilding Operating Data
Net new home contracts

	Year Ended December 31,		Increase	
	2017	2016	Amount	% Change
West	296	—	296	NM
Mountain	1,591	1,260	331	26.3 %
Texas	477	349	128	36.7 %
Southeast	1,450	1,251	199	15.9 %
Total	3,814	2,860	954	33.4 %

Net new home contracts (new home contracts net of cancellations) for the year ended December 31, 2017 increased by 954 homes, or 33.4%, to 3,814, as compared to 2,860 for the year ended December 31, 2016. The increase in our net new home contracts was driven by an increase in our absorption rates as well as our acquisitions of UCP and Sundquist Homes.

Our overall monthly “absorption rate” (the rate at which home orders are contracted, net of cancellations) for the years ended December 31, 2017 and 2016 by segment are included in the table below:

Year Ended December 31,		Increase	
2017	2016	Amount	% Change

[Table of Contents](#)

West	3.7	—	3.7	NM
Mountain	4.0	3.0	1.0	33.3 %
Texas	1.7	1.3	0.4	30.8 %
Southeast	3.4	3.4	—	— %
Total	3.2	2.7	0.5	18.5 %

Our absorption rate increased by 18.5% to 3.2 per month during the year ended December 31, 2017, as compared to 2.7 per month during the same period in 2016. The increase in absorption rate is attributable to the strong homebuilding environment as a result of positive economic trends across our markets.

Selling communities at period end

	As of December 31,		Increase/(Decrease)	
	2017	2016	Amount	% Change
West	19	—	19	NM
Mountain	33	35	(2)	(5.7) %
Texas	27	23	4	17.4 %
Southeast	40	31	9	29.0 %
Total	119	89	30	33.7 %

Our selling communities increased by 30 communities to 119 communities at December 31, 2017, as compared to 89 communities at December 31, 2016. The increase is attributable to our acquisitions of UCP and Sundquist Homes, as well as organic growth in our existing markets.

Backlog (dollars in thousands)	As of December 31,						% Change		
	2017			2016					
	Homes	Dollar Value	Average Sales Price	Homes	Dollar Value	Average Sales Price	Homes	Dollar Value	Average Sales Price
West	270	\$ 164,071	\$ 607.7	—	\$ —	\$ —	NM	NM	NM
Mountain	455	200,887	441.5	329	148,298	450.8	38.3 %	35.5 %	(2.1) %
Texas	215	82,886	385.5	151	72,423	479.6	42.4 %	14.4 %	(19.6) %
Southeast	380	125,044	329.1	269	82,102	305.2	41.3 %	52.3 %	7.8 %
Total / Weighted Average	1,320	\$ 572,888	\$ 434.0	749	\$ 302,823	\$ 404.3	76.2 %	89.2 %	7.3 %

Backlog reflects the number of homes, net of cancellations experienced during the period, for which we have entered into a sales contract with a customer but for which we have not yet delivered the home. At December 31, 2017, we had 1,320 homes in backlog with a total value of \$572.9 million, which represents an increase of 76.2% and 89.2%, respectively, as compared to 749 homes in backlog with a total value of \$302.8 million at December 31, 2016. The increase in backlog and backlog value is primarily attributable to our acquisitions of UCP and Sundquist Homes as well as the increase in our absorption rates. The increase in average sales price of homes in backlog is driven by increases in most of our markets as a result of pricing strength due to positive market trends.

[Table of Contents](#)
Critical Accounting Policies

Critical accounting estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and the estimates included in our financial statements might be impacted if we used different assumptions or conditions. Our management believes that the following accounting policies are among the most important to the portrayal of our financial condition and results of operations and require among the most difficult, subjective or complex judgments:

Revenue Recognition

On January 1, 2018, we adopted ASC 606. ASC 606 requires entities to recognize revenues when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. We adopted ASC 606 as of January 1, 2018 using the modified retrospective approach to contracts which were not completed as of January 1, 2018.

While the adoption of ASC 606 did not result in a material impact to our consolidated financial statements, it did impact the following:

- Certain immaterial costs incurred related to our model homes, which were previously capitalized to inventory, are now expensed as incurred.
- Forfeited customer earnest money deposits, which were previously presented in other income within our Consolidated Statements of Operations, are presented as other revenue. During the year ended December 31, 2018, we recognized \$1.5 million of forfeited deposits.
- Land sales to third parties which do not meet the definition of a customer in ASC 606 are classified as other income in our Consolidated Statements of Operations. During the year ended December 31, 2018, we recorded \$7.7 million from the disposition of land to third parties which were not considered customers. The related cost of the land dispositions during the period totaled \$7.8 million.
- Deferral of an allocated amount of revenue and costs associated with unsatisfied performance obligations, primarily the installation of landscaping, at the time of home delivery. We deferred \$2.3 million in revenue and \$1.7 million in costs related to unsatisfied performance obligations on homes that we delivered during the year ended December 31, 2018.
- Reclassification of certain costs related to our model homes from inventory to property and equipment on our Consolidated Balance Sheets. Upon adoption, we reclassified \$2.3 million from inventories to property and equipment.

Under the modified retrospective approach, we have recorded an opening adjustment to decrease retained earnings by \$0.6 million, related to model homes costs that were previously capitalized to inventory, but would have been expensed as incurred under ASC 606. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting.

Effective January 1, 2018, the following accounting policies have been modified to reflect the adoption of ASC 606.

Home Sales Revenues - Under ASC 606, revenues from home sales and the related profit are recorded when our performance obligations are satisfied, which generally occurs when the respective homes are closed and title has passed to our homebuyers. We generally satisfy our performance obligations in less than one year from the contract date. Proceeds from home closings that are held for our benefit in escrow, are presented as "Cash held in escrow" on our Consolidated Balance Sheets. Cash held for our benefit in escrow is typically held by the escrow agent for less than a few days. When it is determined that the earnings process is not complete and we have remaining obligations, the related revenue and costs are deferred for recognition in future periods until those performance obligations have been satisfied. Prior to satisfying our performance obligations, we typically receive deposits from customers related to sold but undelivered homes. These deposits are classified as earnest money deposits and are included in Accrued expenses and other liabilities on our Consolidated Balance Sheets. Earnest money deposits totaled \$14.0 million and \$14.1 million at December 31, 2018 and December 31, 2017, respectively.

Home and Sales Facilities - Costs related to our model homes and sales facilities are treated in one of three ways depending on their nature. Costs directly attributable to the home including upgrades that are permanent and sold with the home are capitalized to inventory and included in cost of home sales revenues when the unit is closed to the home buyer. Marketing related costs, such as non-permanent signage, brochures and marketing materials as well as the cost to convert the model into a salable unit are expensed as incurred. Costs to furnish the model home sites, permanent signage, and construction of sales facilities are capitalized to property and equipment and depreciated over the estimated life of the community based on the number of lots in the community which typically range from 2 to 3

years.

Inventories and Cost of Sales

We capitalize pre-acquisition, land, development, and other allocated costs, including interest, during development and home construction.

Land, development, and other common costs are allocated to inventory using the relative-sales-value method; however, as lots within a project typically have comparable market values, we generally allocate land, development, and common costs equally to each lot within the project. Home construction costs are recorded using the specific-identification method. Cost of sales for homes closed includes the allocation of construction costs of each home and all applicable land acquisition, land development, and related common costs, both incurred and estimated to be incurred. Changes to estimated total development costs subsequent to initial home closings in a community are generally allocated to the remaining homes in the community.

When a home is closed, the Company generally has not paid all incurred costs necessary to complete the home, and a liability and a charge to cost of home sales revenues are recorded for the amount that is estimated will ultimately be paid related to completed homes.

Impairment of Real Estate Inventories

We review all of our communities for an indicator of impairment and record an impairment loss when conditions exist where the carrying amount of inventory is not recoverable and exceeds its fair value. Indicators of impairment include, but are not limited to, significant decreases in local housing market values and selling prices of comparable homes, significant decreases to gross margins and sales absorption rates, costs in excess of budget, and actual or projected cash flow losses. We prepare and analyze cash flows at the lowest level for which there is identifiable cash flows that are independent of the cash flows of other groups of assets, which we have determined as the community level.

If events or circumstances indicate that the carrying amount may be impaired, such impairment will be measured based upon the difference between the carrying amount and the fair value of such assets determined using the estimated future discounted cash flows, excluding interest charges, generated from the use and ultimate disposition of the respective inventories. Such losses, if any, are reported within costs of sales.

When estimating undiscounted cash flows, we make various assumptions, including the following: the expected sales prices and sales incentives to be offered, including the number of homes available, pricing and incentives offered by us or other builders in other communities, and future sales price adjustments based on market and economic trends; the costs incurred to date and expected to be incurred including, but not limited to, land and land development costs, home construction costs, interest costs, indirect construction, and selling and marketing costs; any alternative product offerings that may be offered that could have an impact on sales, sales prices and/or building costs; and alternative uses for the property.

For the years ended December 31, 2018, 2017, and 2016, the following table shows the number of communities for which we identified an indicator of impairment and therefore tested for whether an impairment existed, compared to the total number of communities that existed during such period.

	Number of Communities Tested for Impairment	Total Number of Existing Communities
Year ended December 31, 2018	6	122
Year ended December 31, 2017	12	119
Year ended December 31, 2016	4	89

For the years ended December 31, 2018 and 2017, we recorded impairment charges on one and five communities, respectively, totaling \$0.8 million and \$0.8 million, respectively. The impairment charges are in "Cost of home sales revenues" in our Consolidated Statement of Operations. For the year ended December 31, 2016, no inventory impairments were recorded.

Warranties

Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Amounts accrued, which are included in accrued expenses and other liabilities on the Consolidated Balance Sheet, are based upon historical experience rates. We subsequently assess the adequacy of our warranty accrual on a quarterly basis through an internally developed analysis that incorporates historical payment trends and adjust the amounts recorded if necessary.

Stock-Based Compensation

[Table of Contents](#)

We estimate the grant date fair value of stock-based compensation awards and recognize the fair value as compensation costs over the requisite service period, which is generally three years, for all awards that vest. We value the fair value of our restricted stock awards and restricted stock units equal to the closing price of our common stock on the New York Stock Exchange on the date of grant. Stock-based compensation expense associated with outstanding performance share units is measured using the grant date fair value and is based on the estimated achievement of the established performance criteria at the end of each reporting period until the performance period ends, recognized on a straight-line basis over the performance period. Stock-based compensation expense is only recognized for performance share units that we expect to vest, which we estimate based upon an assessment of the probability that the performance criteria will be achieved. The performance share units granted during the fiscal year ended December 31, 2018 have a three-year performance-based metric measured over a performance period from January 1, 2018 to December 31, 2020. Stock-based compensation expense associated with outstanding performance share units is updated for actual forfeitures.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes*, which requires recognition of deferred tax assets and liabilities at enacted income tax rates for the temporary differences between the financial reporting bases and the tax bases of its assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. When it is more likely than not that a portion or all of a deferred tax asset will not be realized in the future, we provide a corresponding valuation allowance against the deferred tax asset. In addition, when it is more likely than not that a tax position will be sustained upon examination by a tax authority that has full knowledge of all relevant information, we measure the amount of tax benefit from the position and record the largest amount of tax benefit that is more likely than not of being realized after settlement with a tax authority. Our policy is to recognize interest to be paid on an underpayment of income taxes in interest expense and any related statutory penalties in the provision for income taxes on our Consolidated Statements of Operations.

Goodwill

We evaluate goodwill for possible impairment in accordance with Accounting Standards Codification (which we refer to as “ASC”) Topic 350, *Intangibles—Goodwill and Other*, on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use a three step process to assess whether or not goodwill can be realized. The first step is a qualitative assessment that analyzes current economic indicators associated with a particular reporting unit. For example, we analyze changes in economic, market and industry conditions, business strategy, cost factors, and financial performance, among others, to determine if there would be a significant decline to the fair value of a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required.

If a qualitative assessment indicates that a significant decline to fair value of a reporting unit is more likely than not, or if a reporting unit’s fair value has historically been closer to its carrying value, we will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future cash flows. If this step indicates that the carrying value of a reporting unit is in excess of its fair value, we will proceed to the third step where the fair value of the reporting unit will be allocated to assets and liabilities as they would in a business combination. Impairment occurs when the carrying amount of goodwill exceeds its estimated fair value calculated in the third step.

Business Combinations

We account for business combinations in accordance with ASC Topic 850, *Business Combinations*, if the acquired assets assumed and liabilities incurred constitute a business. We consider acquired companies to constitute a business if the acquired net assets and processes have the ability to create outputs in the form of revenue. For acquired companies constituting a business, we recognize the identifiable assets acquired and liabilities assumed at their acquisition-date fair values and recognize any excess of total consideration paid over the fair value of the identifiable assets as goodwill.

The estimated fair value of the acquired assets and assumed liabilities requires significant judgments by management which are outlined below:

Inventories

The fair value of acquired inventories largely depends on the stage of production of the acquired land and work in process inventory. For acquired land inventory, we typically utilize, with the assistance of a third party appraiser, a forecasted cash flow approach for the development, marketing, and sale of each community acquired. Significant assumptions included in our estimates include future per lot

[Table of Contents](#)

development costs, construction and overhead costs, mix of products sold in each community, as well as average sales price. For work in process inventories, we estimate the fair value based upon the stage of production of each unit and a gross margin that we believe a market participant would require to complete the remaining development and requisite selling efforts.

Liquidity and Capital Resources

Overview

Our principal uses of capital for the year ended December 31, 2018 were our land purchases, land development, home construction, acquisition of the remaining 50% ownership interest in WJH, including the extinguishment of assumed debt, and the payment of routine liabilities. We use funds generated by operations, available borrowings under our revolving credit facility, and proceeds from sales of common stock, including our current at-the-market facility, to fund our short term working capital obligations and fund our purchases of land, as well as land development and home construction activities.

Cash flows for each of our communities depend on the stage in the development cycle, and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, entitlements and other approvals, and construction of model homes, roads, utilities, general landscaping and other amenities. Because these costs are a component of our inventory and not recognized in our statements of operations until a home closes, we incur significant cash outlays prior to our recognition of earnings. In the later stages of community development, cash inflows may significantly exceed earnings reported for financial statement purposes, as the cash outflow associated with home and land construction was previously incurred. From a liquidity standpoint, we are actively acquiring and developing lots in our markets to maintain and grow our lot supply and active selling communities. As we continue to expand our business, we expect that our cash outlays for land purchases and land development to grow our lot inventory will continue to exceed our cash generated by operations.

Our Financial Services operations uses funds generated from operations, and availability under our mortgage repurchase facilities to finance its operations including originations of mortgage loans to our homebuyers.

Under our shelf registration statement, which we filed with the SEC in July 2018 and was automatically effective upon filing, we have the ability to access the debt and equity capital markets in an aggregate offering amount of up to \$869 million, as needed as part of our ongoing financing strategy and subject to market conditions.

We believe that we will be able to fund our current and foreseeable liquidity needs with our cash on hand, cash generated from operations, and cash expected to be available from our revolving credit facility or through accessing debt or equity capital, as needed.

Revolving Credit Facility

On October 21, 2014, we entered into a Credit Agreement with Texas Capital Bank, National Association, as Administrative Agent and L/C Issuer, and the lenders from time to time party thereto. On June 5, 2018, we entered into an Amended and Restated Credit Agreement which amended and restated the Credit Agreement. The Amended and Restated Credit Agreement provides us with a revolving line of credit of up to \$540.0 million, and unless terminated earlier, will mature on April 30, 2022. Under the terms of the Amended and Restated Credit Agreement, we may request a twelve-month extension of the maturity date and are entitled to request an increase in the size of the credit facility by an amount not exceeding \$100.0 million. If the existing lenders elect not to provide the full amount of a requested increase, we may invite one or more other lender(s) to become a party to the Amended and Restated Credit Agreement, subject to the approval of the Administrative Agent. Our obligations under the Amended and Restated Credit Agreement are guaranteed by certain of our subsidiaries. The Amended and Restated Credit Agreement contains customary affirmative and negative covenants (including limitations on our ability to grant liens, incur additional debt, pay dividends, redeem our common stock, make certain investments and engage in certain merger, consolidation or asset sale transactions), as well as customary events of default. These covenants are measured as defined in the Amended and Restated Credit Agreement and are reported to the lenders quarterly. Borrowings under the Amended and Restated Credit Agreement bear interest at a floating rate equal to the adjusted Eurodollar Rate plus an applicable margin between 2.60% and 3.10% per annum, or, in the Administrative Agent's discretion, a base rate plus an applicable margin between 1.60% and 2.10% per annum. On June 28, 2018, we entered into a Joinder Agreement which increased the credit facility to \$590.0 million by exercising \$50.0 million of the \$100.0 million accordion feature and added a new lender. As of December 31, 2018, we had \$202.5 million outstanding under the credit facility, leaving \$387.5 million in availability, and were in compliance with all covenants.

At the Market Offerings

On July 3, 2018, we entered into a Distribution Agreement with J.P. Morgan Securities LLC, Citigroup Global Markets Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as sales agents pursuant to which we may offer and sell shares of our common stock having an aggregate offering price of up to \$100.0 million from time to time through any of the sales agents party thereto in "at-the-market"

[Table of Contents](#)

offerings. This Distribution Agreement superseded and replaced a prior similar Distribution Agreement, which had \$72.7 million available for sale as of December 31, 2018. During the year ended December 31, 2018, we sold and issued an aggregate of 1.1 million shares of our common stock under this and the prior Distribution Agreement, which provided us net proceeds of \$31.7 million, and, in connection with such sales, paid total commissions and fees to the sales agents of \$0.7 million. The Distribution Agreement will remain in full force and effect until terminated by either party pursuant to the terms of the agreement or such date that the maximum offering amount has been sold in accordance with the terms of the agreement.

Mortgage Repurchase Facility and Mortgage Warehouse Line of Credit – Financial Services

On May 4, 2018 and September 14, 2018 Inspire entered into mortgage warehouse facilities, with Comerica Bank, and J.P. Morgan, respectively. The mortgage warehouse lines of credit (which we refer to as the “Repurchase Facilities”) provides Inspire with uncommitted repurchase facilities of up to \$140 million, secured by the mortgage loans financed thereunder. On December 20, 2018, we temporarily increased our facility with J.P. Morgan through February 28, 2019 by \$20 million, thus bringing our total capacity under the Repurchase Facilities to \$160 million as of December 31, 2018. Amounts outstanding under the Repurchase Facilities are not guaranteed by us or any of our subsidiaries and the agreements contain various affirmative and negative covenants applicable to Inspire that are customary for arrangements of this type. As of December 31, 2018, we had \$104.6 million outstanding under these Repurchase Facilities and were in compliance with all covenants thereunder. No assurance can be provided, however, that we will remain in compliance with the covenants or have continued access to these facilities or substitute or replacement facilities in an amount sufficient to fund our mortgage lending business.

Letters of Credit and Performance Bonds

In the normal course of business, we post letters of credit and performance bonds related to our land development performance obligations with local municipalities. As of December 31, 2018 and December 31, 2017, we had \$289.8 million and \$158.6 million, respectively, in letters of credit and performance bonds issued and outstanding. Although significant development and construction activities have been completed related to the improvements at these sites, the letters of credit and performance bonds are not generally released until all development and construction activities are completed.

Stock Repurchase Program

On November 6, 2018, our Board of Directors authorized a stock repurchase program, under which we may repurchase up to 4,500,000 shares of our outstanding common stock. The shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws. The actual manner, timing, amount and value of repurchases under the stock repurchase program will be determined by management at its discretion and will depend on a number of factors, including the market price of our common stock, trading volume, other capital management objectives and opportunities, applicable legal requirements, and general market and economic conditions.

We intend to finance any stock repurchases through available cash and our revolving credit facility. Repurchases also may be made under a trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, which would permit shares to be repurchased when we otherwise may be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. The stock repurchase program has no expiration date and may be extended, suspended or discontinued by our Board of Directors at any time without notice at our discretion. All shares of common stock repurchased under the program will be cancelled and returned to the status of authorized but unissued shares of common stock.

During the year ended December 31, 2018, an aggregate of 604,061 shares were repurchased for a total purchase price of approximately \$11.0 million or an average of \$18.11 per share.

Cash Flows—Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

For the year ended December 31, 2018 and December 31, 2017, the comparison of cash flows is as follows:

- Net cash used in operating activities increased to \$195.6 million during the year ended December 31, 2018 from net cash used of \$111.3 million during the same period in 2017. The increase in cash used in operations was a result of net outflows associated with inventories of \$285.0 million during the year ended December 31, 2018, compared to a net outflow of \$83.4 million during the same period in 2017. The outflow in 2018 was driven by our investment in inventories through the purchase of 9,262 lots during the year ended December 31, 2018, as well as 4,579 homes under construction as of December 31, 2018. Additionally, during the year ended December 31, 2018 we had net cash used in working capital items including cash held in escrow, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities, and mortgage loans held for sale of \$33.8 million, as compared to cash used of \$92.4 million for the same period in 2017. These outflows were

offset by cash inflows associated with 6,099 home deliveries during the year ended December 31, 2018.

- Net cash used in investing activities was \$43.5 million during the year ended December 31, 2018, compared to \$134.4 million used during the same period in 2017. The decrease relates to our acquisition of UCP and Sundquist Homes in 2017, which resulted in cash outflows, net of cash acquired, totaling \$130.0 million. During the year ended December 31, 2018 we had cash outflows of \$28.0 million, net of cash acquired, for investing activities related to our acquisition of WJH.
- Net cash provided by financing activities was \$181.8 million during the year ended December 31, 2018, compared to \$308.5 million during the same period in 2017. The decrease in cash provided by financing activities is primarily attributed to a \$67.1 million decrease in net proceeds from the sale of common stock, a \$527.5 million decrease from issuance of senior notes, and an \$11.0 million decrease from repurchased of common stock under our stock repurchase program, partially offset by a decrease in repayment of debt assumed in connection with business combinations of \$57.7 million, an increase in proceeds received from the issuance of insurance premium notes of \$9.5 million, and an increase in net borrowings on our revolving credit facility totaling \$397.5 million.

As of December 31, 2018, our cash and cash equivalents was \$32.9 million.

Cash Flows—Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

For the years ended December 31, 2017 and December 31, 2016, the comparison of cash flows is as follows:

- Net cash used in operating activities increased to \$111.3 million during the year ended December 31, 2017 from net cash used of \$44.7 million during the same period in 2016. The increase in cash used in operations was primarily a result of an increase in net cash used in working capital items including cash held in escrow, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities, and mortgage loans held for sale of \$89.0 million for the year ended December 31, 2017, as compared to cash used of \$15.5 million for the same period in 2016. We had a net outflow associated with inventories of \$83.4 million during the year ended December 31, 2017, compared to a net outflow of \$91.9 million during the same period in 2016. The outflow in 2017 was driven by our investment in inventories through the purchase of 6,530 lots during the year ended December 31, 2017, as well as 2,228 homes under construction as of December 31, 2017. These outflows were offset by cash inflows associated with 3,640 home deliveries during the year ended December 31, 2017.
- Net cash used in investing activities was \$134.4 million during the year ended December 31, 2017, compared to \$23.2 million used during the same period in 2016. The increase relates to our acquisition of UCP and Sundquist Homes, which resulted in cash outflows, net of cash acquired, totaling \$130.0 million, an increase in purchases of property and equipment, partially offset the sale of our South Carolina operations which generated cash proceeds of \$17.1 million, and a decrease in contributions to our unconsolidated joint venture during the year ended December 31, 2017, as compared to the same period in 2016.
- Net cash provided by financing activities was \$308.5 million during the year ended December 31, 2017, compared to \$69.2 million during the same period in 2016. The increase in cash provided by financing activities is primarily attributed to cash proceeds from issuance of senior notes totaling \$527.5 million, the net proceeds received from the sale of common stock totaling \$98.1 million, and net proceeds from our mortgage repurchase facilities of \$48.3 million, partially offset by an increase in net payments on our revolving credit facility totaling \$255.0 million, repayment of debt assumed in connection with our UCP acquisition of \$151.9 million, a decrease in proceeds received from issuance of insurance premium notes and other indebtedness totaling \$9.2 million, and an increase of debt issuance costs of \$7.4 million.

As of December 31, 2017, our cash and cash equivalents balance was \$88.8 million.

Contractual Obligations

Our contractual obligations as of December 31, 2018 were as follows (in thousands):

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt maturities, including interest ⁽¹⁾	\$ 1,386,792	\$ 178,399	\$ 121,982	\$ 649,203	\$ 437,208
Operating leases ⁽²⁾	21,766	5,411	9,387	5,262	1,706
Total contractual obligations	\$ 1,408,558	\$ 183,810	\$ 131,369	\$ 654,465	\$ 438,914

(1) Principal payments in accordance with our credit facility, repurchase facilities and long-term debt agreements, and interest payments for outstanding long-term debt obligations. Interest on variable rate debt was calculated using the interest rate as of December 31, 2018.

(2) Operating lease obligations do not include payments to property owners covering real estate taxes and common area maintenance.

We are subject to certain obligations associated with entering into contracts (including land option contracts) for the purchase, development, and sale of real estate in the routine conduct of our business. Option contracts for the purchase of land enable us to defer acquiring portions of properties owned by third parties until we have determined whether to exercise our option, which may serve to reduce our financial risks associated with long-term land holdings. At December 31, 2018, we had \$51.0 million of deposits, of which \$8.5 million are refundable. We expect to acquire the majority of such land within the next 3 years.

Off-Balance Sheet Arrangements

In the ordinary course of business, we enter into land purchase contracts in order to procure lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These purchase contracts typically require a cash deposit, and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers and others as a method of acquiring land in staged takedowns, to help us manage the financial and market risk associated with land holdings, and to reduce the use of funds from our corporate financing sources. Option contracts generally require payment by us of a non-refundable deposit for the right to acquire lots over a specified period of time at pre-determined prices. Our obligations with respect to purchase contracts and option contracts are generally limited to the forfeiture of the related non-refundable cash deposits. As of December 31, 2018, we had outstanding purchase contracts and option contracts for 16,909 lots totaling \$400.4 million, and had \$42.6 million of non-refundable cash deposits pertaining to land option contracts. While our performance, including the timing and amount of purchase, if any, under these outstanding purchase and option contracts is subject to change, we currently anticipate performing on 60% to 70% of the purchase and option contracts during the year ending December 31, 2018, with performance on the remaining purchase and option contracts occurring in future periods.

Our utilization of land option contracts is dependent on, among other things, the availability of land sellers willing to enter into option takedown arrangements, the availability of capital to financial intermediaries to finance the development of optioned lots, general housing market conditions, and local market dynamics. Options may be more difficult to procure from land sellers in strong housing markets and are more prevalent in certain geographic regions.

We post letters of credit and performance bonds related to our land development performance obligations, with local municipalities. As of December 31, 2018 and 2017, we had \$289.8 million and \$158.6 million, respectively, in letters of credit and performance bonds issued and outstanding. We anticipate that the obligations secured by these performance bonds and letters of credit generally will be performed in the ordinary course of business.

Non-GAAP Financial Measures

In this Form 10-K, we use certain non-GAAP financial measures, including EBITDA, Adjusted EBITDA, net debt to net capital, and adjusted net earnings per diluted common shares. These non-GAAP financial measures are presented to provide investors additional information to facilitate the comparison of our past and present operations. We believe these non-GAAP financial measures provide useful information to investors because they are used to evaluate our performance on a comparable year-over-year basis. These non-GAAP financial measures are not in accordance with, or an alternative for, GAAP measures and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP financial measures are not based on any comprehensive or standard set of accounting rules or principles. Accordingly, the calculation of our non-GAAP financial measures may differ from the definitions of other companies using the same or similar names limiting, to some extent, the usefulness of such measures for

[Table of Contents](#)

comparison purposes. Non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with our financial results as determined in accordance with GAAP. These measures should only be used to evaluate our financial results in conjunction with the corresponding GAAP measures. Accordingly, we qualify our use of non-GAAP financial information in a statement when non-GAAP financial information is presented.

EBITDA and Adjusted EBITDA

The following table presents EBITDA and Adjusted EBITDA for the years ended December 31, 2018, 2017, and 2016. Adjusted EBITDA is a non-GAAP financial measure we use as a supplemental measure in evaluating operating performance. We define Adjusted EBITDA as consolidated net income before (i) income tax expense, (ii) interest in cost of home sales revenues, (iii) other interest expense, (iv) depreciation and amortization expense, and (v) adjustments resulting from the application of purchase accounting for acquired work in process inventory related to business combinations. We believe Adjusted EBITDA provides an indicator of general economic performance that is not affected by fluctuations in interest rates or effective tax rates, levels of depreciation or amortization, and items considered to be non-recurring. Accordingly, our management believes that this measurement is useful for comparing general operating performance from period to period. Adjusted EBITDA should be considered in addition to, and not as a substitute for, consolidated net income in accordance with GAAP as a measure of performance. Our presentation of Adjusted EBITDA should not be construed as an indication that our future results will be unaffected by unusual or non-recurring items. Our Adjusted EBITDA is limited as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

	Year ended December 31,		
	2018	2017	2016
Net income	\$ 96,455	\$ 50,295	\$ 49,540
Income tax expense	32,075	33,869	23,609
Interest in cost of home sales revenues	48,692	32,898	19,502
Interest expense (income)	3	(3)	5
Depreciation and amortization expense	12,031	6,973	5,580
EBITDA	189,256	124,032	98,236
Purchase price accounting for acquired work in process inventory	38,112	15,625	389
Purchase price accounting for investment in unconsolidated subsidiaries outside basis	60	915	1,228
Acquisition expense	437	9,905	490
Adjusted EBITDA	\$ 227,865	\$ 150,477	\$ 100,343

Net Homebuilding Debt to Net Capital

The following table presents our ratio of net homebuilding debt to net capital, which is a non-GAAP financial measure. We calculate this by dividing net debt (notes payable and borrowings under our revolving line of credit less cash held in escrow and cash and cash equivalents) by net capital (net debt plus total stockholders' equity). The most directly comparable GAAP measure is the ratio of debt to total capital. We believe the ratio of net homebuilding debt to net capital is a relevant and useful financial measure to investors in understanding the leverage employed in our operations and as an indicator of the our ability to obtain external financing.

	Year Ended December 31,		
	2018	2017	2016
Total homebuilding debt	\$ 987,277	\$ 776,283	\$ 454,088
Total stockholders' equity	859,359	735,233	473,636
Total capital	\$ 1,846,636	\$ 1,511,516	\$ 927,724
Debt to capital	53.5%	51.4%	48.9%
Total homebuilding debt	\$ 987,277	\$ 776,283	\$ 454,088
Cash and cash equivalents	(32,902)	(88,832)	(29,450)
Cash held in escrow	(24,344)	(37,723)	(20,044)
Net homebuilding debt	930,031	649,728	404,594
Total stockholders' equity	859,359	735,233	473,636
Net capital	\$ 1,789,390	\$ 1,384,961	\$ 878,230
Net homebuilding debt to net capital	52.0%	46.9%	46.1%

Adjusted Diluted Earnings per Common Share

[Table of Contents](#)

Adjusted Diluted Earnings per Common Share (which we refer to as "Adjusted EPS") is a non-GAAP financial measure that we believe is useful to management, investors and other users of our financial information in evaluating our operating results and understanding our operating trends without the effect of certain non-recurring items. We believe excluding certain non-recurring items provides more comparable assessment of our financial results from period to period. Adjusted Diluted EPS is calculated by excluding the effect of acquisition costs and purchase price accounting for acquired work in process from the calculation of reported EPS.

	Year ended December, 31		
	2018	2017	2016
Numerator			
Net income	\$ 96,455	\$ 50,295	\$ 49,540
Less: Undistributed earnings allocated to participating securities	(59)	(384)	(1,050)
Net income allocable to common stockholders	\$ 96,396	\$ 49,911	\$ 48,490
Denominator			
Weighted average common shares outstanding - basic	30,084,913	24,280,871	20,679,189
Dilutive effect of restricted stock units	306,433	274,638	112,748
Weighted average common shares outstanding - diluted	30,391,346	24,555,509	20,791,937
Earnings per share:			
Basic	\$ 3.20	\$ 2.06	\$ 2.34
Diluted	\$ 3.17	\$ 2.03	\$ 2.33
Adjusted Earnings per share			
Numerator			
Income before income tax expense	\$ 128,530	\$ 84,164	\$ 73,149
Purchase price accounting for acquired work in process inventory	38,112	15,625	389
Acquisition expense	437	9,905	490
Adjusted income before income tax expense	159,860	109,694	74,028
Income tax expense, adjusted ⁽¹⁾	(39,965)	(38,612)	(23,893)
Adjusted net income	119,895	71,082	50,135
Less: Undistributed earnings allocated to participating securities	(74)	(543)	(1,062)
Adjusted net income allocable to common stockholders	\$ 119,821	\$ 70,539	\$ 49,073
Denominator - Diluted			
	30,391,346	24,555,509	20,791,937
Adjusted diluted earnings per share	\$ 3.94	\$ 2.87	\$ 2.36

⁽¹⁾ For the year ended December 31, 2018, the tax rate used in adjusted net income was 25%. This rate is inclusive of our estimated annual rate offset by certain discrete items not associated with acquisitions. For the year ended December 31, 2017, the Company's GAAP tax rate was utilized.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rates

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our Amended and Restated Credit Agreement Borrowings under the Amended and Restated Credit Agreement bear interest at a floating rate equal to the adjusted Eurodollar Rate plus an applicable margin between 2.60% and 3.10% per annum, or, in the Administrative Agent's discretion, a base rate plus an applicable margin between 1.60% and 2.10% per annum. The "applicable margins" described above are determined by a schedule based on the leverage ratio of the Company, as defined in the Amended and Restated Credit Agreement. The Amended and

Restated Credit Agreement also provides for fronting fees and letter of credit fees payable to the L/C Issuer and commitment fees payable to the Administrative Agent equal to 0.20% of the unused portion of the revolving line of credit.

For fixed rate debt, such as our senior notes, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows.

In our Financial Services business, we utilize mortgage backed securities forward commitments, option contracts and investor commitments to protect the value of rate-locked commitments and loans held-for-sale from fluctuations in mortgage-related interest rates. To mitigate interest risk associated with loans held-for-sale, we use derivative financial instruments to hedge our exposure to risk from the time a borrower locks a loan until the time the loan is securitized. We also hedge our interest rate exposure through entering into interest rate swap futures.

Inflation

Our homebuilding operations can be adversely impacted by inflation, primarily from higher land, financing, labor, material and construction costs. In addition, inflation can lead to higher mortgage rates, which can significantly affect the affordability of mortgage financing to homebuyers. While we attempt to pass on cost increases to customers through increased prices, when weak housing market conditions exist, we are often unable to offset cost increases with higher selling prices.

Seasonality

Historically, the homebuilding industry experiences seasonal fluctuations in quarterly operating results and capital requirements. We typically experience the highest new home order activity during the spring, although this activity is also highly dependent on the number of active selling communities, timing of new community openings and other market factors. Since it typically takes four to eight months to construct a new home, we deliver more homes in the second half of the year as spring and summer home orders convert to home deliveries. Because of this seasonality, home starts, construction costs and related cash outflows have historically been highest in the second and third quarters, and the majority of cash receipts from home deliveries occurs during the second half of the year. We expect this seasonal pattern to continue over the long term, although it may be affected by volatility in the homebuilding industry.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS.

The information required by this Item is incorporated herein by reference to the financial statements set forth in Item 15 (Exhibits and Financial Statement Schedules) of Part IV of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our co-principal executive officers and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) under the Exchange Act) as of December 31, 2018, the end of the period covered by this Form 10-K. Based on this evaluation, our co-principal executive officers and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2018 in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). In addition, our management is required to report their assessment, including their evaluation criteria, on the design and operating effectiveness of our internal control over financial reporting in this Form 10-K.

Our internal control over financial reporting is a process designed under the supervision of our co-principal executive officers and principal financial officer. During 2018, our management conducted an assessment of the internal control over financial reporting based upon criteria established in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our management's assessment, which included a comprehensive review of the design and operating effectiveness of our internal control over financial reporting, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018. In accordance with the SEC's published guidance, because we acquired WJH LLC during the year ended December 31, 2018, management excluded WJH LLC from its evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. Home sales revenue and the aggregate total assets attributable to WJH LLC was \$210.1 million and \$204.9 million, respectively, for the year ended December 31, 2018. Based on this assessment, our management concluded that, as of December 31, 2018, the Company's internal control over financial reporting was effective.

Our internal control over financial reporting as of December 31, 2018 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes during the fourth quarter of 2018 in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

To the Board of Directors and Stockholders of Century Communities, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Century Communities, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Century Communities, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of WJH LLC, which is included in the 2018 consolidated financial statements of the Company and constituted 9% and 10% of total and net assets, respectively, as of December 31, 2018 and 10% and 0% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of WJH LLC.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2018 consolidated financial statements of the Company and our report dated February 12, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Denver, Colorado

February 12, 2019

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required in response to this Item is incorporated herein by reference to the information contained under the captions entitled “Proposal No. 1 Election of Directors—Information about Director Nominees,” “Executive Officers,” “Corporate Governance” and “Stock Ownership- Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive proxy statement for our 2019 Annual Meeting of Stockholders, (which we refer to as our “2019 Proxy Statement”).

Our Code of Business Conduct and Ethics is available in the “Investors—Corporate Governance—Governance Documents” section of our website located at www.centurycommunities.com. In addition, printed copies of our Code of Business Conduct and Ethics are available upon written request to Century Communities, Inc., 8390 East Crescent Parkway, Suite 650, Greenwood Village, Colorado 80111, Attention: Corporate Secretary. Any waiver of our Code of Business Conduct and Ethics for our executive officers, directors, or any employees may be made only by the Nominating and Corporate Governance Committee of the Board of Directors and will be promptly disclosed as required by law and NYSE rules. We intend to satisfy the disclosure requirements of Item 5.05 of Form 8-K and applicable NYSE rules regarding amendments to or waivers from any provision of our Code of Business Conduct and Ethics by posting such information in the “Investors—Corporate Governance—Governance Documents” section of our website located at www.centurycommunities.com.

ITEM 11. EXECUTIVE COMPENSATION.

The information required in response to this Item is incorporated herein by reference to the information contained under the captions entitled “Executive Compensation” and “Director Compensation” in our 2019 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required in response to this Item is incorporated herein by reference to the information contained under the captions entitled “Stock Ownership” and “Equity Compensation Plan Information” in our 2019 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required in response to this Item is incorporated herein by reference to the information contained under the captions entitled “Certain Relationships and Related Party Transactions,” “Corporate Governance—Director Independence” and “Corporate Governance—Audit Committee” in our 2019 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required in response to this Item is incorporated herein by reference to the information be contained under the captions entitled “Proposal No. 2. Ratification of Appointment of Selection of Independent Registered Public Accounting Firm – Audit, Audit-Related, Tax, and Other Fees” and “Proposal No. 2. Ratification of Appointment of Selection of Independent Registered Public Accounting Firm – Pre-Approval Policies and Procedures” in our 2019 Proxy Statement.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.****(a)(1) Financial Statements**

The following financial statements of the Company are included in a separate section of this Form 10-K commencing on the page numbers specified below:

Page	
	Consolidated Financial Statements
	Report of Independent Registered Public Accounting Firm F-2
	Consolidated Balance Sheets as of December 31, 2018 and December 31, 2017 F-3
	Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016 F-4
	Consolidated Statements of Equity for the Years Ended December 31, 2018, 2017 and 2016 F-5
	Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016 F-6
	Notes to Consolidated Financial Statements F-7

(a)(2) Financial Statements Schedules

Financial statement schedules have been omitted because they are not applicable, not material, not required or the required information is included in this Form 10-K.

(a)(3) Exhibits

The following exhibits are either filed herewith or incorporated herein by reference:

Exhibit Number	Description
2.1*	Agreement and Plan of Merger, dated as of April 10, 2017, among Century Communities, Inc., Casa Acquisition Corp., and UCP, Inc. (incorporated by reference to Exhibit 2.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on April 11, 2017 (File No. 001-36491)).
3.1	Certificate of Incorporation of Century Communities, Inc., as amended (incorporated by reference to Exhibit 3.1 to the initial filing of the Registration Statement on Form S-1 of Century Communities, Inc. (File No. 333-195678) filed with the SEC on May 5, 2014).
3.2	Bylaws of Century Communities, Inc. (incorporated by reference to Exhibit 3.2 to the initial filing of the Registration Statement on Form S-1 of Century Communities, Inc. (File No. 333-195678) filed with the SEC on May 5, 2014).
3.3	Amendment to the Bylaws of Century Communities, Inc., adopted and effective on April 10, 2017 (incorporated by reference to Exhibit 3.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on April 11, 2017 (File No. 001-36491)).
4.1	Specimen Common Stock Certificate of Century Communities, Inc. (incorporated by reference to Exhibit 4.1 to the initial filing of the Registration Statement on Form S-1 of Century Communities, Inc. (File No. 333-195678) filed with the SEC on May 5, 2014).
4.2	Indenture (including forms of 6.875% Senior Notes Due 2022), dated as of May 5, 2014, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to Amendment No. 2 to the Registration Statement on Form S-1 of Century Communities, Inc. (File No. 333-195678) filed with the SEC on May 30, 2014).

Table of Contents

4.3	<u>Supplemental Indenture, dated as of December 18, 2014, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2014 Indenture (incorporated by reference to Exhibit 4.3 to Century Communities, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 6, 2015 (File No. 001-36491)).</u>
4.4	<u>Second Supplemental Indenture, dated as of March 13, 2015, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2014 Indenture (incorporated by reference to Exhibit 4.3 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on April 10, 2015 (File No. 001-36491)).</u>
4.5	<u>Third Supplemental Indenture, dated as of April 9, 2015, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2014 Indenture (incorporated by reference to Exhibit 4.4 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on April 10, 2015 (File No. 001-36491)).</u>
4.6	<u>Fourth Supplemental Indenture, dated as of August 27, 2015, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2014 Indenture (incorporated by reference to Exhibit 4.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on August 27, 2015 (File No. 001-36491)).</u>
4.7	<u>Fifth Supplemental Indenture, dated as of November 8, 2016, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2014 Indenture (incorporated by reference to Exhibit 4.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on November 9, 2016 (File No. 001-36491)).</u>
4.8	<u>Sixth Supplemental Indenture, dated as of January 26, 2017, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2014 Indenture (incorporated by reference to Exhibit 4.7 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on January 26, 2017 (File No. 001-36491)).</u>
4.9	<u>Seventh Supplemental Indenture, dated as of October 17, 2017, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2014 Indenture (incorporated by reference to Exhibit 4.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on October 20, 2017 (File No. 001-36491)).</u>
4.10	<u>Eighth Supplemental Indenture, dated as of June 21, 2018, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2014 Indenture (incorporated by reference to Exhibit 4.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on June 22, 2018 (File No. 001-36491)).</u>
4.11	<u>Indenture (including forms of 5.875% Senior Notes Due 2025), dated as of May 12, 2017, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on May 12, 2017 (File No. 001-36491)).</u>
4.12	<u>First Supplemental Indenture, dated as of October 17, 2017, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2017 Indenture (incorporated by reference to Exhibit 4.2 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on October 20, 2017 (File No. 001-36491)).</u>
4.13	<u>Second Supplemental Indenture, dated as of June 21, 2018, among Century Communities, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee under the 2017 Indenture (incorporated by reference to Exhibit 4.2 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on June 22, 2018 (File No. 001-36491)).</u>
10.1†	<u>Century Communities, Inc. 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on May 12, 2017 (File No. 001-36491)).</u>

Table of Contents

10.2†	<u>Form of Employee Restricted Stock Unit Award Agreement for use with the Century Communities, Inc. 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on May 12, 2017 (File No. 001-36491)).</u>
10.3†	<u>Form of Performance Share Unit Award Agreement for use with the Century Communities, Inc. 2017 Omnibus Incentive Plan (filed herewith).</u>
10.4†	<u>Form of Non-Employee Director Restricted Stock Unit Award Agreement for use with the Century Communities, Inc. 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on May 12, 2017 (File No. 001-36491)).</u>
10.5†	<u>Century Communities, Inc. First Amended & Restated 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Amendment No. 2 to the Registration Statement on Form S-1 of Century Communities, Inc. (File No. 333-195678) filed with the SEC on May 30, 2014).</u>
10.6†	<u>Form of Employee Restricted Stock Unit Award Agreement for use with the Century Communities, Inc. First Amended & Restated 2013 Long-Term Incentive Plan (incorporated by reference to the initial filing of the Registration Statement on Form S-1 of Century Communities, Inc. (File No.333-195678) filed with the SEC on May 5, 2014).</u>
10.7†	<u>Form of Non-Employee Director Restricted Stock Unit Award Agreement for use with the Century Communities, Inc. First Amended & Restated 2013 Long-Term Incentive Plan (incorporated by reference to the initial filing of the Registration Statement on Form S-1 of Century Communities, Inc. (File No.333-195678) filed with the SEC on May 5, 2014).</u>
10.8†	<u>Amended and Restated Employment Agreement, dated as of October 25, 2018, between Century Communities, Inc. and Dale Francescon (incorporated by reference to Exhibit 10.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on October 26, 2018 (File No. 001-36491)).</u>
10.9†	<u>Amended and Restated Employment Agreement, dated as of October 25, 2018, between Century Communities, Inc. and Robert J. Francescon (incorporated by reference to Exhibit 10.2 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on October 26, 2018 (File No. 001-36491)).</u>
10.10†	<u>Employment Agreement, dated as of November 17, 2017, between Century Communities, Inc. and David Messenger (incorporated by reference to Exhibit 10.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on November 21, 2017 (File No. 001-36491)).</u>
10.11†	<u>Aircraft Time Sharing Agreement, dated as of January 2, 2018, between Century Communities, Inc. and Dale Francescon (incorporated by reference to Exhibit 10.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with SEC on January 2, 2018 (File No. 001-36491)).</u>
10.12†	<u>Aircraft Time Sharing Agreement, dated as of January 2, 2018, between Century Communities, Inc. and Robert J. Francescon (incorporated by reference to Exhibit 10.2 to Century Communities, Inc.'s Current Report on Form 8-K filed with SEC on January 2, 2018 (File No. 001-36491)).</u>
10.13†	<u>Aircraft Time Sharing Agreement, dated as of January 2, 2018, between Century Communities, Inc. and David Messenger (incorporated by reference to Exhibit 10.3 to Century Communities, Inc.'s Current Report on Form 8-K filed with SEC on January 2, 2018 (File No. 001-36491)).</u>
10.14†	<u>Form of Director and Officer Indemnification Agreement between Century Communities, Inc. and each of its directors and officers (incorporated by reference to Exhibit 10.7 to the initial filing of the Registration Statement on Form S-1 of Century Communities, Inc. (File No. 333-195678) filed with the SEC on May 5, 2014).</u>

Table of Contents

10.15†	<u>Indemnification Agreement, dated as of May 7, 2013, among Century Communities, Inc. and Dale Francescon and Robert Francescon (incorporated by reference to Exhibit 10.8 to the initial filing of the Registration Statement on Form S-1 of Century Communities, Inc. (File No. 333-195678) filed with the SEC on May 5, 2014).</u>
10.16	<u>Sublease, dated as of April 29, 2011, between Clifton Gunderson LLP and Century Communities, Inc. (incorporated by reference to Exhibit 10.10 to the initial filing of the Registration Statement on Form S-1 of Century Communities, Inc. (File No. 333-195678) filed with the SEC on May 5, 2014).</u>
10.17	<u>Amended and Restated Credit Agreement, dated as of June 5, 2018, among Century Communities, Inc., Texas Capital Bank, National Association, as Administrative Agent and L/C Issuer, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on June 8, 2018 (File No. 001-36491)).</u>
10.18	<u>Joinder Agreement, dated as of June 28, 2018, among Century Communities, Inc., the Subsidiary Guarantors party thereto, BMO Harris Bank N.A., and Texas Capital Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on July 3, 2018 (File No. 001-36491)).</u>
10.19	<u>Master Repurchase Agreement, dated as of April 10, 2017, by and between Inspire Home Loans Inc. and Branch Banking and Trust Company (incorporated by reference to Exhibit 10.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on April 13, 2017 (File No. 001-36491)).</u>
10.20	<u>Distribution Agreement, dated July 3, 2018, among Century Communities, Inc. and J.P. Morgan Securities LLC, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 1.1 to Century Communities, Inc.'s Current Report on Form 8-K filed with the SEC on July 3, 2018 (File No. 001-36491)).</u>
10.21	<u>Side Letter, dated September 14, 2018, to the Master Repurchase Agreement, dated as of September 15, 2017, by and between Inspire Home Loans Inc. and JPMorgan Chase Bank (filed herewith).</u>
10.22	<u>Second Amendment to Master Repurchase Agreement, dated as of September 14, 2018, by and between Inspire Home Loans Inc. and JPMorgan Chase Bank (filed herewith).</u>
10.23	<u>Credit Agreement, dated as of May 4, 2018, by and between Inspire Home Loans Inc. and Comerica Bank (filed herewith).</u>
21.1	<u>Subsidiaries of Century Communities, Inc. (filed herewith)</u>
23.1	<u>Consent of Independent Registered Public Accounting Firm (filed herewith)</u>
31.1	<u>Certification of the Co-Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).</u>
31.2	<u>Certification of the Co-Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith)</u>
31.3	<u>Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).</u>
32.1	<u>Certification of the Co-Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>

Table of Contents

32.2	Certification of the Co-Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.3	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101.INS	XBRL Instance Document (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101.DEF	XBRL Taxonomy Definition Linkbase Document (filed herewith).
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).

* Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Century hereby undertakes to furnish supplementally copies of any of the omitted schedules upon request by the SEC.

† Management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

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

Century Communities, Inc.

Date: February 12, 2019

By: /s/ Dale Francescon
Dale Francescon
Chairman of the Board and Co-Chief Executive Officer
(Co-Principal Executive Officer)

Date: February 12, 2019

By: /s/ Robert J. Francescon
Robert J. Francescon
Co-Chief Executive Officer and President
(Co-Principal Executive Officer)

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

Signature	Title	Date
<u>/s/ Dale Francescon</u> Dale Francescon	Chairman of the Board of Directors and Co-Chief Executive Officer (Co-Principal Executive Officer)	February 12, 2019
<u>/s/ Robert J. Francescon</u> Robert J. Francescon	Co-Chief Executive Officer, President and Director (Co-Principal Executive Officer)	February 12, 2019
<u>/s/ David L. Messenger</u> David L. Messenger	Chief Financial Officer (Principal Financial Officer)	February 12, 2019
<u>/s/ J. Scott Dixon</u> J. Scott Dixon	Chief Accounting Officer (Principal Accounting Officer)	February 12, 2019
<u>/s/ David L. Messenger, attorney in fact</u> James M. Lippman	Director	February 12, 2019
<u>/s/ David L. Messenger, attorney in fact</u> Keith R. Guericke	Director	February 12, 2019
<u>/s/ David L. Messenger, attorney in fact</u> John P. Box	Director	February 12, 2019

CENTURY COMMUNITIES, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
<u>Consolidated Financial Statements</u>	
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2018 and 2017	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016	F-4
Consolidated Statements of Equity for the Years Ended December 31, 2018, 2017 and 2016	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016	F-6
Notes to the Consolidated Financial Statements	F-7

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Century Communities, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Century Communities, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 12, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2013.

Denver, Colorado

February 12, 2019

Century Communities, Inc.
Consolidated Balance Sheets
As of December 31, 2018 and 2017
(in thousands, except share and per share amounts)

	December 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 32,902	\$ 88,832
Cash held in escrow	24,344	37,723
Accounts receivable	13,464	12,999
Inventories	1,848,243	1,390,354
Mortgage loans held for sale	114,074	52,327
Prepaid expenses and other assets	138,717	60,812
Property and equipment, net	33,258	27,911
Investment in unconsolidated subsidiaries	—	28,208
Deferred tax assets, net	13,763	5,555
Amortizable intangible assets, net	5,095	2,938
Goodwill	30,395	27,363
Total assets	\$ 2,254,255	\$ 1,735,022
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable	\$ 89,907	\$ 24,831
Accrued expenses and other liabilities	213,157	150,356
Notes payable	784,777	776,283
Revolving line of credit	202,500	—
Mortgage repurchase facilities	104,555	48,319
Total liabilities	1,394,896	999,789
Stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, none outstanding	—	—
Common stock, \$0.01 par value, 100,000,000 shares authorized, 30,154,791 and 29,502,624 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	302	295
Additional paid-in capital	595,037	566,790
Retained earnings	264,020	168,148
Total stockholders' equity	859,359	735,233
Total liabilities and stockholders' equity	\$ 2,254,255	\$ 1,735,022

See Notes to Consolidated Financial Statements.

Century Communities, Inc.
Consolidated Statements of Operations
For the Years Ended December 31, 2018, 2017 and 2016
(in thousands, except per share amounts)

	2018	Year ended December 31, 2017	2016
Revenues			
Homebuilding revenues			
Home sales revenues	\$ 2,110,058	\$ 1,405,443	\$ 978,733
Land sales and other revenues	5,631	8,503	15,707
	2,115,689	1,413,946	994,440
Financial services revenue	31,724	9,853	—
Total revenues	2,147,413	1,423,799	994,440
Homebuilding cost of revenues			
Cost of home sales revenues	(1,741,619)	(1,153,359)	(786,127)
Cost of land sales and other revenues	(3,832)	(6,516)	(14,217)
	(1,745,451)	(1,159,875)	(800,344)
Financial services costs	(22,958)	(8,664)	—
Selling, general and administrative	(263,981)	(176,304)	(122,224)
Acquisition expense	(437)	(9,905)	(490)
Equity in income of unconsolidated subsidiaries	14,849	12,176	191
Other income (expense)	(905)	2,937	1,576
Income before income tax expense	128,530	84,164	73,149
Income tax expense	(32,075)	(33,869)	(23,609)
Net income	\$ 96,455	\$ 50,295	\$ 49,540
Earnings per share:			
Basic	\$ 3.20	\$ 2.06	\$ 2.34
Diluted	\$ 3.17	\$ 2.03	\$ 2.33
Weighted average common shares outstanding:			
Basic	30,084,913	24,280,871	20,679,189
Diluted	30,391,346	24,555,509	20,791,937

See Notes to Consolidated Financial Statements.

Century Communities, Inc.
Consolidated Statements of Equity
For the Years Ended December 31, 2018, 2017 and 2016
(in thousands)

	Shares	Amount	Paid-In Capital	Retained Earnings	Total Equity
Balance at December 31, 2015	<u>21,304</u>	<u>\$ 213</u>	<u>\$ 340,953</u>	<u>\$ 68,313</u>	<u>\$ 409,479</u>
Issuance of common stock	578	6	11,363	—	11,369
Repurchase of common stock	(159)	(2)	(2,391)	—	(2,393)
Repurchase of common stock upon vesting of restricted stock awards	(60)	(1)	(1,015)	—	(1,016)
Stock-based compensation expense	—	—	6,657	—	6,657
Forfeitures of restricted stock awards	(42)	—	—	—	—
Net income	—	—	—	49,540	49,540
Balance at December 31, 2016	<u>21,621</u>	<u>\$ 216</u>	<u>\$ 355,567</u>	<u>\$ 117,853</u>	<u>\$ 473,636</u>
Issuance of common stock	3,897	39	97,301	—	97,340
Issuance of common stock in connection with business combination	4,176	42	107,737	—	107,779
Replacement award value in connection with business combination	—	—	1,149	—	1,149
Repurchase of common stock upon vesting of restricted stock awards	(189)	(2)	(4,506)	—	(4,508)
Stock-based compensation expense	—	—	9,542	—	9,542
Forfeitures of restricted stock awards	(2)	—	—	—	—
Net income	—	—	—	50,295	50,295
Balance at December 31, 2017	<u>29,503</u>	<u>\$ 295</u>	<u>\$ 566,790</u>	<u>\$ 168,148</u>	<u>\$ 735,233</u>
Adoption of ASC 606	—	—	—	(583)	(583)
Issuance of common stock	1,439	14	30,933	—	30,947
Repurchases of common stock	(604)	(6)	(10,946)	—	(10,952)
Repurchase of common stock upon vesting of restricted stock awards	(183)	(1)	(5,483)	—	(5,484)
Stock-based compensation expense	—	—	13,743	—	13,743
Net income	—	—	—	96,455	96,455
Balance at December 31, 2018	<u>30,155</u>	<u>\$ 302</u>	<u>\$ 595,037</u>	<u>\$ 264,020</u>	<u>\$ 859,359</u>

See Notes to Consolidated Financial Statements.

Century Communities, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018, 2017 and 2016
(in thousands)

	Year ended December 31,		
	2018	2017	2016
Operating activities			
Net income	\$ 96,455	\$ 50,295	\$ 49,540
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	12,031	6,973	5,580
Stock-based compensation expense	13,743	9,542	6,657
Deferred income taxes	(4,155)	674	1,507
Distributions from unconsolidated subsidiaries	7,432	5,243	—
Equity in income of unconsolidated subsidiaries	(14,849)	(12,176)	(191)
(Gain) loss on disposition of assets	1,979	577	(446)
Changes in assets and liabilities:			
Cash held in escrow	13,640	(17,679)	(8,227)
Accounts receivable	1,227	(166)	(488)
Inventories	(284,977)	(83,380)	(91,859)
Prepaid expenses and other assets	(27,255)	(16,583)	(12,275)
Accounts payable	52,560	(3,670)	4,657
Accrued expenses and other liabilities	(1,662)	1,405	854
Mortgage loans held for sale	(61,747)	(52,327)	—
Net cash used in operating activities	(195,578)	(111,272)	(44,691)
Investing activities			
Purchases of property and equipment	(15,803)	(17,627)	(7,762)
Business combinations, net of acquired cash	(28,036)	(130,047)	—
Proceeds from sale of South Carolina operations	—	17,074	—
Investment in unconsolidated subsidiaries	—	(4,000)	(17,000)
Other investing activities	303	154	1,561
Net cash used in investing activities	(43,536)	(134,446)	(23,201)
Financing activities			
Borrowings under revolving credit facilities	721,000	175,000	220,000
Payments on revolving credit facilities	(518,500)	(370,000)	(160,000)
Proceeds from issuance of senior notes	—	527,500	—
Proceeds from insurance notes payable	11,839	2,320	11,612
Extinguishments of debt assumed in business combination	(94,231)	(151,919)	—
Principal payments on notes payable	(5,371)	(6,998)	(9,217)
Debt issuance costs	(3,642)	(8,579)	(1,156)
Net proceeds from mortgage repurchase facilities	56,236	48,320	—
Net proceeds from issuances of common stock	30,947	98,063	11,369
Repurchases of common stock upon vesting of stock based compensation	(5,484)	(5,231)	(1,015)
Repurchases of common stock under our stock repurchase program	(10,952)	—	(2,393)
Net cash provided by (used in) financing activities	181,842	308,476	69,200
Net increase (decrease)	\$ (57,272)	\$ 62,758	\$ 1,308
Cash and cash equivalents and Restricted cash			
Beginning of period	93,713	30,955	29,647
End of period	\$ 36,441	\$ 93,713	\$ 30,955
Supplemental cash flow disclosure			
Cash paid for income taxes	\$ 39,656	\$ 29,632	\$ 23,467
Cash and cash equivalents and Restricted cash			
Cash and cash equivalents	\$ 32,902	\$ 88,832	\$ 29,450
Restricted cash (Note 8)	3,539	4,881	1,505
Cash and cash equivalents and Restricted cash	\$ 36,441	\$ 93,713	\$ 30,955

See Notes to Consolidated Financial Statements.

Century Communities, Inc.
Notes to the Consolidated Financial Statements
December 31, 2018, 2017 and 2016

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Century Communities, Inc. (which we refer to as “we,” “CCS,” or the “Company”), together with its subsidiaries, is engaged in the development, design, construction, marketing and sale of single-family attached and detached homes in metropolitan areas in the States of Alabama, Arizona, California, Colorado, Florida, Georgia, Indiana, Nevada, North Carolina, Ohio, South Carolina, Tennessee, Texas, Utah, and Washington. In many of our projects, in addition to building homes, we are responsible for the entitlement and development of the underlying land. We build and sell homes under our Century Communities and Wade Journey Homes brands. Our Century Communities brand targets a wide range of buyer profiles including: first time, first and second time move up, and lifestyle homebuyers, and provides our homebuyers with the ability to personalize their homes through certain option and upgrade selections. Our Wade Journey Homes brand solely targets first time homebuyers, sells homes through retail studios and the internet, and provides no option or upgrade selections. Our homebuilding operations are organized into the following five reportable segments: West, Mountain, Texas, Southeast, and Wade Journey Homes. Additionally, our indirect wholly-owned subsidiaries, Inspire Home Loans, Inc., Parkway Title, LLC, and IHL Home Insurance Agency, LLC, which provide mortgage, title and insurance services, respectively, to our home buyers have been identified as our Financial Services segment.

On August 4, 2017, we acquired UCP, Inc. (which we refer to as “UCP”) which was a homebuilder and land developer with expertise in residential land acquisition, development and entitlement, as well as home design, construction and sales, and with operations in the States of California, Washington, North Carolina, South Carolina, and Tennessee. In connection with the merger, each share of UCP Class A common stock outstanding immediately prior to the closing was converted into \$5.32 in cash and 0.2309 of a newly issued share of our common stock. Approximately 4.2 million shares of our common stock were issued and \$100.2 million in cash was paid in connection with the merger for total consideration of \$209.0 million. On October 31, 2017, we acquired substantially all the assets and operations and assumed certain liabilities of Sundquist Homes, LLC and affiliates (which we refer to as “Sundquist Homes”), a homebuilder with operations in the greater Seattle, Washington area, for approximately \$50.2 million. On June 14, 2018, we acquired the remaining 50% ownership interest in WJH, LLC (which we refer to as “WJH” or “Wade Journey Homes”) for \$37.5 million. WJH specializes in providing single family homes for first time buyers. On the acquisition date, WJH had operations in Alabama, Florida, Georgia, North Carolina and South Carolina. Our operating results presented herein include the operations of UCP, Sundquist Homes and WJH from the date of acquisition through December 31, 2018.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company, as well as all subsidiaries in which we have a controlling interest, and variable interest entities for which the Company is deemed to be the primary beneficiary. We do not have any variable interest entities in which we are deemed the primary beneficiary. All intercompany accounts and transactions have been eliminated.

All numbers related to lots and communities disclosed in the notes to the consolidated financial statements are unaudited.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Cash Held in Escrow

Cash held in escrow consists of amounts related to the proceeds from home closings held for our benefit in escrow, which are typically held for less than a few days.

Accounts receivable primarily consists of contract receivables related to certain contracts in our Texas segment accounted for under the percentage-of-completion method, income tax receivables and rebates receivables.

We periodically review the collectability of our accounts receivables, and, if it is determined that a receivable might not be fully collectible, an allowance is recorded for the amount deemed uncollectible. As of December 31, 2018 and 2017, no allowance was recorded related to accounts receivable.

Inventories and Cost of Sales

We capitalize pre-acquisition, land, development, and other allocated costs, including interest, during development and home construction.

Land, development, and other common costs are allocated to inventory using the relative-sales-value method; however, as lots within a project typically have comparable market values, we generally allocate land, development, and common costs equally to each lot within the project. Home construction costs are recorded using the specific-identification method. Cost of sales for homes closed includes the allocation of construction costs of each home and all applicable land acquisition, land development, and related common costs, both incurred and estimated to be incurred. Changes to estimated total development costs subsequent to initial home closings in a community are generally allocated to the remaining homes in the community.

When a home is closed, the Company generally has not paid all incurred costs necessary to complete the home, and a liability and a charge to cost of home sales revenues are recorded for the amount that is estimated will ultimately be paid related to completed homes.

Inventories are carried at cost unless events and circumstances indicate that the carrying value may not be recoverable. We review for indicators of impairment at the lowest level of identifiable cash flows, which we have determined to be the community level.

Indicators of impairment include, but are not limited to, significant decreases in local housing market values and selling prices of comparable homes, decreases in actual or trending gross margins or sales absorption rates, significant unforeseen cost in excess of budget, and actual or projected cash flow losses.

If an indicator of impairment is identified, we estimate the recoverability of the community by comparing the estimated future cash flows on an undiscounted basis to its carrying value. If the undiscounted cash flows are more than the carrying value, the community is recoverable and no impairment is recorded. If the undiscounted cash flows are less than the community's carrying value, we generally estimate the fair value using a discounted cash flow approach. A community with a fair value less than its carrying value is impaired and is written down to fair value.

When estimating cash flows of a community, we make various assumptions, including the following: (i) expected sales prices and sales incentives to be offered, including the number of homes available, pricing and incentives being offered by us or other builders in other communities, and future sales price adjustments based on market and economic trends; (ii) expected sales pace based on local housing market conditions, competition, and historical trends; (iii) costs expended to date and expected to be incurred, including, but not limited to, land and land development costs, home construction costs, interest costs, indirect construction and overhead costs, and selling and marketing costs; and (iv) alternative uses for the property. For the years ended December 31, 2018 and 2017, we recorded impairment charges on one and five communities, respectively, totaling \$0.8 million and \$0.8 million, respectively, which is included in "Cost of home sales revenues" in our Consolidated Statements of Operations.

Home Sales and Profit Recognition

As defined in the Accounting Standards Codification (which we refer to as "ASC") 606, *Revenue from Contracts with Customers*, revenues from home sales and the related profit are recorded when our performance obligations are satisfied, which generally occurs when the respective homes are closed and title has passed to our homebuyers. We generally satisfy our performance obligations in less than one year from the contract date. Proceeds from home closings that are held for our benefit in escrow, are presented as "Cash held in escrow" on our Consolidated Balance Sheets. Cash held for our benefit in escrow is typically held by the escrow agent for less than a few days. When it is determined that the earnings process is not complete and we have remaining performance obligations, the related revenue and costs are deferred for recognition in future periods until those performance obligations have been satisfied. Prior to satisfying our performance obligations, we typically receive deposits from customers related to sold but undelivered homes. These

[Table of Contents](#)

deposits are classified as earnest money deposits and are included in Accrued expenses and other liabilities on our Consolidated Balance Sheets. Earnest money deposits totaled \$14.0 million and \$14.1 million at December 31, 2018 and December 31, 2017, respectively.

Prior to our adoption of ASC 606, revenues from home sales were recorded and a profit was recognized when the respective units closed, title had passed, the homeowner's initial and continuing investment was adequate, and other attributes of ownership had been transferred to the homeowner. Sales incentives were recorded as a reduction of revenues when the respective unit closed. When it was determined that the earnings process was not complete, the sale and the related profit were deferred for recognition in future periods.

Performance Deposits

We are occasionally required to make a land, bond, and utility deposit as each new development is started. These amounts typically are refundable as each home is sold. Performance deposits are included in Prepaid expenses and other assets on the Consolidated Balance Sheet.

Lot Option and Escrow Deposits

We enter into lot option purchase agreements with unrelated parties to acquire lots for the construction of homes. Under these agreements, we have paid deposits, which in many cases are non-refundable, in consideration for the right, but not the obligation, to purchase land or lots at a future point in time with predetermined terms. Lot option and escrow deposits are included in Prepaid expenses and other assets on the Consolidated Balance Sheet.

Home and Sales Facilities

Costs related to our model homes and sales facilities are treated in one of three ways depending on their nature. Costs directly attributable to the home including upgrades that are permanent and sold with the home are capitalized to inventory and included in cost of home sales revenues when the unit is closed to the home buyer. Marketing related costs, such as non-permanent signage, brochures and marketing materials as well as the cost to convert the model into a salable unit are expensed as incurred. Costs to furnish the model home sites, permanent signage, and construction of sales facilities are capitalized to property and equipment and depreciated over the estimated life of the community based on the number of lots in the community which typically range from 2 to 3 years.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

	Years
Buildings and improvements	3 – 40 years
Leasehold improvements	3 – 10 years
Machinery and equipment	3 – 25 years
Furniture and fixtures	2 – 7 years
Model furnishings	2 – 5 years
Computer hardware and software	1 – 5 years

Mortgage Loans Held for Sale

Our Financial Services segment is principally comprised of our mortgage lending operations, Inspire Home Loans, Inc. (which we refer to as "Inspire"). Inspire, is a full-service mortgage lender and primarily originates mortgage loans for our homebuyers. Inspire sells substantially all of the loans it originates in the secondary mortgage market, with servicing rights released, within a short period of time after origination, generally within 30 days. Inspire primarily finances these loans under its mortgage repurchase facilities. Mortgage loans in process for which interest rates were committed to borrowers totaled approximately \$26.2 million and \$10.0 million at December 31, 2018 and December 31, 2017, respectively, and carried a weighted average interest rate of approximately 4.7%, and 4.2%, respectively. As of December 31, 2018 and 2017, Inspire had mortgage loans held for sale with an aggregate fair value of \$114.1 million and \$52.3 million, respectively, and an aggregate outstanding principal balance of \$108.0 million and \$50.4 million, respectively. Interest rate risks related to these obligations are mitigated by the preselling of loans to investors or through our interest rate hedging program.

[Table of Contents](#)

Mortgage loans held-for-sale, including the rights to service the mortgage loans, as well as the derivative instrument used to economically hedge our interest rate risk, which are typically forward commitments on mortgage backed securities, are carried at fair value and changes in fair value are reflected in Financial Services Revenue on the Consolidated Statement of Operations. Management believes carrying loans held-for-sale at fair value improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions.

Amortizable Intangible Assets

Amortizable intangible assets consist of the estimated fair value of trade names, home construction contracts, non-compete agreements, and home plans associated with our historical acquisitions. These acquisitions were accounted for as business combinations as defined in ASC 805, *Business Combinations*. A high degree of judgment is made by management on variables, such as revenue growth rates, profitability, and discount rates, when calculating the value of the intangible assets. The identified intangible assets are amortized over their respective estimated useful lives. Trade names, non-compete agreements, and other intangible assets are amortized to Selling, general and administrative expenses in the Consolidated Statements of Operations. Intangible assets for cell phone tower leases, and home construction contracts are amortized to Other income and Cost of home sales revenues, respectively, as income on the related contracts are earned.

The estimated lives for each major amortizable classification of intangible assets are as follows:

	Years
Trade names	2 – 10 years
Home construction contracts	1 – 2 years
Non-compete agreements	2 – 5 years
Cell phone tower leases	5 – 20 years
Home plans	7 years

Earnest Money Deposits

We collect earnest money deposits at the time a home buyer's contract is accepted. Earnest money deposits held on homes under contract as of December 31, 2018 and 2017, totaled \$14.0 million and \$14.1 million, respectively, and are included in Accrued expenses and other liabilities on the Consolidated Balance Sheets.

Stock-Based Compensation

We account for stock-based awards in accordance with ASC 718, *Compensation—Stock Compensation*. ASC 718 requires us to estimate the grant date fair value of stock-based compensation awards and to recognize the fair value as compensation costs over the requisite service period, which is generally three years, for all awards that vest. We value our restricted stock awards and restricted stock units equal to the closing price of our common stock on the New York Stock Exchange on the date of grant. Stock-based compensation expense associated with outstanding performance share units is measured using the grant date fair value and is based on the estimated achievement of the established performance criteria at the end of each reporting period until the performance period ends, recognized on a straight-line basis over the performance period. Stock-based compensation expense is only recognized for performance share units that we expect to vest, which we estimate based upon an assessment of the probability that the performance criteria will be achieved. The performance share units granted during the fiscal year ended December 31, 2018 have a three-year performance-based metric measured over a performance period from January 1, 2018 to December 31, 2020. Stock-based compensation expense associated with outstanding performance share units is updated for actual forfeitures.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes*, which requires recognition of deferred tax assets and liabilities at enacted income tax rates for the temporary differences between the financial reporting bases and the tax bases of its assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. When it is more likely than not that a portion or all of a deferred tax asset will not be realized in the future, the Company provides a corresponding valuation allowance against the deferred tax asset. As of December 31, 2018 and 2017, we had no valuation allowance recorded against our deferred tax assets.

In addition, when it is more likely than not that a tax position will be sustained upon examination by a tax authority that has full knowledge of all relevant information, the Company measures the amount of tax benefit from the position and records the largest amount

[Table of Contents](#)

of tax benefit that is more likely than not of being realized after settlement with a tax authority. The Company's policy is to recognize interest to be paid on an underpayment of income taxes in Interest expense and any related statutory penalties in the Provision for income taxes on the Consolidated Statements of Operations. As of December 31, 2018 and 2017, we had no reserves for uncertain tax positions.

Goodwill

We evaluate goodwill for possible impairment in accordance with ASC 350, *Intangibles—Goodwill and Other*, on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use a three step process to assess whether or not goodwill can be realized. The first step is a qualitative assessment that analyzes current economic indicators associated with a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required.

If a qualitative assessment indicates that a significant decline in fair value of a reporting unit is more likely than not, we will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future cash flows. If this step indicates that the carrying value of a reporting unit is in excess of its fair value, we will proceed to the third step where the fair value of the reporting unit will be allocated to assets and liabilities as they would in a business combination. Impairment occurs when the carrying amount of goodwill exceeds its estimated fair value calculated in the third step.

As of December 31, 2018 and 2017, we determined our goodwill was not impaired.

Business Combinations

We account for business combinations in accordance with ASC 850, *Business Combinations*, if the acquired assets assumed and liabilities incurred constitute a business. We consider acquired companies to constitute a business if the acquired net assets and processes have the ability to create outputs in the form of revenue. For acquired companies constituting a business, we recognize the identifiable assets acquired and liabilities assumed at their acquisition-date fair values and recognize any excess of total consideration paid over the fair value of the identifiable net assets as goodwill.

Variable Interest Entities (VIEs)

We review land option contracts where we have a non-refundable deposit to determine whether the corresponding land seller is a VIE and, if so, whether we are the primary beneficiary.

In determining whether we are the primary beneficiary, we consider, among other things, whether we have the power to direct the activities that most significantly impact the economic performance of the VIE. In making this determination, we consider whether we have the power to direct certain activities, including, but not limited to, determining or limiting the scope or purpose of the VIE, the ability to sell or transfer property owned or controlled by the VIE, or arranging financing for the VIE. We are not the primary beneficiary of any VIE as of December 31, 2018 and 2017.

We analyzed each of our land option contracts to determine whether the land seller is a VIE and, if so, whether we are the primary beneficiary. Although we do not have legal title to the underlying land, we are required to consolidate a VIE if we are the primary beneficiary. As a result of our analysis, we determined that as of December 31, 2018, we were not the primary beneficiary of any VIE from which we have acquired rights to land under the land option contract. As of December 31, 2018 and 2017, we had non-refundable cash deposits totaling \$42.6 million and \$18.9 million, respectively, classified in Prepaid expenses and other assets in our Consolidated Balance Sheets for land option contracts. The non-refundable deposit is our maximum exposure to loss for the transactions as of December 31, 2018 and 2017, respectively.

Recently Issued Accounting Standards

Leases

The Financial Accounting Standards Board (which we refer to as "FASB") issued ASC 842, *Leases* (which we refer to as "ASC 842") which requires the recognition of lease assets and lease liabilities by lessees for most leases. ASC 842 is effective for the Company beginning January 1, 2019 and interim periods within the annual period. We plan to adopt ASC 842 under a modified retrospective approach using the option to apply the transition provisions on the effective date January 1, 2019. The Company's leases primarily consist of leases for office space, and computer and office equipment where we are the lessee.

ASC 842 includes several practical expedients which we anticipate we will elect upon adoption including to not reassess the lease classification for any expired or existing leases.

[Table of Contents](#)

We are substantially complete with our evaluation of the impact on our consolidated financial statements of adopting ASC 842. We have evaluated all of our leases and determined that there will not be a material impact on the amount or timing of recording lease expense as a result of adopting ASC 842. The adoption for ASC 842 will result in the establishment of a right of use asset and a lease on our consolidated balance sheet. We currently anticipate that the right of use asset and the lease liability will range from \$16 million to \$19 million.

We do not anticipate that the adoption of ASC 842 will result in significant changes to our internal processes, including our internal control over financial reporting. Additionally, we do not anticipate the adoption will impact any covenants associated with our financing obligations.

Cash Flows

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 consists of eight provisions that provide guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows – Restricted Cash." ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. We adopted ASU 2016-15 and ASU 2016-18 on January 1, 2018. Upon adoption of ASU 2016-18, we have included restricted cash in the beginning and ending balances on our Statements of Cash Flows to present the changes during the period in total cash, cash equivalents and restricted cash. Distributions from investments in unconsolidated subsidiaries are classified based on the nature of the activity of the investee that generated the distribution on our Statements of Cash Flows. In accordance with ASU 2016-18, our prior year Statements of Cash Flows have also been retrospectively adjusted.

Revenue Recognition

On January 1, 2018, we adopted ASC 606, *Revenue from Contracts with Customers*, which we refer to as "ASC 606." ASC 606 requires entities to recognize revenues when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. We adopted ASC 606 as of January 1, 2018 using the modified retrospective approach to contracts which were not completed as of January 1, 2018.

While the adoption of ASC 606 did not result in a material impact to our consolidated financial statements, it did impact the following:

- Certain immaterial costs incurred related to our model homes, which were previously capitalized to inventory, are now expensed as incurred.
- Forfeited customer earnest money deposits, which were previously presented in other income within our Consolidated Statements of Operations, are presented as other revenue. During the year ended December 31, 2018, we recognized \$1.5 million of forfeited deposits.
- Land sales to third parties which do not meet the definition of a customer in ASC 606 are classified as other income in our Consolidated Statements of Operations. During the year ended December 31, 2018, we recorded \$7.7 million from the disposition of land to third parties which were not considered customers. The related cost of these land dispositions during the same period totaled \$7.8 million.
- Deferral of an allocated amount of revenue and costs associated with unsatisfied performance obligations, primarily the installation of landscaping, at the time of home delivery. We deferred \$2.3 million in revenue and \$1.7 million in costs related to unsatisfied performance obligations on homes that we delivered during the year ended December 31, 2018.
- Reclassification of certain costs related to our model homes from inventory to property and equipment on our Consolidated Balance Sheets. Upon adoption, we reclassified \$2.3 million from inventories to property and equipment.

Under the modified retrospective approach, we have recorded an opening adjustment to decrease retained earnings by \$0.6 million, related to model homes costs that were previously capitalized to inventory, but would have been expensed as incurred under ASC 606. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting.

2. Reporting Segments

Our homebuilding operations are engaged in the development, design, construction, marketing and sale of single-family attached and detached homes in 15 states. We build and sell homes under our Century Communities and Wade Journey Homes brands. Our Century

[Table of Contents](#)

Communities brand is managed by geographic location, and each of our four geographic regions targets a wide range of buyer profiles including: first time, first and second time move up, and lifestyle homebuyers, and provides our homebuyers with the ability to personalize their homes through certain option and upgrade selections. Each of our four geographic regions is considered a separate operating segment. Our Wade Journey Homes brand solely targets first time homebuyers, sells homes through retail studios and the internet, and provides no option or upgrade selections. Our Wade Journey Homes brand currently has operations in nine states and is managed separately from our four geographic regions, accordingly, it is considered a separate operating segment.

The management of our four geographic regions and Wade Journey Homes reports to our chief operating decision makers (which we refer to as “CODMs”), the Co-Chief Executive Officers of our Company. The CODMs review the results of our operations, including total revenue and income before income tax expense to determine profitability and to allocate resources. Accordingly, we have presented our homebuilding operations as the following five reportable segments:

- West (California and Washington)
- Mountain (Colorado, Nevada and Utah)
- Texas
- Southeast (Georgia, North Carolina, South Carolina and Tennessee)
- Wade Journey Homes (Alabama, Arizona, Florida, Georgia, Indiana, North Carolina, Ohio, South Carolina, Tennessee, and Texas)

We have also identified our Financial Services operations, which provide mortgage, title, and insurance services to our homebuyers, as a sixth reportable segment. Our Corporate operations are a non-operating segment, as it serves to support our homebuilding, and to a lesser extent our financial services operations, through functions, such as our executive, finance, treasury, human resources, accounting and legal departments. The following table summarizes total revenue and income before income tax expense by segment (in thousands):

	Year ended December 31,		
	2018	2017	2016
Revenue:			
West	\$ 459,254	\$ 210,696	—
Mountain	701,985	616,517	504,293
Texas	213,508	165,170	147,006
Southeast	530,891	421,563	343,141
Wade Journey Homes	210,051	—	—
Financial Services	31,724	9,853	—
Corporate	—	—	—
Total revenue	\$ 2,147,413	\$ 1,423,799	\$ 994,440
Income (loss) before income tax expense:			
West	\$ 38,380	\$ 14,640	—
Mountain	89,048	75,704	66,613
Texas	13,682	10,952	2,686
Southeast	33,267	29,662	31,138
Wade Journey Homes	(754)	—	—
Financial Services	8,766	1,225	—
Corporate	(53,859)	(48,019)	(27,288)
Total income before income tax expense	\$ 128,530	\$ 84,164	\$ 73,149

The following table summarizes total assets by segment (in thousands):

	December 31, 2018	December 31, 2017
West	\$ 502,381	\$ 394,215
Mountain	621,757	571,880
Texas	209,550	192,078
Southeast	448,681	401,618
Wade Journey Homes	204,925	—
Financial Services	146,710	63,137
Corporate	120,251	112,094
Total assets	\$ 2,254,255	\$ 1,735,022

Corporate assets include certain cash and cash equivalents, receivables related to our rebates programs, prepaid insurance and other prepaid expenses, property and equipment, and deferred financing costs on our revolving line of credit. Certain items previously presented as of December 31, 2017 within corporate segment have been reclassified to our West segment to conform to our current year presentation.

3. Business Combinations

UCP, Inc.

On August 4, 2017, we acquired UCP, Inc. which was a homebuilder and land developer with expertise in residential land acquisition, development and entitlement, as well as home design, construction and sales, and with operations in the States of California, Washington, North Carolina, South Carolina and Tennessee. The merger was unanimously approved by the board of directors of both the Company and UCP and was also approved by UCP stockholders on August 1, 2017. In connection with the merger, each share of UCP Class A common stock outstanding immediately prior to the closing was converted into \$5.32 in cash and 0.2309 of a newly issued share of our common stock. No fractional shares were issued in connection with the merger, and UCP stockholders received cash in lieu of any fractional shares. Approximately 4.2 million shares of our common stock were issued and \$100.2 million in cash was paid in connection with the merger. Outstanding UCP restricted stock units were also converted into an aggregate amount of 0.2 million Century Communities restricted stock units pursuant to the merger. We determined that the total fair value of these awards was \$6.2 million, of which \$1.1 million was attributable to services performed by UCP employees prior to the merger and, as such, was included as consideration. We incurred \$9.6 million in acquisition related expenses, presented as Acquisition expense on the Consolidated Statement of Operations. Total consideration of \$209.0 million inclusive of cash acquired of \$20.3 million is summarized as follows (in thousands, except per share amount):

UCP shares (including noncontrolling interest) as of August 3, 2017	18,085
Cash paid per share	\$ 5.32
Cash consideration	\$ 96,213
Cash consideration pertaining to stockholder exercising appraisal rights	\$ 3,937
Total cash consideration	\$ 100,150
UCP shares (including noncontrolling interest) as of August 3, 2017	18,085
Exchange ratio	0.2309
Number of CCS shares issued	4,176
Closing price of CCS common stock on August 3, 2017	\$ 25.80
Consideration attributable to common stock	\$ 107,737
Total replacement award value	\$ 1,149
Total equity consideration	\$ 108,886
Total consideration in cash and equity	\$ 209,036

The acquired assets consisted of approximately 4,199 owned lots within 43 total communities in the States of California, Washington, North Carolina, South Carolina and Tennessee. The 4,199 lots included 346 homes in backlog and 59 model homes. As the acquired assets and processes have the ability to create outputs in the form of revenue from the sale of single family residences, we concluded that the acquisition represents a business combination.

The following table summarizes our estimate of the fair value of assets acquired and liabilities assumed as of the acquisition date of UCP (in thousands):

[Table of Contents](#)

Cash and cash equivalents	\$	20,264
Accounts receivable		7,897
Inventories		390,234
Prepaid expenses and other assets		6,988
Property and equipment, net		717
Deferred tax asset, net		11,984
Goodwill		5,713
Total assets	\$	443,797
Accounts payable	\$	10,712
Accrued expenses and other liabilities		71,130
Notes payable		152,919
Total liabilities		234,761
Purchase price/Net equity	\$	209,036

During the year ended December 31, 2018, we recognized \$1.5 million of expense related to refinements in our estimated fair value of inventories, which occurred during the period. This measurement period adjustment is included in "Cost of home sales revenues" on our Consolidated Statements of Operations.

Acquired inventories consist of both acquired land and work in process inventories. We determined the estimate of fair value for acquired land inventory with the assistance of a third-party appraiser primarily using a forecasted cash flow approach for the development, marketing, and sale of each community acquired. Significant assumptions included in our estimate include future per lot development costs, construction and overhead costs, mix of products sold in each community, as well as average sales price, and absorption rates. We estimated the fair value of acquired work in process inventories based upon the stage of production of each unit and a gross margin that we believe a market participant would require to complete the remaining development and requisite selling efforts. The stage of production, as of the acquisition date, ranged from recently started lots to fully completed single family residences. We estimated a market participant would require a gross margin ranging from 6% to 20% based upon the stage of production of the individual lot. Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. Goodwill of \$5.4 million will be deductible for tax purposes.

On August 17, 2017, we sold BMCH South Carolina, LLC, a subsidiary of UCP that was recently acquired as part of our acquisition of UCP, to a third party for approximately \$17.1 million. Accordingly, the estimated fair value of the acquired assets of BMCH South Carolina, LLC was determined to be equal to the disposal price given the proximity of the two transactions.

We determined that UCP's carrying costs approximated fair value for all other acquired assets and assumed liabilities.

Sundquist Homes

On October 31, 2017, we acquired substantially all the assets and operations and assumed certain liabilities of Sundquist Homes and affiliates, a homebuilder with operations in the greater Seattle, Washington area, for approximately \$50.2 million in cash. The acquired assets include owned and controlled land, homes under construction and model homes. As the acquired assets and processes have the ability to create outputs in the form of revenue from the sale of single family residences, we concluded that the acquisition represents a business combination.

The following table summarizes our preliminary estimates of the fair value of the assets acquired and liabilities assumed as of the acquisition date of Sundquist Homes (in thousands):

Accounts receivable	\$	11
Inventories		55,077
Prepaid expenses and other assets		1,050
Property and equipment, net		142
Total assets	\$	56,280
Accounts payable	\$	3,646
Accrued expenses and other liabilities		2,431
Total liabilities		6,077
Purchase price/Net equity	\$	50,203

Acquired inventories consist of both acquired land and work in process inventories. We determined the estimate of fair value for acquired land inventory with the assistance of a third-party appraiser primarily using a forecasted cash flow approach for the development, marketing, and sale of each community acquired. Significant assumptions included in our estimate include future per lot development costs, construction and overhead costs, mix of products sold in each community, as well as average sales price, and absorption rates. We estimated the fair value of acquired work in process inventories based upon the stage of production of each unit

[Table of Contents](#)

and a gross margin that we believe a market participant would require to complete the remaining development and requisite selling efforts. The stage of production, as of the acquisition date, ranged from recently started lots to fully completed single family residences. We estimated a market participant would require a gross margin ranging from 6% to 20% based upon the stage of production of the individual lot. Goodwill of \$4.8 million will be deductible for tax purposes in connection with this acquisition.

We determined that Sundquist Home's carrying costs approximated fair value for all other acquired assets and assumed liabilities.

WJH, LLC - Wade Journey Homes

On June 14, 2018, we acquired the remaining 50% ownership interest in WJH for \$37.5 million, whereby WJH became a 100% owned subsidiary of the Company. We initially acquired a 50% ownership interest in WJH in November 2016 as part of a joint venture, which was accounted for under the equity method of accounting. Our Wade Journey Homes brand solely targets first time homebuyers, sells homes through retail studios and the internet, and provides no option or upgrade selections. The acquired assets primarily include homes under construction that are in various stages of completion and are geographically dispersed. We determined that the fair value of the gross assets acquired was not concentrated in a single identifiable asset or group of similar identifiable assets. As the acquired assets and processes have the ability to create outputs in the form of revenue from the sale of single family residences, we concluded that the acquisition represents a business combination. We incurred \$0.4 million in acquisition costs which are reflected in acquisition expenses in our Consolidated Statements of Operations.

Authoritative guidance on accounting for business combinations requires that an acquirer re-measure its previously held equity interest in the acquisition at its acquisition date fair value and recognize the resulting gain or loss in earnings. As such, we valued our previously held equity interest in WJH at \$35.6 million, which is inclusive of an estimated discount for lack of control of \$1.9 million, and recognized a gain of \$7.2 million during the year ended December 31, 2018. The gain is included in "Equity in income of unconsolidated subsidiaries" on our Consolidated Statements of Operations.

The following table outlines the total consideration transferred, inclusive of cash acquired and the fair value of our previously held equity interest (in thousands):

Cash consideration transferred for 50% ownership interest	\$	37,500
Previously held equity interest acquisition date fair value		35,625
Net assets acquired	\$	73,125

The following table summarizes our preliminary estimates of the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Cash and cash equivalents	\$	9,464
Cash held in escrow		260
Accounts receivable		1,042
Inventories		156,828
Prepaid expenses and other assets		7,710
Amortizable intangible assets		3,600
Goodwill		3,317
	\$	182,221
Accounts payable	\$	12,516
Accrued expenses and other liabilities		2,349
Senior notes and revolving line of credit		94,231
Total liabilities		109,096
Net assets acquired	\$	73,125

Acquired inventories consist primarily of work in process inventories. We estimated the fair value of acquired work in process inventories based upon the stage of production of each unit and a gross margin that we believe a market participant would require to complete the remaining development and requisite selling efforts. The stage of production, as of the acquisition date, ranged from recently started lots to fully completed single family residences. Amortizable intangible assets include acquired trade names and a non-compete agreement, which were estimated to have fair values of \$3.3 million and \$0.3 million, respectively, and are amortized over 10 years and 2 years, respectively. The purchase price accounting reflected in the accompanying financial statements is preliminary and is based upon estimates and assumptions that are subject to change within the measurement period (up to one year from the acquisition date).

[Table of Contents](#)

We determined that WJH's carrying costs approximated fair value for all other acquired assets and assumed liabilities.

From the acquisition date, WJH's results of operations, which include homebuilding revenues of \$210.1 million, and income before tax inclusive of purchase price accounting, of \$(0.8) million, are included in our accompanying Consolidated Statement of Operations for the year ended December 31, 2018.

Unaudited Pro Forma Financial Information

Unaudited pro forma revenue and income before tax expense for the years ended December 31, 2018, 2017, and 2016 give effect to the results of the acquisitions of WJH, UCP and Sundquist Homes. The effect of the WJH acquisition is reflected as though the acquisition date was as of January 1, 2017. The effect of the UCP and Sundquist Homes acquisitions is reflected as though the acquisition date was as of January 1, 2016. Unaudited pro forma income before tax expense adjusts the operating results of WJH, UCP, and Sundquist Homes to reflect the additional costs that would have been recorded assuming the fair value adjustments had been applied as of the beginning of the year preceding the year of acquisition and excludes acquisition expense incurred related to the transactions. Pro forma basic and diluted EPS gives effect to the issuance of approximately 4.2 million shares of common stock as consideration for the acquisition of UCP as though the acquisition had occurred on January 1, 2016 (in thousands, except share and per share information):

	Year ended December 31,		
	2018	2017	2016
Total revenues	\$ 2,297,804	\$ 1,990,577	\$ 1,403,514
Income before tax expense	\$ 148,245	\$ 111,038	\$ 85,896
Tax expense	(37,061)	(31,753)	(17,848)
Net income	\$ 111,184	\$ 79,285	\$ 68,048
Less: Undistributed earnings allocated to participating securities	(68)	(517)	(1,204)
Numerator for basic and diluted pro forma EPS	\$ 111,116	\$ 78,768	\$ 66,844
Pro forma weighted average shares-basic	30,084,913	28,456,725	24,855,043
Pro forma weighted average shares-diluted	30,391,346	28,760,635	24,967,791
Pro forma basic EPS	\$ 3.69	\$ 2.77	\$ 2.69
Pro forma diluted EPS	\$ 3.66	\$ 2.74	\$ 2.68

4. Inventory

Inventory included the following (in thousands):

	December 31, 2018	December 31, 2017
Homes under construction	\$ 1,073,682	\$ 869,554
Land and land development	720,719	479,038
Capitalized interest	53,842	41,762
Total inventories	\$ 1,848,243	\$ 1,390,354

5. Financial Services

Our Financial Services are principally comprised of our mortgage lending operations, Inspire Home Loans, Inc. (which we refer to as "Inspire"). Inspire, is a full-service mortgage lender and primarily originates mortgage loans for our homebuyers. Inspire sells substantially all of the loans it originates and their related servicing rights in the secondary mortgage market within a short period of time after origination, generally within 30 days. Inspire primarily finances these loans under its mortgage repurchase facilities. Mortgage loans in process for which interest rates were committed to borrowers totaled approximately \$26.2 million and \$10.0 million at December 31, 2018 and December 31, 2017, respectively, and carried a weighted average interest rate of approximately 4.7%, and 4.2%, respectively. As of December 31, 2018 and 2017, Inspire had mortgage loans held for sale with an aggregate fair value of \$114.1 million and \$52.3 million, respectively, and an aggregate outstanding principal balance of \$108.0 million and \$50.4 million, respectively. Interest rate risks related to these obligations are mitigated by the preselling of loans to investors or through our interest rate hedging program.

Mortgage loans held-for-sale, including the rights to service the mortgage loans, as well as the derivative instrument used to economically hedge our interest rate risk, which are typically forward commitments on mortgage backed securities, are carried at fair value and changes in fair value are reflected in Financial Services Revenue on the Consolidated Statement of Operations. Management believes carrying loans held-for-sale at fair value improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them.

6. Amortizable Intangible Assets

Amortizable intangible assets included the following (in thousands):

	As of December 31,	
	2018	2017
Trade names	\$ 3,300	\$ —
Non-compete agreements	5,365	5,065
Cell phone tower lease	1,408	1,408
Home plans	764	764
Gross intangible assets	10,837	7,237
Accumulated amortization	(5,742)	(4,299)
Intangible assets, net	\$ 5,095	\$ 2,938

We recognized amortization expense on our intangible assets of \$1.4 million, \$1.3 million and \$1.9 million during the years ended December 31, 2018, 2017 and 2016, respectively. We did not write off any full depreciated amortizable intangible assets in the year ended December 31, 2018. During the year ended December 31, 2017, we wrote off fully depreciated amortizable intangible assets totaling \$1.8 million, and the related accumulated amortization.

As of December 31, 2018, expected amortization expense for amortizable intangible assets for each of the next five years, and thereafter, is as follows (in thousands):

2019	\$ 1,245
2020	571
2021	443
2022	403
2023	403
Thereafter	2,030
Net intangible assets, net	5,095

7. Property and Equipment

Property and equipment included the following (in thousands):

	December 31, 2018	December 31, 2017
Land	\$ 3,289	\$ 3,167
Buildings and improvements	3,095	2,069
Leasehold improvements	1,882	991
Machinery and equipment	11,110	10,334
Furniture and fixtures	3,349	1,938
Model furnishings	24,118	16,113
Computer hardware and software	8,244	7,605
	55,087	42,217
Less accumulated depreciation	(21,829)	(14,306)
Total property and equipment, net	\$ 33,258	\$ 27,911

8. Prepaid Expenses and Other Assets

Prepaid expenses and other assets included the following (in thousands):

	December 31, 2018	December 31, 2017
Prepaid insurance	\$ 20,226	\$ 6,549
Lot option and escrow deposits	51,038	35,700
Performance deposits	4,552	3,295
Deferred financing costs revolving line of credit, net	4,155	1,795
Restricted cash	3,539	4,881
Secured notes receivable	4,947	2,753
Insurance receivable and other	50,260	5,839
Total prepaid expenses and other assets	<u>\$ 138,717</u>	<u>\$ 60,812</u>

9. Investment in Unconsolidated Subsidiaries

On November 1, 2016, we acquired a 50% ownership interest in WJH LLC, which is the successor to Wade Journey Homes, Inc. and Wade Journey of Florida, Inc., for \$15.0 million. As a result of the transaction, we subsequently owned 50% of WJH and Wade Journey Jr., an individual, owned the other 50% interest. Each party contributed an additional \$3.0 million in capital to WJH upon its formation. The Company and Wade Journey Jr. shared responsibility for all of WJH's strategic decisions, with Wade Journey Jr. continuing to manage the day-to-day operations under the existing operating model. Our investment in WJH was treated as an unconsolidated investment under the equity method of accounting.

Our aggregate investment in WJH at December 31, 2017 of \$28.2 million was more than our share of the underlying net assets of WJH, resulting in outside basis of approximately \$5.4 million. Of the \$5.4 million in outside basis, \$1.1 million and \$4.4 million are attributed to the underlying trade names and goodwill of WJH, respectively. Amounts allocated to intangible assets were amortized to equity in earnings over approximately 10 years.

As discussed in Footnote 3 to the Consolidated Financial Statements, on June 14, 2018, we acquired the remaining 50% ownership interest in WJH for \$37.5 million, whereby WJH became a 100% owned subsidiary of the Company.

For the period from January 1, 2018 through June 14, 2018, we recognized \$14.8 million of equity in income of unconsolidated subsidiaries, and received \$7.4 million in operating distributions. During the year ended December 31, 2017, we recognized \$12.2 million of equity in income of unconsolidated subsidiaries, made capital contributions totaling \$3.0 million and received operating distributions from WJH of \$5.2 million.

The following table provides unaudited selected financial information for WJH as of and for the year ended December 31, 2017 (in thousands):

	December 31, 2017 (unaudited)
Inventories	\$ 101,649
Total assets	\$ 136,531
Total liabilities	\$ 91,002
Partners' capital	\$ 45,529
Homebuilding revenues	\$ 271,653
Income before income tax expense	\$ 26,185

10. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities included the following (in thousands):

	December 31, 2018	December 31, 2017
Earnest money deposits	\$ 13,990	\$ 14,077
Warranty reserve	7,970	8,531
Accrued compensation costs	29,770	22,129
Land development and home construction accruals	77,748	61,918
Accrued interest	15,636	14,435
Income taxes payable	—	851
Liability for product financing arrangement and other	68,043	28,415
Total accrued expenses and other liabilities	\$ 213,157	\$ 150,356

11. Warranties

Estimated future direct warranty costs are accrued and charged to cost of home sales revenues in the period when the related home sales revenues are recognized. Amounts accrued, which are included in Accrued expenses and other liabilities on the Consolidated Balance Sheets, are based upon historical experience rates. We subsequently assess the adequacy of our warranty accrual on a quarterly basis through an internal model that incorporates historical payment trends and adjust the amounts recorded if necessary. Based on favorable warranty payment trends relative to our estimates at the time of home closing, we reduced our warranty reserve by \$3.4 million, \$1.5 million and \$1.4 million during the years ended December 31, 2018, 2017 and 2016, respectively, which is included as a reduction to Cost of homes sales revenues on our Consolidated Statements of Operations. Changes in our warranty accrual for the years ended December 31, 2018, 2017, and 2016 are detailed in the table below (in thousands):

	Year ended December 31,		
	2018	2017	2016
Beginning balance	\$ 8,531	\$ 2,479	\$ 2,622
Warranty reserve assumed in business combination	397	5,327	—
Warranty expense provisions	6,686	4,709	2,873
Payments	(4,204)	(2,526)	(1,610)
Warranty adjustment	(3,440)	(1,458)	(1,406)
Ending balance	\$ 7,970	\$ 8,531	\$ 2,479

12. Debt

Our outstanding debt obligations included the following as of December 31, 2018 and 2017 (in thousands):

	December 31, 2018	December 31, 2017
6.875% senior notes, due May 2022	\$ 380,567	\$ 379,238
5.875% senior notes, due July 2025	395,415	394,725
Other financing obligations	8,795	2,320
Notes payable	784,777	776,283
Revolving line of credit, due April 2022	202,500	—
Mortgage repurchase facilities	104,555	48,319
Total debt	\$ 1,091,832	\$ 824,602

In May 2014, we completed a private offering of \$200.0 million in aggregate principal amount of senior unsecured notes due 2022 (which we refer to as the “Initial Senior Notes”) in reliance on Rule 144A and Regulation S under the Securities Act of 1933, as amended (which we refer to as the “Securities Act”). The Initial Senior Notes were issued under the Indenture, dated as of May 5, 2014, among the Company, our subsidiary guarantors party thereto, and U.S. Bank National Association, as trustee (which we refer to as the “May 2014 Indenture,” as it may be supplemented or amended from time to time). The Initial Senior Notes were issued at a price equal to 99.239% of their principal amount, and we received net proceeds of approximately \$193.3 million. In February 2015, we completed an offer to exchange \$200.0 million in aggregate principal amount of our 6.875% senior notes due 2022, which are registered under the Securities Act (which we refer to as the “Initial Exchange Notes”), for all of the Initial Senior Notes. The terms of the Initial Exchange Notes are identical in all material respects to the Initial Senior Notes, except that the Initial Exchange Notes are registered under the Securities Act and the transfer restrictions, registration rights, and additional interest provisions applicable to the Initial Senior Notes do not apply to the Initial Exchange Notes.

In April 2015, we completed a private offering of an additional \$60 million in aggregate principal amount of our 6.875% senior notes due 2022 (which we refer to as the “April 2015 Senior Notes”) in reliance on Rule 144A and Regulation S under the Securities Act. The April 2015 Senior Notes were issued at a price equal to 98.26% of their principal amount, and we received net proceeds of approximately \$58.5 million. The April 2015 Senior Notes were additional notes issued under the May 2014 Indenture. In October 2015, we completed an offer to exchange \$60.0 million in aggregate principal amount of our 6.875% senior notes due 2022, which are registered under the Securities Act (which we refer to as the “October 2015 Exchange Notes”), for all of the April 2015 Senior Notes. The terms of the October 2015 Exchange Notes are identical in all material respects to the April 2015 Senior Notes, except that the October 2015 Exchange Notes are registered under the Securities Act and the transfer restrictions, registration rights, and additional interest provisions that were applicable to the April 2015 Senior Notes do not apply to the October 2015 Exchange Notes.

In January 2017, we completed a private offering of an additional \$125 million in aggregate principal amount of our 6.875% senior notes due 2022 (which we refer to as the “January 2017 Senior Notes”) in reliance on Rule 144A and Regulation S under the Securities Act. The January 2017 Senior Notes were issued at a price equal to 102.00% of their principal amount, and we received net proceeds of approximately \$125.4 million. The January 2017 Senior Notes were additional notes issued under the May 2014 Indenture. In April 2017, we completed an offer to exchange \$125.0 million in aggregate principal amount of our 6.875% senior notes due 2022, which are registered under the Securities Act (which we refer to as the “April 2017 Exchange Notes”), for all of the January 2017 Senior Notes. The terms of the April 2017 Exchange Notes are identical in all material respects to the January 2017 Senior Notes, except that the April 2017 Exchange Notes are registered under the Securities Act and the transfer restrictions, registration rights, and additional interest provisions that were applicable to the January 2017 Senior Notes do not apply to the April 2017 Exchange Notes.

The Initial Exchange Notes, October 2015 Exchange Notes, and April 2017 Exchange Notes (which we refer to collectively, as the “Existing 6.875% Notes”) will be treated as a single series of notes under the May 2014 Indenture, and will vote as a single class of notes for all matters submitted to a vote of holders under the May 2014 Indenture.

The Existing 6.875% Notes are unsecured senior obligations which are guaranteed on an unsecured senior basis by certain of our current and future subsidiaries. The May 2014 Indenture governing the Existing 6.875% Notes contains certain restrictive covenants on issuing future secured debt and other transactions. The aggregate principal balance of the Existing 6.875% Notes is due May 2022, with interest only payments due semi-annually in May and November of each year.

As of December 31, 2018, the aggregate obligation, inclusive of unamortized financing costs on the Existing 6.875% Notes was \$380.6 million.

5.875% senior notes

In May 2017, we completed a private offering of \$400 million in aggregate principal amount of our 5.875% Senior Notes due 2025 (which we refer to as the “May 2017 Senior Notes”) in reliance on Rule 144A and Regulation S under the Securities Act. The May 2017 Senior Notes were issued under the Indenture, dated as of May 12, 2017, among the Company, our subsidiary guarantors party thereto, and U.S. Bank National Association, as trustee (which we refer to as the “May 2017 Indenture,” as it may be supplemented or amended from time to time). The May 2017 Senior Notes were issued at a price equal to 100.00% of their principal amount, and we received net proceeds of approximately \$395.5 million. In December 2017, we completed an offer to exchange approximately \$400.0 million in aggregate principal amount of our 5.875% senior notes due 2025, which are registered under the Securities Act (which we refer to as the “December 2017 Exchange Notes”), for an equivalent amount of the May 2017 Senior Notes that were tendered and accepted for exchange. The terms of the December 2017 Exchange Notes are identical in all material respects to the May 2017 Senior Notes, except that the December 2017 Exchange Notes are registered under the Securities Act and the transfer restrictions, registration

rights, and additional interest provisions that are applicable to the May 2017 Senior Notes do not apply to the December 2017 Exchange Notes.

The May 2017 Senior Notes and December 2017 Exchange Notes (which we refer to collectively, as the “Existing 5.875% Notes”) will be treated as a single series of notes under the May 2017 Indenture, and will vote as a single class of notes for all matters submitted to a vote of holders under the May 2017 Indenture.

The Existing 5.875% Notes are unsecured senior obligations which are guaranteed on an unsecured senior basis by certain of our current and future subsidiaries. The May 2017 Indenture governing the Existing 5.875% Notes contains certain restrictive covenants on issuing future secured debt and other transactions. The aggregate principal balance of the Existing 5.875% Notes is due July 2025, with interest only payments due semi-annually in January and July of each year.

As of December 31, 2018, the aggregate obligation, inclusive of unamortized financing costs on the May 2017 Senior Notes and December 2017 Exchange Notes was \$395.4 million.

Revolving line of credit

On October 21, 2014, we entered into a Credit Agreement with Texas Capital Bank, National Association, as Administrative Agent and L/C Issuer, and the lenders from time to time party thereto. On June 5, 2018, we entered into an Amended and Restated Credit Agreement which amended and restated the Credit Agreement. The Amended and Restated Credit Agreement provides us with a revolving line of credit of up to \$540.0 million, and unless terminated earlier, will mature on April 30, 2022. Under the terms of the Amended and Restated Credit Agreement, we may request a twelve-month extension of the maturity date and are entitled to request an increase in the size of the credit facility by an amount not exceeding \$100.0 million. If the existing lenders elect not to provide the full amount of a requested increase, we may invite one or more other lender(s) to become a party to the Amended and Restated Credit Agreement, subject to the approval of the Administrative Agent. Our obligations under the Amended and Restated Credit Agreement are guaranteed by certain of our subsidiaries. The Amended and Restated Credit Agreement contains customary affirmative and negative covenants (including limitations on our ability to grant liens, incur additional debt, pay dividends, redeem our common stock, make certain investments and engage in certain merger, consolidation or asset sale transactions), as well as customary events of default. These covenants are measured as defined in the Amended and Restated Credit Agreement and are reported to the lenders quarterly. Borrowings under the Amended and Restated Credit Agreement bear interest at a floating rate equal to the adjusted Eurodollar Rate plus an applicable margin between 2.60% and 3.10% per annum, or, in the Administrative Agent’s discretion, a base rate plus an applicable margin between 1.60% and 2.10% per annum. On June 28, 2018, we entered into a Joinder Agreement which increased the credit facility to \$590.0 million by exercising \$50.0 million of the \$100.0 million accordion feature and added a new lender. As of December 31, 2018, we had \$202.5 million outstanding under the credit facility, leaving \$387.5 million in availability and were in compliance with all covenants.

Mortgage Repurchase Facilities – Financial Services

On May 4, 2018 and September 14, 2018, Inspire entered into mortgage warehouse facilities, with Comerica Bank, and J.P. Morgan, respectively. The mortgage warehouse lines of credit (which we refer to as the “Repurchase Facilities”) provide Inspire with uncommitted repurchase facilities of up to \$140 million, secured by the mortgage loans financed thereunder. On December 20, 2018, we temporarily increased our facility with J.P. Morgan through February 28, 2019 by \$20 million, thus bringing our total capacity under the Repurchase Facilities to \$160 million as of December 31, 2018. Amounts outstanding under the Repurchase Facilities are not guaranteed by us or any of our subsidiaries and the agreements contain various affirmative and negative covenants applicable to Inspire that are customary for arrangements of this type. As of December 31, 2018, we had \$104.6 million outstanding under these Repurchase Facilities and were in compliance with all covenants thereunder. No assurance can be provided, however, that we will remain in compliance with the covenants or have continued access to these facilities or substitute or replacement facilities in an amount sufficient to fund our mortgage lending business. During the years ended December 31, 2018 and 2017, we incurred interest expense on our Repurchase Facilities of \$1.4 million and \$0.2 million, respectively, which are included in financial services costs on our Consolidated Statements of Operations.

Other Financing Obligations

As of December 31, 2018, we had \$2.3 million of outstanding land development notes and \$6.5 million of outstanding insurance premium notes, compared to \$2.3 million of outstanding land development notes and no outstanding insurance premium notes for the year ended December 31, 2017.

Aggregate annual maturities of debt as of December 31, 2018 are as follows (in thousands):

2019	\$	113,350
2020		—
2021		—
2022		587,500
2023		—
Thereafter		400,000
Total		1,100,850
Less: Discount and deferred financing costs, net on senior notes		(9,018)
Carrying amount	\$	1,091,832

13. Interest

Interest is capitalized to inventories while the related communities are being actively developed and until homes are completed. As our qualifying assets exceeded our outstanding debt during the years ended December 31, 2018, 2017, and 2016, we capitalized all interest costs incurred during these periods, except for interest incurred on our mortgage repurchase facilities.

Our interest costs are as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
Interest capitalized beginning of period	\$ 41,762	\$ 28,935	\$ 21,533
Interest capitalized during period	60,772	45,725	26,904
Less: capitalized interest in cost of sales	(48,692)	(32,898)	(19,502)
Interest capitalized end of period	\$ 53,842	\$ 41,762	\$ 28,935

14. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (which we refer to as the “TCJA”) was signed into law. The TCJA significantly reforms the Internal Revenue Code of 1986, as amended. The TCJA, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate, commencing in 2018, from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income, elimination of net operating loss carrybacks, immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits.

Also on December 22, 2017 the SEC staff issued Staff Accounting Bulletin No. 118 (which we refer to as “SAB 118”) which addresses the application of ASC Topic 740 to the TCJA. SAB 118 outlines that if the accounting for the effects of the TCJA is incomplete, but a reasonable estimate can be made, then provisional amount should be reflected in the financial statements. Our accounting for the impacts of the TCJA related to current and deferred taxes, and in particular our deferred taxes related to our acquisition of UCP and Sundquist Homes, was incomplete as of the date our financial statements were issued for the year ended December 31, 2017. We remeasured our deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally our estimated blended state and federal statutory rate in future periods of approximately 24%. This remeasurement as of December 31, 2017 resulted in a provisional reduction to our deferred tax assets of \$2.8 million. During the year ended December 31, 2018, we completed our accounting for the impacts of the TCJA, and recorded an additional reduction to our deferred tax assets of \$1.5 million. The reductions of \$1.5 million and \$2.8 million are reflected in Income tax expense in our Consolidated Statements of Operations for the years ended December 31, 2018 and 2017, respectively.

[Table of Contents](#)

Our income tax expense for the years ended December 31, 2018, 2017 and 2016 comprises the following current and deferred amounts (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Current			
Federal	\$ 27,815	\$ 29,241	\$ 19,417
State and local	8,415	3,954	2,685
Total current	36,230	33,195	22,102
Deferred			
Federal	(3,182)	920	1,357
State and local	(973)	(246)	150
Total deferred	(4,155)	674	1,507
Income tax expense	\$ 32,075	\$ 33,869	\$ 23,609

Total income tax expense differed from the amounts computed by applying the federal statutory income tax rate of 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016, to income before income taxes as a result of the following items (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Statutory income tax expense	\$ 26,991	\$ 29,469	\$ 25,602
State income tax expense, net of federal income tax expense	4,847	3,596	1,954
Domestic production activities deduction	-	(2,513)	(2,146)
Executive compensation	2,760	-	-
Excess tax benefits upon vesting of share-based payment awards	(1,276)	-	-
Remeasurement of deferred tax assets	1,548	2,790	-
Federal energy credits	(2,426)	-	(1,944)
Other permanent items	-	248	221
Other adjustments	(369)	279	(78)
Income tax expense	\$ 32,075	\$ 33,869	\$ 23,609

Deferred income tax assets and liabilities are recognized for the future tax consequences of temporary differences. Temporary differences arise when revenues and expenses for financial reporting are recognized for tax purposes in a different period. ASC 740 requires that a valuation allowance be recorded against deferred tax assets unless it is more likely than not that the deferred tax asset will be utilized. As a result of this analysis, the Company has not recorded a valuation allowance against its deferred tax assets. The Company will continue to evaluate the need to record valuation allowances against deferred tax assets and will make adjustments in accordance with the accounting standard.

[Table of Contents](#)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2018 and 2017 (in thousands):

	As of December 31,	
	2018	2017
Deferred tax assets		
Warranty reserves	\$ 1,944	\$ 1,848
Amortizable intangible assets	1,127	-
Stock based compensation	3,055	1,629
Accrued compensation and other	5,075	574
Inventories, additional costs capitalized for tax	7,281	7,844
Deferred tax asset	18,482	11,895
Deferred tax liabilities		
Prepaid expenses	1,133	148
Property and equipment	3,586	4,276
Amortizable intangible assets	-	1,280
Accrued expenses	-	636
Deferred tax liability	4,719	6,340
Net deferred tax asset	\$ 13,763	\$ 5,555

The uncertainty provisions of ASC 740 also require the Company to recognize the impact of a tax position in its consolidated financial statements only if the technical merits of that position indicate that the position is more likely than not of being sustained upon audit. During the year, the Company did not record a reserve for uncertain tax positions. We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. We are subject to U.S. federal income tax examination for calendar tax years ending 2015 through 2018. Additionally, we are subject to various state income tax examinations for the 2014 through 2018 calendar tax years.

15. Fair Value Disclosures

ASC 820, *Fair Value Measurement*, defines fair value as the price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date and requires assets and liabilities carried at fair value to be classified and disclosed in the following three categories:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets at measurement date.

Level 3 – Valuations derived from techniques where one or more significant inputs or significant value drivers are unobservable in active markets at measurement date.

The following table presents carrying values and estimated fair values of financial instruments (in thousands):

	Hierarchy	December 31, 2018		December 31, 2017	
		Carrying	Fair Value	Carrying	Fair Value
Secured notes receivable ⁽¹⁾	Level 2	\$ 4,947	\$ 4,830	\$ 2,753	\$ 2,727
Mortgage loans held for sale ⁽²⁾	Level 2	\$ 114,074	\$ 114,074	\$ 52,327	\$ 52,327
6.875% senior notes ⁽³⁾	Level 2	\$ 380,567	\$ 367,618	\$ 379,238	\$ 397,044
5.875% senior notes ⁽³⁾	Level 2	\$ 395,415	\$ 351,414	\$ 394,725	\$ 400,225
3.278% insurance premium notes ⁽⁴⁾	Level 2	\$ 6,475	\$ 6,475	\$ —	\$ —
Revolving line of credit ⁽⁶⁾	Level 3	\$ 202,500	\$ 202,500	\$ —	\$ —
Other financing obligation ⁽⁶⁾	Level 2	\$ 2,320	\$ 2,320	\$ 2,320	\$ 2,320
Mortgage repurchase facilities ⁽⁴⁾	Level 2	\$ 104,555	\$ 104,555	\$ 48,319	\$ 48,319

[Table of Contents](#)

- ⁽¹⁾ Estimated fair value of the secured notes received was based on cash flow models discounted at market interest rates that considered the underlying risks of the note.
- ⁽²⁾ The mortgage loans held for sale are carried at fair value as of December 31, 2018 and 2017, which was based on quoted market prices for those committed mortgage loans.
- ⁽³⁾ Estimated fair value of the senior notes incorporated recent trading activity in inactive markets.
- ⁽⁴⁾ Carrying amount approximates fair value due to short-term nature and interest rate terms.

The carrying amount of cash and cash equivalents approximates fair value. Nonfinancial assets and liabilities include items such as inventory and property and equipment that are measured at fair value when acquired and resulting from impairment, if deemed necessary.

16. Operating Leases

The Company maintains noncancellable operating leases for office space. The Company recognizes expense on a straight-line basis over the life of each lease. Rent expense for the years ended December 31, 2018, 2017 and 2016 was \$3.2 million, \$2.3 million and \$1.4 million, respectively, included in selling, general, and administrative on our Consolidated Statements of Operations.

Future minimum lease payments as of December 31, 2018 are as follows (in thousands):

2019	\$	5,411
2020		5,106
2021		4,281
2022		2,888
2023		2,374
Thereafter		1,706
Total	\$	21,766

17. Post-Retirement Plan

The Company has 401(k) plans available to substantially all employees. The Company generally makes matching contributions of 50% of employees' salary deferral amounts on the first 6% of employees' compensation. Contributions to the plans during the years ended December 31, 2018, 2017 and 2016 were \$1.9 million, \$1.0 million and \$0.4 million, respectively.

18. Stock-Based Compensation

During the year ended December 31, 2018, we granted performance share units (which we refer to as "PSUs") covering up to 0.3 million shares of common stock, assuming maximum level of performance, with a grant date fair value of \$28.10 per share that are subject to both service and performance vesting conditions. The quantity of shares that will vest under the PSUs range from 0% to 250% of a targeted number of shares for each participant and will be determined based on an achievement of a three-year pre-tax income performance goal. During the year ended December 31, 2018, we also granted restricted stock units (which we refer to as "RSUs") covering 0.3 million shares of common stock with a grant date fair value of \$30.43 per share that vest over a one to three-year period. As of December 31, 2018, we had no remaining unvested restricted stock awards (which we refer to as "RSAs") outstanding.

[Table of Contents](#)

The following table summarizes the activity of our RSU, RSA, and PSU for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	Year Ended December 31,					
	2018		2017		2016	
	Shares	Weighted average per share grant date fair value	Shares	Weighted average per share grant date fair value	Shares	Weighted average per share grant date fair value
Outstanding, beginning of year	834	\$ 18.16	852	\$ 15.81	696	\$ 18.18
Granted	592	29.86	460	21.64	514	14.28
Vested	(491)	18.02	(452)	17.19	(297)	18.65
Forfeited	(89)	22.44	(26)	19.63	(61)	16.05
Outstanding, end of year	846	\$ 25.14	834	\$ 18.16	852	\$ 15.81

A summary of our outstanding RSUs and PSUs, assuming maximum level of performance, are as follows (in thousands, except years):

	As of December 31, 2018
Unvested units	846
Unrecognized compensation cost	\$ 9,472
Period to recognize compensation cost	1.8 years

During the years ended December 31, 2018, 2017 and 2016, the Company recognized stock-based compensation expense of \$13.7 million, \$9.5 million and \$6.7 million, respectively, which is generally included in selling, general, and administrative on the Consolidated Statements of Operations.

19. Stockholders' Equity

The Company's authorized capital stock consists of 100.0 million shares of common stock, par value \$0.01 per share, and 50.0 million shares of preferred stock, par value \$0.01 per share. As of December 31, 2018, and 2017, there were 30.2 million and 29.5 million shares of common stock issued and outstanding, respectively.

On May 10, 2017, our stockholders approved the adoption of the Century Communities, Inc. 2017 Omnibus Incentive Plan (which we refer to as our "2017 Incentive Plan"), which replaced our First Amended & Restated 2013 Long-Term Incentive Plan. We had reserved a total of 1.8 million shares of our common stock for issuance under our First Amended & Restated 2013 Long-Term Incentive Plan, of which approximately 0.6 million shares rolled over into the 2017 Incentive Plan when it became effective. We issued 0.3 million shares of common stock related to the vesting of RSUs during the year ended December 31, 2018. As of December 31, 2018, and 2017, approximately 0.9 million and 1.2 million shares, respectively, remained available for issuance under the 2017 Incentive Plan.

On November 7, 2016, we entered into a Distribution Agreement (which we refer to as the "First Distribution Agreement") with J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Citigroup Global Markets Inc. (which we refer to collectively as the "Sales Agents"), relating to our common stock. Under the First Distribution Agreement, we were authorized to offer and sell shares of our common stock having an aggregate offering price of up to \$50.0 million from time to time through any of our Sales Agents in "at the market" offerings. On August 9, 2017, we entered into a second Distribution Agreement (which we refer to as the "Second Distribution Agreement") with the Sales Agents, which superseded and replaced the First Distribution Agreement, pursuant to which we may offer and sell from time to time up to \$100.0 million in "at the market" offerings. On July 3, 2018, we entered into a third Distribution Agreement (which we refer to as the "Third Distribution Agreement") with J.P. Morgan Securities LLC, Citigroup Global Markets Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as its sales agents (which we refer to as the "New Sales Agents"), which superseded and replaced the Second Distribution Agreement, pursuant to which we may offer and sell shares of our common stock having an aggregate offering price of up to \$100.0 million from time to time through any of the New Sales Agents in at-the-market offerings. During the years ended December 31, 2018 and 2017, we sold and issued an aggregate of 1.1 million and 3.7 million shares of our common stock, respectively, under the Second and Third Distribution Agreements, which provided gross proceeds to us of \$31.7 million and \$98.1 million, respectively, and in connection with such sales, we paid total commissions and fees to the Sales Agents of \$0.7 million and \$2.0 million, respectively.

In November 2018, we authorized a stock repurchase program, under which we may repurchase up to 4,500,000 shares of our outstanding common stock. In December 2018, 604,061 shares were repurchased for approximately \$11.0 million.

20. Earnings Per Share

We use the two-class method of calculating earnings per share (EPS) as our unvested restricted stock awards have non-forfeitable rights to dividends, and accordingly represent a participating security. The two-class method is an earnings allocation method under which EPS is calculated for each class of common stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period.

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016 (in thousands, except share and per share information):

	2018	Year ended December 31,		2016
		2017		
Numerator				
Net income	\$ 96,455	\$ 50,295	\$ 49,540	
Less: Undistributed earnings allocated to participating securities	(59)	(384)	(1,050)	
Net income allocable to common stockholders	<u>\$ 96,396</u>	<u>\$ 49,911</u>	<u>\$ 48,490</u>	
Denominator				
Weighted average common shares outstanding - basic	30,084,913	24,280,871	20,679,189	
Dilutive effect of restricted stock units	306,433	274,638	112,748	
Weighted average common shares outstanding - diluted	<u>30,391,346</u>	<u>24,555,509</u>	<u>20,791,937</u>	
Earnings per share:				
Basic	\$ 3.20	\$ 2.06	\$ 2.34	
Diluted	\$ 3.17	\$ 2.03	\$ 2.33	

Stock-based awards are excluded from the calculation of diluted EPS in the event they are subject to unsatisfied performance conditions or are antidilutive. We excluded 0.3 million common unit equivalents from diluted earnings per share during the year ended December 31, 2018 related to the PSUs granted during the periods. We did not have any common unit equivalents to exclude from diluted earnings per share during the years ended December 31, 2017 and 2016.

21. Commitments and Contingencies

Letters of Credit and Performance Bonds

In the normal course of business, the Company posts letters of credit and performance bonds related to our land development performance obligations, with local municipalities. As of December 31, 2018 and 2017, we had \$289.8 million and \$158.6 million, respectively, in letters of credit and performance bonds issued and outstanding.

Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business, which consist primarily of construction claims. It is the opinion of management that if the claims have merit, parties other than the Company would be, at least in part, liable for the claims, and eventual outcome of these claims will not have a material adverse effect upon our consolidated financial condition, results of operations, or cash flows. When we believe that a loss is probable and estimable, we record a charge to Selling, general, and administrative expense on our Consolidated Statements of Operations for our estimated loss.

Under various insurance policies, we have the ability to recoup costs in excess of applicable self-insured retentions. Estimates of such amounts are recorded in other assets when recovery is probable. As of December 31, 2018, substantially all of the amounts reflected as Insurance receivable and other are related to construction claims which we believe are probable of settlement and the obligation of these claims are reflected in Accrued expenses and other liabilities on the Consolidated Balance Sheet.

We do not believe that the ultimate resolution of any claims and lawsuits will have a material adverse effect upon our consolidated financial position, results of operations, or cash flow.

22. Results of Quarterly Operations (Unaudited)

	Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share amounts)			
2018				
Home sales revenues	\$ 394,831	\$ 522,164	\$ 552,876	\$ 640,187
Gross margin from home sales revenues	\$ 75,248	\$ 94,967	\$ 92,732	\$ 105,492
Income before tax expense	\$ 23,107	\$ 46,502	\$ 22,859	\$ 36,062
Net income	\$ 20,019	\$ 33,193	\$ 17,048	\$ 26,195
Basic earnings per share	\$ 0.68	\$ 1.11	\$ 0.56	\$ 0.85
Diluted earnings per share	\$ 0.67	\$ 1.10	\$ 0.56	\$ 0.85
2017				
Home sales revenues	\$ 226,420	\$ 287,588	\$ 374,935	\$ 516,500
Gross margin from home sales revenues	\$ 44,096	\$ 53,700	\$ 63,570	\$ 90,718
Income before tax expense	\$ 12,051	\$ 23,109	\$ 15,156	\$ 33,848
Net income	\$ 8,799	\$ 14,831	\$ 9,470	\$ 17,195
Basic earnings per share	\$ 0.40	\$ 0.67	\$ 0.37	\$ 0.61
Diluted earnings per share	\$ 0.40	\$ 0.66	\$ 0.37	\$ 0.60

23. Supplemental Guarantor Information

The Existing 6.875% Notes and the Existing 5.875% Notes are our unsecured senior obligations, and are fully and unconditionally guaranteed on an unsecured basis, jointly and severally, by substantially all of our direct and indirect wholly-owned operating subsidiaries (which we refer to as “Guarantors”).

Each of the May 2014 Indenture governing the Existing 6.875% Notes, and the May 2017 Indenture governing the Existing 5.875% Notes, provides that the guarantees of a Guarantor will be automatically and unconditionally released and discharged: (1) upon any sale, transfer, exchange or other disposition (by merger, consolidation or otherwise) of all of the equity interests of such Guarantor after which the applicable Guarantor is no longer a “Restricted Subsidiary” (as defined in the applicable Indenture), which sale, transfer, exchange or other disposition does not constitute an “Asset Sale” (as defined in the applicable Indenture) or is made in compliance with applicable provisions of the applicable Indenture; (2) upon any sale, transfer, exchange or other disposition (by merger, consolidation or otherwise) of all of the assets of such Guarantor, which sale, transfer, exchange or other disposition does not constitute an Asset Sale or is made in compliance with applicable provisions of the applicable Indenture; provided, that after such sale, transfer, exchange or other disposition, such Guarantor is an “Immaterial Subsidiary” (as defined in the applicable Indenture); (3) unless a default has occurred and is continuing, upon the release or discharge of such Guarantor from its guarantee of any indebtedness for borrowed money of the Company and the Guarantors so long as such Guarantor would not then otherwise be required to provide a guarantee pursuant to the applicable Indenture; provided that if such Guarantor has incurred any indebtedness in reliance on its status as a Guarantor in compliance with applicable provisions of the applicable Indenture, such Guarantor’s obligations under such indebtedness, as the case may be, so incurred are satisfied in full and discharged or are otherwise permitted to be incurred by a Restricted Subsidiary (other than a Guarantor) in compliance with applicable provisions of the applicable Indenture; (4) upon the designation of such Guarantor as an “Unrestricted Subsidiary” (as defined in the applicable Indenture), in accordance with the applicable Indenture; (5) if the Company exercises its legal defeasance option or covenant defeasance option under the applicable Indenture or if the obligations of the Company and the Guarantors are discharged in compliance with applicable provisions of the applicable Indenture, upon such exercise or discharge; or (6) in connection with the dissolution of such Guarantor under applicable law in accordance with the applicable Indenture.

As the guarantees were made in connection with the February 2015 exchange offer for the Initial Exchange Notes, the October 2015 exchange offer for the October 2015 Exchange Notes, the April 2017 exchange offer for the April 2017 Exchange Notes, and the December exchange offer for the December 2017 Exchange Notes, the Guarantors’ condensed financial information is presented as if the guarantees existed during the periods presented. If any Guarantors are released from the guarantees in future periods, the changes are reflected prospectively.

We have determined that separate, full financial statements of the Guarantors would not be material to investors and, accordingly, supplemental financial information is presented below:

Supplemental Condensed Consolidated Balance Sheet As of December 31, 2018 (in thousands)

	Century	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Elimination Entries	Consolidated Century
Assets					
Cash and cash equivalents	\$ 2,183	2,101	28,618	\$	32,902
Cash held in escrow	—	24,344	—		24,344
Accounts receivable	6,117	7,424	(77)		13,464
Investment in consolidated subsidiaries	1,827,456	—	—	(1,827,456)	—
Inventories	—	1,848,243	—		1,848,243
Mortgage loans held for sale	—	—	114,074		114,074
Prepaid expenses and other assets	51,177	85,224	2,316		138,717
Deferred tax assets, net	13,763	—	—		13,763
Property and equipment, net	13,274	18,989	995		33,258
Amortizable intangible assets, net	—	5,095	—		5,095
Goodwill	—	30,395	—		30,395
Total assets	\$ 1,913,970	\$ 2,021,815	\$ 145,926	\$ (1,827,456)	\$ 2,254,255
Liabilities and stockholders' equity					
Liabilities:					
Accounts payable	\$ 623	88,627	657	—	\$ 89,907
Accrued expenses and other liabilities	75,506	131,548	6,103	—	213,157
Notes payable	775,982	8,795	—	—	784,777
Revolving line of credit	202,500	—	—	—	202,500
Mortgage repurchase facilities	—	—	104,555	—	104,555
Total liabilities	1,054,611	228,970	111,315	—	1,394,896
Stockholders' equity:	859,359	1,792,845	34,611	(1,827,456)	859,359
Total liabilities and stockholders' equity	\$ 1,913,970	\$ 2,021,815	\$ 145,926	\$ (1,827,456)	\$ 2,254,255

Supplemental Condensed Consolidated Balance Sheet
As of December 31, 2017 (in thousands)

	Century	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Elimination Entries	Consolidated Century
Assets					
Cash and cash equivalents	\$ 56,234	\$ 23,399	\$ 9,199	\$ —	\$ 88,832
Cash held in escrow	—	37,088	635	—	37,723
Accounts receivable	3,124	9,944	(69)	—	12,999
Investment in consolidated subsidiaries	1,434,619	—	—	(1,434,619)	—
Inventories	—	1,390,354	—	—	1,390,354
Mortgage loans held for sale	—	—	52,327	—	52,327
Prepaid expenses and other assets	3,028	57,273	511	—	60,812
Deferred tax assets, net	5,555	—	—	—	5,555
Property and equipment, net	11,694	15,683	534	—	27,911
Investment in unconsolidated subsidiaries	28,208	—	—	—	28,208
Amortizable intangible assets, net	—	2,938	—	—	2,938
Goodwill	—	27,363	—	—	27,363
Total assets	\$ 1,542,462	\$ 1,564,042	\$ 63,137	\$ (1,434,619)	\$ 1,735,022
Liabilities and stockholders' equity					
Liabilities:					
Accounts payable	\$ 1,452	\$ 23,057	\$ 322	\$ —	\$ 24,831
Accrued expenses and other liabilities	31,814	117,070	1,472	—	150,356
Deferred tax liability	—	—	—	—	—
Notes payable	773,963	2,320	—	—	776,283
Revolving line of credit	—	—	—	—	—
Mortgage repurchase facilities	—	—	48,319	—	48,319
Total liabilities	807,229	142,447	50,113	—	999,789
Stockholders' equity:	735,233	1,421,595	13,024	(1,434,619)	735,233
Total liabilities and stockholders' equity	\$ 1,542,462	\$ 1,564,042	\$ 63,137	\$ (1,434,619)	\$ 1,735,022

Supplemental Condensed Consolidated Statement of Operations
For the Year Ended December 31, 2018 (in thousands)

	Century	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Elimination Entries	Consolidated C.C.S.
Revenues					
Homebuilding revenues					
Home sales revenues	\$ —	\$ 2,110,058	\$ —	\$ —	\$ 2,110,058
Land sales and other revenues	—	5,631	—	—	5,631
	—	2,115,689	—	—	2,115,689
Financial services revenue	—	—	31,724	—	31,724
Total revenues	—	2,115,689	31,724	—	2,147,413
Homebuilding cost of revenues					
Cost of homes sales revenues	—	(1,741,619)	—	—	(1,741,619)
Cost of land sales and other revenues	—	(3,832)	—	—	(3,832)
	—	(1,745,451)	—	—	(1,745,451)
Financial services costs					
Selling, general and administrative	(70,578)	(193,403)	(22,958)	—	(263,981)
Acquisition expense	(437)	—	—	—	(437)
Equity in earnings from consolidated subsidiaries	138,746	—	—	(138,746)	—
Equity in income of unconsolidated subsidiaries	14,849	—	—	—	14,849
Other income (expense)	(299)	(606)	—	—	(905)
Income before income tax expense	82,281	176,229	8,766	(138,746)	128,530
Income tax expense	14,174	(44,057)	(2,192)	—	(32,075)
Net income	\$ 96,455	\$ 132,172	\$ 6,574	\$ (138,746)	\$ 96,455

Supplemental Condensed Consolidated Statement of Operations
For the Year Ended December 31, 2017 (in thousands)

	Century	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Elimination Entries	Consolidated Century
Revenues					
Homebuilding revenues					
Home sales revenues	\$ —	\$ 1,405,443	\$ —	\$ —	\$ 1,405,443
Land sales and other revenues	—	8,503	—	—	8,503
	—	1,413,946	—	—	1,413,946
Financial services revenue	—	—	9,853	—	9,853
Total revenues	—	1,413,946	9,853	—	1,423,799
Homebuilding cost of revenues					
Cost of homes sales revenues	—	(1,153,359)	—	—	(1,153,359)
Cost of land sales and other revenues	—	(6,516)	—	—	(6,516)
	—	(1,159,875)	—	—	(1,159,875)
Financial services costs			(8,664)	—	(8,664)
Selling, general and administrative	(49,072)	(127,232)	—	—	(176,304)
Acquisition expense	(9,905)	—	—	—	(9,905)
Equity in earnings from consolidated subsidiaries	84,425	—	—	(84,425)	—
Equity in income from unconsolidated subsidiaries	12,176	—	—	—	12,176
Other income (expense)	1,080	1,820	37	—	2,937
Income before income tax expense	38,704	128,659	1,226	(84,425)	84,164
Income tax expense	11,591	(45,031)	(429)	—	(33,869)
Net income	\$ 50,295	\$ 83,628	\$ 797	\$ (84,425)	\$ 50,295

Supplemental Condensed Consolidated Statement of Operations
For the Year Ended December 31, 2016 (in thousands)

	Century	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Elimination Entries	Consolidated Century
Revenues					
Homebuilding revenues					
Home sales revenues	\$ —	\$ 978,733	\$ —	\$ —	\$ 978,733
Land sales and other revenues	—	15,707	—	—	15,707
	—	994,440	—	—	994,440
Financial services revenue	—	—	—	—	—
Total revenues	—	994,440	—	—	994,440
Homebuilding cost of revenues					
Cost of homes sales revenues	—	(786,127)	—	—	(786,127)
Cost of land sales and other revenues	—	(14,217)	—	—	(14,217)
	—	(800,344)	—	—	(800,344)
Financial services costs			—	—	—
Selling, general and administrative	(25,674)	(96,235)	(315)	—	(122,224)
Acquisition expense	(490)	—	—	—	(490)
Equity in earnings from consolidated subsidiaries	64,297	—	—	(64,297)	—
Equity in income from unconsolidated subsidiaries	191	—	—	—	191
Other income (expense)	34	1,542	—	—	1,576
Income before income tax expense	38,358	99,403	(315)	(64,297)	73,149
Income tax expense	11,182	(34,791)	—	—	(23,609)
Net income	\$ 49,540	\$ 64,612	\$ (315)	\$ (64,297)	\$ 49,540

Supplemental Condensed Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018 (in thousands)

	Century	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Elimination Entries	Consolidated Century
Net cash provided by/(used in) operating activities	\$ (74,074)	\$ (71,532)	\$ (49,972)	\$ —	\$ (195,578)
Net cash used in investing activities	\$ (98,523)	\$ (170,862)	\$ (461)	\$ 226,310	\$ (43,536)
Financing activities					
Borrowings under revolving credit facilities	\$ 721,000	\$ —	\$ —	\$ —	\$ 721,000
Payments on revolving credit facilities	(518,500)	—	—	—	(518,500)
Net proceeds on mortgage repurchase facility	—	—	56,236	—	56,236
Proceeds from insurance notes payable	—	11,839	—	—	11,839
Extinguishments of debt assumed in business combination	(94,231)	—	—	—	(94,231)
Principal payments on notes payable	(9)	(5,362)	—	—	(5,371)
Debt issuance costs	(3,642)	—	—	—	(3,642)
Issuance of common stock - taxes for vesting	(5,484)	—	—	—	(5,484)
Repurchases of common stock under our stock repurchase program	30,947	—	—	—	30,947
Repurchases of common stock upon vesting of stock based compensation	(10,952)	—	—	—	(10,952)
Payments from (and advances to) parent/subsidiary	(583)	211,879	15,014	(226,310)	—
Net cash provided by (used in) financing activities	\$ 118,546	\$ 218,356	\$ 71,250	\$ (226,310)	\$ 181,842
Net increase (decrease)	\$ (54,051)	\$ (24,038)	\$ 20,817	\$ —	\$ (57,272)
Cash and cash equivalents and restricted cash					
Beginning of period	\$ 56,234	\$ 28,044	\$ 9,435	\$ —	\$ 93,713
End of period	\$ 2,183	\$ 4,006	\$ 30,252	\$ —	\$ 36,441
Cash and cash equivalents	\$ 2,183	\$ 2,101	\$ 28,618	\$ —	\$ 32,902
Restricted Cash	—	1,905	1,634	—	3,539
Cash and cash equivalents and restricted cash	\$ 2,183	\$ 4,006	\$ 30,252	\$ —	\$ 36,441

Supplemental Condensed Consolidated Statement of Cash Flows
For the Year Ended December 31, 2017 (in thousands)

	Century	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Elimination Entries	Consolidated Century
Net cash provided by/(used in) operating activities	\$ (27,787)	\$ (33,169)	\$ (50,316)	\$ —	\$ (111,272)
Net cash used in investing activities	\$ (456,299)	\$ (118,583)	\$ (513)	\$ 440,949	\$ (134,446)
Financing activities					
Borrowings under revolving credit facilities	\$ 175,000	\$ —	\$ —	\$ —	\$ 175,000
Payments on revolving credit facilities	(370,000)	—	—	—	(370,000)
Proceeds from issuance of senior notes	527,500	—	—	—	527,500
Proceeds from insurance notes payable	—	2,320	—	—	2,320
Extinguishments of debt assumed in business combination	—	(151,919)	—	—	(151,919)
Principal payments on notes payable	—	(6,998)	—	—	(6,998)
Debt issuance costs	(8,579)	—	—	—	(8,579)
Repurchases of common stock upon vesting of restricted stock awards	(5,231)	—	—	—	(5,231)
Payments from (and advances to) parent/subsidiary	108,930	326,242	5,777	(440,949)	—
Net proceeds from mortgage repurchase facilities	—	—	48,320	—	48,320
Net proceeds from issuances of common stock	98,063	—	—	—	98,063
Net cash provided by financing activities	\$ 525,683	\$ 169,645	\$ 54,097	\$ (440,949)	\$ 308,476
Net increase (decrease)	\$ 41,597	\$ 17,893	\$ 3,268	\$ —	\$ 62,758
Cash and cash equivalents and restricted cash	\$ —	\$ —	\$ —	\$ —	\$ —
Beginning of period	\$ 14,637	\$ 10,151	\$ 6,167	\$ —	\$ 30,955
End of period	\$ 56,234	\$ 28,044	\$ 9,435	\$ —	\$ 93,713
Cash and cash equivalents	\$ 56,234	\$ 23,399	\$ 9,199	\$ —	\$ 88,832
Restricted Cash	—	4,645	236	—	4,881
Cash and cash equivalents and Restricted cash	\$ 56,234	\$ 28,044	\$ 9,435	\$ —	\$ 93,713

Supplemental Condensed Consolidated Statement of Cash Flows For the Year Ended December 31, 2016 (in thousands)					
	Century	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Elimination Entries	Consolidated Century
Net cash used in operating activities	\$ (16,138)	(27,978)	(575)	—	(44,691)
Net cash used in investing activities	(58,032)	(5,585)	(23)	40,439	(23,201)
Financing activities					
Borrowings under revolving credit facilities	\$ 220,000	—	—	—	220,000
Payments on revolving credit facilities	(160,000)	—	—	—	(160,000)
Proceeds from issuance of senior notes	—	—	—	—	—
Proceeds from insurance premium notes and other	—	11,612	—	—	11,612
Repurchases of common stock under our stock repurchase program	(2,393)	—	—	—	(2,393)
Principal payments on notes payable	—	(9,217)	—	—	(9,217)
Debt issuance costs	(1,156)	—	—	—	(1,156)
Repurchases of common stock upon vesting of restricted stock awards	(1,015)	—	—	—	(1,015)
Payments from (and advances to) parent/subsidiary	—	33,674	6,765	(40,439)	—
Net proceeds from mortgage credit facility	—	—	—	—	—
Net proceeds from issuances of common stock	11,369	—	—	—	11,369
Net cash provided by financing activities	\$ 66,805	36,069	6,765	(40,439)	69,200
Net decrease in cash and cash equivalents	\$ (7,365)	2,506	6,167	—	1,308
Cash and cash equivalents					
Beginning of period	\$ 22,002	7,645	—	—	29,647
End of period	\$ 14,637	10,151	6,167	—	30,955
Cash and cash equivalents	14,637	8,646	6,167	—	29,450
Restricted Cash	—	1,505	—	—	1,505
Cash and cash equivalents and restricted cash	14,637	10,151	6,167	—	30,955

F-37

[\(Back To Top\)](#)

Section 2: EX-10.21 (EX-10.21)

J.P.Morgan

SIDE LETTER

September 14, 2018

Inspire Home Loans Inc.
19600 Fairchild Road, Suite 200
Irvine, California 92612 Attention: James Palda

Re: Master Repurchase Agreement dated as of September 15, 2017, as amended from time to time, between JPMorgan Chase Bank, N.A., as Buyer, and Inspire Home Loans Inc., as Seller

Ladies and Gentlemen:

This letter (this “Side Letter”) sets forth certain fees, commitments and pricing information relating to the agreement between JPMORGAN CHASE BANK, N.A., a national association, as Buyer (and together with successors and assigns, “Buyer”), and INSPIRE HOME LOANS INC., a Delaware corporation, as Seller (“Seller”), pursuant to which Seller and Buyer may enter into reverse repurchase arrangements whereby Seller from time to time sells to Buyer, in Buyer’s sole discretion, and simultaneously agrees to repurchase on a date certain, certain first lien mortgage loans (the “Mortgage Loans”) pursuant to that certain Master Repurchase Agreement dated as of September 15, 2017, as amended by that certain First Amendment to Master Repurchase Agreement and Side Letter dated as of December 15, 2017 and that certain Second Amendment to Master Repurchase Agreement dated as of the date hereof (as so amended, and as may be further supplemented, amended, restated or otherwise modified and in effect from time to time, the “Agreement”) between Buyer and Seller. This is the “Side Letter” as defined and referred to in the Agreement. Capitalized terms defined in the Agreement and used, but not defined differently, in this Side Letter have the same meanings here as there.

Buyer and Seller agree, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, as follows:

1. Uncommitted Facility.

Subject to the terms and conditions set forth in the Agreement, from the date hereof until the Termination Date, Buyer agrees to consider engaging, on an uncommitted and wholly discretionary basis, in Transactions from time to time under the Agreement, as supplemented by this Side Letter, with respect to Eligible Mortgage Loans having a maximum aggregate Purchase Price outstanding at any one time of One Hundred Million and No/100 Dollars (\$100,000,000.00) (such maximum amount, the “Facility Amount”) from the date hereof until the Termination Date.

The Parties agree (a) that (i) notwithstanding the provisions of Section 7(b)(xii) of the Agreement, Buyer may from time to time electively enter into one or more Transactions with Seller or (ii) another event may occur, or other circumstances may exist, after which the Aggregate Purchase Price shall be greater than the Facility Amount, and (b) that notwithstanding the occurrence or existence of any such event or circumstances, every Transaction shall be and remain fully subject to all of the other terms and conditions of the Agreement and all other related Transaction Documents and entitled to all benefits

thereof. It is expressly understood and agreed that notwithstanding anything contained in the Agreement or this Side Letter to the contrary, Buyer shall have no obligation to enter into any Transaction pursuant to the Agreement, whether in respect of requests involving Eligible Mortgage Loans, the satisfaction of conditions set forth in this Side Letter or in Sections 3 or 7 of the Agreement, the non-existence of any Default or Event of Default, or otherwise.

In addition, the Parties may agree to increase or decrease the Facility Amount to any amount from time to time in the future by executing a letter agreement stating the new Facility Amount and the period of time that it will be in effect. If the Facility Amount is so increased at any time or times, it shall be a condition precedent to each such increase's becoming effective that the Seller first increase the deposit balance in the Cash Pledge Account to the Required Amount (determined in accordance with Section 5(b) of the Agreement) for such increased Facility Amount. At the time of any reduction in the Facility Amount, whether pursuant to a letter agreement decreasing the Facility Amount or because the time limit for any increase in the Facility Amount shall have expired, Seller shall be obligated, without notice or demand, to make a cash payment to Buyer in an amount equal to the excess of the Aggregate Purchase Price then outstanding over the reduced Facility Amount, to be applied by Buyer to reduce the Repurchase Prices of Purchased Mortgage Loans that are then subject to outstanding Transactions. No Guaranty, if any, shall be reduced, limited, canceled, terminated or impaired in any way by any such future change in the Facility Amount, whether or not the related Guarantor concurrently executes a confirmation of such Guaranty.

2. Purchase Price.

For purposes of the Agreement and all other Transaction Documents, "Purchase Price" means, on any day:

- (a) for any Second Home Loan or any Investor Loan, ninety-five percent (95.0%);
- (b) for any Jumbo Loan that is not a CL Loan, ninety-five percent (95.0%);
- (c) for any Aged Loan, eighty-five percent (85.0%); and
- (d) for any other Eligible Mortgage Loan, ninety-eight percent (98.0%);

of the lowest on that day of its (i) Outstanding Principal Balance, (ii) Market Value and (iii) Takeout Value. The percentages set forth above are the "Margin Percentages" for those respective types of Mortgage Loans.

If any Purchased Mortgage Loan is not repurchased by Seller on or before the sixtieth (60th) day after its Purchase Date but continues to be an Eligible Mortgage Loan (pursuant to the provisions of clause (xvi) of the definition of Eligible Mortgage Loan, the Aged Loan sublimit), Seller shall reduce its outstanding Purchase Price by paying to Buyer, on or before the Business Day next following such sixtieth (60th) day, a cash amount equal to the excess of (x) the then-outstanding Purchase Price of that Aged Loan over (y) its Aged Loan Purchase Price (determined in accordance with clause (c) of the first sentence of this Section 2).

3. Pricing Rate.

For purposes of the Agreement and all other Transaction Documents, and subject to Section 4 hereof, "Pricing Rate" for any day means:

- (a) for any Aged Loan, the per annum percentage rate equal to the sum of the Adjusted LIBO Rate for that day plus two and eight hundred seventy-five thousandths percent (2.875%);
- (b) for any Jumbo Loan, the per annum percentage rate equal to the sum of the Adjusted LIBO Rate for that day plus two and three hundred seventy-five thousandths percent (2.375%); and
- (c) for any other Eligible Mortgage Loan, the per annum percentage rate equal to the sum of the Adjusted LIBO Rate for that day plus two and three hundred seventy-five thousandths percent (2.375%);

provided that if Buyer, acting in its sole discretion, shall elect from time to time to give Seller a notice specifying a lower Pricing Rate (or Pricing Rates) for a specified time period, such lower Pricing Rate(s) specified in such notice shall be applicable for the time period specified in such notice.

As used herein, the following terms shall have the corresponding definitions:

"Adjusted LIBO Rate" means, for any day, an interest rate per annum equal to (a) the LIBO Rate on such day (or if such day is not a Business Day, on the immediately preceding Business Day) multiplied by (b) the Statutory Reserve Rate on such day.

"LIBO Rate" means, for any day, the LIBO Screen Rate for a one-month interest period at approximately 11:00 a.m., London time on such day; provided that if the LIBO Screen Rate shall not be available at such time, then the LIBO Rate shall be the rate per annum (rounded to the same number of decimal places as the LIBO Screen Rate) determined by Buyer (which determination shall be conclusive and binding absent manifest error) to be equal to the rate that results from interpolating on a linear basis between: (a) the LIBO Screen Rate for the longest period (for which the LIBO Screen Rate is available) that is shorter than one month; and (b) the LIBO Screen Rate for the shortest period (for which the LIBO Screen Rate is available) that exceeds one month, in each case, at such time; provided, further that if the LIBO Rate shall be less than zero, such rate shall be deemed to equal zero for the purposes hereof.

"LIBO Screen Rate" means, for any day and time, the London interbank offered rate as administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate) for U.S. Dollars for a one-month interest period as displayed on such day and time on pages LIBOR01 or LIBOR02 of the Reuters screen that displays such rate (or on any successor or substitute page on such screen that displays such rate, or on the appropriate page of such other information service that publishes such rate from time to time as selected by Buyer in its reasonable discretion), provided that if the LIBO Screen Rate shall be less than zero, such rate shall be deemed to equal zero for the purposes hereof.

"Statutory Reserve Rate" means, for any day, a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Federal Reserve Board to which Buyer is subject, with respect to the Adjusted LIBO Rate, for Eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D) as of such day. Such reserve percentages shall include those imposed pursuant to

Regulation D. Transactions shall be deemed to constitute Eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time under Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

4. Alternate Pricing Rate.

error) that:

(a) If at any time Buyer determines (which determination shall be conclusive absent manifest

(i) adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate

or the LIBO Rate, as applicable (including, without limitation, because the LIBO Screen Rate is not available or published on a current basis), for such day; or

(ii) the Adjusted LIBO Rate or the LIBO Rate, as applicable, will not adequately and fairly reflect the cost to Buyer of making or maintaining any purchase hereunder (or of maintaining its obligations to enter into any Transaction);

then Buyer shall give notice thereof to Seller by telephone or telecopy as promptly as practicable thereafter and, until Buyer notifies Seller that the circumstances giving rise to such notice no longer exist, then for purposes of the Agreement and the other Transaction Documents, the "Pricing Rate", for any day, shall mean, for any Eligible Mortgage Loan, the per annum percentage rate equal to the sum of the Alternate Base Rate for that day plus the Applicable Margin, for such Eligible Mortgage Loan.

(b) If at any time Buyer determines (which determination shall be conclusive absent manifest error) that (i) the circumstances set forth in Section 4(a)(i) have arisen and such circumstances are unlikely to be temporary or (ii) the circumstances set forth in Section 4(a)(i) have not arisen but the supervisor for the administrator of the LIBO Screen Rate or a Governmental Authority having jurisdiction over Buyer has made a public statement identifying a specific date after which the LIBO Screen Rate shall no longer be used for determining interest rates for loans, then Buyer and Seller shall endeavor to establish an alternate rate of interest to the LIBO Rate that gives due consideration to the then prevailing market convention for determining a rate of interest for syndicated loans in the United States at such time, and shall enter into an amendment to this Side Letter, the Agreement, and any other Transaction Document, as Buyer deems appropriate, to reflect such alternate rate of interest and such other related changes to this Side Letter, the Agreement, and any other Transaction Document as may be applicable; provided that, if such alternate rate of interest shall be less than zero, such rate shall be deemed to be zero for the purposes of this Side Letter, the Agreement and the other Transaction Documents. Until an alternate rate of interest shall be determined in accordance with this Section 4(b) (but, in the case of the circumstances described in clause (ii) of the first sentence of this Section 4(b), only to the extent the LIBO Screen Rate for U.S. dollars is not available or published at such time on a current basis), then for purposes of the Agreement and the other Transaction Documents, the "Pricing Rate", for any day, shall mean, for any Eligible Mortgage Loan, the per annum percentage rate equal to the sum of the Alternate Base Rate for that day plus the Applicable Margin, for such Eligible Mortgage Loan.

(c) As used herein, the following terms shall have the corresponding definitions:

"Alternate Base Rate" means, for any day, a rate per annum equal to the greater of (i) the Prime Rate (as defined in the Agreement) in effect on such day, and (ii) the NYFRB Rate in effect on such day

plus ½ of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the NYFRB Rate shall be effective from and including the effective date of such change in the Prime Rate or the NYFRB Rate. For the avoidance of doubt, if the Alternate Base Rate shall be less than zero, such rate shall be deemed to be zero for purposes hereof.

“Applicable Margin” means, (i) for any Aged Loan, one and eight hundred seventy-five thousandths percent (1.875%), and (ii) for any other Eligible Mortgage Loan, one and three hundred seventy-five thousandths percent (1.375%).

“Federal Funds Effective Rate” means, for any day, the rate calculated by the Federal Reserve Bank of New York based on such day’s federal funds transactions by depository institutions (as determined in such manner as the Federal Reserve Bank of New York shall set forth on its public website from time to time) and published on the next succeeding Business Day by the Federal Reserve Bank of New York as the effective federal funds rate, provided that if the Federal Funds Effective Rate shall be less than zero, such rate shall be deemed to zero for the purposes hereof.

“NYFRB Rate” means, for any day, the greater of (i) the Federal Funds Effective Rate in effect on such day and (ii) the Overnight Bank Funding Rate in effect on such day (or for any day that is not a Business Day, for the immediately preceding Business Day); provided that if none of such rates are published for any day that is a Business Day, the term “NYFRB Rate” means the rate for a federal funds transaction quoted at 11:00 a.m. on such day received by Buyer from a Federal funds broker of recognized standing selected by it; provided, further, that if any of the aforesaid rates shall be less than zero, such rate shall be deemed to be zero for purposes hereof.

“Overnight Bank Funding Rate” means, for any day, the rate comprised of both overnight federal funds and overnight eurocurrency borrowings by U.S.-managed banking offices of depository institutions, as such composite rate shall be determined by the Federal Reserve Bank of New York as set forth on its public website from time to time, and published on the next succeeding Business Day by the Federal Reserve Bank of New York as an overnight bank funding rate.

5. Non-Usage Fee.

Seller shall pay to Buyer on each Remittance Date following the end of each calendar quarter, and on the day the Agreement terminates, an amount (the “Non-Usage Fee”) equal to the product of (a) 1/4th of twenty-five basis points (0.25%) times (b) the excess, if any, of the Facility Amount over the average aggregate Purchase Price outstanding during such calendar quarter; provided that no Non-Usage Fee shall be due with respect to any calendar quarter for which the average aggregate Purchase Price outstanding during such quarter is equal to or greater than thirty-five percent (35%) of the Facility Amount. As examples of the application of the foregoing, (i) if the Facility Amount is \$100,000,000 and the average aggregate Purchase Price outstanding during a particular calendar quarter is \$30,000,000, the Non-Usage Fee for such quarter shall be the product of 1/4th of 25 basis points (0.25%) times \$70,000,000, or \$43,750, and (ii) if the Facility Amount is \$100,000,000 and the average aggregate Purchase Price outstanding during a particular calendar quarter is \$35,000,000 or more, no Non-Usage Fee shall be due for such quarter. The Non-Usage Fee, if any, for the calendar quarter in which the Agreement is terminated shall be prorated based on the actual number of days the Agreement is effective during such quarter. Non-Usage Fee payments are not refundable in whole or in part for any reason whatsoever.

6. Package and Funding Fee.

Seller shall pay to Buyer an amount (the "Package and Funding Fee") equal to Thirty-Five Dollars (\$35) plus Buyer's standard wire transfer and shipping fees, as applicable, for each Purchased Mortgage Loan on the next Remittance Date following the applicable Purchase Date. Package and Funding Fees are not refundable in whole or in part for any reason whatsoever.

7. Fraud Detection Fee.

Seller shall pay to Buyer an amount (the "Fraud Detection Fee") equal to Seven Dollars and Fifty Cents (\$7.50) for each Purchased Mortgage Loan on the next Remittance Date following the applicable Purchase Date for the use of a third-party mortgage fraud detection service. The Fraud Detection Fee will not be payable with respect to any Purchased Mortgage Loan for which there is submitted with the Loan File a fraud detection report acceptable to Buyer in its sole discretion. Fraud Detection Fee payments are not refundable in whole or in part for any reason whatsoever.

8. Change in Facility Amount; Calculation of Fees; Interest Rates.

(a) If the Agreement is amended pursuant to its terms so as to increase or decrease the Facility Amount, all calculations of fees under this Side Letter that are based on the Facility Amount shall be adjusted accordingly as of the date such amendment becomes effective.

(b) Buyer shall calculate the amounts of the Pricing Rate, the Non-Usage Fee and any other rate or fee set forth herein or in the Agreement, and the results of such calculations shall be incontestable absent manifest error. Buyer shall advise Seller of the periodic amounts of such rate and fees at least one (1) Business Day before payment is due.

(c) Buyer does not warrant or accept responsibility for, and shall not have any liability with respect to, the administration, submission or any other matter related to the rates in the definition of "LIBO Rate" or with respect to any comparable or successor rate thereto, or replacement rate therefor.

9. Depository Relationship.

Seller agrees to establish and maintain a significant banking depository and disbursement relationship with Buyer.

10. Controlling Agreement.

In the event of any inconsistency between the terms and provisions contained herein and those in the Agreement, the terms and provisions of this Side Letter shall govern.

11. Additional Fees.

All fees payable pursuant to this Side Letter are in addition to any fees, expenses and indemnification amounts payable pursuant to the terms of the Agreement.

12. Confidentiality.

Buyer and Seller agree that this Side Letter and all drafts hereof, the documents referred to herein or relating hereto and the transactions contemplated hereby are confidential in nature and the Parties agree

that, unless otherwise directed by a court of competent jurisdiction, each shall limit the distribution of such documents and the discussion of such transactions to such of its officers, employees, attorneys, accountants and agents as is required in order to fulfill its obligations under such documents and with respect to such transactions.

13. Term of Side Letter; Amendment; Payments.

- (a) The terms and provisions set forth in this Side Letter shall terminate upon the latest to occur of (i) the Termination Date, (ii) the day on which the Agreement is terminated and (iii) the day on which all amounts due by Seller under the Transaction Documents have been indefeasibly paid in full.
- (b) No amendment, waiver, supplement or other modification of this Side Letter shall be effective unless made in writing and executed by each of the Parties.
- (c) All payments to be made by Seller to Buyer pursuant to this Side Letter shall be made by wire transfer in immediately available funds to the account specified by Buyer.

14. Successors and Assigns.

- (a) The rights and obligations of Seller under this Side Letter shall not be assigned by Seller without the prior written consent of Buyer and any such assignment without the prior written consent of Buyer shall be null and void.
- (b) Buyer may assign all or any portion of its rights, obligations and interest under this Side Letter at any time without the consent of any Person; provided that, for so long as no Event of Default or Default has occurred and is continuing, any such assignment, other than an assignment to an Affiliate of Buyer, is subject to the prior written consent of Seller. Seller's consent shall not be required if an Event of Default or Default has occurred and is continuing.

15. Counterparts.

This Side Letter may be executed in any number of counterparts, each of which shall be deemed to be an original and all such counterparts shall constitute one and the same instrument.

16. Governing Law.

(a) THIS SIDE LETTER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF (EXCEPT FOR SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

(b) SELLER HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN THE CITY OF NEW YORK FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS SIDE LETTER OR THE TRANSACTIONS CONTEMPLATED HEREBY. SELLER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING IN THIS

PARAGRAPH SHALL AFFECT THE RIGHT OF BUYER TO BRING ANY ACTION OR PROCEEDING AGAINST SELLER OR ITS PROPERTY IN THE COURTS OF OTHER JURISDICTIONS. EACH PARTY CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO IT AT ITS ADDRESS FOR NOTICES SPECIFIED IN THE AGREEMENT.

(c) EACH OF SELLER AND BUYER (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN SELLER AND BUYER ARISING OUT OF OR IN ANY WAY RELATED TO THIS SIDE LETTER OR ANY OTHER TRANSACTION DOCUMENT. THIS PROVISION IS A MATERIAL INDUCEMENT TO BUYER TO PROVIDE THE FACILITY PROVIDED FOR IN THE AGREEMENT AND THIS SIDE LETTER.

17. Effectiveness; Amendment and Restatement.

(a) This Side Letter shall become effective upon the later to occur of (i) the effectiveness of that certain Second Amendment to Master Repurchase Agreement dated as of the date hereof by and between Buyer and Seller, and (ii) receipt by Buyer of this Side Letter, duly authorized and fully executed by Seller and Buyer.

(b) This Side Letter amends and restates in its entirety that certain Side Letter dated as of September 15, 2017 by and between Buyer and Seller, as amended by that certain First Amendment to Master Repurchase Agreement and Side Letter dated as of December 15, 2017 (as so amended, the "Existing Side Letter"), and upon the effectiveness of this Side Letter, the Existing Side Letter shall be superseded hereby.

(The remainder of this page is intentionally blank.)

Please confirm our mutual agreement as set forth herein and acknowledge receipt of this Side Letter by executing the enclosed copy of this letter and returning it to JPMorgan Chase Bank, N.A., 712 Main Street, Floor 5 North, Houston, Texas 77002, Attention: A. Philippe Tsoukias, email: andre.p.tsoukias@jpmorgan.com, or fax (713) 216-5534. If you have any questions concerning this matter, please contact me by email or by phone at (713) 216-0223.

Very truly yours,

JPMORGAN CHASE BANK, N.A., as Buyer

By: /s/ Andre P. Tsoukias
Title: Authorized Officer

Name: Andre P. Tsoukias

CONFIRMED AND ACKNOWLEDGED:

INSPIRE HOME LOANS INC., as Seller

By: /s/ James Palda
Name: James Palda
Title: President

[\(Back To Top\)](#)

Section 3: EX-10.22 (EX-10.22)

SECOND AMENDMENT TO MASTER REPURCHASE AGREEMENT

THIS SECOND AMENDMENT TO MASTER REPURCHASE AGREEMENT (this "Amendment") is made as of the 14th day of September 2018, by and between INSPIRE HOME LOANS INC., a Delaware corporation, as Seller ("Seller"), and JPMORGAN CHASE BANK, N.A., its successors, assign and affiliates, as Buyer ("Buyer").

RECITALS

- A. Buyer and Seller are parties to that certain Master Repurchase Agreement dated as of September 15, 2017, as amended from time to time (as so amended, and as may be further amended, restated, extended, replaced, supplemented or otherwise modified and in effect from time to time, the "Repurchase Agreement").
- B. Seller has requested that Buyer agree to amend each of the Repurchase Agreement in certain respects, all as more fully set forth herein, and Buyer is agreeable to such requests, on and subject to the terms and conditions set forth herein.

AGREEMENT

In consideration of the matters set forth in the recitals and the covenants and provisions herein set forth, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein are used with the meanings given such terms in the Repurchase Agreement.
2. Amendments to the Repurchase Agreement. Upon satisfaction of the conditions precedent hereinafter set forth, the Repurchase Agreement shall be amended as follows:
 - 2.1. Section 2 of the Repurchase Agreement is hereby amended by adding the following new definitions thereto, in proper alphabetical order:

"**Beneficial Ownership Certification**" means a certification regarding beneficial ownership as required by the Beneficial Ownership Regulation.

"**Beneficial Ownership Regulation**" means 31 C.F.R. § 1010.230. "**Federal Reserve Board**" means the Board of Governors of the Federal Reserve System of the United States of America.

"**Plan Asset Regulations**" means 29 CFR § 2510.3-101 et seq., as modified by Section 3(42) of ERISA, as amended from time to time.

"**Regulation D**" means Regulation D of the Federal Reserve Board, as in effect from time to time and all official rulings and interpretations thereunder or thereof.

"**Regulation T**" means Regulation T of the Federal Reserve Board, as in effect from time to time and all official rulings and interpretations thereunder or thereof.

“Regulation U” means Regulation U of the Federal Reserve Board, as in effect from time to time and all official rulings and interpretations thereunder or thereof.

“Regulation X” means Regulation X of the Federal Reserve Board, as in effect from time to time and all official rulings and interpretations thereunder or thereof.

“Second Amendment” means that certain Second Amendment to Master Repurchase Agreement dated as of the Second Amendment Effective date by and between Seller and Buyer.

“Second Amendment Effective Date” means September 14, 2018.

2.2. The definition of **“Eligible Mortgage Loan”** contained in Section 2 of the Repurchase Agreement is hereby amended by amending and restating clauses (xv), (xvi) and (xvii) thereof, in their entirety, to read as follows:

(xv) if a Low FICO Loan, whose Purchase Price, when added to the sum of the Purchase Prices of all other Low FICO Loans that are then subject to Transactions, is less than or equal to ten percent (10%) (or such other percentage as may be determined by Buyer in its sole discretion and specified in a written notice from Buyer to Seller from time to time) of the Facility Amount;

(xvi) if an Aged Loan, whose Purchase Price, when added to the sum of the Purchase Prices of all other Aged Loans that are then subject to Transactions, is less than or equal to ten percent (10%) (or such other percentage as may be determined by Buyer in its sole discretion and specified in a written notice from Buyer to any Seller from time to time) of the Facility Amount;

(xvii) if a Jumbo Loan, whose Purchase Price, when added to the sum of the Purchase Prices of all other Jumbo Loans that are then subject to Transactions, is less than or equal to ten percent (10%) (or such other percentage as may be determined by Buyer in its sole discretion and specified in a written notice from Buyer to any Seller from time to time) of the Facility Amount;

2.3. The following definitions contained in Section 2 of the Repurchase Agreement are hereby amended and restated in their entirety to read as follows:

“Margin Stock” means margin stock within the meaning of Regulations T, U and X, as applicable.

“Prime Rate” means the rate of interest per annum last quoted by The Wall Street Journal as the “Prime Rate” in the U.S. or, if The Wall Street Journal ceases to quote such rate, the highest per annum interest rate published by the Federal Reserve Board in Federal Reserve Statistical Release H.15 (519) (Selected Interest Rates) as the “bank prime loan” rate or, if such rate is no longer quoted therein, any similar rate quoted therein (as determined by Buyer) or any similar release by the Federal Reserve Board (as determined by Buyer). The Prime Rate is a variable rate and each change in the Prime Rate is effective from and including the date the change is publicly announced or quoted as being

effective. THE PRIME RATE IS A REFERENCE RATE AND MAY NOT BE BUYER'S LOWEST RATE.

"**Sanctioned Person**" means, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State, (b) any Person operating, organized or resident in a Sanctioned Country, (c) any Person owned or controlled by any such Person or Persons described in the foregoing clauses (a) or (b), or (d) any Person otherwise the subject of any Sanctions.

"**Side Letter**" means that certain Side Letter dated as of September 15, 2017 by and between Buyer and Seller, as amended by that certain First Amendment to Master Repurchase Agreement and Side Letter dated as of December 15, 2017, and as amended and restated by that certain Side Letter dated as of Second Amendment Effective Date, and as the same may be further supplemented, amended, restated, increased or otherwise modified and in effect from time to time.

"**Termination Date**" means the earliest of (i) the Business Day, if any, that Seller or Buyer designates as the Termination Date by written notice given to the other Party at least thirty (30) days before such date, (ii) the date of declaration of the Termination Date pursuant to Section 12(b)(i), and (iii) September 13, 2019.

2.4. Section 5(b) of the Repurchase Agreement, entitled "Cash Pledge Account", is hereby amended and restated in its entirety to read as follows:

(b) Cash Pledge Account. On or before the Second Amendment Effective Date, Seller shall deposit an amount equal to seventy-five basis points (0.75%) of the Facility Amount (the "**Required Amount**") into the Cash Pledge Account. Seller shall cause an amount not less than the Required Amount to be on deposit in the Cash Pledge Account at all times. If on any Remittance Date, the amount on deposit in the Cash Pledge Account is greater than the Required Amount, provided that no Default or Event of Default has occurred and is continuing, upon Seller's request such excess will be disbursed to Seller on such Remittance Date after application by Buyer to the payment of any amounts owing by Seller to Buyer on such date. At any time after the occurrence and during the continuance of an Event of Default, Buyer, in its sole discretion, may apply the amounts on deposit in the Cash Pledge Account in accordance with the provisions of Section 5(g).

2.5. Section 10(a) of the Repurchase Agreement is hereby amended by (a) amending and restating subsection (xiv) thereof in its entirety, and (b) adding a new subsection (xxxiv) at the end thereof, which subsections (xiv) and (xxxiv) shall read as follows:

(xiv) Margin Regulations. Seller is not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying Margin Stock, or extending credit for the purpose of purchasing or carrying Margin Stock, and no part of the proceeds of any Transaction hereunder will be used to buy or carry any Margin Stock. Following the application of the

proceeds of any Transaction hereunder, not more than 25% of the value of the assets (either of Seller only or of Seller and its Subsidiaries on a consolidated basis) will be Margin Stock.

(xxxiv) Plan Assets; Prohibited Transactions. None of Seller or any of its Subsidiaries is an entity deemed to hold “plan assets” (within the meaning of the Plan Asset Regulations), and the execution, delivery or performance of the transactions contemplated under this Agreement, will give rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

2.6. Section 11(e) is hereby amended by added a new subsection (xvii) at the end thereof, which new subsection reads as follows:

(xvii) any change in the information provided in the Beneficial Ownership Certification (if any) most recently delivered to Buyer that would result in a change to the list of beneficial owners identified in such certification.

2.7. Section 11(h)(vii) of the Repurchase Agreement is hereby amended and restated in its entirety to read as follows:

(vii) from time to time, with reasonable promptness, (A) such further information regarding the Mortgage Assets, or the business, operations, properties or financial condition of Seller and any Guarantor as Buyer may reasonably request, and (B) information and documentation reasonably requested by Buyer for purposes of compliance with applicable “know your customer” and anti-money laundering rules and regulations, including the USA Patriot Act of 2011 and the Beneficial Ownership Regulation.

2.8. Section 11(z) of the Repurchase Agreement, entitled “Financial Covenants”, is hereby amended by amending and restating clauses (ii), (iv) and (v) thereof in their entirety to read as follows:

(ii) Minimum Adjusted Tangible Net Worth. Seller shall not permit the Adjusted Tangible Net Worth of Seller (and, if applicable, its Subsidiaries, on a consolidated basis), computed as of the end of each calendar month, to be less than \$10,000,000.

(iv) Maintenance of Available Warehouse Facilities. Seller shall maintain at all times Available Warehouse Facilities from buyers and lenders other than Buyer such that the Available Warehouse Facility under this Agreement constitutes no more than seventy-five percent (75%) of Seller’s aggregate Available Warehouse Facilities.

(v) Net Income. Seller shall not permit (A) its net income before taxes, for any calendar quarter, to be less than One Dollar (\$1), or (B) its net loss before taxes for the first calendar quarter of each calendar year to exceed \$1,000,000.

3. Conditions to Effectiveness. This Amendment shall become effective as of the date hereof (the "Amendment Effective Date") upon the satisfaction in full (unless waived by Buyer in writing) of all of the following conditions precedent:

3.1. This Amendment. This Amendment, duly authorized and fully executed by Seller and Buyer, shall have been delivered to Buyer.

3.2. Side Letter. Seller shall have delivered to Buyer that certain Side Letter dated as of the date hereof, duly authorized and fully executed by Seller and Buyer, in form and substance satisfactory to Buyer.

3.3. Cash Pledge Account. Seller shall have increased the deposit balance in the Cash Pledge Account to the Required Amount (determined in accordance with Section 5(b) of the Repurchase Agreement, as amended hereby) for the increase of Facility Amount contemplated hereby.

3.4. Other. Such other agreements, instruments, certificates or documents as Buyer may request in order to give effect fully to the transactions contemplated herein shall have been duly executed and delivered to Buyer.

4. Effect of Amendment; Ratification. Except as expressly amended hereby, each of the Repurchase Agreement is and shall continue in full force and effect and Seller hereby fully ratifies and affirms in all respects the Repurchase Agreement, the Side Letter and the other Transaction Documents to which it is a party. Reference in any of this Amendment, the Repurchase Agreement, the Side Letter or any of the other Transaction Documents to the Repurchase Agreement or to the Side Letter shall be a reference to the Repurchase Agreement or the Side Letter, as applicable, as amended hereby and as the same may be further amended, restated, supplemented or otherwise modified and in effect from time to time. This Amendment shall not be deemed to expressly or impliedly waive, amend, or supplement any provision of the Repurchase Agreement or the Side Letter, other than as specifically set forth herein. This Amendment shall constitute a "Transaction Document" for all purposes of the Repurchase Agreement.

5. Counterparts; Delivery. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, and each counterpart shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or other electronic means shall be effective as delivery of a manually executed counterpart of this Amendment.

6. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ANY OTHERWISE APPLICABLE CONFLICT OF LAW PRINCIPLES WHICH WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THOSE OF THE STATE OF NEW YORK.

7. Section Headings. The various headings and captions of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment, the Repurchase Agreement, the Side Letter, any other Transaction Document or any provision of any of the foregoing.

[Signature Page Follows Immediately]

BUYER:

JPMORGAN CHASE BANK, N.A.

By: /s/ Andre P. Tsoukias
Name: Title:

Andre P. Tsoukias Authorized Officer

SELLER:

INSPIRE HOME LOANS INC.

By: /s/ James Palda

Name: James Palda
Title: President

*Signature Page to Second Amendment to Master Repurchase Agreement
by and between JPMorgan Chase Bank, N.A., as Buyer, and Inspire Home Loans Inc., as Seller*

[\(Back To Top\)](#)

Section 4: EX-10.23 (EX-10.23)

CREDIT AGREEMENT (Mortgage Warehousing)

This Credit Agreement is entered into as of May 4, 2018, by and between Comerica Bank ("Bank") and Inspire Home Loans Inc., a Delaware corporation (singularly and collectively, if more than one party, "Borrower").

In consideration of all present and future loans and credit from time to time made available by Bank to or in favor of Borrower, and in consideration of all present and future Indebtedness (as herein defined) of Borrower to Bank, Borrower represents, warrants, covenants and agrees as follows:

SECTION 1 DEFINITIONS.

(a) **Defined Terms.** As used in this Agreement, the following terms shall have the respective meanings set forth below:

"**Advance Account**" shall mean account no. 1895261558 in the name of Borrower with Bank, into which advances of the Line of Credit are made, which advances are to be used by Borrower to originate or purchase Pledged Mortgage Loans in accordance with this Agreement, together with any replacement or successor account thereto.

"**Affiliate**" or "**Affiliates**" shall mean, when used with respect to any Person, any other Person which, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with such Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), with respect to any Person, shall mean possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Affiliate Receivables**" shall mean, as of any time of determination, any amounts (whether in respect of loans or advances, accounts receivable, notes receivable or otherwise) owing to Borrower or another Loan Party from any of its/their Subsidiaries or Affiliates or any Guarantor at such time.

"**Agency**" shall mean Ginnie Mae, Fannie Mae, Freddie Mac, HUD, FHA or VA.

"**Agency Guides**" shall mean the Freddie Mac Guide, the Fannie Mae Guide and the Ginnie Mae Guide.

"**Agency MBS**" shall mean an MBS guaranteed or issued by Fannie Mae, Freddie Mac or Ginnie Mae, in each case representing, secured or backed by a pool of Mortgage Loans consisting of any Mortgage Loan that is a Pledged Mortgage Loan at the time of formation of the related pool.

"**Agreement**" shall mean this Credit Agreement, as the same may be amended from time to time.

"**Applicable Advance Rate**" shall mean the following:

- (a) With respect to a Conforming Mortgage Loan, ninety eight percent (98%);
- (b) With respect to a Jumbo Loan, ninety seven percent (97%); and
- (c) With respect to a Low FICO Score Loan, ninety five percent (95%);

"**Applicable Measuring Period**" shall mean (i) if the date of determination is June 30, 2018, the one (1) month period ending on such date, (ii) if the date of determination is July 31, 2018, the two (2) month period ending on such date, (iii) if the date of determination is August 31, 2018, the three (3) month period ending on such date, (iv) if the date of determination is September 30, 2018, the four (4) month period ending on such date, (v) if the date of determination is October 31, 2018, the five (5) month period ending on such date, (vi) if the date of determination is November 30, 2018 the six (6) month period ending on such date, (vii) if the date of determination is December 31, 2018, the seven (7) month period ending on such date, (viii) if the date of determination is January 31, 2019, the eight (8) month period ending on such date, (ix) if the date of determination is February 28, 2019, the nine (9) month period ending on such date, (x) if the date of determination is March 31, 2019, the ten (10) month period ending on such date, (xi) if the date of determination is April 30, 2019, the eleven (11) month period ending on such date, and (xii) if the date of determination is May 31, 2019, or the last day of any month ending thereafter, the twelve (12) month period ending on such date.

"**Authorized Agent**" shall mean (a) each Person who has been authorized by a resolution of the Borrower (i) to negotiate and procure loans and other credit or financial accommodations from the Bank for or on behalf of the Borrower, (ii) to give security for any liabilities of the Borrower to the Bank, (iii) to execute and deliver in form and content as may be required by the Bank any and all Loan Documents, and/or (iv) to pay the proceeds of any such loans, advances or discounts as directed by the Person so authorized to sign, (b) each employee, agent, third party vendor or other Person named under documentation or Electronic Transmissions furnished by Borrower or any Authorized Agent to Bank from time to time in a manner determined by and acceptable to Bank, as being authorized to give telephone or Electronic Transmissions to Bank with respect to the Line of Credit, the Collateral or otherwise in connection with this Agreement or any of the other Loan Documents, including, but not limited to, telephone or Electronic Transmissions under Sections 2(b) and 2(c) hereof, regardless of whether such Person has been expressly authorized by a resolution of the Borrower (or otherwise authorized by the Borrower) to give such telephone or Electronic Transmissions to Bank for or on behalf of the Borrower, and each Person who represents or purports to be, or makes a telephone or Electronic Transmission as, one of the Persons described in paragraph (a) or (b) above.

"**Authorized Officer**" shall mean the chief executive officer, the president or the chief financial officer, or in his/her absence, another responsible senior officer, of Borrower or any other Loan Party, or the general partner of, or the partner or one of the partners required to bind, Borrower or any other Loan Party, as applicable.

"**Best Efforts Commitment**" shall mean a so-called "best efforts" written commitment or agreement from an investor acceptable to Bank, to purchase from the Borrower within a

specified time period one or more specific Mortgage Loans, under which commitment the Borrower has the right, but is not obligated, to sell such Mortgage Loan(s).

"Borrowing Base" shall mean, as of any applicable date of determination, and without duplication:

- (a) For Pledged Conforming Mortgage Loans, the lesser of (i) the Collateral Value of all such Mortgage Loans, or (ii) one hundred percent (100%) of the Maximum Line Amount, plus
- (b) For Pledged Jumbo Loans, the lesser of (i) the Collateral Value of all such Mortgage Loans, or (ii) twenty percent (20%) of the Maximum Line Amount, plus
- (c) For Pledged Low FICO Score Loans, the lesser of (i) the Collateral Value of all such Mortgage Loans, or (ii) Two Million and 00/100 Dollars (\$2,000,000.00),

provided, however, (i) the aggregate principal amount of all Wet Funded Loans included in the Borrowing Base shall at no time exceed the lesser of (A) the Collateral Value of all such Mortgage Loans, or (B) for the first five (5) and last five (5) Business Days of each month, sixty percent (60%) of the Maximum Line Amount, and forty percent (40%) of the Maximum Line Amount at all other times, (ii) the Borrowing Base shall in no event include any Mortgage Loan with respect to which the draft or wire request has not been honored or funded by Bank for any reason, and (iii) the Borrowing Base shall in no event exceed the Maximum Line Amount.

"Business Day" shall mean any day, other than a Saturday, Sunday or any other day designated as a holiday under Federal or applicable State statute or regulation, on which Bank is open for all or substantially all of its domestic and international business (including dealings in foreign exchange) in Detroit, Michigan.

"CPA" shall mean independent certified public accountants of recognized standing selected by Borrower or another Loan Party, as applicable, and acceptable to Bank.

"Capital Expenditure" shall mean any expenditure by a Person for (a) an asset which will be used in a year or years subsequent to the year in which the expenditure is made and which asset is properly classified in relevant financial statements of such Person as equipment, real property, a fixed asset or a similar type of capitalized asset in accordance with GAAP, or (b) an asset relating to or acquired in connection with an acquired business, and (c) any and all acquisition costs related to (a) or (b) above.

"Cash and Cash Equivalents" shall mean all Unencumbered cash and cash equivalents acceptable to Bank as Bank shall determine from time to time in its sole discretion, which cash and cash equivalents are held at Bank.

"Cash and Cash Equivalents Collateral" shall mean any Cash and Cash Equivalents of Borrower or any Guarantor held at Bank, and with respect to which Borrower or such Guarantor has granted Bank and Bank has a first priority, perfected, exclusive security interest in and lien on such Cash and Cash Equivalents to secure the Indebtedness, under security agreement(s),

account control agreement(s), guaranty(ies) and other documents acceptable to Bank in its sole discretion.

"Cash Collateral Account" shall mean account no. 1895261277 in the name of Borrower with Bank, being the "Cash Collateral Account" as defined in the Security Agreement, into which the proceeds of any sale or other disposition of the Collateral shall be paid, together with any replacement or successor account thereto.

"Certifying Custodian" shall mean any Person acting as the Borrower's "document custodian", "custodian" or "certifying custodian," as such terms are used in the Agency Guides, for purposes of (a) certifying that the documentation relating to Mortgage Loans received by such Person from the Borrower is complete and acceptable under an applicable Agency Guide for purposes of including such Mortgage Loan in Agency MBS and (b) holding such documentation following formation of such pools and issuance of such Agency MBS. Each Certifying Custodian shall at all times meet the eligibility requirements set in the applicable Agency Guide(s) and be a party to an Agency custodial agreement among the applicable Agency, the Borrower and such Certifying Custodian. Before appointing or making any change in the Certifying Custodian, the Borrower shall obtain the prior written approval of the Bank. At any time that there is more than one Certifying Custodian, references in this Agreement to the "Certifying Custodian" shall mean any or all Certifying Custodians, as applicable.

"Collateral" shall mean all property, assets and rights in which a Lien or other encumbrance in favor of or for the benefit of Bank is or has been granted or arises or has arisen, or may hereafter be granted or arise, under or in connection with any Loan Document, or otherwise, to secure the payment or performance of any portion of the Indebtedness.

"Collateral Value" shall mean, with respect to any applicable Mortgage Loan:

- (a) With respect to any Mortgage Loan other than a Wet Funded Loan, the Applicable Advance Rate for such Mortgage Loan of the least of (i) the outstanding principal amount of such Mortgage Loan, (ii) the cost to purchase such Mortgage Loan, if applicable, or (iii) the Committed Purchase Price for such Mortgage Loan; and
- (b) With respect to a Wet Funded Loan, the Collateral Value of the underlying Mortgage Loan with respect thereto.

"Committed Purchase Price" shall mean, with respect to any Pledged Mortgage Loan, the purchase price for such Mortgage Loan under the Take-Out Commitment for such Mortgage Loan.

"Compliance Certificate" shall mean a Compliance Certificate in the form attached as Exhibit A hereto, certified by an Authorized Officer of Borrower, certifying that, as of the date thereof, to the best of such Authorized Officer's knowledge, no Default or Event of Default shall have occurred and be continuing or exist, or if any Default or Event of Default shall have occurred and be continuing or exist, specifying, in detail, the nature and period of existence thereof and any action taken or proposed to be taken by Borrower and/or any other Loan Party in

respect thereof, and also certifying as to whether Borrower and/or any other Loan Party, as applicable, is/are in compliance with any financial covenant(s) contained in this Agreement and as more particularly described in said Compliance Certificate (which Compliance Certificate shall set forth, in reasonable detail, the calculations and the resultant ratios or financial tests of the Borrower and/or such Loan Party, as applicable, determined thereunder).

"Conforming Mortgage Loan" shall mean an Eligible Mortgage Loan with respect to which each of the following statements shall be accurate and complete (and Borrower by including such Mortgage Loan in any computation of the Borrowing Base shall be deemed to so represent and warrant to the Bank as of the date of such computation):

- (a) if such Mortgage Loan is a Conventional Mortgage Loan, such Mortgage Loan is underwritten in conformity with the underwriting standards of Fannie Mae or Freddie Mac in effect at the time of such underwriting, and is otherwise eligible for inclusion in a pool supporting a Fannie Mae or Freddie Mac MBS;
- (b) if such Mortgage Loan is not a Conventional Mortgage Loan, such Mortgage Loan is (i) guaranteed or insured by FHA and/or VA (or a binding commitment to issue such guaranty or insurance is in effect with respect thereto); and
- (c) the obligor on such Mortgage Loan has a FICO Score of not less than 620.

"Conventional Mortgage Loan" shall mean a Mortgage Loan which meets all underwriting guidelines of Fannie Mae or Freddie Mac for purchase at the time made.

"Consolidated" or "consolidated" shall mean, when used with reference to any financial term in this Agreement, the aggregate for two or more persons of the amounts signified by such term for all such persons determined on a consolidated basis in accordance with GAAP. Unless otherwise specified herein, references to "consolidated" financial statements or data of Borrower includes consolidation with its Subsidiaries in accordance with GAAP.

"Custodial Account" shall mean a securities custodial account established and maintained by the Borrower with the Bank or such other party as Bank may direct (i.e., the custodian) for the purpose of holding all Agency MBS and the settlement proceeds thereof until such settlement proceeds shall be transferred to the Cash Collateral Account pursuant to the Master Custodial Agreement. The Custodial Account shall be a "no access" account to the Borrower maintained in the custodian's or nominee name (i.e., as bailee of, and custodian for, the Bank) for the benefit of the Bank. The Bank shall have exclusive control over the disposition of all Agency MBS and funds held in the Custodial Account, and the Borrower shall not have any right to transfer, trade or otherwise direct the disposition of such Agency MBS or funds held in the Custodial Account, except as otherwise specifically set forth in the Master Custodial Agreement.

"Debt" shall mean, as of any applicable date of determination, the total liabilities of a Person at such time, as determined in accordance with GAAP, plus, to the extent not included in total liabilities under GAAP, the indebtedness and obligations of such Person under mortgage repurchase facilities. In the case of Borrower, the term "Debt" shall include, without limitation, the Indebtedness.

"Debt-to-Tangible Effective Net Worth Ratio" shall mean, in respect of any applicable Person(s) and as of any applicable date of determination thereof, the ratio of (a) the total Debt of such Person(s) at such time, less loan loss reserves to the extent included in Tangible Effective Net Worth, plus any off-balance sheet obligations not provided by the end purchasers of Mortgage Loans, to (b) the Tangible Effective Net Worth of such Person(s) at such time.

"Default" shall mean any condition or event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default.

"Distributions" shall mean, in respect of any applicable Person(s), dividends on, or other payments or distributions on account of, or the setting apart of money for a sinking or other analogous fund for, or the purchase, redemption, retirement or other acquisition of, any Equity Interest of such Person(s) or of any warrants, options or other rights to acquire the same.

"Electronic Tracking Agreement" shall mean an Electronic Tracking Agreement by and among the Borrower, the Bank, MERS and MERSCORP, in form acceptable to Bank in its sole discretion, as it may be amended from time to time.

"Electronic Transmission" shall mean each document, instruction, authorization, file, information and any other communication transmitted, posted or otherwise made or communicated by e-mail, facsimile transmission or fax, or otherwise to or from an E-System or other equivalent service.

"Eligible Mortgage Loan" shall mean a Mortgage Loan (including a Wet Funded Loan) with respect to which each of the following statements shall be accurate and complete (and Borrower, by including such Mortgage Loan in any computation of the Borrowing Base, shall be deemed to so represent and warrant to Bank as of the date of such computation):

- (a) Such Mortgage Loan is a binding and valid obligation of the obligor thereon, in full force and effect and enforceable in accordance with its terms.
- (b) Such Mortgage Loan is genuine in all respects as appearing on its face and as represented in the books and records of Borrower and all information set forth therein is true and correct.
- (c) Such Mortgage Loan is free of any default of any party thereto (including Borrower), other than as expressly permitted pursuant to subparagraph (d) below, counterclaims, offsets and defenses and from any rescission, cancellation or avoidance, and all right thereof, whether by operation of law or otherwise.
- (d) No payment under such Mortgage Loan is more than thirty (30) days past due the payment due date set forth in the underlying Mortgage Note and Mortgage.
- (e) Such Mortgage Loan contains the entire agreement of the parties thereto with respect to the subject matter thereof, has not been modified or amended in any respect and is free of concessions or understandings with the obligor thereon of any kind not expressed in writing therein.

- (f) Such Mortgage Loan and, if applicable, each Agency MBS, complies with all applicable federal, state and local laws, rules and regulations governing the same, including, without limitation, the federal Consumer Credit Protection Act and the regulations promulgated thereunder, all applicable usury laws and restrictions, and all applicable predatory and abusing lending laws. All notices, disclosures and other statements or information required by applicable federal, state and local law, rule or regulation to be given, and any other act required by applicable federal, state or local law, rule or regulation to be performed, in connection with said Mortgage Loan, have been given and performed as required. Said Mortgage Loan is not "high cost", "high rate", "high fee" or "predatory" as defined by any applicable federal, state or local predatory or abusive lending laws. Such Mortgage Loan complies with all terms and requirements of all Agency Guides relating to such Mortgage Loan, and if applicable, each Agency MBS.
- (g) All advance payments and other deposits required to be paid on such Mortgage Loan have been paid in cash, and no part of said sums has been loaned, directly or indirectly, by Borrower to the obligor and there have been no prepayments on account of such Mortgage Loan.
- (h) At all times such Mortgage Loan will be free and clear of all liens, except in favor of Bank.
- (i) The property and improvements covered by such Mortgage Loan are insured against loss or damage by fire, flood (when required by the investor) and all other hazards normally included within standard extended coverage in accordance with the provisions of such Mortgage Loan with Borrower named as a mortgagee under a standard mortgagee endorsement and loss payee thereon.
- (g) The property covered by such Mortgage Loan is free and clear of all liens, encumbrances, easements or restrictions, except (i) such Mortgage Loan, (ii) liens for taxes, not yet due and payable, special assessments or similar governmental charges not yet due and payable or still subject to payment without interest or penalty, (iii) zoning restrictions, utility easements, covenants, or conditions and restrictions of record, which shall neither defeat nor render invalid such lien or the priority thereof, nor materially impair the marketability or value of such real estate, nor be violated by the existing improvements or the intended use thereof, (iv) subordinate liens, and (v) such other liens as may have been approved in writing by Bank.
- (k) Such Mortgage Loan is either (i) covered by a Mandatory Commitment or a Best Efforts Commitment, and such Mandatory Commitment or Best Efforts Commitment is in full force and effect and Borrower and the Mortgage Loan are in full compliance therewith, or (ii) covered by a Hedge Agreement satisfactory to Bank.
- (l) The date of the underlying Mortgage Note is no earlier than thirty (30) days prior to the date such Mortgage Loan is first included in the Borrowing Base.

- (m) The improvements on the property consist of a completed one-to-four unit single family residence, including but not limited to a condominium, planned unit development or townhouse but excluding in any event a co-op.
- (n) There has been delivered to Bank the Required Documents or the Wet Funded Required Documents.
- (o) Such Mortgage Loan is not subject to any servicing arrangement with any person other than Borrower nor are any servicing rights relating to such Mortgage Loan subject to any lien, claim, interest or negative pledge in favor of any person other than Bank.
- (p) Such Mortgage Loan has not been included in the Borrowing Base (whether as a Wet Funded Loan or otherwise) for more than the applicable Warehouse Period.
- (q) Such Mortgage Loan has not previously been included in the Borrowing Base (except as a Wet Funded Loan, if applicable).
- (r) If an appraisal is required by the Take-Out Commitment for such Mortgage Loan, such appraisal satisfies the requirements for such Take-Out Commitment.
- (s) If the Mortgage Loan has been sent to an investor, not more than forty-five (45) days have elapsed from the date of delivery, unless the Mortgage Loan has been returned to Bank.
- (t) If the Mortgage Note or any other Required Document has been released to Borrower, not more than twenty (20) days shall have elapsed from the date of delivery to Borrower.
- (u) The Mortgage Note with respect thereto matures not more than thirty (30) years from the date of such Mortgage Note.
- (v) Said Mortgage Loan has been fully funded and the obligor is not entitled to any further advances under the Mortgage Note with respect thereto.
- (w) Such Mortgage Loan shall comply with all of the terms, conditions and requirements of this Agreement, including without limitation, Section 4(p) hereof.
- (x) Bank shall not have notified Borrower that such Mortgage Loan is, for any reason in Bank's sole determination, ineligible.

"**Environmental Laws**" shall mean all laws, statutes, codes, ordinances, rules, regulations, orders, decrees and directives issued by any federal, state, local, foreign or other governmental or quasi-governmental authority or body (or any agency, instrumentality or political subdivision thereof) relating to the environment or pertaining to Hazardous Materials; any so-called "superfund" or "superlien" law pertaining to Hazardous Materials on or about any Property at any time owned, leased or otherwise used by Borrower or any of its Subsidiaries (if applicable), or any portion thereof, including, without limitation, those relating to soil, surface, subsurface groundwater conditions and the condition of the ambient air; and any other federal,

state, foreign or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any Hazardous Material, as now or at any time hereafter in effect.

"Equity Interest" shall mean, with respect to any Person, (i) all of the shares of capital stock of (or other ownership or profit interests in) such Person, (ii) all of the warrants, options or other rights for the purchase or acquisition from such Person of share's of capital stock of (or other ownership or profit interests in) such Person, (iii) all of the securities convertible into or exchangeable for shares of capital stock (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and (iv) all of the other ownership or profit interests in such Person (including, without limitation, partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are authorized or otherwise existing on any date of determination.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, or any successor act or code.

"E-System" shall mean any electronic system and any other internet or extranet-based site, whether such electronic system is owned, operated, hosted or utilized by the Bank, any of its Affiliates or any other Person, providing for access to data protected by passcodes or other security system.

"Event of Default" shall mean the occurrence or existence of any of the conditions or events set forth in Section 6 of this Agreement.

"Fannie Mae" shall mean the Federal National Mortgage Association and any successor thereto or to the functions thereof.

"Fannie Mae Guide" shall mean, collectively, the "Selling Guide" and the "Servicing Guide" published by Fannie Mae, as amended, modified, supplemented or restated from time to time.

"FHA" shall mean the Federal Housing Administration and any successor thereto or to the functions thereof.

"FICO Score" shall mean the Fair Isaac & Company or similar computer analytical objective scoring model ascertaining a borrower's credit reputation based on a scale of 350-900, the lower the number, the greater the probability of default.

"Freddie Mac" shall mean the Federal Home Loan Mortgage Corporation and any successor thereto or to the functions thereof.

"Freddie Mac Guide" shall mean the "Sellers' & Servicers' Guide" published by Freddie Mac, as amended, modified, supplemented or restated from time to time.

"GAAP" shall mean generally accepted accounting principles consistently applied.

"Ginnie Mae" shall mean the Government National Mortgage Association and any successor thereto or to the functions thereof.

"Ginnie Mae Guide" shall mean collectively, the "GNMA I Mortgage-Backed Securities Guide" and the "GNMA Mortgage-Backed Securities Guide" published by HUD, as amended, modified, supplemented or restated from time to time.

"Guarantor" or "Guarantors" shall mean, as the context dictates, any Person(s) (other than Borrower) who shall, at any time, guarantee or otherwise be or become obligated for the repayment of all or any part of the Indebtedness.

"Guaranty" shall mean a guaranty in form and substance satisfactory to Bank pursuant to which a Guarantor guarantees payment of all or any portion of the Indebtedness.

"Hazardous Materials" shall mean all of the following: any asbestos, petroleum, petroleum by-products, flammable explosives, radioactive materials, and any hazardous or toxic materials, as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Sections 9601 et seq.), or in any other Environmental Law.

"Hedge Agreement" shall mean an agreement or other arrangement (including, without limitation, an interest rate swap agreement, interest rate cap agreement or forward sales agreement) entered into by Borrower in the ordinary course its business to protect itself against changes in interest rates or the market value of assets.

"Housing Authority Loan" shall mean a Mortgage Loan which is covered by a Take Out Commitment from a state housing authority under a government bond loan program.

"HUD" shall mean the Department of Housing and Urban Development and any successor thereto or to the functions thereof.

"Indebtedness" shall mean any and all present and future indebtedness, obligations or liabilities of the Borrower and/or any other Loan Party to the Bank, howsoever arising, evidenced or incurred, whether absolute or contingent, direct or indirect, voluntary or involuntary, liquidated or unliquidated, joint or several, now or hereafter existing or arising, due or to become due, whether known or unknown, and whether originally payable to the Bank or to a third party and subsequently acquired by the Bank, including, without limitation, (a) any and all direct indebtedness of the Borrower and/or any other Loan Party to the Bank, including indebtedness evidenced by any and all promissory notes; (b) any and all indebtedness, obligations or liabilities of the Borrower and/or any other Loan Party to the Bank arising under any guaranty where the Borrower and/or any other Loan Party has guaranteed the payment of indebtedness owing to the Bank from a third party; (c) any and all indebtedness, obligations or liabilities of the Borrower and/or any other Loan Party to the Bank arising from applications or agreements for the issuance of letters of credit; (d) late charges, loan fees or charges and overdraft indebtedness; (e) any agreement to indemnify the Bank for environmental liability or to clean up hazardous waste; (f) any and all indebtedness, obligations or liabilities for which the Borrower and/or any other Loan Party would otherwise be liable to the Bank were it not for the invalidity, irregularity or unenforceability of them by reason of any bankruptcy, insolvency or

other law or order of any kind, or for any other reason, including, without limit, liability for interest and attorneys' fees on, or in connection with, any of the Indebtedness from and after the filing by or against the Borrower and/or any other Loan Party of a bankruptcy petition, whether an involuntary or voluntary bankruptcy case, including, without limitation, all attorneys' fees and costs incurred in connection with motions for relief from stay, cash collateral motions, nondischargeability motions, preference liability motions, fraudulent conveyance liability motions, fraudulent transfer liability motions and all other motions brought by the Borrower, any other Loan Party, the Bank or third parties in any way relating to the Bank's rights with respect to Borrower, any other Loan Party or third party and/or affecting any collateral securing any obligation owed to Bank by the Borrower, any other Loan Party or any third party, probate proceedings, on appeal or otherwise; (g) any and all amendments, modifications, restatements, renewals and/or extensions of any of the above, including, without limit, amendments, modifications, restatements, renewals and/or extensions which are evidenced by new or additional instruments, documents or agreements; (h) all costs incurred by Bank in establishing, determining, continuing, or defending the validity or priority of its security interest, or in pursuing its rights and remedies under this Agreement, the other Loan Documents or under any other agreement between Bank and the Borrower and/or any other Loan Party or in connection with any proceeding involving Bank as a result of any financial accommodation to Borrower and/or any other Loan Party; and (i) all costs of collecting Indebtedness, including, without limit, attorneys' fees and costs.

"Intercreditor Agreement" shall mean any written intercreditor/interparty agreement in form and substance satisfactory to and approved by the Bank that sets forth the relative rights and priorities of the parties thereto with respect to certain collateral or other assets pledged or assigned to them by the Borrower, which collateral or other assets may be shared or not among the parties thereto from time to time, as it may be amended from time to time.

"Jumbo Loan" shall mean an Eligible Mortgage Loan with respect to which each of the following statements shall be accurate and complete (and Borrower by including such Mortgage Loan in any computation of the Borrowing Base shall be deemed to so represent and warrant to the Bank as of the date of such computation):

- (a) such Eligible Mortgage Loan would be a Conforming Mortgage Loan except that it does not meet Fannie Mae or Freddie Mac underwriting guidelines with respect to the maximum principal amount of the Mortgage Loan, but which has a maximum principal amount of not more than \$1,000,000 unless approved in writing by Bank; and
- (b) the obligor on such Mortgage Loan has a FICO Score of not less than 680.

"Leased Property" shall mean any real Property of Borrower or any of its Subsidiaries (if applicable) which constitutes Collateral and which is subject to a lease under which Borrower or such Subsidiary, to the extent applicable, is the lessor or landlord.

"Lien" shall mean any mortgage, pledge, encumbrance, security interest, assignment, lien or charge or other interest of any kind upon any property or assets, whether real, personal or mixed, to secure any indebtedness, obligation or liability owed to or claimed by any Person, whether arising under or based upon contract, law or otherwise.

"Line of Credit" shall mean the revolving mortgage warehousing line of credit made available by Bank to Borrower evidenced by the Line Note.

"Line Note" shall mean the Master Revolving Note dated of even date herewith made by Borrower in favor of Bank in the face amount of \$40,000,000, as it may be amended, renewed, extended, substituted or replaced from time to time, whether in greater or lesser amount.

"Liquid Assets" shall mean, in respect of any applicable Person(s) and as of any applicable date of determination, the sum of unrestricted cash, unrestricted marketable securities, FDIC insured accounts and United States government securities of such Person(s) at such time, but excluding any assets held in a "401K" account, individual retirement account (IRA), pension or other type of retirement account or annuity, Rule 144 securities, securities pledged to secure any debt whether or not the debt is currently outstanding, securities not fully transferable until conditions are met, and assets held in joint accounts with any party who is not a Borrower.

"Loan(s)" shall mean each loan, advance or other extension of credit made by Bank to or otherwise in favor of Borrower.

"Loan Documents" shall mean this Agreement and any and all notes, instruments, documents, guarantees and agreements at any time evidencing, governing, securing or otherwise relating to any Loan(s) and/or any of the Indebtedness, including without limitation, this Agreement, the Line Note, the Security Agreement, any other security agreement(s) or account control agreement(s) with respect to all or any part of the Collateral, the Guaranties, the Electronic Tracking Agreement, any Intercreditor Agreement, and Master Custodial Agreement, the Treasury Management Agreement and all Electronic Transmissions related to the Indebtedness or Collateral or otherwise made in connection with this Agreement or any of the other Loan Documents.

"Loan Party" shall mean each Borrower, each Guarantor and each other Person who shall, at any time, be liable for the payment of all or any part of the Indebtedness or who shall own any property that is, at any time, subject to a Lien which secures all or any part of the Indebtedness.

"Low FICO Score Loan" shall mean an Eligible Mortgage Loan with respect to which each of the following statements shall be accurate and complete (and Borrower by including such Mortgage Loan in any computation of the Borrowing Base shall be deemed to so represent and warrant to the Bank as of the date of such computation):

(a) such Eligible Mortgage Loan would be a Conforming Mortgage Loan except that it does not comply with the requirements of paragraph (c) of the definition thereof with respect to FICO score; and

(b) the obligor on such Mortgage Loan has a FICO Score of less than 620.

"Mandatory Commitment" shall mean a so-called "mandatory" written commitment from an investor acceptable to Bank to purchase from the Borrower one or more Mortgage Loans meeting certain specified criteria, under which commitment the Borrower is obligated to sell such Mortgage Loan(s).

"Master Custodial Agreement" shall mean a written Master Clearing and Custodial Agreement among the Bank, the Borrower and the custodian a party thereto (or such other securities intermediary as shall be acceptable to the Bank in its sole and absolute discretion), as custodian, in a form and substance acceptable to the Borrower and the Bank, as it may be supplemented, amended, restated or replaced from time to time.

"Material Adverse Effect" shall mean any act, event, condition or circumstance which has had or could reasonably be expected to have a material and adverse effect on (i) the business, operations, condition (financial or otherwise), performance, prospects, assets or liabilities of any Loan Party, (ii) the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party or by which it is bound, or the enforceability of any of the Indebtedness or any Loan Document or any rights or remedies of Bank thereunder, or (iii) any Loan Party's interest in, or the value, perfection or priority of Bank's security interest or lien in any Collateral or the ability of Bank to realize on any Collateral.

"Maximum Line Amount" shall mean Forty Million and 00/100 Dollars (\$40,000,000.00).

"MBS" shall mean a mortgage pass-through security, collateralized mortgage obligation, real estate mortgage investment conduit or other security that (i) is based on and backed by an underlying pool of Mortgage Loans and (ii) provides for payment by its issuer to its holder of specified principal installments and/or a fixed or floating rate of interest on the unpaid balance and for all prepayments to be passed through to the holder, whether issued in certificated or book-entry form and whether or not issued, guaranteed, insured or bonded by Ginnie Mae, Fannie Mae, Freddie Mac, an insurance company, a private issuer or any other investor.

"MERS" shall mean Mortgage Electronic Registration Systems, Inc.

"MERSCORP" shall mean MERSCORP Holdings, Inc.

"MERS Loan" shall mean any Mortgage Loan made by the Borrower that is secured by a MERS Mortgage.

"MERS Member" shall mean any entity which is a member of MERS, in good standing and in compliance with all rules, regulations, procedures and requirements set forth by MERS, including, but not limited to the payment of membership dues.

"MERS Mortgage" shall mean any Mortgage registered by the Borrower on the MERS System.

"MERS System" shall mean the Mortgage Electronic Registration System established by MERS.

"Mortgage" shall mean a mortgage or a deed of trust on real estate, and securing a Mortgage Loan and also creating a valid first lien on the fee simple title to real estate referred therein.

"Mortgage Loan" shall mean a loan evidenced by a Mortgage Note and secured by a Mortgage encumbering a fee simple interest in a residential parcel of real property on which is situated a one to four unit single family residence, together with all improvements thereon, located in the United States, provided that in no event shall a Mortgage Loan include a loan with respect to a cooperative housing apartment or unit.

"Mortgage Note" shall mean a valid and binding note, bond or other evidence of indebtedness evidencing a Mortgage Loan and secured by a Mortgage, which (a) was executed by a bona fide third person who had capacity to contract, (b) matures 30 years or less from the date thereof, and (c) complies with any other terms as may be required in writing in advance of the closing date by Bank from time to time.

"Net Income" shall mean, in respect of any applicable Person(s) and for any applicable period of determination, the net income (or loss) of such Person(s) for such period, as determined in accordance with GAAP, but excluding, in any event:

(a) any gains or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets, and any taxes on the excluded gains and any tax deductions or credits on account of any excluded losses; and

(b) in the case of Borrower, net earnings of any Person in which Borrower has an ownership interest, unless such net earnings shall have actually been received by Borrower in the form of cash Distributions.

"Operating Account" shall mean account no. 1895261541 in the name of Borrower with Bank, being Borrower's general operating account with Bank, together with any replacement or successor account thereto.

"PBGC" shall mean the Pension Benefit Guaranty Corporation, or any successor thereto.

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

"Pledged" shall mean, with respect to any Mortgage Loan which is eligible for inclusion in the Borrowing Base, that (a) such Mortgage Loan was originated or acquired with the proceeds of an advance of the Line of Credit hereunder, whether or not such advance remains outstanding, (b) either (i) the Bank holds a first priority perfected exclusive security interest in and lien on such Mortgage Loan, or (ii) if such Mortgage Loan was included at the time of formation as part of a pool of Mortgage Loans representing, securing or backing an Agency MBS and Bank has released its security interest in such Mortgage Loan without receipt of payment in full of the amount originally advanced by Bank to Borrower, to fund the origination or purchase of such Pledged Mortgage Loan (without taking into account any prepayment(s) of the Line of Credit), the Bank holds a first priority perfected exclusive security interest in such Agency MBS with respect to such Mortgage Loan, and (c) the Required Documents or Wet Funded Required Documents, as applicable, have been delivered to Bank.

"Property" shall mean any real or personal property now or at any time owned, occupied or operated by Borrower and/or any of its Subsidiaries (if applicable).

"Required Documents" shall mean, for any applicable Mortgage Loan, all of the following, in form and substance satisfactory to Bank:

- (a) a request for advance in form and substance satisfactory to Bank;
- (b) the original Mortgage Note endorsed by Borrower in blank (including all interim endorsements, if applicable);
- (c) (i) an original executed assignment of the Mortgage in recordable form to Bank, or (ii) a MERS assignment of the Mortgage securing the Mortgage Note by the Borrower, in the format as may be prescribed by MERS from time to time, executed by MERS, as nominee of the Borrower, in recordable form in blank, or where the Bank, the Borrower and MERS have executed an Electronic Tracking Agreement, evidence in form and substance satisfactory to the Bank, of
(A) all assignments of the Mortgage Loan to such Borrower (including all intervening assignments), and (B) the designation of the Bank as the "Warehouse/Gestation Lender" in the Associated Member category for the subject Mortgage, all of which occurred on the MERS System. If appropriate filing and recording information regarding such Mortgage, including the MERS Identification Number ("MIN"), has not been inserted into the assignment and the Bank has determined that such information is necessary to perfect its security interest in such Mortgage and the Mortgage Loan secured thereby, the Borrower shall promptly provide such information to the Bank when available and hereby authorizes the Bank to insert such information as appropriate (whether or not such information is supplied to the Bank by the Borrower); provided, however, the Bank shall not have any obligation to insert such information, and may require the missing information to be completed by the Borrower; and
- (d) any other loan documents required by Bank from time to time.

"Security Agreement" shall mean the Security Agreement (Mortgage Warehousing) made by Borrower to Bank dated of even date herewith, as it may be amended from time to time.

"Security Procedure" shall have the meaning given such term in the Treasury Management Agreement.

"Servicing Rights" shall mean all right, title and interest of Borrower, whether now existing or hereafter arising, in and under the Servicing Agreements, including, without limitation, the rights of Borrower to income and reimbursement thereunder.

"Subordinated Debt" shall mean any Debt of Borrower which has been subordinated to the Indebtedness pursuant to a subordination agreement in form and content satisfactory to Bank.

"Subsidiary" or "Subsidiaries" shall mean as to any particular parent entity, any corporation, partnership, limited liability company or other entity (whether now existing or

hereafter organized or acquired) in which more than fifty percent (50%) of the outstanding equity ownership interests having voting rights as of any applicable date of determination, shall be owned directly, or indirectly through one or more Subsidiaries, by such parent entity.

"Take-Out Commitment" shall mean a Mandatory Commitment or a Best Efforts Commitment.

"Tangible Effective Net Worth" shall mean, in respect of any applicable Person(s) and as of any applicable date of determination, (a) the net book value of all assets of such Person(s) at such time (excluding Affiliate Receivables, subscribed stock, investments in Affiliates, patent rights, trademarks, trade names, franchises, copyrights, licenses, goodwill, and all other intangible assets of such Person(s) as determined by Bank), after all appropriate deductions in accordance with GAAP (including, without limitation, reserves for doubtful receivables, obsolescence, depreciation and amortization), less loans held for investment and the value of any property acquired by Borrower by foreclosure or deed in lieu of foreclosure, less the net book value of Servicing Rights, plus the value, as determined by Bank in its sole discretion (and, in determining such value, Bank may discount such value by margins as Bank shall determine from time to time in its sole discretion), of all Cash and Cash Equivalents Collateral pledged by any Affiliate of Borrower to Bank, if any, plus Subordinated Debt, if any, plus loan loss reserves for loans held for investment and any property acquired by Borrower by foreclosure or deed in lieu of foreclosure not to exceed the amount of such loans and property, plus the least of (i) the net book value of Servicing Rights, (ii) the most recent third party valuation of all Servicing Rights acceptable to Bank hereof, or (iii) seventy five hundredths percent (0.75%) of the aggregate outstanding principal amount of the Mortgage Loans which are the subject of the Servicing Rights on such date of determination, less (b) all Debt of such Person(s) at such time.

"Treasury Management Agreement" shall mean the Comerica Treasury Management Services Master Agreement between Borrower and Bank including all schedules thereto (including, but not limited to, the Schedule for Comerica Warehouse Service), as it may be amended from time to time.

"Unencumbered" shall mean, in respect of any property or asset of any Person(s), such property or asset is free and clear of all Liens (other than Liens to or in favor of Bank), and no Lien of any nature whatsoever (other than Liens to or in favor of Bank) shall be placed or exist upon or in respect of any such property or asset.

"Unencumbered Cash and Cash Equivalents" shall mean, as of any date of determination, the sum of all Unencumbered Cash and Cash Equivalents of Borrower.

"Uniform Commercial Code" shall mean California Uniform Commercial Code, as amended, supplemented, revised or replaced from time to time.

"Unused Line Availability" shall mean, as of any applicable date of determination, the amount, if any, by which the Borrowing Base on such date of determination exceeds the outstanding principal amount of the Line Note on such date of determination.

"**Unused Portion of the Line**" shall mean, as of any applicable month, the amount by which the average daily balance of principal outstanding on the Line of Credit for such month is less than the Maximum Line Amount.

"**USDA**" shall mean the United States Department of Agriculture and any successor thereto or to the functions thereof.

"**VA**" shall mean the Veterans Administration and any successor thereto or to the functions thereof.

"**Warehouse Period**" shall mean (a) with respect to a Conforming Mortgage Loan which is not a Wet Funded Loan, ninety (90) days, (b) with respect to a Jumbo Loan which is not a Wet Funded Loan, sixty (60) days, (c) with respect to a Low FICO Score Loan, which is not a Wet Funded Loan, sixty (60) days, and (d) with respect to a Pledged Mortgage Loan which is a Wet Funded Loan, seven (7) Business Days.

"**Wet Funded Loan**" shall mean a Conforming Mortgage Loan, a Low FICO Score Loan, or a Jumbo Loan with respect to which the Required Documents have not been delivered to Bank.

"**Wet Funded Required Documents**" shall mean a request for wet funded advance and security agreement and a wire request, each in form and substance satisfactory to Bank.

(b) **Accounting Principles.** Unless expressly provided to the contrary, all accounting and financial terms and calculations hereunder or pursuant hereto shall be defined and determined in accordance with GAAP.

(c) **Section Headings and References.** Section headings and numbers have been set forth herein for convenience only; unless the contrary is compelled by the context, everything contained in each Section applies equally to this entire Agreement.

(d) **Construction and Interpretation.** Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, and the term "including" is not limiting. The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against Bank or Borrower, whether under any rule of construction or otherwise; on the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

SECTION 2 LOAN DOCUMENTS; LINE OF CREDIT.

(a) Each Loan shall be evidenced by a promissory note or other agreement or evidence of indebtedness acceptable to Bank, in each case, executed and delivered by Borrower unto Bank; and each Loan shall be subject to the terms, covenants and conditions of each such promissory note or other agreement or evidence of indebtedness, together with this Agreement and the other Loan Documents. The funding, disbursement and extension of any Loan to or in

favor of Borrower shall be subject to the execution and/or delivery unto Bank of such Loan Documents as Bank may reasonably require, and shall be further subject to the satisfaction of such other conditions and requirements as Bank may from time to time require. The Line of Credit is evidenced by the Line Note. No advance of the Line of Credit shall be made unless all of the following conditions have been satisfied in Bank's sole determination (although Bank shall in no event have any commitment or obligation to make or continue to make any advances of the Line of Credit): (i) the Borrower shall have furnished to Bank a request for advance in form and detail and supported by documents and information satisfactory to Bank, not later than 5:00 p.m. eastern standard time on the date on which such advance is requested to be made; (ii) no Event of Default or Default shall exist or result from the requested advance; (iii) prior to and after making such advance, the Borrower shall be in full compliance with all conditions and provisions of this Agreement, the Line Note and all other Loan Documents, and all related instruments and documents; (iv) no Material Adverse Effect shall have occurred since the date of this Agreement; (v) the representations and warranties contained in Section 3 of this Agreement and in any of the other Loan Documents shall be true and correct on the date of such advance with the same force and effect as though made on and as of that date; and (vi) all other conditions precedent to advances under this Agreement, the Line Note and the other Loan Documents shall have been satisfied in Bank's sole determination. Upon each submission by Borrower to Bank of a request for advance of the Line of Credit, Borrower shall be deemed to have represented, warranted and certified that (i) no Event of Default or Default has occurred and is continuing, and none will exist upon the making of the advance requested thereby, and (ii) upon advancing the sum requested, the aggregate principal amount outstanding under the Line Note will not exceed the lesser of the Maximum Line Amount or the Borrowing Base. Nothing in this Section or elsewhere in this Agreement shall obligate Bank to make any advances of the Line of Credit.

(b) Bank will lend upon the telephone or Electronic Transmission request of any Authorized Agent, and Borrower hereby authorizes Bank to disburse advances on the Line of Credit pursuant to such telephone or Electronic Transmissions. Each telephone or Electronic Transmission request for an advance of the Line of Credit from an Authorized Agent shall constitute a certification of the matters stated or set forth in such telephone or Electronic Transmission and that all conditions to advances set forth in Section 2(a) hereof have been satisfied.

(c) Authorized Agents may from time to time take any or all of the following actions by telephone or Electronic Transmission given or made to Bank: (i) request advances of the Line of Credit from Bank and provide information to Bank with respect to such advances from time to time, (ii) execute and deliver to Bank documents, instruments and agreements for the purpose of pledging, assigning, and granting Bank a continuing security interest and lien in and on Mortgage Loans, and other Collateral, (iii) request that Bank deliver Mortgage Loans, and other Collateral to investors and others for sale, securitization or other disposition from time to time,

(iv) provide Bank with instructions for the allocation, application, distribution or other disposition of Mortgage Loans, proceeds thereof, and other Collateral from time to time, including, but not limited to, repayment of any Indebtedness, and (v) give other Electronic Transmissions to Bank from time to time with respect to the Line of Credit, the Collateral and the Loan Documents.

(d) Borrower expressly acknowledges and agrees that (i) Bank is authorized to lend, repay the Indebtedness and take other actions under this Agreement and the other Loan Documents in reliance on any telephone or Electronic Transmissions of an Authorized Agent which telephone or Electronic Transmission complies with the authentication requirements of the applicable Security Procedure, if any, (ii) the procedure permitting requests for advances and repayments and requests for the taking of other actions by an Authorized Agent based on a telephone or Electronic Transmission is for the convenience of the Borrower, is not necessarily secure and there are risks associated with such use, including risks of interception, disclosure and abuse, and Borrower assumes and accepts such risks; and (iii) all risks involved in the use of this procedure, including, but not limited to, the risk that an Authorized Agent may not be authorized by Borrower to make such requests, shall be borne by the Borrower, including but not limited to all risk of loss resulting from advances made, Indebtedness repaid and other actions taken by Bank upon any such telephone or Electronic Transmissions, except as may be otherwise expressly provided in the Treasury Management Agreement, and the Borrower expressly agrees to indemnify and hold Bank harmless therefor. Without limiting the foregoing, the Borrower expressly acknowledges and agrees that Bank shall have no duty to confirm the identity or authority of any Authorized Agent requesting an advance or repayment or other action by telephone or Electronic Transmission so long as such request is made in accordance with the authentication requirements of the applicable Security Procedure, if any, and Borrower shall be obligated to assure that all Authorized Agents making requests for advances and repayments and requesting other actions by telephone or Electronic Transmission do in fact have the authority to do so for and on behalf of Borrower. Borrower shall remain fully responsible for any amounts outstanding under the Line Note if Borrower's accounts with Bank are insufficient for the repayment of the Line Note. All requests for payments are to be against collected funds.

(e) Advances of the Line of Credit shall be used solely to originate or acquire Pledged Mortgage Loans or in the case of re-advances of amounts prepaid on the Line of Credit without any release of Collateral as described in Section 2(g) hereof for the Borrower's normal working capital purposes. The aggregate principal amount at any one time outstanding under the Line of Credit shall never exceed the lesser of the Maximum Line Amount or the Borrowing Base. Borrower shall immediately make all payments necessary to comply with this provision. In determining the Borrowing Base and the eligibility of any Mortgage Loan for inclusion therein, Bank may waive any of the limits set forth in the Borrowing Base definition and any of the requirements for eligibility set forth herein; provided, however, that any Mortgage Loan which is accepted by Bank under such a waiver shall cease to be included in the Borrowing Base upon notice of the retraction of such waiver given to Borrower by Bank unless at the time of giving of such notice the deficiency which originally required such waiver has been cured. Advances of the Line of Credit will only be funded if a draft is presented to Bank or Bank has received a wire request with the Required Documents or Wet Funded Required Documents.

(f) Without limiting the requirements of Section 2(e) hereof, and unless earlier due (whether at maturity, by acceleration or otherwise), (i) in connection with the sale or other disposition of a Pledged Mortgage Loan (including the sale or other disposition of an Agency MBS of which such Pledged Mortgage Loan is a part, if applicable), Borrower shall pay to Bank all amounts originally advanced by Bank to Borrower to fund the origination or purchase of such Pledged Mortgage Loan (without taking into account any prepayment(s) of the Line of Credit); and (ii) upon the expiration of the Warehouse Period for any Pledged Mortgage Loan, Borrower

shall pay to Bank all amounts originally advanced by Bank to Borrower to fund the origination or purchase of such Pledged Mortgage Loan (without taking into account any prepayment(s) of the Line of Credit).

(g) Borrower may prepay principal outstanding under the Line of Credit at any time and from time to time without penalty or premium. So long as no Event of Default or Default exists, such prepayments shall be applied by Bank to principal outstanding under the Line of Credit. After an Event of Default or Default, such prepayments shall be applied to the Indebtedness in such order and manner as the Bank shall determine. Such prepayments shall not entitle Borrower to the release of any Pledged Mortgage Loans and Bank shall continue to hold all Pledged Mortgage Loans as security for the Indebtedness. Borrower may request re-advances of amounts so prepaid subject to all of the terms and conditions for advances of the Line of Credit under this Agreement, the Line Note and the other Loan Documents.

(h) Borrower agrees to pay to Bank a Thirty and 00/100 Dollars (\$30.00) case fee (i) for each Mortgage Loan which Borrower requests be included in the Borrowing Base and (ii) for each instance, after the first instance, in which a Mortgage Note evidencing a Pledged Mortgage Loan is shipped to an investor for purchase. Such case fees shall be paid monthly. Borrower also agrees to pay to Bank an unused fee on the Unused Portion of the Line at a rate of one hundred twenty five thousandths percent (0.125%) per annum, computed on the actual number of days elapsed using a year of 360 days. The unused fee shall begin to accrue on the date that is one hundred eighty (180) days from the date of this Agreement and shall be payable monthly in arrears within 10 days after the end of each month, and on the maturity of the Line of Credit, whether by demand, acceleration, termination or otherwise. All fees required under this Section shall be deemed fully earned upon receipt by Bank and shall not be refundable for any reason.

SECTION 3 REPRESENTATIONS AND WARRANTIES. Borrower, for and on behalf of itself, hereby represents and warrants, and such representations and warranties shall be deemed to be continuing representations and warranties during the entire life of this Agreement, and thereafter, so long as any Indebtedness remains unpaid and outstanding:

(a) **Authority.** It is duly organized, validly existing and in good standing under the laws of the State of its incorporation or organization, as applicable; it is duly qualified and authorized to do business in each jurisdiction where the character of its assets or the nature of its activities makes such qualification necessary, and it has the legal power and authority to own its properties and assets and to carry out its business as now being conducted in each such jurisdiction wherein such qualification is necessary; execution, delivery and performance of this Agreement, and any and all other Loan Documents to which Borrower is a party or by which it is otherwise bound, are within Borrower's respective powers and authorities, have been duly authorized by all requisite corporate or other necessary or appropriate action, and are not in contravention or violation of law or the terms of Borrower's organizational or other governing documents, and do not require the consent or approval of any governmental body, agency or authority.

(b) **Enforceability of Agreement and Loan Documents.** This Agreement, and any other Loan Documents contemplated hereby, when executed, issued and/or delivered by Borrower, or by which Borrower is otherwise bound, will be valid and binding and legally enforceable against Borrower in accordance with their terms.

(c) **Non-Contravention.** The execution, delivery and performance of this Agreement, and any other Loan Documents required under or contemplated by this Agreement to which Borrower is a party or by which it is otherwise bound, and the issuance of this Agreement and any such other Loan Documents by Borrower, and the borrowings and other transactions contemplated hereby and thereby, are not in contravention or violation of the unwaived terms of any indenture, agreement or undertaking to which Borrower is a party or by which it or any of its property or assets is bound, and will not result in the creation or imposition of any Lien of any nature whatsoever upon any of the property or assets of Borrower, except to or in favor of Bank.

(d) **Litigation or Proceedings.** No litigation or other proceeding before any court or administrative agency is pending, or, to the knowledge of Borrower or any of its officers, is threatened against Borrower, the outcome of which could result in a Material Adverse Effect.

(e) **No Liens.** There are no Liens on any of Borrower's Property or assets, except Permitted Encumbrances (as hereinafter defined).

(f) **No Defaults.** There exists no Default or Event of Default under any of the Indebtedness.

(g) **Financial Statements; No Material Adverse Change.** The most recent financial statements with respect to Borrower delivered to Bank fairly present the financial condition of Borrower as of the date thereof and for the period(s) covered thereby in accordance with GAAP, and since January 31, 2018, there has been no material adverse change in the condition (financial or otherwise) of Borrower.

(h) **Subsidiaries.** As of the date of this Agreement, Borrower has no Subsidiaries, except those, if any, disclosed on the Schedule of Subsidiaries attached to this Agreement, which Schedule sets forth the name, place of incorporation, and percentage of ownership of Borrower in each such Subsidiary.

(i) **Regulation U; Margin Stock.** Borrower is not engaged principally, or as one of its important activities, in the business of extending credit to others for the purpose of purchasing or carrying "margin stock" or "margin securities" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or any regulations, interpretations or rulings thereunder.

G) **Legal Name.** Borrower's true and correct legal name is that set forth on the signature page to this Agreement. Except as disclosed in writing to Bank on or before the date of this Agreement, Borrower has not conducted business under any name other than that set forth on the signature page to this Agreement.

(k) **Solvency.** Borrower is solvent and is able to pay its debts (including, without limit, trade debts) as they mature.

(l) **Taxes.** All taxes, assessments and other similar imposts and charges levied, assessed or imposed upon Borrower and/or any of its property or assets have been paid, except to the extent being diligently contested in good faith.

(m) **Hazardous Materials.** Borrower has not used Hazardous Materials on, in, under or otherwise affecting any Property now or at any time owned, occupied or operated by Borrower or upon which Borrower has a place of business in any manner which violates any Environmental Law(s), to the extent that any such violation could result in a Material Adverse Effect. Borrower has never received any notice of any violation of any Environmental Law(s), and to the best of Borrower's knowledge, there have been no actions commenced or threatened by any party against Borrower or any of the Property for non-compliance with any Environmental Law(s), which, in any case, could result in a Material Adverse Effect.

(n) **Leases.** All leases covering any Leased Property, if any, are in full force and effect, there are no defaults under any of the provisions thereof, and all conditions to the effectiveness or continuing effectiveness thereof required to be satisfied as of the date hereof have been satisfied.

(o) **Agency Approvals; Compliance with Agency Guides.** Borrower is (i) an PHAN A and USDA approved lender, and a HUD direct endorsement lender, and in each case, in good standing; (ii) in compliance with the terms and requirements of each Agency Guide applicable to it; and (iii) duly qualified and licensed as a mortgage banker or mortgage broker in each jurisdiction where such qualification is required in order for the Borrower to transact its business as presently conducted or proposed to be conducted.

SECTION 4 AFFIRMATIVE COVENANTS. So long as Bank shall have any commitment or obligation, if any, to make or extend any Loans to or in favor of Borrower, and/or so long as any Indebtedness remains unpaid and outstanding, Borrower covenants and agrees that it shall:

(a) **Financial Statements; Reporting Requirements.** Provide to Bank, or cause to be provided to Bank, the following, each of which shall be prepared in accordance with GAAP, and shall be in form and detail acceptable to Bank:

- (i) As soon as available, and in any event within ninety (90) days after and as of the end of each calendar year of Borrower, annual CPA audited financial statements of Borrower for and as of the end of each such calendar year, containing the balance sheet of Borrower as of the close of each such calendar year, statements of income and retained earnings and a statement of cash flows of Borrower for each such calendar year, and such other comments and financial details as are usually included in similar reports or as may be requested by Bank, certified by an Authorized Officer of Borrower.
- (ii) As soon as available, and in any event within thirty (30) days after and as of the end of each calendar month financial statements of Borrower, containing the balance sheet of Borrower as of the end of each such period, statements of income and retained earnings and a statement of cash flows for Borrower for such period and for the portion of the fiscal year of Borrower through the end of the period then ending, and such other comments and financial details as are usually included in similar reports or as may be requested by Bank, certified by an Authorized Officer of Borrower.

- (iii) Simultaneous with the delivery to Bank of the respective financial statements required above, a Compliance Certificate.
- (iv) As soon as available, and in any event within thirty (30) days after and as of the end of each month, a loan closing detail report.
- (v) Within thirty (30) days upon request by Bank from time to time, a repurchase, settlement and indemnification report, including amounts paid and pending claims.
- (vi) As soon as available, and in any event within thirty (30) days after and as of the end of each month, a monthly secondary marketing report, and monthly detail of loans held for investment, real estate acquired by foreclosure or deed in lieu of foreclosure and reserves.
- (vii) Within fifteen (15) days after receipt of each Agency or other investor audit, including HUD, Fannie Mae and Freddie Mac audits, a copy of such audit and, within fifteen (15) days of any response by Borrower thereto, a copy of such response; provided, however, if an Agency prohibits Borrower from providing its audit to Bank and such Agency will not waive such prohibition, then Borrower shall notify Bank thereof and Borrower shall not be required to furnish such audit to Bank.
- (viii) Promptly after becoming aware of the occurrence or existence of any Default or Event of Default, or of any other condition, occurrence or event which has had or could reasonably be expected to have a Material Adverse Effect, a written statement of an Authorized Officer of Borrower setting forth the details of such Default or Event of Default, or such other condition or occurrence, and the action which Borrower has taken or caused to be taken, or proposes to take or cause to be taken, with respect thereto.
- (ix) Such other information concerning Borrower, any Loan Party and/or any Guarantor as Bank shall reasonably request from time to time.

(b) **Keeping of Books and Records; Inspections and Audits.** Keep proper books of record and account in which full and correct entries shall be made of all of its financial transactions and its assets and businesses so as to permit the presentation of financial statements (including, without limitation, any financial statements required to be delivered to Bank pursuant to this Agreement) prepared in accordance with GAAP; permit Bank, or its representatives, at reasonable times and intervals, to visit all of Borrower's offices and to make inquiries as to Borrower's respective financial matters with its respective directors, officers, employees, and independent certified public accountants; and permit Bank, through Bank's authorized attorneys, accountants and representatives, to inspect, audit and examine Borrower's books, accounts, records, ledgers and assets and properties of every kind and description, wherever located, at all reasonable times during normal business hours. Borrower shall reimburse Bank for all reasonable costs and expenses incurred by Bank in connection with such inspections, examinations and audits, and to pay to Bank such fees as Bank may reasonably charge in respect

of such inspections, examinations and audits, or as otherwise mutually agreed upon by Borrower and Bank.

(c) **Maintain Insurance.** Keep its insurable properties (including, without limitation, any Collateral at any time securing all or any part of the Indebtedness) adequately insured and maintain (i) insurance against fire and other risks customarily insured against under an "all-risk" policy and such additional risks customarily insured against by companies engaged in the same or a similar business to that of Borrower, (ii) necessary workers' compensation insurance, (iii) public liability and product liability insurance, and (iv) such other insurance as may be required by law or as may be reasonably required in writing by Bank, all of which insurance shall be in such amounts, contain such terms, be in such form, be for such purposes, prepaid for such time periods, and written by such companies as may be satisfactory to Bank. All such policies shall contain a provision whereby they may not be canceled or materially amended except upon thirty (30) days' prior written notice to Bank. Borrower will promptly deliver to Bank, at Bank's request, evidence satisfactory to Bank that such insurance has been so procured and, with respect to casualty insurance, made payable to Bank. If Borrower fails to maintain satisfactory insurance as herein provided, Bank shall have the option (but not the obligation) to do so, and Borrower agrees to repay Bank, upon demand, with interest at the highest rate of interest applicable to any of the Indebtedness, all amounts so expended by Bank.

(d) **Pay Taxes.** Pay promptly and within the time that they can be paid without late charge, penalty or interest, all taxes, assessments and similar imposts and charges of every kind and nature lawfully levied, assessed or imposed upon Borrower and/or its property or assets, except to the extent being diligently contested in good faith and, if requested by Bank, bonded in an amount and manner satisfactory to Bank. If Borrower fails to pay such taxes and assessments within the time they can be paid without penalty, late charge or interest, Bank shall have the option (but not the obligation) to do so, and Borrower agrees to repay Bank, upon demand, with interest at the highest rate of interest applicable to any of the Indebtedness, all amounts so expended by Bank.

(e) **Maintain Existence.** Do or cause to be done all things necessary to preserve and keep in full force and effect Borrower's corporate or other applicable existence, rights, franchises, licenses and approvals, including without limitation, its status as an *FRANA* and USDA approved lender, and a HUD direct endorsement lender, in each case in good standing, and comply with the terms and requirements of each Agency Guide applicable to it. Comply with all applicable laws, ordinances and government rules and regulations to which it is subject including, but not limited to, the Secure and Fair Enforcement for Mortgage Licensing Act, 12 USC 5101-5116, all state mortgage loan originator licensing acts and all other state laws mandated by such Act; continue to conduct and operate its business substantially as conducted and operated during the present and preceding calendar year; at all times maintain, preserve and protect all franchises and trade names and preserve all the remainder of its property and keep the same in good repair, working order and condition; maintain all permits, licenses, approvals and agreements which it is required to maintain or comply with, where the failure to do so could result in a Material Adverse Effect; maintain Borrower's same place(s) of business, chief executive office or residence, as applicable, as currently exists, and not relocate said address (es) without giving Bank ninety (90) days' prior written notice of such proposed change, but the giving of such notice shall not cure or remedy any Default or Event of Default caused by such

change; and from time to time make, or cause to be made, all needed and proper repairs, renewals, replacements, betterments and improvements thereto so that the business carried on in connection therewith may be properly and advantageously conducted at all times.

(f) **Environmental Laws.** Comply, and cause each of its Subsidiaries (to the extent applicable) to comply, in all material respects with all applicable Environmental Laws, and maintain all material permits, licenses and approvals required under applicable Environmental Laws, where the failure to do so could result in a Material Adverse Effect; and promptly provide to Bank, immediately upon receipt thereof, copies of any material correspondence, notice, pleading, citation, indictment, complaint, order, decree, or other document from any source asserting or alleging a violation of any Environmental Laws by Borrower and/or any of its Subsidiaries, or of any circumstance or condition which requires or may require a financial contribution by Borrower and/or any of its Subsidiaries, or a clean-up, removal, remedial action or other response by or on behalf of Borrower and/or any of its Subsidiaries under applicable Environmental Law(s), or which seeks damages or civil, criminal, or punitive penalties from Borrower and/or any of its Subsidiaries for any violation or alleged violation of any Environmental Law(s) by Borrower and/or any of its Subsidiaries. Borrower hereby indemnifies, saves and holds Bank, and any of Bank's past, present and future officers, directors, shareholders, employees, representatives and consultants, harmless from and against any and all losses, damages, suits, penalties, costs, liabilities and expenses (including, without limitation, reasonable legal expenses and attorneys' fees) incurred or arising out of any claim, loss or damage of any property, injuries to or death of any persons, contamination of or adverse effects on the environment, or other violation or asserted violation of any applicable Environmental Law(s); provided, however, that the foregoing indemnification shall not be applicable, and Borrower shall not be liable for any such losses, damages, suits, penalties, costs, liabilities or expenses, to the extent (but only to the extent) the same arise or result from any gross negligence or willful misconduct of Bank or any of its agents or employees. The provisions of this Section shall survive repayment of the Indebtedness and satisfaction of all obligations of Borrower to Bank and termination of this Agreement.

(g) **Reserved.**

(h) **ERISA Compliance.** At all times meet, and cause each of its Subsidiaries to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA; promptly after Borrower knows or has reason to know of the occurrence of any event, which would constitute a reportable event or prohibited transaction under ERISA, or that the PBGC or Borrower has instituted or will institute proceedings to terminate an employee pension plan, deliver to Bank a certificate of an Authorized Officer of Borrower setting forth details as to such event or proceedings and the action which Borrower proposes to take with respect thereto, together with a copy of any notice of such event which may be required to be filed with the PBGC; and upon the request of Bank, furnish to Bank (or cause the plan administrator to furnish Bank) a copy of the annual return (including all schedules and attachments) for each plan covered by ERISA, and filed with the Internal Revenue Service by Borrower or any of its Subsidiaries not later than ten (10) days after such report has been so filed. Borrower shall be permitted to voluntarily terminate employee pension or benefit plans, so long as any such voluntary termination is done in accordance with ERISA and does not result in

a material liability or obligation to such Borrower and does not result in a Material Adverse Effect.

(i) **Liquid Assets.** At all times, be and remain the owner of Unencumbered Liquid Assets having a value (as such value is determined by Bank), which when added to Unused Line Availability, is not less than Two Million and 00/100 Dollars (\$2,000,000.00).

G) Tangible Effective Net Worth. Maintain, at all times, a Tangible Effective Net Worth of not less than Six Million and 00/100 Dollars (\$6,000,000.00).

(k) **Debt-to-Tangible Effective Net Worth Ratio.** Maintain, at all times, a Debt-to-Tangible Effective Net Worth Ratio of not more than 12.00 to 1.00.

(l) **Net Income.** Maintain a Net Income of not less than One Dollar (\$1) for each Applicable Measuring Period ending as of the applicable date of determination, commencing with the period ending as of June 30, 2018.

(m) **Cash Collateral.** Maintain or cause to be maintained at all times cash pledged to Bank constituting a part of the Unencumbered Cash and Cash Equivalents Collateral maintained in a cash collateral account at Bank separate from the Advance Account, Cash Collateral Account and Operating Account, over which cash collateral account neither Borrower nor any Guarantor (as applicable) shall have not access or control, plus Unused Line Availability, in aggregate amount not less than Two Hundred Thousand and 00/100 Dollars (\$200,000.00).

(n) **Capital Expenditures.** Not make or incur Capital Expenditures in excess of One Million and 00/100 Dollars (\$1,000,000.00), in aggregate, in any fiscal year.

(o) **Mortgage Loans.** Enforce payment and collection, at Borrower's expense, of all Pledged Mortgage Loans; make appropriate notations on its books of all assignments and pledges of such Mortgage Loans to Bank in connection herewith; promptly notify Bank of any default under any such Mortgage Loan, or of the cancellation, revocation or termination of any Take-Out Commitment related thereto or of the refusal by an investor to purchase any such Mortgage Loan; and comply with and maintain in full force and effect all Take-Out Commitments with respect to such Mortgage Loans and subject to no liens, assignments or other interests (other than to Bank).

(p) **MERS.** The Bank and the Borrower hereby confirm the appointment of the Bank as collateral agent with respect to MERS Loans. During any time during which the Borrower is using the MERS System, the Borrower shall (i) at all times, maintain its status as a MERS Member, (i) at all times, employ officers who have the authority, pursuant to a corporate resolution from MERS, to execute assignments of mortgage in the name of MERS in the event deregistration from the MERS System is necessary or desirable, (iii) at all times remain in compliance with all terms and conditions of membership in MERS, including the MERSCORP, Inc. "Rules of Membership" most recently promulgated by MERSCORP, Inc., the "MERS Procedures Manual" most recently promulgated by MERS, and any and all other guidelines or requirements set forth by MERS or MERSCORP, as each of the foregoing may be modified from time to time, including, but in no way limited to compliance with guidelines and procedures set forth with respect to technological capabilities, drafting and recordation of mortgages,

registration of mortgages on the MERS System, including registration of the interest of the Bank in such mortgages and membership requirements, (iv) promptly, upon the request of the Bank, execute and deliver to the Bank an assignment of mortgage, in blank, with respect to any MERS Mortgage that the Bank determines shall be removed from the MERS System, (v) at all times maintain the Electronic Tracking Agreement in full force and effect, (vi) immediately provide to Bank a copy of any notice received from MERS or MERSCORP pursuant to Section 4(a) of the Electronic Tracking Agreement, and (vii) as soon as practical but in any event not later than seven (7) business days after any MERS Mortgage is funded from an advance of the Line of Credit, cause Bank (by its OrgID 1005205) to be designated as the "Warehouse/Gestation Lender" in the Associated Member category for such MERS Mortgage on the Registration Details Screen of the MERS System (and any MERS Mortgage not so designated within said period shall automatically cease to be an Eligible Mortgage Loan, anything in this Agreement to the contrary notwithstanding). The Borrower shall not de-register or attempt to de-register any mortgage from the MERS System unless the Borrower has complied with the requirements set forth in the Electronic Tracking Agreement and the requirements hereof and the other Loan Documents relating to a release of a Mortgage Loan. Borrower shall indemnify, defend (using counsel selected by Bank) and hold harmless Bank, its employees, agents, shareholders, officers and directors, from and against any and all claims, demands, penalties, fines, liabilities, settlements, damages, costs or expenses (including, without limit, attorney fees) of whatever kind arising out of or related to (i) Borrower's failure to comply with or breach of the provisions of this paragraph or the Electronic Tracking Agreement, or (ii) the use by Borrower and Bank of the MERS System in connection with Mortgage Loans under or in connection with this Agreement.

(q) **Hedge Agreements.** With respect to any Pledged Mortgage Loan not covered by Mandatory Commitment or Best Efforts Commitment, maintain at all times a Hedge Agreement with respect thereto acceptable to Bank.

(r) **Master Custodial Agreement; Intercreditor Agreement.** Provide the Bank with at least sixty (60) days prior written notice of any proposed initial appointment of, or change in, as applicable, the Certifying Custodian, and in connection therewith, if the Bank's consent to such initial appointment or change, as applicable, is given, the Borrower shall make any revisions to its warehousing procedures that are requested by the Bank or that are required to satisfy the Bank's operations policies in place at such time, including, if requested or required by the Bank, furnishing or causing to be furnished to the Bank custodial and/or intercreditor agreements, in form and substance satisfactory to the Bank, from the Borrower's proposed Certifying Custodian and/or any settlement agent. Further, if applicable, the Borrower shall at all times maintain the Custodial Account in a manner acceptable to the Bank and comply with its obligations under the Master Custodial Agreement.

SECTION 5 NEGATIVE COVENANTS. So long as Bank shall have any commitment or obligation, if any, to make or extend any Loans to or in favor of Borrower, and/or so long as any Indebtedness remains unpaid and outstanding, Borrower covenants and agrees that it shall not, without the prior written consent of Bank:

(a) **Dividends.** Declare or pay any dividends on, or make any other Distribution (whether by reduction of capital or otherwise), if any Default or Event of Default shall have occurred or be continuing or exist, or would arise, occur or exist after giving effect thereto.

- (b) **Redeem Stock.** Purchase, redeem, retire or otherwise acquire any of the shares of its capital stock, or make any commitment to do so.
- (c) **Liens.** Create, incur, assume or suffer to exist any Lien of any kind upon any of its property or assets, whether now owned or hereafter acquired, other than the following (collectively, "Permitted Encumbrances"):
- (i) Liens to or in favor of Bank;
 - (ii) Liens for taxes, assessments or other governmental charges incurred in the ordinary course of business and for which no interest, late charge or penalty is attaching or which is being contested in good faith by appropriate proceedings diligently pursued (provided the period of time for such contestation does not exceed thirty (30) days and, if requested by Bank, bonded in an amount and manner satisfactory to Bank);
 - (iii) Liens, not delinquent, created by statute in connection with workers' compensation, unemployment insurance, social security, old age pensions (subject to the applicable provisions of this Agreement) and similar statutory obligations;
 - (iv) Purchase money security interests to secure purchase money indebtedness of Borrower otherwise expressly permitted under this Agreement, so long as such security interests arise or are created substantially contemporaneously with the purchase or acquisition by Borrower of the respective property or assets to which such security interests relate and the incurrence of the respective purchase money indebtedness which such security interests secure, secure only the respective purchase money indebtedness so incurred by Borrower to enable Borrower to so purchase or acquire such property or assets, and no other Debt, and encumber only the respective property or assets so purchased or acquired, and no other property or assets of Borrower;
 - (v) Liens in favor of mechanics, materialmen, carriers, warehousemen or other like statutory or common law Liens securing obligations incurred in good faith in the ordinary course of business that are not yet due and payable;
 - (vi) Liens on Mortgage Loans and property and rights related to such Mortgage Loans, with respect to which advances have been made under warehouse or repurchase facilities described in the Schedule, of Debt attached hereto, but in no event shall such Liens cover any of the Collateral; and
 - (vii) other Liens (if any) existing as of the date hereof and described in the Schedule of Permitted Liens attached hereto to secure Debt existing and outstanding as of the date hereof, but no other Debt.

(d) **Debt.** Incur, create, assume or permit to exist any Debt of any kind or nature whatsoever, except (without duplication) for (i) the Indebtedness, (ii) Subordinated Debt, (iii) existing indebtedness (if any) to the extent set forth in the Schedule of Debt attached hereto or in the most recent financial statements of Borrower delivered to Bank prior to the date of this Agreement, (iv) unsecured trade indebtedness, utility indebtedness and non-extraordinary accounts payable incurred and paid in the ordinary course of business, (v) purchase money indebtedness and lease obligations (whether in respect of capitalized leases, operating leases or otherwise), not otherwise disclosed in said Schedule of Debt or such most recent financial statements, not to exceed One Million and 00/100 Dollars (\$1,000,000.00), in aggregate, at any time.

(e) **Loans and Advances.** Make loans, advances or extensions of credit to any Person, except (i) sales on open account in the ordinary course of business, (ii) Mortgage Loans made by Borrower in the ordinary course of business, and (iii) other loans, advances and extensions of credit in the ordinary course of business in an unpaid principal amount not to exceed One Million and 00/100 Dollars (\$1,000,000.00), in aggregate, at any time.

(f) **Guaranties.** Guarantee or otherwise, directly or indirectly, in any way be or become responsible for obligations of any other Person, except (i) guaranties in favor of Bank; and (ii) the endorsement of negotiable instruments in the ordinary course of business for deposit or collection.

(g) **Subordinate Indebtedness.** Subordinate any indebtedness due to it from any Person to indebtedness of other creditors of such Person.

(h) **Asset Dispositions; Dissolution; Mergers; Capital Structure; Business Purpose.** (i) Sell, transfer or otherwise dispose of any of its properties or assets, except for (1) the sale of Pledged Mortgage Loan inventory and MBS secured by, created from or representing any interest in or otherwise relating to any of the Pledged Mortgage Loans, to investors approved by Bank in accordance with Take-Out Commitments in the ordinary course of business provided Borrower makes the payments to Bank as and when required by Section 3.5 of the Security Agreement, and (2) the sale of other Mortgage Loan inventory and MBS not constituting a part of the Collateral to investors in the ordinary course of business; (ii) change its name, its corporate identity or structure, its form of organization or the state in which it has been formed or organized; (iii) dissolve or liquidate or consolidate with or merge into any other Person, or permit any other Person to merge into it; (iv) acquire all or substantially all the properties or assets of any other Person; (v) enter into any reorganization or recapitalization, or reclassify its capital stock; (vi) enter into any sale-leaseback transaction; (vii) permit any levy, attachment or restraint to be made affecting any of Borrower's assets; (viii) permit any judicial officer or assignee to be appointed or to take possession of any or all of Borrower's assets; (ix) make any other change in Borrower's financial structure or in any of its business objects, purposes or operations which, in the opinion of Bank, could result in a Material Adverse Effect; (x) enter into any transaction not in the ordinary course of Borrower's business; or (xi) make any payment on account of any Subordinated Debt in violation of the provisions of any subordination agreement between Bank and the applicable subordinated debt holder, or otherwise fail to comply with the terms and conditions set forth in any such subordination agreement.

(i) **Investments.** Purchase or hold beneficially any stock or other securities of, or make any investment or acquire any interest whatsoever in, any other Person, except for (i) the common stock of any Subsidiaries owned by Borrower on the date of this Agreement, as more particularly described in the Schedule of Subsidiaries attached hereto, (ii) certificates of deposit or time deposits with Bank, and (iii) direct obligations of the United States of America, or any agency thereof, maturing within one (1) year from the date of acquisition thereof.

G) **Apply Proceeds to Purchase or Carry Margin Stock.** Apply any of the proceeds of any loan, advance or other extension of credit by Bank to or in favor of Borrower, directly or indirectly to the purchase or carrying of any "margin stock" or "margin securities" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or any regulations, interpretations or rulings thereunder; or extend credit to others directly or indirectly for the purpose of purchasing or carrying any such margin stock or margin securities.

(k) **Pension Plans; PBGC.** Allow any fact, condition or event to occur or exist with respect to any employee pension or profit sharing plan established or maintained by it which might constitute grounds for termination of any such plan or for the court appointment of a trustee to administer any such plan; or permit any such plan to be the subject of termination proceedings (whether voluntary or involuntary) from which termination proceedings there may result in a liability of Borrower to the PBGC which, in the opinion of Bank, will result in a Material Adverse Effect.

(l) **Gestation Agreements.** Enter into or permit to exist any gestation repurchase or similar agreements binding on Borrower.

SECTION 6 EVENTS OF DEFAULT. An "Event of Default" shall be deemed to have occurred or exist under this Agreement upon the occurrence and/or existence of any of the following conditions or events:

(a) Borrower and/or any other Loan Party shall fail to pay the principal of or interest on or shall otherwise fail to pay any other amount owing by Borrower and/or such Loan Party to Bank, when due, whether under any of the Indebtedness or otherwise, and such default in payment shall continue unremedied or uncured beyond any applicable period of grace provided with respect thereto, if any, in the relevant Loan Document(s);

(b) any representation, warranty, certification or statement made or deemed to have been made by Borrower and/or any other Loan Party herein, or in any certificate, financial statement or other document or agreement delivered by or on behalf of Borrower and/or any such Loan Party in connection with the Indebtedness or any of the Loan Documents shall prove to be untrue or incomplete in any material respect;

(c) Borrower shall fail to observe or perform any condition, covenant or agreement set forth herein;

(d) Borrower and/or any other Loan Party shall fail to observe or perform any condition, covenant or agreement of Borrower and/or any such Loan Party set forth in any other Loan Document (other than as provided in subparagraphs (a) and (c) above) or any other agreement between any such Person(s) and Bank, and such default shall remain unremedied or

uncured beyond any applicable period of grace or cure, if any, provided with respect thereto in the relevant Loan Document(s) or other agreement;

(e) if Borrower is a corporation, trust, limited or general partnership or joint venture, or limited liability company, should there occur (i) a sale, conveyance, transfer, disposition or encumbrance, either voluntary or involuntary, or should an agreement be entered into to accomplish any thereof, with respect to (A) more than ten percent (10%) of the issued and outstanding capital stock of Borrower if a corporation, or (B) the beneficial interest of Borrower if a trust, or (C) any general partnership or joint venture interest if Borrower is a limited or general partnership or a joint venture, or (D) any membership interest if Borrower is a limited liability company, (ii) a change in any general partner or joint venturer if Borrower is a limited or general partnership or a joint venture, or (iii) any other change, for any reason whatsoever, in the management, ownership or control of Borrower which, in the sole discretion of Bank, could result in a Material Adverse Effect;

(f) if (i) any party subordinating its claims to that of Bank's terminates, rescinds, revokes or violates the terms of its subordination, or (ii) any Loan Party (other than Borrower) dies or terminates, rescinds, revokes or violates the terms of any guaranty, pledge, collateral assignment, subordination agreement or other document, instrument or agreement entered into by such Loan Party in favor of Bank, including, without limitation, any document evidencing the pledge by such Loan Party of property that is subject to a Lien which secures all or any part of the Indebtedness;

(g) Borrower and/or any other Loan Party shall (i) fail to pay when due any of its Debt (other than to Bank), or shall fail to observe or perform any term, condition, covenant or agreement of Borrower and/or any such Loan Party set forth in any document, instrument or agreement evidencing, securing or relating to such Debt, and such failure shall remain unremedied or uncured beyond any applicable period of grace or cure, if any, provided with respect thereto so as to permit the holder(s) of such Debt to accelerate the maturity or payment of such Debt, or (ii) or shall fail to observe or perform any term, condition, covenant or agreement of Borrower and/or any such Loan Party set forth in any material agreement, contract, indenture, instrument or undertaking to which Borrower and/or any such Loan Party is a party with any one or more third parties (other than Bank) or by which it may be otherwise bound, and such failure could result in the acceleration of the maturity or payment of Borrower's indebtedness to others, whether under any such agreement, contract, indenture, instrument or undertaking or otherwise, or which failure could result in a Material Adverse Effect;

(h) if Borrower and/or any other Loan Party (i) become(s) insolvent or the subject of a voluntary or involuntary proceeding in bankruptcy, or a reorganization, arrangement or creditor composition proceeding, (ii) cease(s) doing business as a going concern, (iii) is enjoined restrained or in any way prevented by court order or other legal or administrative action or proceedings from continuing to conduct all or any material part of its business affairs, (iv) is the subject of a dissolution, merger or consolidation, or (v) has any of its property or assets attached, seized, subject to a writ or distress warrant, or come into the possession of any trustee, receiver, controller, custodian, assignee for the benefit of creditors or any other person or entity having powers or duties like or similar to the powers and duties of trustee, receiver, controller, custodian or assignee for the benefit of creditors, and the same are not released, discharged or bonded against within thirty (30) days thereafter;

(i) if any reportable event, which the Bank determines constitutes grounds for the termination of any deferred compensation plan by the PBGC or for the appointment by the appropriate United States District Court of a trustee to administer any such plan, shall have occurred and be continuing thirty (30) days after written notice of such determination shall have been given to Borrower by Bank, or any such plan shall be terminated within the meaning of Title IV of BRISA, or a trustee shall be appointed by the appropriate United States District Court to administer any such plan, or the PBGC shall institute proceedings to terminate any plan;

G) if (i) there shall be rendered against Borrower and/or any other Loan Party one or more judgments for the payment of money in excess of Two Million and 00/100 Dollars (\$2,000,000.00), in aggregate, which has or have become non-appealable and shall remain undischarged, unsatisfied by insurance and unstayed for more than thirty (30) days, whether or not consecutive; or (ii) a levy, lien, writ of attachment or garnishment against any of the property or assets of Borrower and/or any other Loan Party shall be issued and levied in any action(s) and not released or appealed and bonded in an amount and manner satisfactory to Bank within thirty (30) days after such issuance and levy, or (iii) a settlement, or a series of related settlements, is agreed upon by Borrower and/or any other Loan Party for the payment or money or the delivery of goods or services by Borrower and/or such Loan Party;

(k) if (i) Bank deems itself insecure, believing that the prospect of payment or performance of any of the Indebtedness is impaired or shall fear deterioration, removal or waste of any of the Collateral; or (ii) in the opinion of Bank, a Material Adverse Effect has resulted or occurred or could result or occur; or

(1) the occurrence or existence of any "Default" or "Event of Default", as the case may be, set forth in any other Loan Document.

SECTION 7 REMEDIES. Upon the occurrence and at any time during the continuance or existence of any Event of Default, Bank may, with or without notice to Borrower, declare all outstanding Indebtedness to be due and payable, whereupon all such Indebtedness then outstanding shall immediately become due and payable, without further notice or demand, and any commitment or obligation, if any, on the part of Bank to make or extend Loans shall immediately terminate. Further, upon the occurrence or at any time during the continuance or existence of any Event of Default hereunder, Bank may collect, deal with and dispose of all or any part of any Collateral in any manner permitted or authorized by the Uniform Commercial Code or other applicable law (including public or private sale), and after deducting expenses (including, without limitation, reasonable attorneys' fees and expenses), Bank may apply the proceeds thereof in part or full payment of any of the Indebtedness, whether due or not, in any manner or order Bank elects. In addition to the foregoing, upon the occurrence and at any time during the continuance or existence of any Event of Default hereunder, Bank may exercise any and all rights and remedies available to it as a result thereof, whether under this Agreement or other Loan Documents, at law (including, without limit, the Uniform Commercial Code), or otherwise. Notwithstanding anything to the contrary set forth in any other Loan Document, Bank shall not be obligated to make or extend any Loans or advances to any Borrower(s) during the existence of any Default or Event of Default. In addition, upon the occurrence of an Event of Default, Bank may, with respect to MERS Loans, direct MERS, pursuant to the Electronic Tracking Agreement, to remove the Borrower from the "Servicer" category on the MERS

System and insert in place thereof, the Bank or its designee, or direct MERS to take such other action with respect to the MERS Loans as the Bank deems advisable.

SECTION 8 DEMAND BASIS LOANS. Borrower hereby acknowledges and agrees that in the event that any of the Indebtedness shall at any time be on a demand basis, Borrower's compliance with the terms and conditions set forth herein, and the absence of any Event of Default hereunder, shall not, in any way whatsoever, limit, restrict or otherwise affect or impair Bank's right or ability to make demand for payment of any or all of such Indebtedness which may be on a demand basis at any such time, in Bank's sole and absolute discretion, with or without reason or cause, and the existence of any Event of Default hereunder shall not be the sole reason or basis for enabling Bank to make demand for payment of all or any part of such Indebtedness.

SECTION 9 WAIVERS OF DEFAULTS; NO FORBEARANCE. No Event of Default

shall be waived by Bank except in writing and a waiver of any Event of Default shall not be a waiver of any other default or of the same default on a future occasion. No forbearance on the part of the Bank in enforcing any of its rights or remedies under this Agreement or any other Loan Document, nor any renewal, extension or rearrangement of any payment or covenant to be made or performed by Borrower hereunder or any such other Loan Document, shall constitute a waiver of any of the terms of this Agreement or such Loan Document or of any such right or remedy. No single or partial exercise of any right, power or privilege hereunder, or any delay in the exercise hereof, shall preclude other or further exercise of the rights of the parties under this Agreement and/or the other Loan Documents.

SECTION 10 GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of CALIFORNIA.

SECTION 11 SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors and assigns; provided, however, that Borrower shall not assign or transfer any of its respective rights or obligations hereunder or otherwise in respect of any of the Indebtedness without the prior written consent of Bank. Bank has the right to sell, assign, transfer, negotiate, pledge or grant participations or any interest in, any or all of the Indebtedness and the Loan Documents, including without limit, to a Federal Reserve Bank or Federal Home Loan Bank. In connection with the above, but without limiting its ability to make other disclosures to the full extent allowable, Bank may disclose all documents and information which Bank now or later has relating to Borrower, the Indebtedness or this Agreement, however obtained. Borrower further agrees that Bank may provide information relating to this Agreement or relating to Borrower or the Indebtedness to the Bank's parent, affiliates, subsidiaries, and service providers.

SECTION 12 COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall constitute an original instrument, but when taken together shall constitute one and the same instrument.

SECTION 13 NOTICES.

(a) Unless otherwise provided in this Agreement (and except as provided in clause (b) below), all notices and other communications by any party to the other party(ies) relating to this Agreement shall be in writing and shall be given by personal delivery, by United States mail, postage prepaid, by reputable overnight courier or by facsimile,

and addressed or delivered to the respective party(ies) at the addresses stated below, or to such other addresses as such party(ies) may from time to time specify to the other(s) in writing. Requests for information made to Borrower by Bank from time to time hereunder may be made orally or in writing, at Bank's discretion.

Borrower Address(es):

Inspire Home Loans Inc. 19600 Fairchild Road, Ste. 200
Irvine, California 92612 Attention: Lauren Ingersoll Facsimile No.: *N/A*

Email: lauren.ingersoll@inspirehomeloans.com Bank Address:

Comerica Bank
2000 Avenue of the Stars, Ste. 210 Los Angeles, California 90067 Attention: Arthur H. Shafer Facsimile No.: (310)-552-6012 Email:
ahshafer@comerica.com

(b) Notices and other communications provided to the Bank under this Agreement or any other Loan Document may be delivered or furnished by Electronic Transmission pursuant to procedures approved by the Bank. The Bank or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by Electronic Transmission (including email and any E-System) pursuant to procedures approved by it. Unless otherwise agreed to in a writing by and among the parties to a particular communication, (i) notices and other communications sent to an email address shall be deemed received upon the intended recipients receipt of such notice or other communication, and (ii) notices and other communications posted to any E-System shall be deemed received upon the receipt by the intended recipient at its email address as described in the foregoing clause (a) of notification that such notice or other communication is available and identifying the website address therefore. The notice and other communications described in this paragraph may include requests from Authorized Agents described in Sections 2(b) and 2(c) hereof. Immediately upon receipt from time to time of such Electronic Transmissions, Bank is authorized to lend and take other actions under this Agreement and the other Loan Documents in reliance thereon.

(c) Bank is authorized (but not required) to transmit, post or otherwise make or communicate, in its sole discretion, Electronic Transmissions in connection with this Agreement or any other Loan Document and the transactions contemplated therein.

(d) All uses of an E-System shall be governed by and subject to, in addition to the other terms and conditions set forth herein, separate terms and conditions posted or referenced in such E-System and related contractual obligations executed by Bank in connection with the use of such E-System.

(e) Borrower hereby acknowledges and agrees that the use of Electronic Transmissions is not necessarily secure and that there are risks associated with such use, including risks of interception, disclosure and abuse and each indicates it assumes and accepts such risks by hereby authorizing the transmission of Electronic Transmissions. All E-Systems and Electronic Transmissions shall be provided "as is" and "as available". Neither Bank nor any of its Affiliates warrants the accuracy, adequacy or completeness of any E-Systems or Electronic Transmission, and each disclaims all liability for errors or omissions therein. No warranty of any kind is made by Bank or any of its Affiliates in connection with any E-Systems or Electronic Transmission, including any warranty of merchantability, fitness for a particular purpose, non infringement of third-party rights or freedom from viruses or other code defects. Bank and Borrower agree that Bank has no responsibility for maintaining or providing any equipment, software, services or any testing required in connection with any Electronic Transmission or otherwise required for any E-System.

(f) Borrower hereby indemnifies, saves and holds Bank, and any of Bank's past, present and future officers, directors, shareholders, employees, representatives and consultants, harmless from and against any and all losses, damages, suits, penalties, costs, liabilities and expenses (including, without limitation, reasonable legal expenses and attorneys' fees) incurred or arising out of the use of telephone or Electronic Transmissions or E-Systems under or in connection with this Agreement or any of the other Loan Documents; provided, however, that the foregoing indemnification shall not be applicable to the extent (but only to the extent) the same arise or result from any gross negligence or willful misconduct of Bank. The provisions of this paragraph shall survive repayment of the Indebtedness and satisfaction of all obligations of Borrower to Bank and termination of this Agreement.

SECTION 14 COSTS AND EXPENSES. Borrower shall pay or reimburse Bank, on demand, for (a) all costs, expenses, fees and charges paid or incurred by Bank (including, without limitation, Bank's attorneys' fees and costs) in connection with the preparation, closing and consummation of this Agreement and/or the other Loan Documents and/or the Loans or transactions contemplated hereby or thereby, or in connection with the administration or enforcement of this Agreement or any of the other Loan Documents, (b) all stamp and other taxes and duties (except for taxes on the overall net income of Bank imposed by the jurisdiction in which Bank's principal executive office is located) payable or determined to be payable in connection with the execution, delivery, filing or recording of this Agreement and the other Loan Documents and the consummation of the transactions contemplated hereby, and any and all liabilities with respect to or resulting from any delay in paying or omitting to pay such taxes or duties, and (c) all costs and expenses with respect to the shipment by Bank of Mortgage Loans to investors or others for purchase. In addition, Borrower shall immediately and without demand reimburse Bank for all sums expended by Bank in connection with any action brought by Bank in respect of any Default or Event of Default or to enforce any provision of this Agreement or the other Loan Documents and/or to exercise or enforce any rights or remedies of Bank. Borrower authorizes and approves all advances and payments by Bank for items described in this Section as Indebtedness secured by the Collateral.

SECTION 15 INDEMNIFICATION AND HOLD HARMLESS. WITHOUT LIMITING ANY OTHER PROVISIONS OF THIS AGREEMENT, BORROWER AGREES TO INDEMNIFY AND HOLD BANK HARMLESS FROM AND AGAINST ALL LOSSES,

COSTS, DAMAGES, LIABILITIES AND EXPENSES, INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES AND DISBURSEMENTS, INCURRED BY BANK IN CONNECTION WITH TIDS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR ANY LOANS OR TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY OR BY REASON OF ANY DEFAULT OR EVENT OF DEFAULT, OR ENFORCING THE OBLIGATIONS OF BORROWER OR ANY LOAN PARTY UNDER TIDS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, AS APPLICABLE, OR IN EXERCISING ANY RIGHTS OR REMEDIES OF BANK OR IN THE PROSECUTION OR DEFENSE OF ANY ACTION OR PROCEEDING CONCERNING ANY MATTER GROWING OUT OF OR CONNECTED WITH TIDS AGREEMENT OR ANY OF THE LOAN DOCUMENTS; PROVIDED, HOWEVER, THAT THE FOREGOING SHALL NOT BE APPLICABLE, AND THE BORROWER SHALL NOT BE LIABLE FOR ANY SUCH LOSSES, COSTS, DAMAGES, LIABILITIES OR EXPENSES, TO THE EXTENT (BUT ONLY TO THE EXTENT) THE SAME ARISE OR RESULT FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF BANK OR ANY OF ITS AGENTS OR EMPLOYEES. THE PROVISIONS OF THIS SECTION SHALL SURVIVE REPAYMENT OF THE INDEBTEDNESS AND SATISFACTION OF ALL OBLIGATIONS OF BORROWER TO BANK AND TERMINATION OF TIDS AGREEMENT.

SECTION 16 AMENDMENTS AND WAIVERS. All amendments to or waivers or terminations of this Agreement or the other Loan Documents must be in writing. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement and the other Loan Documents, if any, are hereby superseded and merged into this Agreement and the Loan Documents. Time is of the essence for the performance of all obligations set forth in this Agreement. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision. Borrower acknowledges that Bank may provide information regarding Borrower and the Loans to Bank's parent, Subsidiaries, Affiliates and service providers.

SECTION 17 RESERVED.

SECTION 18 REINSTATEMENT; SEVERABILITY. Bank's rights under this Agreement and the other Loan Documents shall be reinstated and revived, and the enforceability of this Agreement and the other Loan Documents shall continue, with respect to any amount at any time paid on account of the Indebtedness which thereafter shall be required to be restored or returned by Bank, all as though such amount had not been paid. The rights of Bank created or granted herein and the enforceability of this Agreement and the other Loan Documents at all times shall remain effective to cover the full amount of all the Indebtedness even though the Indebtedness, including any part thereof or any other security or guaranty therefor, may be or hereafter may become invalid or otherwise unenforceable as against Borrower.

SECTION 19 WAIVER OF JURY TRIAL. **BORROWER AND BANK ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED UNDER CERTAIN CIRCUMSTANCES. TO THE EXTENT PERMITTED BY LAW, EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR**

CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT, WAIVE ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, TIDS AGREEMENT OR THE INDEBTEDNESS.

(a) In the event the Jury Trial Waiver set forth above is not enforceable, the parties elect to proceed under this Judicial Reference Provision.

(b) With the exception of the items specified in clause (c), below, any controversy, dispute or claim (each, a "Claim") between the parties arising out of or relating to this Agreement or any other document, instrument or agreement between the undersigned parties (collectively in this Section, the "Comerica Documents"), will be resolved by a reference proceeding in California in accordance with the provisions of Sections 638 et seq. of the California Code of Civil Procedure ("CCP"), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as otherwise provided in the Comerica Documents, venue for the reference proceeding will be in the state or federal court in the county or district where the real property involved in the action, if any, is located or in the state or federal court in the county or district where venue is otherwise appropriate under applicable law (the "Court").

(c) The matters that shall not be subject to a reference are the following: (i) foreclosure of any security interests in real or personal property, (ii) exercise of self-help remedies (including, without limitation, set-off), (iii) appointment of a receiver and (iv) temporary, provisional or ancillary remedies (including, without limitation, writs of attachment, writs of possession, temporary restraining orders or preliminary injunctions). This reference provision does not limit the right of any party to exercise or oppose any of the rights and remedies described in clauses (i) and (ii) or to seek or oppose from a court of competent jurisdiction any of the items described in clauses (iii) and (iv). The exercise of, or opposition to, any of those items does not waive the right of any party to a reference pursuant to this reference provision as provided herein.

(d) The referee shall be a retired judge or justice selected by mutual written agreement of the parties. If the parties do not agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an ex parte or expedited basis, and the parties agree that irreparable harm would result if ex parte relief is not granted. Pursuant to CCP § 170.6, each party shall have one peremptory challenge to the referee selected by the Presiding Judge of the Court (or his or her representative).

(e) The parties agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (i) set the matter for a status and trial-setting conference within fifteen (15) days after the date of selection of the referee, (ii) if practicable, try all issues of law or fact within one hundred twenty (120) days after the date of the conference and (iii) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

(f) The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party's failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered based upon good cause shown, no party shall be entitled to "priority" in conducting discovery, depositions may be taken by either party upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days after service. All disputes relating to discovery which cannot be resolved by the parties shall be submitted to the referee whose decision shall be final and binding.

(g) Except as expressly set forth herein, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee's power to award costs to the prevailing party, the parties will equally share the cost of the referee and the court reporter at trial.

(h) The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a court proceeding, including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision at the close of the reference proceeding which disposes of all claims of the parties that are the subject of the reference. Pursuant to CCP § 644, such decision shall be entered by the Court as a judgment or an order in the same manner as if the action had been tried by the Court and any such decision will be final, binding and conclusive. The parties reserve the right to appeal from the final judgment or order or from any appealable decision or order entered by the referee. The parties reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

(i) If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted), any dispute between the parties that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired judge or justice, in accordance with the California Arbitration Act §1280 through §1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.

G) THE PARTIES RECOGNIZE AND AGREE THAT ALL CONTROVERSIES, DISPUTES AND CLAIMS RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A *WRY*. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER OWN

CHOICE, EACH PARTY KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, AGREES THAT THIS REFERENCE PROVISION WILL APPLY TO ANY CONTROVERSY, DISPUTE OR CLAIM BETWEEN OR AMONG THEM ARISING OUT OF OR IN ANY WAY RELATED TO, THIS AGREEMENT, THE INDEBTEDNESS OR THE OTHER COMERICA DOCUMENTS.

SECTION 20. TERMINATION OF THE LINE. Borrower may terminate this Agreement at any time upon thirty (30) days' prior written notice to Bank. Upon Borrower giving such written notice to Bank, Borrower shall not request any further advances of the Line of Credit. On or before the date which is thirty (30) days from the date any such written notice is given by Borrower to Bank, Borrower shall pay in full all outstanding principal, interest, fees and other Indebtedness. If Borrower provides Bank with such written notice and Borrower pays all outstanding principal, interest, fees and other Indebtedness in full within such thirty (30) day period, Bank shall, at Borrower's expense, promptly (i) prepare and file a UCC termination statement, (ii) prepare, execute and deliver to the Borrower other necessary documentation, in each case terminating the security interest granted to Bank by the Borrower to secure the Indebtedness, and (iii) deliver to the Borrower Mortgage Notes of Borrower then held by Bank.

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This Agreement is effective as of the day and year first set forth above.

BANK:

COMERICA BANK

By: /s/
Its: SVP

BORROWER:

INSPIRE HOME LOANS INC., a Delaware
corporation

By: /s/ James Palda
Its: President

[Signature Page to Credit Agreement]

EXHIBIT A

FORM OF COMPLIANCE CERTIFICATE

This Compliance Certificate ("Certificate") is furnished pursuant to Section 4(a)(iii) of the Credit Agreement dated , 2018, between the undersigned ("Borrower") and Comerica Bank ("Bank") (as it may be amended from time to time, the "Agreement"). The undersigned hereby certifies to Bank that, as of , 201_ (the "Computation Date"):

1. The Unencumbered Liquid Assets plus Unused Line Availability, which are required to be not less than \$2,000,000, was_ as computed in the supporting documents attached hereto as Schedule 1.

2. The Tangible Effective Net Worth, which is required to be not less than \$6,000,000, was_ as computed in the supporting documents attached hereto as Schedule 2.

2. The Debt-to-Tangible Effective Net Worth Ratio, which is required to be not more than 12.0:1.0, was_ as computed in the supporting documents attached hereto as Schedule 3.

4. The Net Income for the Applicable Measuring Period, which is required to be not less than \$1.00, was_ as computed in the supporting documents attached hereto as Schedule 4.

5. The cash pledged to Bank constituting a part of the Unencumbered Cash and Cash Equivalents Collateral, which is required to be not less than Two Hundred Thousand and 00/100 Dollars (\$200,000.00) plus Unused Line Availability, was_ as computed in the supporting documents attached hereto as Schedule 5.

The undersigned hereby certifies that:

A. All of the information set forth in this Certificate (and in any Schedule attached hereto) is true and correct.

B. As of the Computation Date, the Borrower has observed and performed all of its covenants and other agreements contained in the Agreement and in any other Loan Documents to be observed, performed and satisfied by them.

C. I have reviewed the Agreement and this Certificate is based on an examination sufficient to assure that this Certificate is accurate.

D. Except as stated in Schedule 6 attached hereto (which shall describe any existing Event of Default or Default, specifying in detail the nature and period of existence thereof and any action taken with respect thereto taken or contemplated to be taken by Borrower), no Event of Default or Default, including an Event of Default or Default under Section 6(g) of the Agreement, has occurred and is continuing as of the date of this Certificate.

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E. Without limiting the certification in the preceding paragraph, or the provisions of Section 6(g) of the Agreement, except as stated in or Schedule 7 attached hereto, Borrower has not failed to pay when due any of its Debt (other than to Bank) or to observe or perform any term, condition, covenant or agreement set forth in any document, instrument or agreement evidencing, securing or relating to such Debt, beyond any applicable period of grace or cure, if any, provided with respect thereto so as to permit the holder(s) of such Debt to accelerate the maturity or payment of such Debt.

Capitalized terms used in this Certificate and in the schedules hereto, unless specifically defined to the contrary, have the meanings given to them in the Agreement.

IN WITNESS WHEREOF, Borrower has caused this Certificate to be executed and

delivered by its duly authorized officer this _
day of _
_, 201

INSPIRE HOME LOANS INC., a Delaware
corporation

By: _

Its: _____

SCHEDULE OF SUBSIDIARIES

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SCHEDULE OF DEBT

- 1) Warehouse line of credit or repurchase facility with Chase Bank in maximum amount not to exceed \$45,000,000.

SCHEDULE OF PERMITTED LIENS

Detroit_I5392182_3

AMOUNT	NOTE DATE	MATURITY DATE
\$40,000,000.00	May 4, 2018	SEE BELOW

ON DEMAND (or as otherwise provided in this Note), FOR VALUE RECEIVED, the undersigned promise(s) to pay to the order of COMERICA BANK (herein called "Bank"), at any office of the Bank in the State of California, the principal sum of _FORTY MILLION AND 00/100 DOLLARS (\$40,000,000.00), or so much of said sum as has been advanced and is then outstanding under this Note, together with interest thereon as hereinafter set forth.

Notwithstanding anything in this Note to the contrary, if Bank demands payment of this Note and no Default has occurred or exists, then this Note and all principal, interest and other sums due hereunder shall be payable in full on the Demand Payment Date, as defined below. If Bank demands payment in full of this Note and a Default has occurred or exists, then this Note and all principal, interest and other sums due hereunder shall be payable in full upon such demand. As used herein, the "Demand Payment Date" shall mean the earlier to occur of (i) ninety (90) days after the Bank demands payment of this Note, or (ii) the occurrence of a Default. Nothing in this paragraph alters the discretionary nature of this Note, and Bank shall have no obligation to make any advances to the undersigned pursuant to this Note at any time.

This Note is made in connection with a Credit Agreement between the undersigned and Bank dated of even date herewith (as it may be amended from time to time, the "Agreement"), the provisions of which are incorporated herein by this reference. In the event of any conflict between the provisions of this Note and the provisions of the Agreement, the provisions of the Agreement shall govern and control.

Anything in this Note to the contrary notwithstanding, the aggregate principal amount at any one time outstanding under this Note shall never exceed the lesser of the Maximum Line Amount (as defined in the Agreement) or the Borrowing Base (as defined in the Agreement). The undersigned shall immediately make all payments necessary to comply with this provision. The undersigned hereby acknowledges and agrees that nothing in this paragraph imposes any obligation on the Bank to make or continue any advances under this Note.

This Note is a note under which Advances, repayments and re-Advances may be made from time to time, subject to the terms and conditions of this Note.

AT NO TIME SHALL THE BANK BE UNDER ANY OBLIGATION TO MAKE ANY ADVANCES TO THE UNDERSIGNED PURSUANT TO THIS NOTE (NOTWITHSTANDING ANYTHING EXPRESSED OR IMPLIED IN THIS NOTE OR ELSEWHERE TO THE CONTRARY, INCLUDING, WITHOUT LIMITATION, IF THE BANK SUPPLIES THE UNDERSIGNED WITH A BORROWING FORMULA) AND THE BANK, AT ANY TIME AND FROM TIME TO TIME, WITHOUT NOTICE, AND IN ITS SOLE DISCRETION, MAY REFUSE TO MAKE ADVANCES TO THE UNDERSIGNED WITHOUT INCURRING ANY LIABILITY DUE TO THIS REFUSAL AND WITHOUT AFFECTING THE UNDERSIGNED'S LIABILITY UNDER THIS NOTE FOR ANY AND ALL AMOUNTS ADVANCED.

The preceding sentence shall not apply to this Note if this Note is secured by a deed of trust or mortgage covering real property.

Subject to the terms and conditions of this Note, each of the Advances made hereunder shall bear interest at the Applicable Interest Rate.

Unless sooner demanded, accrued and unpaid interest on the unpaid principal balance of each outstanding Advance hereunder shall be payable monthly, in arrears, on the first Business Day of each month. Interest accruing hereunder shall be computed on the basis of a year of 360 days, and shall be assessed for the actual number of days elapsed, and in such computation, effect shall be given to any change in the Applicable Interest Rate as a result of any change in the Daily Adjusting LIBOR Rate or, to the extent applicable, the Prime Referenced Rate, on the date of each such change.

Upon demand and from and after the occurrence of any Default hereunder, and so long as any such Default remains unremedied or uncured thereafter, the Indebtedness outstanding under this Note shall bear interest at a per annum rate of three percent (3%) above the otherwise Applicable Interest Rate(s), which interest shall be payable upon demand. In addition to the foregoing, a late payment charge equal to five percent (5%) of each late payment hereunder may be charged on any payment not received by Bank within twenty (20) calendar days after the payment due date thereof, but acceptance of payment of any such charge shall not constitute a waiver of any Default hereunder.

In no event shall the interest payable under this Note at any time exceed the maximum rate permitted by law.

THE MAXIMUM INTEREST RATE SHALL NOT EXCEED THE HIGHEST APPLICABLE USURY CEILING.

The amount and date of each Advance, its Applicable Interest Rate and the amount and date of any repayment shall be noted on Bank's records, which records shall be conclusive evidence thereof, absent manifest error; _____, any failure by Bank to make any such notation, or any error in any such notation, shall not relieve the undersigned of its/their obligations to repay Bank all amounts payable by the undersigned to Bank under or pursuant to this Note, when due in accordance with the terms hereof.

The undersigned may request an Advance hereunder either (i) upon the delivery to Bank of a written Request for Advance duly completed and executed by the undersigned (as herein provided), or (ii) to the extent applicable, pursuant to a request submitted through Bank's Loan Management System (each a "Request"), in each case, subject to the following: (a) Bank shall not have made demand hereunder and no Default, or any condition or event which, with the giving of notice or the running of time, or both, would constitute a Default, shall have occurred and be continuing or exist under this Note; (b) each such Request shall be delivered to Bank by 2:00 p.m. (San Jose, California time) on the proposed date of the requested Advance; (c) after giving effect to such Advance, the aggregate principal amount of Advances made under this Note (excluding refundings and conversions of outstanding Advances) shall not exceed the Loan Amount; and (d) a Request, once delivered or submitted to Bank, shall not be revocable by the undersigned, however

undersigned _____, as aforesaid, Bank shall not be obligated to make any Advance under this Note.

In the event that the undersigned is unable to request Advances hereunder through the Bank's Loan Management System, Advances hereunder may be requested by delivery or submission to Bank by hand delivery, first class mail, overnight courier, facsimile, email or other means of delivery acceptable to Bank, of a written Request for Advance duly completed and executed by the undersigned. Advances hereunder may be requested in the undersigned's discretion by telephonic notice to Bank. Any Advance requested by telephonic notice shall be confirmed by the undersigned that same day by submission to Bank of a written Request for Advance, as provided herein. The undersigned acknowledge(s) that if Bank makes an Advance based on a request made by telephone, facsimile, email or other means of delivery (other than by hand delivery, first class mail or overnight courier), it shall be for the undersigned's convenience and all risks involved in the use of any such procedure shall be borne by the undersigned, and the undersigned expressly agree(s) to indemnify and hold Bank harmless therefor. Bank shall have no duty to confirm the authority of anyone requesting an Advance by telephone, facsimile, email or any such other means of delivery. In the event that the undersigned elect(s) to request Advances by telephonic notice, facsimile, email or other means of delivery acceptable to Bank, the undersigned acknowledge(s) and agree(s) that Bank may impose or require such verification, authentication and other procedures as Bank may require from time to time.

If the Daily Adjusting LIBOR Rate is not otherwise available to the undersigned as the basis for the Applicable Interest Rate hereunder for the principal indebtedness outstanding hereunder in accordance with the terms of this Note, the Prime Referenced Rate shall be the basis for the Applicable Interest Rate hereunder in respect of such indebtedness for such period, subject in all respects to the terms and conditions of this Note. The foregoing shall not in any way whatsoever limit or otherwise affect Bank's right to make demand for payment of all or any part of the Indebtedness hereunder at any time in Bank's sole and absolute discretion or any of Bank's rights or remedies under this Note upon the occurrence of any Default hereunder, or any condition or event which, with the giving of notice or the running of time, or both, would constitute a Default.

In the event that any payment under this Note becomes due and payable on any day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day, and, to the extent applicable, interest shall continue to accrue and be payable thereon during such extension at the rates set forth in this Note.

All payments to be made by the undersigned to Bank under or pursuant to this Note shall be in immediately available United States funds, without setoff or counterclaim, and in the event that any payments submitted hereunder are in funds not available until collected, said payments shall continue to bear interest until collected.

The undersigned may prepay all or part of the outstanding balance of any Indebtedness under this Note at any time without premium or penalty. Any prepayment hereunder shall also be accompanied by the payment of all accrued and unpaid interest on the amount so prepaid.

For any Daily Adjusting LIBOR Rate Advance, if Bank shall designate a LIBOR Lending Office which maintains books separate from those of the rest of Bank, Bank shall have the option of maintaining and carrying such Advance on the books of such LIBOR Lending Office.

If, at any time, Bank determines that, (a) Bank is unable to determine or ascertain the Daily Adjusting LIBOR Rate, or (b) by reason of circumstances affecting the foreign exchange and interbank markets generally, deposits in eurodollars in the applicable amounts or for the relative maturities are not being offered to Bank for any applicable Daily Adjusting LIBOR Rate Advance, or (c) the Applicable Interest Rate will not accurately or fairly cover or reflect the cost to Bank of maintaining any of the Indebtedness under this Note based upon the Daily Adjusting LIBOR Rate, then Bank shall forthwith give notice thereof to the undersigned. Thereafter, until Bank notifies the undersigned that such conditions or circumstances no longer exist, the right of the undersigned to request a Daily Adjusting LIBOR Rate Advance shall be suspended, and the Prime Referenced Rate shall be the basis for the Applicable Interest Rate for all Indebtedness hereunder during such period of time.

If any Change in Law shall make it unlawful or impossible for the Bank (or its LIBOR Lending Office) to make or maintain any Advance with interest based upon the Daily Adjusting LIBOR Rate, Bank shall forthwith give notice thereof to the undersigned. Thereafter, until Bank notifies the undersigned that such conditions or circumstances no longer exist, the right of the undersigned to request a Daily Adjusting LIBOR Rate Advance shall be suspended, and thereafter, the Prime Referenced Rate shall be the basis for the Applicable

Interest Rate for the Indebtedness hereunder.

If any Change in Law shall (a) subject Bank (or its LIBOR Lending Office) to any tax, duty or other charge with respect to this Note or any Indebtedness hereunder, or shall change the basis of taxation of payments to Bank (or its LIBOR Lending Office) of the principal of or interest under this Note or any other amounts due under this Note in respect thereof (except for changes in the rate of tax on the overall net income of Bank or its LIBOR Lending Office imposed by the jurisdiction in which Bank's principal executive office or LIBOR Lending Office is located); or (b) impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by Bank (or its LIBOR Lending Office), or shall impose on Bank (or its LIBOR Lending Office) or the foreign exchange and interbank markets any other condition affecting this Note or the Indebtedness hereunder; and the result of any of the foregoing is to increase the cost to Bank of maintaining any part of the Indebtedness hereunder or to reduce the amount of any sum received or receivable by Bank under this Note by an amount deemed by the Bank to be material, then the undersigned shall pay to Bank, within thirty (30) days of the undersigned's receipt of written notice from Bank demanding such compensation, such additional amount or amounts as will compensate Bank for such increased cost or reduction. A certificate of Bank, prepared in good faith and in reasonable detail by Bank and submitted by Bank to the undersigned, setting forth the basis for determining such additional amount or amounts necessary to compensate Bank shall be conclusive and binding for all purposes, absent manifest error.

In the event that any Change in Law affects or would affect the amount of capital or liquidity required or expected to be maintained by Bank (or any corporation controlling Bank), and Bank determines that the amount of such capital or liquidity is increased by or based upon the existence of any obligations of Bank hereunder or the maintaining of any Indebtedness hereunder, and such increase has the effect of reducing the rate of return on Bank's (or such controlling corporation's) capital as a consequence of such obligations or the maintaining of such Indebtedness hereunder to a level below that which Bank (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy and liquidity), then the undersigned shall pay to Bank, within fifteen (15) days of the undersigned's receipt of written notice from Bank demanding such compensation, additional amounts as are sufficient to compensate Bank (or such controlling corporation) for any increase in the amount of capital and/or liquidity and reduced rate of return which Bank reasonably determines to be allocable to the existence of any obligations of the Bank hereunder or to maintaining any Indebtedness hereunder. A certificate of Bank as to the amount of such compensation, prepared in good faith and in reasonable detail by the Bank and submitted by Bank to the undersigned, shall be conclusive and binding for all purposes absent manifest error.

This Note and any other indebtedness and liabilities of any kind of the undersigned (or any of them) to the Bank, and any and all modifications, renewals or extensions of it, whether joint or several, contingent or absolute, now existing or later arising, and however evidenced and whether incurred voluntarily or involuntarily, known or unknown, or originally payable to the Bank or to a third party and subsequently acquired by Bank including, without limitation, any late charges; loan fees or charges; overdraft indebtedness; costs incurred by Bank in establishing, determining, continuing or defending the validity or priority of any security interest, pledge or other lien or in pursuing any of its rights or remedies under any loan document (or otherwise) or in connection with any proceeding involving the Bank as a result of any financial accommodation to the undersigned (or any of them); and reasonable costs and expenses of attorneys and paralegals, whether inside or outside counsel is used, and whether any suit or other action is instituted, and to court costs if suit or action is instituted, and whether any such fees, costs or expenses are incurred at the trial court level or on appeal, in bankruptcy, in administrative proceedings, in probate proceedings or otherwise (collectively "Indebtedness"), are secured by and the Bank is granted a security interest in and lien upon all items deposited in any account of any of the undersigned with the Bank and by all proceeds of these items (cash or otherwise), all account balances of any of the undersigned from time to time with the Bank, by all property of any of the undersigned from time to time in the possession of the Bank and by any other collateral, rights and properties described in the Agreement, the Loan Documents (as defined in the Agreement), and each and every deed of trust, mortgage, security agreement, pledge, assignment and other security or collateral agreement which has been, or will at any time be, or shall hereafter be, executed by any (or all) of the undersigned to or for the benefit of the Bank (collectively "Collateral"). Notwithstanding the above, (i) to the extent that any portion of the Indebtedness is a consumer loan, that portion shall not be secured by any deed of trust or mortgage on or other security interest in any of the undersigned's principal dwelling or in any of the undersigned's real property which is not a purchase money security interest as to that portion, unless expressly provided to the contrary in another place, or (ii) if the undersigned (or any of them) has (have) given or give the Bank a deed of trust or mortgage covering real property which, under Texas law, constitutes the homestead of such person, that deed of trust or mortgage shall not secure this Note or any other indebtedness of the undersigned (or any of them) unless expressly provided to the contrary in another place.

If (a) the undersigned (or any of them) or any guarantor under a guaranty of all or part of the Indebtedness ("guarantor") (i) fail(s) to pay this Note or any of the Indebtedness when due, by maturity, acceleration or otherwise, or fail(s) to pay any Indebtedness owing on a demand basis upon demand; or (ii) fail(s) to comply with any of the terms or provisions of any agreement between the undersigned (or any of them) or any guarantor and the Bank, and any such failure continues beyond any applicable grace or cure period, if any, expressly provided with respect thereto; or (iii) become(s) insolvent or the subject of a voluntary or involuntary proceeding in bankruptcy, or a reorganization, arrangement or creditor composition proceeding, (if a business entity) cease (s) doing business as a going concern, (if a natural person) die(s) or become(s) incompetent, (if a partnership) dissolve(s) or any general partner of it dies, becomes incompetent or becomes the subject of a bankruptcy proceeding, or (if a corporation or a limited liability company) is the subject of a dissolution, merger or consolidation; or (b) any warranty or representation made by any of the undersigned or any guarantor in connection with this Note or any of the Indebtedness shall be discovered to be untrue or incomplete; or (c) there is any termination, notice of termination, or breach of any guaranty, pledge, collateral assignment or subordination agreement relating to all

or any part of the Indebtedness; or (d) there is any failure by any of the undersigned or any guarantor to pay when due any of its indebtedness (other than to the Bank) or in the observance or performance of any term, covenant or condition in any document evidencing, securing or relating to such indebtedness; or (e) the Bank deems itself insecure, believing that the prospect of payment or performance of this Note or any of the Indebtedness is impaired or shall fear deterioration, removal or waste of any of the Collateral; or (f) there is filed or issued a levy or writ of attachment or garnishment or other like judicial process upon the undersigned (or any of them) or any guarantor or any of the Collateral, including, without limit, any accounts of the undersigned (or any of them) or any guarantor with the Bank; or (g) an "Event of Default" as defined in the Agreement occurs or exists; then the Bank, upon the occurrence and at any time during the continuance or existence of any of these events (each a "Default"), may, at its option and without prior notice to the undersigned (or any of them), cease advancing money or extending credit to or for the benefit of the undersigned under this Note or any other agreement between the undersigned and Bank, terminate this Note as to any future liability or obligation of Bank, but without affecting Bank's rights and security interests in any Collateral and the Indebtedness of the undersigned to Bank, declare any or all of the Indebtedness to be immediately due and payable (notwithstanding any provisions contained in the evidence of it to the contrary), sell or liquidate all or any portion of the Collateral, set off against the Indebtedness any amounts owing by the Bank to the undersigned (or any of them), charge interest at the default rate provided in the document evidencing the relevant Indebtedness and exercise any one or more of the rights and remedies granted to the Bank by any agreement with the undersigned (or any of them) or given to it under applicable law. In addition, if this Note is secured by a deed of trust or mortgage covering real property, then the trustor or mortgagor shall not mortgage or pledge the mortgaged premises as security for any other indebtedness or obligations. This Note, together with all other indebtedness secured by said deed of trust or mortgage, shall become due and payable immediately, without notice, at the option of the Bank, (a) if said trustor or mortgagor shall mortgage or pledge the mortgaged premises for any other indebtedness or obligations or shall convey, assign or transfer the mortgaged premises by deed, installment sale contract or other instrument, or (b) if the title to the mortgaged premises shall become vested in any other person or party in any manner whatsoever, or (c) if there is any disposition (through one or more transactions) of legal or beneficial title to a controlling interest of said trustor or mortgagor.

Except as otherwise expressly provided in the second paragraph on page 1 of this Note, the undersigned hereby expressly acknowledge(s) and agree(s) that this Note is a demand note and matures upon issuance, and that the Indebtedness hereunder shall be payable upon demand (unless earlier payment is required in accordance with the terms and conditions of this Note), and that Bank may, at any time in its sole and absolute discretion, without notice and without reason and whether or not any Default shall have occurred and/or exist under this Note, without notice, demand that this Note and the Indebtedness hereunder be immediately paid in full. The Bank may from time to time make demand for partial payments under this Note and these demands shall not preclude the Bank from demanding at any time that this Note be immediately paid in full. Further, the demand nature of this Note shall not be deemed to be modified, limited or otherwise affected by any reference to any Default in this Note, and to the extent that there are any references to any Default(s) hereunder, such references are for the purpose of permitting Bank to accelerate any Indebtedness not on a demand basis and to receive interest at the applicable default rate provided in the document evidencing the relevant Indebtedness.

provided, however

The undersigned authorize(s) the Bank to charge any account(s) of the undersigned (or any of them) with the Bank for any and all sums due hereunder when due; _____ that such authorization shall not affect any of the undersigned's obligation to pay to the Bank all amounts when due, whether or not any such account balances that are maintained by the undersigned with the Bank are insufficient to pay to the Bank any amounts when due, and to the extent that such accounts are insufficient to pay to the Bank all such amounts, the undersigned shall remain liable for any deficiencies until paid in full.

If this Note is signed by two or more parties (whether by all as makers or by one or more as an accommodation party or otherwise), the obligations and undertakings under this Note shall be that of all and any two or more jointly and also of each severally. This Note shall bind the undersigned, and the undersigned's respective heirs, personal representatives, successors and assigns.

The undersigned waive(s) presentment, demand, protest, notice of dishonor, notice of demand or intent to demand, notice of acceleration or intent to accelerate, and all other notices, and agree(s) that no extension or indulgence to the undersigned (or any of them) or release, substitution or nonenforcement of any security, or release or substitution of any of the undersigned, any guarantor or any other party, whether with or without notice, shall affect the obligations of any of the undersigned. The undersigned waive(s) all defenses or right to discharge available under Section 3605 of the Uniform Commercial Code and waive(s) all other suretyship defenses or right to discharge. The undersigned agree(s) that the Bank has the right to sell, assign, or grant participations or any interest in, any or all of the Indebtedness, and that, in connection with this right, but without limiting its ability to make other disclosures to the full extent allowable, the Bank may disclose all documents and information which the Bank now or later has relating to the undersigned or the Indebtedness. The undersigned agree(s) that the Bank may provide information relating to this Note or relating to the undersigned to the Bank's parent, affiliates, subsidiaries and service providers.

The undersigned agree(s) to pay or reimburse to Bank, or any other holder or owner of this Note, on demand, any and all costs and expenses of Bank (including, without limit, court costs, legal expenses and reasonable attorneys' fees, whether inside or outside counsel is used, whether or not suit is instituted, and, if suit is instituted, whether at the trial court level, appellate level, in a bankruptcy, probate or administrative proceeding or otherwise) incurred in connection with the preparation, execution, delivery, amendment, administration, and performance of this Note and the related documents, or incurred in collecting or attempting to collect this Note or the Indebtedness, or incurred in any other matter or proceeding relating to this Note or the Indebtedness.

The undersigned acknowledge(s) and agree(s) that there are no contrary agreements, oral or written, establishing a term of this Note and agree(s) that the terms and conditions of this Note may not be amended, waived or modified except in a writing signed by an

officer of the Bank expressly stating that the writing constitutes an amendment, waiver or modification of the terms of this Note. As used in this Note, the word "undersigned" means, individually and collectively, each maker, accommodation party, endorser and other party signing this Note in a similar capacity. If any provision of this Note is unenforceable in whole or part for any reason, the remaining provisions shall continue to be effective. **THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.**

For the purposes of this Note, the following terms have the following meanings:

"Advance" means a borrowing requested by the undersigned and made by Bank under this Note, and shall include a Daily Adjusting LIBOR Rate Advance and (subject to the terms of this Note) a Prime-based Advance.

"Applicable Interest Rate" means the Daily Adjusting LIBOR Rate plus the Applicable Margin or (subject to the terms of this Note) the Prime Referenced Rate plus the Applicable Margin, as otherwise determined in accordance with the terms and conditions of this Note.

"Applicable Margin" means two and three hundred seventy five thousandths percent (2.375%) per annum.

"Business Day" means any day, other than a Saturday, Sunday or any other day designated as a holiday under Federal or applicable State statute or regulation, on which Bank is open for all or substantially all of its domestic and international business (including dealings in foreign exchange) in Detroit, Michigan, and, in respect of notices and determinations relating to the Daily Adjusting LIBOR Rate, also a day on which dealings in dollar deposits are also carried on in the London interbank market and on which banks are open for business in London, England.

"Change in Law" means the occurrence, after the date hereof, of any of the following: (i) the adoption or introduction of, or any change in any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not applicable to Bank on such date, or (ii) any change in interpretation, administration or implementation thereof of any such law, treaty, rule or regulation by any Governmental Authority, or (iii) the issuance, making or implementation by any Governmental Authority of any interpretation, administration, request, regulation, guideline, or directive (whether or not having the force of law), including, without limitation, any risk-based capital guidelines or any interpretation, administration, request, regulation, guideline, or directive relating to liquidity. For purposes of this definition, (x) a change in law, treaty, rule, regulation, interpretation, administration or implementation shall include, without limitation, any change made or which becomes effective on the basis of a law, treaty, rule, regulation, interpretation administration or implementation then in force, the effective date of which change is delayed by the terms of such law, treaty, rule, regulation, interpretation, administration or implementation, and (y) the Protection Act

Dodd-Frank Wall Street Reform and Consumer

(Pub. L. 111-203, H.R. 4173) and all requests, rules, regulations, guidelines, interpretations or directives promulgated thereunder or issued in connection therewith shall be deemed to be a "Change in Law", regardless of the date enacted, adopted, issued or promulgated, whether before or after the date hereof, and (z) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities, in each case pursuant to Basel 111, shall each be deemed to be a "Change in Law", regardless of the date enacted, adopted, issued or implemented.

"Daily Adjusting LIBOR Rate" means, for any day, a per annum interest rate which is equal to the quotient of the following:

- (a) for any day, the per annum rate of interest determined on the basis of the rate for deposits in United States Dollars for a period equal to one (1) month appearing on Page BBAM of the Bloomberg Financial Markets Information Service at or about 11:00 a.m. (London, England time) (or as soon thereafter as practical) on such day, or if such day is not a Business Day, on the immediately preceding Business Day. In the event that such rate does not appear on Page BBAM of the Bloomberg Financial Markets Information Service (or otherwise on such Service) on any day, the "Daily Adjusting LIBOR Rate" for such day shall be determined by reference to such other publicly available service for displaying eurodollar rates as may be reasonably selected by Bank, or, in the absence of such other service, the "Daily Adjusting LIBOR Rate" for such day shall, instead, be determined based upon the average of the rates at which Bank is offered dollar deposits at or about 11:00 a.m. (Detroit, Michigan time) (or as soon thereafter as practical), on such day, or if such day is not a Business Day, on the immediately preceding Business Day, in the interbank eurodollar market in an amount comparable to the principal amount of Indebtedness outstanding hereunder which is to bear interest on the basis of such Daily Adjusting LIBOR Rate and for a period equal to one (1) month;

divided by

- (b) 1.00 minus the maximum rate (expressed as a decimal) on such day at which Bank is required to maintain reserves on "Euro currency Liabilities" as defined in and pursuant to Regulation D of the Board of Governors of the Federal Reserve System or, if such regulation or definition is modified, and as long as Bank is required to maintain reserves against a category of liabilities which includes eurodollar deposits or includes a category of assets which includes eurodollar loans, the rate at which such reserves are required to be maintained on such category;

provided, however, and notwithstanding anything to the contrary set forth in this Note, if at any time the Daily Adjusting LIBOR Rate determined as provided above would be less than the Daily Adjusting LIBOR Floor then the Daily Adjusting LIBOR Rate shall be deemed to be the Daily Adjusting LIBOR Floor per annum for all purposes of this Note, except for any portion of any outstanding Advance(s) hereunder or any principal Indebtedness outstanding under this Note which, at any such time, is/are subject to any

Specified Hedging Agreement, in which case, the Daily Adjusting LIBOR Rate for such portion of such Advance(s) and Indebtedness shall be determined without giving effect to the Daily Adjusting LIBOR Floor. Each calculation by Bank of the Daily Adjusting LIBOR Rate shall be conclusive and binding for all purposes, absent manifest error.

"Daily Adjusting LIBOR Floor" shall mean zero percent (0%) per annum.

"Daily Adjusting LIBOR Rate Advance" means an Advance of which the Applicable Interest Rate is based on the Daily Adjusting LIBOR Rate.

"Governmental Authority" means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including, without limitation, any supranational bodies such as the European Union or the European Central Bank).

"LIBOR Lending Office" means Bank's office located in the Cayman Islands, British West Indies, or such other branch of Bank, domestic or foreign, as it may hereafter designate as its LIBOR Lending Office by notice to the undersigned.

"Loan Amount" means the face amount of this Note as set forth at the top of Page 1 hereof.

"Prime Rate" means the per annum interest rate established by Bank as its prime rate for its borrowers, as such rate may vary from time to time, which rate is not necessarily the lowest rate on loans made by Bank at any such time.

"Prime-based Advance" means an Advance of which the Applicable Interest Rate is based at the Prime Referenced Rate subject to the terms of this Note.

"Prime Referenced Rate" means a per annum interest rate which is equal to the Prime Rate, but in no event less than two and one half percent (2.50%) per annum.

"Request for Advance" means a Request for Advance issued by the undersigned under this Note in the form annexed to this Note as Exhibit "A".

"Specified Hedging Agreement" means any agreement or other documentation between the undersigned (or any of them) and Bank providing for an interest rate swap that does not provide for a minimum rate of the Daily Adjusting LIBOR Floor with respect to determinations of the Daily Adjusting LIBOR Rate for the purposes of such interest rate swap (e.g., determines the floating amount by using the "negative interest rate method" rather than the "zero interest rate method" in the case of any such interest rate swap made under any master agreement or other documentation published by the International Swaps and Derivatives Association, Inc.).

No delay or failure of Bank in exercising any right, power or privilege hereunder shall affect such right, power or privilege, nor shall any single or partial exercise thereof preclude any further exercise thereof, or the exercise of any other power, right or privilege. The rights of Bank under this Note are cumulative and not exclusive of any right or remedies which Bank would otherwise have, whether by other instruments or by law.

THE UNDERSIGNED AND BANK, BY ACCEPTANCE OF THIS NOTE, ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED UNDER CERTAIN CIRCUMSTANCES. TO THE EXTENT PERMITTED BY LAW, EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANYWAY RELATED TO, THIS NOTE OR THE INDEBTEDNESS.

This Note is dated and shall be effective as of the date set forth above.

BORROWER:

INSPIRE HOME LOANS INC., a Delaware Corporation

By: /s/ James Palda

Title: President

19600 Fairchild Road, Suite 200 Irvine CA Orange 92612

Street Address

City

State

Country

Zip Code

For Bank Use Only				
LOAN OFFICER INITIALS	LOAN GROUP NAME	OBLIGOR NAME		
LOAN OFFICER I.D. NO.	LOAN GROUP NO.	OBLIGOR NO.	NOTE NO.	AMOUNT

EXHIBIT "A" REQUEST FOR ADVANCE

The undersigned hereby request(s) COMERICA BANK ("Bank") to make an Advance to the undersigned on _____, in the amount of _____ Dollars (\$ _____) under the Master Revolving Note dated as of May __, 2018, issued by the undersigned to said Bank in the face amount of Forty Million and 00/100 Dollars (\$40,000,000.00) (the "Note").

The undersigned represent(s), warrant(s) and certify(ies) that no Default, or any condition or event which, with the giving of notice or the running of time, or both, would constitute a Default, has occurred and is continuing under the Note, and none will exist upon the making of the Advance requested hereunder. The undersigned further certify(ies) that upon advancing the sum requested hereunder, the aggregate principal amount outstanding under the Note will not exceed the face amount thereof. If the amount advanced to the undersigned under the Note shall at any time exceed the face amount thereof, the undersigned will immediately pay such excess amount, without any necessity of notice or demand.

The undersigned hereby authorize(s) Bank to disburse the proceeds of the Advance being requested by this Request for Advance by crediting the account of the undersigned with Bank separately designated by the undersigned.

Capitalized terms used but not otherwise defined herein shall have the respective meanings given to them in the Note.

Dated this _____ day of _____,

INSPIRE HOME LOANS INC., a Delaware corporation

By: _____ Its: _____

SECURITY AGREEMENT
(Mortgage Warehousing)

As of May 4, 2018 for value received, the undersigned ("Debtor") pledges, assigns and grants to Comerica Bank ("Bank"), a continuing security interest and lien (any pledge, assignment, security interest or other lien arising hereunder is sometimes referred to herein as a "security interest") in the Collateral (as defined below) to secure payment when due, whether by stated maturity, demand, acceleration or otherwise, of all existing and future Indebtedness (as hereinafter defined) of **Inspire Home Loans Inc.**, a Delaware corporation (singularly and collectively if more than one party "Borrower") and/or Debtor to the Bank. "Indebtedness" shall mean any and all indebtedness, obligations or liabilities of the Borrower and/or Debtor to the Bank, howsoever arising, evidenced or incurred, whether absolute or contingent, direct or indirect, voluntary or involuntary, liquidated or unliquidated, joint or several, and whether known or unknown, and whether originally payable to the Bank or to a third party and subsequently acquired by the Bank, including, without limitation, (a) any and all direct indebtedness of the Borrower and/or Debtor to the Bank, including indebtedness evidenced by any and all promissory notes; (b) any and all obligations or liabilities of the Borrower and/or Debtor to the Bank arising under any guaranty where the Borrower and/or Debtor has guaranteed the payment of indebtedness owing to the Bank from a third party; (c) any and all obligations or liabilities of the Borrower and/or Debtor to the Bank arising from applications or agreements for the issuance of letters of credit; (d) late charges, loan fees or charges and overdraft indebtedness; (e) any agreement to indemnify the Bank for environmental liability or to clean up hazardous waste; (f) any and all indebtedness, obligations or liabilities for which the Borrower and/or Debtor would otherwise be liable to the Bank were it not for the invalidity, irregularity or unenforceability of them by reason of any bankruptcy, insolvency or other law or order of any kind, or for any other reason, including, without limit, liability for interest and attorneys' fees on, or in connection with, any of the Indebtedness from and after the filing by or against the Borrower and/or Debtor of a bankruptcy petition, whether an involuntary or voluntary bankruptcy case, including, without limitation, all attorneys' fees and costs incurred in connection with motions for relief from stay, cash collateral motions, nondischargeability motions, preference liability motions, fraudulent conveyance liability motions, fraudulent transfer liability motions and all other motions brought by the Borrower, Debtor, the Bank or third parties in any way relating to the Bank's rights with respect to Borrower, Debtor or third party and/or affecting any collateral securing any obligation owed to Bank by the Borrower, Debtor or any third party, probate proceedings, on appeal or otherwise; (g) any and all amendments, modifications, renewals and/or extensions of any of the above, including, without limit, amendments, modifications, renewals and/or extensions which are evidenced by new or additional instruments, documents or agreements; (h) all costs incurred by Bank in establishing, determining, continuing, or defending the validity or priority of its security interest, or in pursuing its rights and remedies under this Agreement or under any other agreement between Bank and the Borrower and/or Debtor or in connection with any proceeding involving Bank as a result of any financial accommodation to Borrower, and/or Debtor; and (i) all costs of collecting Indebtedness, including, without limit, attorneys' fees and costs. Any reference in this Agreement to attorneys' fees shall be deemed a reference to reasonable fees, charges, costs and expenses of counsel and paralegals, whether inside or outside counsel is used, and whether or not a suit or action is instituted, and to court costs if a suit or action is instituted, and whether attorneys' fees or court costs are incurred at the trial court level, on appeal, in a bankruptcy, administrative or probate proceeding or otherwise. All costs and expenses shall be payable immediately by the Debtor when incurred by the Bank, immediately upon demand, and until paid shall bear interest at the highest per annum rate applicable to any of the Indebtedness, but not in excess of the maximum rate permitted by law.

Debtor covenants, agrees, represents and warrants as follows:

1. **Collateral.** Collateral shall mean all of the following property Debtor now or later owns or has an interest in, wherever located:
- (a) all Pledged Mortgage Loans, including without limitation, all promissory notes or other instruments or agreements evidencing the indebtedness of obligors thereon, all mortgages, deeds to secure debt, deeds of trust and/or security agreements securing, guaranteeing or otherwise relating thereto, all rights to payment thereunder, all rights in the real property,

improvements and other tangible and intangible property and rights securing payment of the indebtedness of the obligors thereon, or that are the subject of such Mortgage Loans, all rights under documents related thereto, such as guaranties and insurance policies (issued by governmental agencies or otherwise), including, without limitation, mortgage and title insurance policies, binders and commitments, fire and extended coverage insurance policies (including the right to any return premiums) and, if applicable, flood and earthquake insurance policies, participation certificates or agreements, FHA insurance and VA guaranties, and all rights in cash deposits consisting of impounds, insurance premiums or other funds held on account thereof;

- (b) all financing statements perfecting the security interest of any Pledged Mortgage Loans or in the property securing any Pledged Mortgage Loans;
- (c) all rights of Debtor under any and all commitments issued by (i) Ginnie Mae, Fannie Mae, Freddie Mac, another mortgage company or any other investor, purchaser or securities issuer, to guarantee, purchase or invest any of the Pledged Mortgage Loans or any MBS secured by, created from or representing any interest in any of the Pledged Mortgage Loans, whether such MBS are evidenced by book entry or certificate, based on or backed by any of them, or (ii) any broker or investor to purchase any MBS, whether evidenced by book entry or certificate, representing or secured by any interest in any of the Pledged Mortgage Loans, together with, in either case, all rights to deliver Pledged Mortgage Loans pursuant thereto and all proceeds arising from or pursuant to any and all such commitments or resulting from the disposition of Pledged Mortgage Loans pursuant thereto, including the Debtor's right and entitlement to receive the entire purchase price paid for Pledged Mortgage Loans sold;
- (d) all rights to service, administer and/or collect any of the Pledged Mortgage Loans at any date, and all rights to the payment of money on account of such servicing, administration or collection activities;
- (e) all rights of Debtor in, to and under any MBS secured by, created from or representing any interest in or otherwise relating to any of the Pledged Mortgage Loans, whether such MBS are evidenced by book entry or certificate (the Bank's security interest in each MBS created from, based on or backed by, in whole or in part, any of the Pledged Mortgage Loans shall automatically exist in, attach to, cover and affect all of the Debtor's right, title and interest in that MBS when issued and its proceeds), all right to the payment of monies and non-cash distributions on account of any of such MBS and all new, substituted and additional securities at any time issued with respect thereto; all other investment property (including, without limit, securities, securities entitlements, and financial assets) secured by, created from or representing any interest in or otherwise relating to any of the Pledged Mortgage Loans, together with all investment property, financial assets, instruments or other property at any time substituted for all or for any part of the foregoing, and all interest, dividends, increases, profits, new investment property, financial assets, instruments or other property and or other increments, distributions or rights of any kind received on account of any of the foregoing, and all other income received in connection therewith, constituting, relating to, or secured by any of the foregoing Collateral;
- (f) all rights of Debtor in, to and under any agreements or other arrangements (including without limitation, an interest rate swap agreement, an interest cap agreement, and a forward sale agreement) entered into by Debtor to protect itself against changes in interest rates or the market value of any of the Pledged Mortgage Loans, including without limitation, all rights to payment arising under such agreements or arrangements;
- (g) all files, documents, instruments, surveys, appraisals, bonds, certificates, correspondence, computer programs, tapes, discs, cards, accounting records and other books, records, agreements, information and data of Debtor relating to any of the Pledged Mortgage Loans;
- (h) all Accounts Receivable (for purposes of this Agreement, "Accounts Receivable" consists of all accounts, general intangibles (including, without limit, payment intangibles and software), chattel

paper (including, without limit, electronic chattel paper and tangible chattel paper), contract rights, deposit accounts, documents (including, without limit, negotiable documents), instruments (including, without limit, promissory notes) and rights to payment evidenced by chattel paper, documents or instruments, health care insurance receivables, commercial tort claims, letters of credit, letter of credit rights, supporting obligations, money and rights to payment for money or funds advanced or sold) constituting or relating to any of the Pledged Mortgage Loans;

- (i) all general intangibles (including, without limit, software) acquired or used in connection with any of the Pledged Mortgage Loans;
- U) all goods, instruments (including, without limit, promissory notes), documents (including, without limit, negotiable documents), policies and certificates of insurance, deposit accounts, deposits, money, investment property or other property (except real property which is not a fixture) which are now or later in possession or control of Bank, or as to which Bank now or later controls possession by documents or otherwise, constituting or relating to any of the Pledged Mortgage Loans, including, but not limited to, the Advance Account, the Cash Collateral Account, and the Operating Account (each as later defined) and all money or other property now or later in such accounts;
- (k) no(s)_. with Comerica Bank, in the name of Debtor, and all money or other property now or later in such account;
- (l) the Custodial Account (as defined in the Credit Agreement) and all MBS and other securities from time to time held in such account and all sums from time to time on deposit in such account;
- (m) all additions, attachments, accessions, parts, replacements, substitutions, renewals, interest, dividends, distributions, rights of any kind (including, but not limited to, stock splits, stock rights, voting and preferential rights), products, and all cash and non-cash proceeds of or pertaining to the above, including, without limit, insurance and condemnation proceeds, and cash or other property which were proceeds and are recovered by a bankruptcy trustee or otherwise as a preferential transfer by Debtor, and
- (n) all of Debtor's books and records with respect to any of the foregoing (including, without limit, computer software and the computers and equipment containing said books and records).

In the definition of Collateral, a reference to a type of collateral shall not be limited by a separate reference to a more specific or narrower type of that collateral.

As used herein, the following terms shall have the following meanings:

"Advance Account" shall mean account no. 1895261558 in the name of Debtor, into which advances of the Line of Credit (as defined in the Credit Agreement) are made, which advances are to be used by Debtor to originate or purchase Pledged Mortgage Loans in accordance with the Credit Agreement, together with any replacement or successor account thereto.

"Cash Collateral Account" shall mean account no. 1895261277 in the name of Bank for the benefit of Debtor, which shall be a non-interest bearing deposit account, into which the proceeds of any sale or other disposition of the Collateral shall be paid, together with any replacement or successor account thereto.

"Fannie Mae" shall mean the Federal National Mortgage Association and any successor thereto or to the functions thereof.

"FHA" shall mean the Federal Housing Administration and any successor thereto or to the functions thereof.

"Freddie Mac" shall mean the Federal Home Loan Mortgage Corporation and any successor thereto or to the functions thereof.

"Ginnie Mae" shall mean the Government National Mortgage Association and any successor thereto or to the functions thereof.

"MBS" shall mean a mortgage pass-through security, collateralized mortgage obligation, real estate mortgage investment conduit or other security that (i) is based on and backed by an underlying pool of Mortgage Loans and (ii) provides for payment by its issuer to its holder of specified principal installments and/or a fixed or floating rate of interest on the unpaid balance and for all prepayments to be passed through to the holder, whether issued in certificated or book-entry form and whether or not issued, guaranteed, insured or bonded by Ginnie Mae, Fannie Mae, Freddie Mac, an insurance company, a private issuer or any other investor.

"Mortgage Loan" shall mean a one-to-four family, residential real estate loan secured by a mortgage, deed to secure debt, deed of trust or other security agreement, including (a) the promissory note or other instrument or agreement evidencing the indebtedness of the obligor thereon, (b) the mortgage, deed to secure debt (deed of trust and/or security agreements securing, guaranteeing or otherwise related thereto, (c) all rights to payment thereunder, (d) all rights in the real property, improvements and other tangible and intangible property and rights securing payment of the indebtedness of the obligor thereon, or that are the subject of such Mortgage Loan, (e) all rights under documents related thereto, such as guaranties and insurance policies (issued by governmental agencies or otherwise), including, without limitation, mortgage and title insurance policies, binders and commitments, fire and extended coverage insurance policies (including the right to any return premiums) and, if applicable, flood and earthquake insurance policies, participation certificates or agreements, FHA insurance and VA guaranties, and (f) all rights in cash deposits consisting of impounds, insurance premiums or other funds held on account thereof.

"Operating Account" shall mean account no. 1895261541 in the name of Debtor with Bank, Debtor's general operating account with Bank, together with any replacement or successor account thereto.

"Pledged Mortgage Loan" shall mean any Mortgage Loan (a) which is from time to time delivered or caused to be delivered to Bank (including delivery to a third party on behalf of Bank), or comes into the possession, custody or control of Bank, or is identified to Bank as collateral by any other means or method, whether or not Bank has possession of the related promissory note, for the purpose of assignment or pledge in connection with the making of any advance of the Indebtedness or otherwise, or (b) with respect to which Bank has made an advance of the Indebtedness, or (c) with respect to which Debtor has requested an advance of the Indebtedness, or (d) which is now or at any time pledged, hypothecated, assigned, transferred, or conveyed, or a security interest therein granted, to Bank.

"VA" shall mean the Veterans Administration and any successor thereto or to the functions thereof.

2. **Warranties, Covenants and Agreements.** Debtor warrants, covenants and agrees as follows:
 - 2.1 Debtor shall furnish to Bank, in form and at intervals as Bank may request any information Bank may reasonably request and allow Bank to examine, inspect, and copy any of Debtor's books and records. Debtor shall, at the request of Bank, mark its records and the Collateral to clearly indicate the security interest of Bank under this Agreement.
 - 2.2 At the time any Collateral becomes, or is represented to be, subject to a security interest in favor of Bank, Debtor shall be deemed to have warranted that: (a) Debtor is the lawful owner of the Collateral and has the right and authority to subject it to a security interest granted to Bank; (b) none of the Collateral is subject to any security interest other than that in favor of Bank; (c) there are no financing statements on file in respect to any of the Collateral, other than in favor of Bank; (d) no person, other than Bank, has possession or control (as defined in the Uniform Commercial Code) of any Collateral of such nature that

perfection of a security interest may be accomplished by control; and (e) Debtor acquired its rights in the Collateral in the ordinary course of its business.

- 2.3 Debtor will keep the Collateral free at all times from all claims, liens, security interests and encumbrances other than those in favor of Bank. Debtor will not, without the prior written consent of Bank, sell, transfer or lease, or permit to be sold, transferred or leased, any or all of the Collateral. Bank or its representatives may, at all reasonable times inspect the Collateral and may enter upon all premises where the Collateral is kept or might be located. Debtor shall reimburse Bank for all reasonable costs and expenses incurred by Bank in connection with such inspections.
- 2.4 Debtor will do all acts and will execute and/or deliver or cause to be executed and/or delivered all writings requested by Bank to establish, maintain and continue an exclusive, perfected and first security interest of Bank in the Collateral. By executing this Agreement and becoming bound by the terms hereof, Debtor expressly authorizes the filing of financing statements and any amendments thereto covering the Collateral, and authorizes Bank or its representatives to take such other actions as may be necessary or appropriate to perfect and maintain Bank's security interest in the Collateral. Debtor acknowledges and agrees that Bank has no obligation to acquire or perfect any lien on or security interest in any asset(s), whether realty or personality, to secure payment of the Indebtedness, and Debtor is not relying upon assets in which the Bank has or may have a lien or security interest for payment of the Indebtedness. In the event that any Collateral, or any of Debtor's books or records relating to any Collateral, is at any time located or stored at or upon leased premises or with a bailee, warehouseman or other third party, Debtor shall promptly provide written notice thereof to Bank and, upon Bank's request, cause such lessor, bailee, warehouseman or other third party to execute and deliver unto Bank such documents, instruments or agreements as Bank may reasonably require, in each case in form and substance acceptable to Bank, pursuant to which such lessor, bailee, warehouseman or other third party acknowledges Bank's security interest in such Collateral and that it is holding such Collateral for the benefit of Bank and permits Bank access to and possession of such Collateral.
- 2.5 Debtor will pay, within the time that they can be paid without interest or penalty, all taxes, assessments and similar charges which at any time are or may become a lien, charge, or encumbrance upon any Collateral, except to the extent contested in good faith and bonded in a manner satisfactory to Bank. If Debtor fails to pay any of these taxes, assessments, or other charges in the time provided above, Bank has the option (but not the obligation) to do so and Debtor agrees to repay all amounts so expended by Bank immediately upon demand, together with interest at the highest lawful default rate which could be charged by Bank on any Indebtedness. Any such payments made by Bank shall not constitute (a) any agreement by Bank to make similar payments in the future, or (b) a waiver by Bank of any Event of Default under this Agreement. Bank need not inquire as to, or contest the validity of, any such taxes, assessments and similar charges, and the usual official notice of such taxes, assessments and similar charges shall be conclusive evidence that the same are validly due and owing. Such payments shall constitute Indebtedness secured by this Agreement.
- 2.6 Debtor will keep the Collateral in good condition and will protect it from loss, damage, or deterioration from any cause. Debtor has and will maintain at all times (a) with respect to the Collateral, insurance under an "all risk" policy against fire and other risks customarily insured against, and (b) public liability insurance and other insurance as may be required by law or reasonably required by Bank. All of such insurance policies shall be in amount, form and content, and written by companies as may be satisfactory to Bank, and shall contain a lender's loss payable endorsement in favor of and acceptable to Bank. All such policies shall contain a provision whereby they may not be canceled or materially amended except upon thirty (30) days' prior written notice to Bank. Debtor will promptly deliver to Bank, at Bank's request, evidence satisfactory to Bank that such insurance has been so procured and, with respect to casualty insurance, made payable to Bank. Debtor hereby appoints Bank, or any employee or agent of Bank, as Debtor's attorney-in-fact, which appointment is coupled with an interest and irrevocable, and authorizes Bank, or any employee or agent of Bank, on behalf of Debtor, to adjust and compromise any loss under said insurance and to endorse any check or draft payable to Debtor in connection with returned or unearned premiums on said insurance or the proceeds of said insurance, and any amount so collected may be applied toward satisfaction of the Indebtedness; provided, however, that Bank shall not be

required hereunder so to act. If Debtor fails to maintain satisfactory insurance, Bank has the option (but not the obligation) to do so and Debtor agrees to repay all amounts so expended to Bank immediately upon demand, together with interest at the highest lawful default rate which could be charged by Bank on any Indebtedness. Such amounts so expended by Bank shall constitute Indebtedness secured by this Agreement.

- 2.7 On each occasion on which Debtor evidences to Bank the account balances on and the nature and extent of the Accounts Receivable, Debtor shall be deemed to have warranted that, except as otherwise indicated: (a) each of those Accounts Receivable is valid and enforceable without performance by Debtor of any act; (b) each of those account balances are in fact owing; (c) there are no setoffs, recoupments, credits, contra accounts, counterclaims or defenses against any of those Accounts Receivable; (d) as to any Accounts Receivable represented by a note, trade acceptance, draft or other instrument or by any chattel paper or document, the same has/have been endorsed and/or delivered by Debtor to Bank; (e) Debtor has not received with respect to any Account Receivable, any notice of the death of the related account debtor, nor of the dissolution, liquidation, termination of existence, insolvency, business failure, appointment of a receiver for, assignment for the benefit of creditors by, or filing of a petition in bankruptcy by or against, the account debtor; and (f) as to each Account Receivable, except as may be expressly permitted by Bank to the contrary in another document, the account debtor is not an affiliate of Debtor, the United States of America or any department, agency or instrumentality of it, or a citizen or resident of any jurisdiction outside of the United States. Debtor will do all acts and will execute all writings requested by Bank to perform, enforce performance of, and collect all Accounts Receivable. Debtor will deliver to Bank such documents, instruments and other writings evidencing or otherwise relating to the Accounts Receivable as Bank may reasonably request from time to time. Debtor shall neither make nor permit any modification, compromise or substitution for any Account Receivable without the prior written consent of Bank. Bank may at any time and from time to time verify Accounts Receivable directly with account debtors or by other methods acceptable to Bank without notifying Debtor. Debtor agrees, at Bank's request, to arrange or cooperate with Bank in arranging for verification of Accounts Receivable.
- 2.8 Debtor at all times shall be in strict compliance with all applicable laws, including, without limit, any laws, ordinances, directives, orders, statutes, or regulations an object of which is to regulate or improve health, safety, or the environment ("Environmental Laws").
- 2.9 If Bank, acting in its sole discretion, redelivers Collateral to Debtor or Debtor's designee for the purpose of
(a) the ultimate sale or exchange thereof; or (b) presentation, collection, renewal, or registration of transfer thereof; or (c) loading, unloading, storing, shipping, transshipping, manufacturing, processing or otherwise dealing with it preliminary to sale or exchange; such redelivery shall be in trust for the benefit of Bank and shall not constitute a release of Bank's security interest in it or in the proceeds or products of it, unless Bank specifically so agrees in writing. If Debtor requests any such redelivery, Debtor expressly authorizes Bank to file a financing statement in form and substance satisfactory to Bank in respect of such Collateral. Any proceeds of Collateral coming into Debtor's possession as a result of any such redelivery shall be held in trust for Bank and immediately delivered to Bank for application on the Indebtedness. Bank may (in its sole discretion) deliver any or all of the Collateral to Debtor, and such delivery by Bank shall discharge Bank from all liability or responsibility for such Collateral. Bank, at its option, may require delivery of any Collateral to Bank at any time with such endorsements or assignments of the Collateral as Bank may request.
- 2.10 At any time and without notice, Bank may, as to any Collateral: (a) cause any or all of such Collateral to be transferred to its name or to the name of its nominees; (b) receive or collect, by legal proceedings or otherwise, all dividends, interest, principal payments and other sums and all other distributions at any time payable or receivable on account of such Collateral, and hold the same as Collateral, or apply the same to the Indebtedness, the manner and distribution of the application to be in the sole discretion of Bank; (c) enter into any extension, subordination, reorganization, deposit, merger or consolidation agreement or any other agreement relating to or affecting such Collateral, and deposit or surrender control of such Collateral, and accept other property in exchange for such Collateral and hold or apply the property or money so received pursuant to this Agreement; and (d) take such actions in its own name or in Debtor's name as Bank, in its sole discretion, deems necessary or appropriate to establish exclusive

control (as defined in the Uniform Commercial Code) over any Collateral of such nature that perfection of the Bank's security interest may be accomplished by control.

- 2.11 Bank may assign any of the Indebtedness and deliver any or all of the Collateral to its assignee, who then shall have with respect to Collateral so delivered all the rights and powers of Bank under this Agreement, and after that Bank shall be fully discharged from all liability and responsibility with respect to Collateral so delivered.
- 2.12 Debtor shall defend, indemnify and hold harmless Bank, its employees, agents, shareholders, affiliates, officers, and directors from and against any and all claims, damages, fines, expenses, liabilities or causes of action of whatever kind, including, without limit, consultant fees, legal expenses, and attorneys fees, suffered by any of them as a direct or indirect result of any actual or asserted violation of any law, including, without limit, Environmental Laws, or of any remediation relating to any property required by any law, including, without limit, Environmental Laws, except and to the extent (but only to the extent) caused by Bank's gross negligence or willful misconduct. The obligations contained in this Section shall survive termination of this Agreement.
- 2.13 Debtor delivers this Agreement based solely on Debtor's independent investigation of (or decision not to investigate) the financial condition of Borrower and is not relying on any information furnished by Bank. Debtor assumes full responsibility for obtaining any further information concerning the Borrower's financial condition, the status of the Indebtedness or any other matter which the Debtor may deem necessary or appropriate now or later. Debtor waives any duty on the part of Bank, and agrees that Debtor is not relying upon nor expecting Bank to disclose to Debtor any fact now or later known by Bank, whether relating to the operations or condition of Borrower, the existence, liabilities or financial condition of any guarantor of the Indebtedness, the occurrence of any default with respect to the Indebtedness, or otherwise, notwithstanding any effect such fact may have upon Debtor's risk or Debtor's rights against Borrower. Debtor knowingly accepts the full range of risk encompassed in this Agreement, which risk includes, without limit, the possibility that Borrower may incur Indebtedness to Bank after the financial condition of Borrower, or Borrower's ability to pay debts as they mature, has deteriorated.
- 2.14 Debtor agrees that no security or guarantee now or later held by Bank for the payment of any Indebtedness, whether from Borrower, any guarantor, or otherwise, and whether in the nature of a security interest, pledge, lien, assignment, setoff, suretyship, guaranty, indemnity, insurance or otherwise, shall affect in any manner the security interests or other interests granted by Debtor to or in favor of Bank under this Agreement, or any obligations of Debtor hereunder or pursuant hereto, and Bank, in its sole discretion, without notice to Debtor, may release, exchange, modify, enforce and otherwise deal with any security or guaranty without affecting in any manner such security interests or other interests of Bank or any such obligations of Debtor under this Agreement. Debtor acknowledges and agrees that Bank has no obligation to acquire or perfect any lien on or security interest in any assets, whether realty or personally, or to obtain any guaranty to secure payment of the Indebtedness, and Debtor is not relying upon any guaranty which Bank has or may have or assets in which Bank has or may have a lien or security interest for payment of the Indebtedness.
- 2.15 Debtor absolutely, unconditionally, knowingly, and expressly waives:
- (a) Notice of: (i) acceptance hereof; (ii) any loans or other financial accommodations made or extended to Borrower or the creation or existence of any Indebtedness; (iii) notice of the amount of the Indebtedness, subject, however, to Debtor's right to make inquiry of Bank to ascertain the amount of the Indebtedness at any reasonable time; and (iv) any default or breach under the terms of any of the Indebtedness; and all other notices (except if such notice is specifically required to be given to Debtor hereunder) and demands to which Debtor might otherwise be entitled.
 - (b) Its right under Sections 2845 or 2850 of the California Civil Code, or otherwise, to require Bank to institute suit against, or to exhaust any rights and remedies which Bank has or may have against, Borrower or any third party, or against any collateral for the Indebtedness provided by Borrower

or any third party. In this regard, Debtor is bound to the payment of all Indebtedness whether now existing or hereafter accruing, as fully as if such Indebtedness were directly owing to Bank by Debtor. Debtor waives any defense arising by reason of any disability or other defense (other than the defense that the Indebtedness shall have been fully and finally performed and indefeasibly paid) of Borrower or by reason of the cessation from any cause whatsoever of the liability of Borrower in respect thereof.

- (c) (i) Any rights to assert against Bank any defense (legal or equitable), set-off, counterclaim, or claim which Debtor may now or at any time hereafter have against the Borrower or any other party liable to Bank; (ii) any defense, set-off, counterclaim, or claim, of any kind or nature, arising directly or indirectly from the present or future lack of perfection, sufficiency, validity, or enforceability of the Indebtedness or any security therefor; (iii) any defense Debtor has to performance hereunder, and any right Debtor has to be exonerated, provided by Sections 2819, 2822, or 2825 of the California Civil Code, or otherwise, arising by reason of: the impairment or suspension of Bank's rights or remedies against Borrower; the alteration by Bank of the Indebtedness; any discharge of the Indebtedness by operation of law as a result of Bank's intervention or omission; or the acceptance by Bank of anything in partial satisfaction of the Indebtedness; (iv) the benefit of any statute of limitations affecting Debtor's liability hereunder or the enforcement thereof, and any act which shall defer or delay the operation of any statute of limitations applicable to the Indebtedness shall similarly operate to defer or delay the operation of such statute of limitations applicable to Debtor's liability hereunder.
- (d) Any defense arising by reason of or deriving from (i) any claim or defense based upon an election of remedies by Bank; or (ii) any election by Bank under the Bankruptcy Code Section 1111(b) to limit the amount of, or any collateral securing, its claim against Borrower.

2.16 Without notice to or by Debtor, and without affecting or impairing the obligations of Debtor hereunder, Bank may, by action or inaction:

- (a) compromise, settle, extend the duration or the time for the payment of, or discharge the performance of, or may refuse to or otherwise not enforce this Agreement, the Indebtedness, or any part thereof, with respect to Borrower or any other person;
- (b) release Borrower or any other person or grant other indulgences to Borrower or any other person in respect thereof;
- (c) amend or modify in any manner and at any time (or from time to time) any documents, instruments or agreements evidencing, governing, securing or otherwise relating to any of the Indebtedness; or
- (d) release or substitute any guarantor, if any, of the Indebtedness, or enforce, exchange, release, or waive any security for the Indebtedness or any guaranty of the Indebtedness, or any portion thereof.

2.17 Bank shall have all of the rights to seek recourse against Debtor to the fullest extent provided for herein. No election by Bank to proceed in one form of action or proceeding, or against any party, or on any obligation, shall constitute a waiver of the Bank's right to proceed in any other form of action or proceeding or against other parties, unless the Bank has expressly waived such right in writing. Specifically, but without limiting the generality of the foregoing, no action or proceeding by Bank under any document or instrument evidencing the Indebtedness shall serve to diminish the liability of the Debtor under this Agreement, except to the extent that Bank finally and unconditionally shall have realized indefeasible payment by such action or proceeding.

2.18 Pursuant to Section 2856 of the California Civil Code, Debtor waives all rights and defenses arising out of an election of remedies by the Bank, even though that election of remedies, such as a nonjudicial

foreclosure with respect to security for a guaranteed obligation, has destroyed Debtor's rights of subrogation and reimbursement against the Borrower.

- 2.19 WITHOUT LIMITING THE GENERALITY OF ANY OTHER WAIVER OR OTHER PROVISION SET FORTH IN - THIS AGREEMENT, DEBTOR HEREBY ABSOLUTELY, KNOWINGLY, UNCONDITIONALLY, AND EXPRESSLY WAIVES AND AGREES NOT TO ASSERT ANY AND ALL BENEFITS OR DEFENSES ARISING DIRECTLY OR INDIRECTLY UNDER ANY ONE OR MORE OF CALIFORNIA CIVIL CODE SECTIONS 2799, 2808, 2809, 2810, 2815, 2819, 2820, 2821, 2822, 2825, 2839, 2845, 2848, 2849, AND 2850, CALIFORNIA UNIFORM COMMERCIAL CODE SECTIONS 3116, 3118, 3119, 3419, 3605, 9610, 9611, 9615, 9617, 9618, 9624, 9625, AND 9627, AND CHAPTER 2 OF TITLE 14 OF PART 4 OF DIVISION 3 OF THE CALIFORNIA CIVIL CODE.
3. **Collection of Proceeds.**
- 3.1 So long as no Event of Default or condition or event which, with the giving of notice or passage of time, or both, would constitute an Event of Default (a "Default"), exists and thereafter until Bank shall direct Debtor to the contrary by notice to Debtor (an "Enforcement Notice"), Debtor shall collect and enforce payment of all Collateral, including servicing Mortgage Loans and receiving and collecting directly principal, interest, escrow payments and all other sums payable in respect of the Collateral, except that regardless of whether any Event of Default or Default exists, the proceeds of any sale, securitization or other disposition of the Collateral ("Mortgage Loan Sale Proceeds"), including without limitation, the proceeds of any "Take-Out Commitment" as defined in the Credit Agreement, as later defined ("Take-Out Commitment"), shall be paid directly to the Cash Collateral Account (as later defined) or as Bank shall otherwise direct, for application as provided in this Agreement. Debtor agrees to fully and promptly cooperate and assist Bank in the collection and enforcement of all Mortgage Loan Sale Proceeds and to hold in trust for Bank all payments of Mortgage Loan Sale Proceeds received in connection with Collateral. Debtor agrees to endorse to Bank and immediately deliver to Bank all payments of Mortgage Loan Sale Proceeds, in the form received by Debtor without commingling with any other funds. Debtor irrevocably authorizes Bank or any Bank employee or agent to endorse the name of Debtor upon any checks or other items which are received consisting in whole or in part of Mortgage Loan Sale Proceeds, and to do any and all things necessary in order to reduce these items to money. Bank shall have no duty as to the collection or protection of Mortgage Loan Sale Proceeds, nor as to the preservation of any related rights, beyond the use of reasonable care in the custody and preservation of Mortgage Loan Sale Proceeds in the possession of Bank. Debtor agrees to take all steps necessary to preserve rights against prior parties with respect to the Mortgage Loan Sale Proceeds. Nothing in this Section 3.1 shall be deemed a consent by Bank to any sale, lease or other disposition of any Collateral.
- 3.2 Immediately upon and at all times after an Enforcement Notice is given, Debtor agrees to fully and promptly cooperate and assist Bank in the collection and enforcement of all Collateral (including, without limitation, Mortgage Loan Sale Proceeds) and to hold in trust for Bank all payments received in connection with Collateral and from the sale, lease or other disposition of any Collateral, all rights by way of suretyship or guaranty and all rights in the nature of a lien or security interest which Debtor now or later has regarding Collateral. Immediately upon and after such notice, Debtor agrees to (a) endorse to Bank and immediately deliver to Bank all payments received on Collateral or from the sale, lease or other disposition of any Collateral or arising from any other rights or interests of Debtor in the Collateral, in the form received by Debtor without commingling with any other funds, and (b) immediately deliver to Bank all property in Debtor's possession or later coming into Debtor's possession through enforcement of Debtor's rights or interests in the Collateral. Debtor irrevocably authorizes Bank or any Bank employee or agent, immediately upon and after such Enforcement Notice, to endorse the name of Debtor upon any checks or other items which are received in payment for any Collateral, and to do any and all things necessary in order to reduce these items to money. Bank shall have no duty as to the collection or protection of Collateral or the proceeds of it, nor as to the preservation of any related rights, beyond the use of reasonable care in the custody and preservation of Collateral in the possession of Bank. Debtor agrees to take all steps necessary to preserve rights against prior parties with respect to the Collateral. Nothing in this Section 3.2 shall be deemed a consent by Bank to any sale, lease or other disposition of any Collateral.

- 3.3 Debtor agrees that the Indebtedness shall be on a "remittance basis" on the terms and subject to the conditions of this Agreement. Debtor shall at its sole expense establish and maintain (and Bank, at Bank's option may establish and maintain at Debtor's expense), the Cash Collateral Account to which Bank shall have exclusive access and control. Debtor shall execute all documents and authorizations as required by Bank to establish and maintain the Cash Collateral Account. Debtor agrees to notify all purchasers of Pledged Mortgage Loans that all payments made to Debtor of Mortgage Loan Sale Proceeds shall be remitted to the Cash Collateral Account. Immediately upon and at all times after an Enforcement Notice is given, Debtor agrees upon Bank's request to notify all account debtors and other parties obligated to Debtor under any Collateral that all payments made to Debtor on account of the Collateral shall be remitted to the Cash Collateral Account, and Debtor, at Bank's request, shall include a like statement on all invoices sent by Debtor to account debtors and other parties obligated to Debtor.
- 3.4 (a) Provided no Event of Default or Default exists or would result therefrom, Bank agrees from time to time at the request of Debtor to deliver Pledged Mortgage Loans to investors approved by Bank for sale to such investors. Such delivery shall be made under a bailee letter in form and substance satisfactory to Bank. Without limiting the foregoing, such bailee letter shall provide for the release of Bank's security interest in the applicable Pledged Mortgage Loan in exchange for receipt by the Bank in immediately available funds of the purchase price for such Pledged Mortgage Loan pursuant to the applicable Take-Out Commitment for such Pledged Mortgage Loan, but in no event less than the aggregate amount advanced by Bank to Debtor to fund such Pledged Mortgage Loan (without taking into account any prepayment(s) of the Indebtedness) (the "Release Price"). To the extent that the purchase price for a Pledged Mortgage Loan would be less than the Release Price required to be paid to the Bank as required above (a "shortfall"), the Debtor shall pay such shortfall to the Bank prior to or concurrent with the payment of such purchase price and prior to the release of the Bank's security interest in the affected Pledged Mortgage Loan. The proceeds from the sale of any Pledged Mortgage Loan under this Section shall be paid and applied as provided in Section 3.5 hereof.
- (b) Provided no Event of Default or Default exists or would result therefrom, and provided further that the Debtor, the Bank and a "Certificating Custodian" as defined in the Credit Agreement ("Certificating Custodian") have entered into a "Master Custodial Agreement" as defined in the Credit Agreement ("Master Custodial Agreement") satisfactory to Bank, Bank agrees from time to time at the request of Debtor to deliver Pledged Mortgage Loans to such Certificating Custodian for formation of a pool of Mortgage Loans supporting an MBS. Such delivery shall be made under a bailee letter in form and substance satisfactory to Bank. The Debtor agrees to (i) enter into such arrangements and agreements with the Bank, the Certificating Custodian and each applicable "Agency" as defined in the Credit Agreement ("Agency") as may be necessary or desirable to facilitate the issuance of MBS under the mortgage-backed securities programs of such Agency and (ii) conform its procedures relating to the formation of such pools and the delivery of such forms and certifications required by each applicable Agency, to accommodate the procedures established by the Bank from time to time with respect thereto that are in conformity with the respective rules and regulations of each applicable Agency and maintaining the perfection and priority of the Bank's security interest in the applicable Pledged Mortgage Loans and related MBS and the proceeds thereof. All MBS that are backed by any Pledged Mortgage Loan for which the Release Price has not been paid in full to Bank at the time of the issuance of such MBS shall be held in the custodial account established under the Master Custodial Agreement ("Custodial Account") and the Bank shall have a security interest therein. The Debtor agrees that the Certificating Custodian shall be listed as the only subscriber, owner and/or registered holder, as applicable, and only person authorized to take delivery of any MBS backed by any Pledged Mortgage Loan, and upon the issuance of each such MBS, the Debtor shall deliver, or cause the applicable Agency to deliver, such MBS directly to the Certificating Custodian. Subject to the terms and conditions of this Agreement and the Master Custodial Agreement, upon the issuance of an MBS backed by any Pledged Mortgage Loan, the security interest of the Bank in the underlying Pledged Mortgage Loans shall cease, and the security interest in the related MBS and the proceeds thereof shall be substituted therefor and vested in the Bank. Provided no Event of Default or Default exists, the Debtor may obtain the release of Bank's security interest in and lien on an MBS backed by any Pledged Mortgage Loan by paying to Bank by wire transfer of immediately available funds to the Cash Collateral Account the aggregate amount advanced by Bank to Debtor to fund the

origination or purchase of such Pledged Mortgage Loan (without taking into account any prepayment(s) of the Indebtedness). Such payment shall be applied as provided in Section 3.5 hereof.

- 3.5 Prior to the occurrence of an Event of Default or Default, all items or amounts which are remitted to the Cash Collateral Account, or otherwise delivered by or for the benefit of Debtor to Bank on account of partial or full payment of, or with respect to, any Mortgage Loan Sale Proceeds with respect to any Pledged Mortgage Loan shall be applied to the payment of the amount originally advanced by Bank to Debtor to fund the origination or purchase of such Pledged Mortgage Loan (without taking into account any prepayment(s) of the Indebtedness), whether or not such advance is then due, and any surplus shall be deposited in the Operating Account. After the occurrence of an Event of Default or Default, all items or amounts which are remitted to the Cash Collateral Account, or otherwise delivered by or for the benefit of Debtor to Bank on account of partial or full payment of, or with respect to, any Collateral (including, without limitation, any Mortgage Loan Sale Proceeds) shall, at Bank's option, (i) be applied to the payment of the Indebtedness, whether then due or not, in such order or at such time of application as Bank may determine in its sole discretion, or, (ii) be deposited to the Cash Collateral Account. Debtor agrees that Bank shall not be liable for any loss or damage which Debtor may suffer as a result of Bank's processing of items or its exercise of any other rights or remedies under this Agreement, including without limitation indirect, special or consequential damages, loss of revenues or profits, or any claim, demand or action by any third party arising out of or in connection with the processing of items or the exercise of any other rights or remedies under this Agreement. Debtor agrees to indemnify and hold Bank harmless from and against all such third party claims, demands or actions, and all related expenses or liabilities, including, without limitation, attorney's fees, except to the extent (but only to the extent) caused by Bank's gross negligence or willful misconduct.

4. **Defaults, Enforcement and Application of Proceeds.**

- 4.1 The occurrence or existence of any of the following conditions or events shall constitute an "Event of Default" under this Agreement:

- (a) Any failure to pay the Indebtedness or any other indebtedness when due, or such portion of it as may be due, by acceleration or otherwise; or
- (b) Any failure or neglect to comply with, or breach of or default under, any term or provision of this Agreement; or any failure or neglect to comply with, or breach of or default under, any term or provision of any other agreement or commitment between Borrower, Debtor or any guarantor of any of the Indebtedness ("Guarantor") and Bank, and any such failure, neglect, breach or default continues beyond any applicable grace or cure period (if any) expressly provided with respect thereto; or
- (c) Any warranty, representation, financial statement, or other information made, given or furnished to Bank by or on behalf of Borrower, Debtor or any Guarantor shall be, or shall prove to have been, false or materially misleading when made, given, or furnished; or
- (d) Any loss, theft, substantial damage or destruction to or of any Collateral which either is uninsured or is insured but the insurer has denied or is contesting coverage or liability, or the issuance or filing of any attachment, levy, garnishment or the commencement of any proceeding in connection with any Collateral or of any other judicial process of, upon or in respect of Borrower, Debtor, any Guarantor, or any Collateral; or
- (e) Sale or other disposition by Borrower, Debtor or any Guarantor of any substantial portion of its assets or property or voluntary suspension of the transaction of business by Borrower, Debtor or any Guarantor, or death, dissolution, termination of existence, merger, consolidation, insolvency, business failure, or assignment for the benefit of creditors of or by Borrower, Debtor or any Guarantor; or commencement of any proceedings under any state or federal bankruptcy or insolvency laws or laws for the relief of debtors by or against Borrower, Debtor or any Guarantor;

or the appointment of a receiver, trustee, court appointee, sequesterator or otherwise, for all or any part of the property of Borrower, Debtor or any Guarantor; or

- (f) Bank deems the margin of Collateral insufficient or itself insecure, in good faith believing that the prospect of payment or performance of the Indebtedness or performance of this Agreement is impaired or shall fear deterioration, removal, or waste of Collateral; or
- (g) Any default or event of default shall occur under any instrument, agreement or other document evidencing, securing or otherwise relating to any of the Indebtedness including, but not limited to, an "Event of Default" as defined in the Credit Agreement between Debtor and Bank dated of even date herewith, as it may be amended from time to time (the "Credit Agreement").

4.2 Upon the occurrence and at any time during the continuance or existence of any Event of Default, Bank may at its discretion and without prior notice to Debtor declare any or all of the Indebtedness to be immediately due and payable, and shall have and may exercise any right or remedy available to it including, without limitation, any one or more of the following rights and remedies:

- (a) Exercise all the rights and remedies upon default, in foreclosure and otherwise, available to secured parties under the provisions of the Uniform Commercial Code and other applicable law;
- (b) Institute legal proceedings to foreclose upon the lien and security interest granted by this Agreement, to recover judgment for all amounts then due and owing as Indebtedness, and to collect the same out of any Collateral or the proceeds of any sale of it;
- (c) Institute legal proceedings for the sale, under the judgment or decree of any court of competent jurisdiction, of any or all Collateral; and/or
- (d) Personally or by agents, attorneys, or appointment of a receiver, enter upon any premises where Collateral may then be located, and take possession of all or any of it and/or render it unusable; and without being responsible for loss or damage to such Collateral, hold, operate, sell, ship, reclaim, recover, store, finish, maintain, repair, lease, or dispose of all or any Collateral at one or more public or private sales, leaseings or other dispositions, at places (including, without limit, Debtor's premises) and times and on terms and conditions as Bank may deem fit, without any previous demand or advertisement; and except as provided in this Agreement, all notice of sale, lease or other disposition, and advertisement, and other notice or demand, any right or equity of redemption, and any obligation of a prospective purchaser or lessee to inquire as to the power and authority of Bank to sell, lease, or otherwise dispose of the Collateral or as to the application by Bank of the proceeds of sale or otherwise, which would otherwise be required by, or available to Debtor under, applicable law are expressly waived by Debtor to the fullest extent permitted.

At any sale pursuant to this Section 4.2, whether under the power of sale, by virtue of judicial proceedings or otherwise, it shall not be necessary for Bank or a public officer under order of a court to have present physical or constructive possession of Collateral to be sold. The recitals contained in any conveyances and receipts made and given by Bank or the public officer to any purchaser at any sale made pursuant to this Agreement shall, to the extent permitted by applicable law, conclusively establish the truth and accuracy of the matters stated (including, without limit, as to the amounts of the principal of and interest on the Indebtedness, the accrual and nonpayment of it and advertisement and conduct of the sale); and all prerequisites to the sale shall be presumed to have been satisfied and performed. Upon any sale of any Collateral, the receipt of the officer making the sale under judicial proceedings or of Bank shall be sufficient discharge to the purchaser for the purchase money, and the purchaser shall not be obligated to see to the application of the money. Any sale of any Collateral under this Agreement shall be a perpetual bar against Debtor with respect to that Collateral. At any sale or other disposition of the Collateral pursuant to this Section 4.2, Bank disclaims all warranties which would otherwise be given under the Uniform Commercial Code, including, without limit, a disclaimer of any warranty relating to title, possession, quiet enjoyment or the like, and Bank may communicate these

disclaimers to a purchaser at such disposition. This disclaimer of warranties will not render the sale commercially unreasonable. Bank may, in its discretion, bid and purchase any of the Collateral at any sale pursuant to this Section 4.2.

- 4.3 Debtor shall at the request of Bank, notify the account debtors or obligors of Bank's security interest in the Collateral and direct payment of it to Bank. Bank may, itself, upon the occurrence and at any time during the continuance or existence of any Event of Default, so notify the account debtors or obligors of Bank's security interest in the Collateral and direct such account debtors or obligors to make payments directly to Bank. At the request of Bank, whether or not an Event of Default shall have occurred, Debtor shall immediately take such actions as the Bank shall request to establish exclusive control (as defined in the Uniform Commercial Code) by Bank over any Collateral which is of such a nature that perfection of a security interest may be accomplished by control.
- 4.4 The proceeds of any sale or other disposition of Collateral authorized by this Agreement shall be applied by Bank first upon all expenses authorized by the Uniform Commercial Code and all reasonable attorney fees and legal expenses incurred by Bank; the balance of the proceeds of the sale or other disposition shall be applied in the payment of the Indebtedness, first to interest, then to principal, then to remaining Indebtedness and the surplus, if any, shall be paid over to Debtor or to such other person(s) as may be entitled to it under applicable law. Debtor shall remain liable for any deficiency, which it shall pay to Bank immediately upon demand. Debtor agrees that Bank shall be under no obligation to accept any noncash proceeds in connection with any sale or disposition of Collateral unless failure to do so would be commercially unreasonable. If Bank agrees in its sole discretion to accept noncash proceeds (unless the failure to do so would be commercially unreasonable), Bank may ascribe any commercially reasonable value to such proceeds. Without limiting the foregoing, Bank may apply any discount factor in determining the present value of proceeds to be received in the future or may elect to apply proceeds to be received in the future only as and when such proceeds are actually received in cash by Bank.
- 4.5 Nothing in this Agreement is intended, nor shall it be construed, to preclude Bank from pursuing any other right or remedy provided by law or in equity for the collection of the Indebtedness or for the recovery of any other sum to which Bank may be entitled for the breach of this Agreement by Debtor. Nothing in this Agreement shall reduce or release in any way any rights or security interests of Bank contained in any existing agreement between Borrower, Debtor or any Guarantor and Bank.
- 4.6 No waiver of default or consent to any act by Debtor shall be effective unless in writing and signed by an authorized officer of Bank. No waiver of any default or forbearance on the part of Bank in enforcing any of its rights under this Agreement shall operate as a waiver of any other default or of the same default on a future occasion or of any rights.
- 4.7 Debtor (a) irrevocably appoints Bank or any agent of Bank (which appointment is coupled with an interest) the true and lawful attorney-in-fact of Debtor (with full power of substitution) in the name, place and stead of, and at the expense of, Debtor and (b) authorizes Bank or any agent of Bank, in its own name, at Debtor's expense, to do any of the following, as Bank, in its sole discretion, deems appropriate:
- (i) to demand, receive, sue for, and give receipts or acquittances for any moneys due or to become due on any Collateral and to endorse any item representing any payment on or proceeds of the Collateral;
 - (ii) to execute and/or file in the name of and on behalf of Debtor all financing statements or other filings deemed necessary or desirable by Bank to evidence, perfect, or continue the security interests granted in this Agreement; and
 - (iii) to do and perform any act on behalf of Debtor permitted or required under this Agreement.
- 4.8 Upon the occurrence and at any time during the continuance or existence of an Event of Default, Debtor also agrees, upon request of Bank, to assemble the Collateral and make it available to Bank at any place

designated by Bank which is reasonably convenient to Bank and Debtor. Bank may take any and all actions that it deems necessary or appropriate to protect the Collateral and its security interest in the Collateral, and all costs and expenses for the same shall be added to the Indebtedness and shall be payable upon demand. All risks of loss, damage or destruction to the Collateral shall be borne by Debtor.

- 4.9 The following shall be the basis for any finder of fact's determination of the value of any Collateral which is the subject matter of a disposition giving rise to a calculation of any surplus or deficiency under Section 9.615(f) of the Uniform Commercial Code (as in effect on or after July 1, 2001): (a) the Collateral which is the subject matter of the disposition shall be valued in an "as is" condition as of the date of the disposition, without any assumption or expectation that such Collateral will be repaired or improved in any manner; (b) the valuation shall be based upon an assumption that the transferee of such Collateral desires a resale of the Collateral for cash promptly (but no later than 30 days) following the disposition; (c) all reasonable closing costs customarily borne by the seller in commercial sales transactions relating to property similar to such Collateral shall be deducted, including, without limitation, brokerage commissions, tax prorations, attorney's fees, whether inside or outside counsel is used, and marketing costs; (d) the value of the Collateral which is the subject matter of the disposition shall be further discounted to account for any estimated holding costs associated with maintaining such Collateral pending sale (to the extent not accounted for in (c) above), and other maintenance, operational and ownership expenses; and (e) any expert opinion testimony given or considered in connection with a determination of the value of such Collateral must be given by persons having at least 5 years experience in appraising property similar to the Collateral and who have conducted and prepared a complete written appraisal of such Collateral taking into consideration the factors set forth above. The "value" of any such Collateral shall be a factor in determining the amount of proceeds which would have been realized in a disposition to a transferee other than a secured party, a person related to a secured party or a secondary obligor under Section 9.615(f) of the Uniform Commercial Code.

5. **Miscellaneous.**

- 5.1 Until Bank is advised in writing by Debtor to the contrary, all notices, requests and demands required under this Agreement or by law shall be given to, or made upon, Debtor at the following address:

19600 Fairchild Road Suite 200
STREET ADDRESS

Irvine
CITY

CA
STATE

92612
ZIP CODE

Orange
COUNTY

- 5.2 Debtor will give Bank not less than ninety (90) days' prior written notice of all contemplated changes in Debtor's name, location, chief executive office, principal place of business, and/or location of any Collateral, but the giving of this notice shall not cure any Event of Default caused by this change.
- 5.3 Bank assumes no duty of performance or other responsibility under any contracts contained within the Collateral.
- 5.4 Bank has the right to sell, assign, transfer, negotiate or grant participations or any interest in, any or all of the Indebtedness and any related obligations, including without limit this Agreement. In connection with the above, but without limiting its ability to make other disclosures to the full extent allowable, Bank may disclose all documents and information which Bank now or later has relating to Debtor, the Indebtedness or this Agreement, however obtained. Debtor further agrees that Bank may provide information relating to this Agreement or relating to Debtor or the Indebtedness to the Bank's parent, affiliates, subsidiaries, and service providers.
- 5.5 In addition to Bank's other rights, any indebtedness owing from Bank to Debtor (including, without limitation, amounts maintained by Debtor as deposit accounts (as such term is defined in the Uniform Commercial Code) with Bank) can be set off and applied by Bank on any Indebtedness at any time(s) either before or after maturity or demand without notice to anyone. Any such action shall not constitute (a)

acceptance of collateral in discharge of any portion of the Indebtedness, (b) a retention of collateral in satisfaction of an obligation within the meaning of the Uniform Commercial Code, or (c) if the Indebtedness is secured by California real estate, an action under California Code of Civil Procedure 726.

- 5.6 Debtor, to the extent not expressly prohibited by applicable law, waives any right to require the Bank to:
- (a) proceed against any person or property; (b) give notice of the terms, time and place of any public or private sale of personal property security held from Borrower or any other person, or otherwise comply with the provisions of Section 9.504 of the Uniform Commercial Code in effect prior to July 1, 2001 or its successor provisions thereafter; or (c) pursue any other remedy in the Bank's power. Debtor waives notice of acceptance of this Agreement and presentment, demand, protest, notice of protest, dishonor, notice of dishonor, notice of default, notice of intent to accelerate or demand payment of any Indebtedness, any and all other notices to which the Debtor might otherwise be entitled, and diligence in collecting any Indebtedness, and agrees that the Bank may, once or any number of times, modify the terms of any Indebtedness, compromise, extend, increase, accelerate, renew or forbear to enforce payment of any or all Indebtedness, or permit Borrower to incur additional Indebtedness, all without notice to Debtor and without affecting in any manner the unconditional obligation of Debtor under this Agreement. Debtor unconditionally and irrevocably waives each and every defense and setoff of any nature which, under principles of guaranty or otherwise, would operate to impair or diminish in any way the obligation of Debtor under this Agreement, and acknowledges that such waiver is by this reference incorporated into each security agreement, collateral assignment, pledge and/or other document from Debtor now or later securing the Indebtedness, and acknowledges that as of the date of this Agreement no such defense or setoff exists. Debtor ratifies and approves all acts of Bank acting in its capacity as Debtor's attorney-in-fact under this Agreement. Neither Bank nor its attorney-in-fact will be liable for any acts or omissions or for any error of judgment or mistake of fact or law.
- 5.7 Debtor hereby absolutely, unconditionally, knowingly, and expressly waives any and all rights (whether by subrogation, indemnity, reimbursement, or otherwise) to recover from Borrower or any other person any amounts paid or the value of any Collateral given by Debtor pursuant to this Agreement until such time as all of the Indebtedness has been fully paid.
- 5.8 In the event that applicable law shall obligate Bank to give prior notice to Debtor of any action to be taken under this Agreement, Debtor agrees that a written notice given to Debtor at least ten (10) days before the date of the act shall be reasonable notice of the act and, specifically, reasonable notification of the time and place of any public sale or of the time after which any private sale, lease, or other disposition is to be made, unless a shorter notice period is reasonable under the circumstances (including, without limitation, if the Collateral, or any portion thereof, is perishable or threatens to decline speedily in value). A notice shall be deemed to be given under this Agreement when delivered to Debtor or when placed in an envelope addressed to Debtor and deposited, with postage prepaid, in a post office or official depository under the exclusive care and custody of the United States Postal Service or delivered to an overnight courier. The mailing shall be by overnight courier, certified, or first class mail.
- 5.9 Notwithstanding any prior revocation, termination, surrender, or discharge of this Agreement in whole or in part, the effectiveness of this Agreement shall automatically continue or be reinstated, as the case may be, in the event that any payment received or credit given by Bank in respect of the Indebtedness is returned, disgorged, or rescinded under any applicable law, including, without limitation, bankruptcy or insolvency laws, in which case this Agreement, shall be enforceable against Debtor as if the returned, disgorged, or rescinded payment or credit had not been received or given by Bank, and whether or not Bank relied upon this payment or credit or changed its position as a consequence of it. In the event of continuation or reinstatement of this Agreement, Debtor agrees upon demand by Bank to execute and deliver to Bank those documents which Bank determines are appropriate to further evidence (in the public records or otherwise) this continuation or reinstatement, although the failure of Debtor to do so shall not affect in any way the reinstatement or continuation.
- 5.10 This Agreement and all the rights and remedies of Bank under this Agreement shall inure to the benefit of Bank's successors and assigns and to any other holder who derives from Bank title to or an interest in the Indebtedness or any portion of it, and shall bind Debtor and the heirs, legal representatives, successors,

and assigns of Debtor. Nothing in this Section 5.10 is deemed a consent by Bank to any assignment by Debtor.

- 5.11 If there is more than one Debtor, each Debtor agrees that all undertakings, warranties and covenants made by Debtor and all rights, powers and authorities given to or conferred upon Bank are made or given jointly and severally, and each reference to the term Debtor shall mean each and every Debtor a party hereto, individually and collectively, jointly and severally.
- 5.12 Except as otherwise provided in this Agreement, all terms in this Agreement have the meanings assigned to them in Division 9 (or, absent definition in Division 9, in any other Division) of the Uniform Commercial Code, as those meanings may be amended, supplemented, revised or replaced from time to time. "Uniform Commercial Code" means the California Uniform Commercial Code, as amended, supplemented, revised or replaced from time to time. Notwithstanding the foregoing, the parties intend that the terms used herein which are defined in the Uniform Commercial Code have, at all times, the broadest and most inclusive meanings possible. Accordingly, if the Uniform Commercial Code shall in the future be amended or held by a court to define any term used herein more broadly or inclusively than the Uniform Commercial Code in effect on the date of this Agreement, then such term, as used herein, shall be given such broadened meaning. If the Uniform Commercial Code shall in the future be amended or held by a court to define any term used herein more narrowly, or less inclusively, than the Uniform Commercial Code in effect on the date of this Agreement, such amendment or holding shall be disregarded in defining terms used in this Agreement.
- 5.13 No single or partial exercise, or delay in the exercise, of any right or power under this Agreement, shall preclude other or further exercise of the rights and powers under this Agreement. The unenforceability of any provision of this Agreement shall not affect the enforceability of the remainder of this Agreement. This Agreement constitutes the entire agreement of Debtor and Bank with respect to the subject matter of this Agreement. No amendment or modification of this Agreement shall be effective unless the same shall be in writing and signed by Debtor and an authorized officer of Bank. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.
- 5.14 To the extent that any of the Indebtedness is payable upon demand, nothing contained in this Agreement shall modify the terms and conditions of that Indebtedness nor shall anything contained in this Agreement prevent Bank from making demand, without notice and with or without reason, for immediate payment of any or all of that Indebtedness at any time(s), whether or not an Event of Default has occurred.
- 5.15 Debtor represents and warrants that Debtor's exact name is the name set forth in this Agreement. Debtor further represents and warrants the following and agrees that Debtor is, and at all times shall be, located in the following place:

Debtor is a registered organization which is organized under the laws of one of the states comprising the United States (e.g. corporation, limited partnership, registered limited liability partnership or limited liability company), and Debtor is located (as determined pursuant to the Uniform Commercial Code) in the state under the laws of which it was organized, which is: DELAWARE.

The Collateral, and Debtor's books and records pertaining to the Collateral, is located at and shall be maintained at the following location(s) and/or the location(s) identified on the Exhibit attached hereto (if any):

19600 Fairchild Road Suite 200
STREET ADDRESS

Irvine	CA	92612	Orange
CITY	STATE	ZIP CODE	COUNTY

- 5.16 A carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement under the Uniform Commercial Code and may be filed by Bank in any filing office.
- 5.17 This Agreement shall be terminated only by the filing of a termination statement in accordance with the applicable provisions of the Uniform Commercial Code.
- 5.18 Debtor agrees to reimburse the Bank upon demand for any and all costs and expenses (including, without limit, court costs, legal expenses and reasonable attorneys' fees, whether inside or outside counsel is used, whether or not suit is instituted and, if suit is instituted, whether at the trial court level, appellate level, in a bankruptcy, probate or administrative proceeding or otherwise) incurred in enforcing or attempting to enforce this Agreement or any of the duties or obligations of Debtor under this Agreement or in establishing, determining, continuing or defending the validity or priority of Bank's security interest under this Agreement or in exercising or attempting to exercise any right or remedy under this Agreement or incurred in any other matter or proceeding relating to this Agreement.
- 5.19 All payments to be made hereunder by Debtor shall be made in lawful money of the United States of America at the time of payment, shall be made in immediately available funds, and shall be made without deduction (whether for taxes or otherwise) or offset.
- 5.20 No right or remedy under this Agreement is intended to be exclusive of any other remedy, but each and every right and remedy shall be cumulative and in addition to any and every other right or remedy given under this Agreement, under any other agreement(s) and those provided by law or in equity. No exercise by Bank of one right or remedy shall be deemed to be an election. No delay or omission by Bank to exercise any right under this Agreement shall impair any such right nor be construed to be a waiver thereof. No failure on the part of Bank to exercise, and no delay in exercising, any right hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.
- 5.21 Debtor hereby acknowledges and agrees that the references to Borrower set forth herein shall be applicable to the extent that Debtor and Borrower are not the same person or entity.
- 5.22 Nothing in this Agreement affects or limits Bank's rights of setoff and recoupment.
6. **DEBTOR AND BANK ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED UNDER CERTAIN CIRCUMSTANCES. TO THE EXTENT PERMITTED BY LAW, EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE INDEBTEDNESS.**

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IN WITNESS WHEREOF, Debtor has executed this Agreement as of the day and year first above written.

DEBTOR:

INSPIRE HOME LOANS INC., a Delaware Corporation

By: /s/ James Palda

Title: President

FOR BANK USE ONLY:

Borrower(s): **Inspire Home Loans Inc.**

EXHIBIT TO SECURITY AGREEMENT

Collateral Locations

[None if Left Blank]

Detroit_15407712_3

Automatic Loan Payment Authorization

Date: May 4, 2018

Obligor Name (Typed or Printed): **INSPIRE HOME LOANS INC.**, a Delaware corporation

Obligor Number: _ Lender's Cost Center#: _

Address: _____
19600 Fairchild Road, Suite 200
Irvine CA 92612
STREET ADDRESS CITY STATE ZIP CODE

The undersigned hereby authorizes **COMERICA BANK** ("Bank") to charge the account designated below for the payments due on the loan(s) as designated below and all renewals, extensions, modifications and/or substitutions thereof. This authorization will remain in effect unless the undersigned requests a modification that is agreed to by the Bank in writing. The undersigned remains fully responsible for all amounts outstanding to Bank if the designated account is insufficient for repayment.

on all current and future borrowings,

al

☒ Automatic Payment Authorization for I payments _____ as and when such payments come due (which payments include, without limitation, principal, interest, fees, costs, and expenses).

on only the specific borrowing identified below

☐ Automatic Payment Authorization for all payments _____, as and when such payments come due (which payments include, without limitation, principal, interest, fees, costs, and expenses).

Specific Obligation Number: _

on only the specific borrowing identified below

less than al

☐ Automatic Payment Authorization for payments _____, as and when such payments come due.

Specific Obligation Number: _

☐ Principal and Interest payments only

☐ Principal payments only

☐ Interest payments only

☐ SPECIAL INSTRUCTIONS/IRREGULAR PAYMENT INSTRUCTIONS

Payment Due Date: Your loan payments of principal and interest will be charged to your account as indicated above unless that day is a Saturday, Sunday, or holiday in which case such payments will be charged on the following business day, with interest to accrue during this extension as provided under the loan documents.

Account to be Charged:

☒ Checking
Comerica Account No. _

xxxx1541 _

☐ Savings
Comerica Account No. _

(Charges to account are withdrawals pursuant to account resolution)

INSPIRE HOME LOANS INC., a Delaware corporation

By: Cherie Edborg

Its: VP of Finance

TITLE (if applicable)

ELECTRONIC TRACKING AGREEMENT WAREHOUSE LENDER

1013880

Lender Org ID 1005205 Borrower Org ID _____

THIS ELECTRONIC TRACKING AGREEMENT dated as of May 4, 2018 (this

("MERS")

Agent"),

("Electronic

("Lender"),

"Agreement")

_____ among Comerica Bank _____ ' MERSCORP Holdings, Inc. _____ Mortgage Electronic Registration Systems, Inc. _____ and Inspire Home Loans Inc., a Delaware ("Borrower").

corporation _____

WHEREAS, the Lender has agreed to extend a line of credit to the Borrower for the purpose of the Borrower lending money to potential homeowners for mortgage loans (the "Mortgage Loans")

_____ pursuant to the terms and conditions of a Credit Agreement dated as of May 4, 2018, between the Lender and Borrower, as amended from time to time (the "Credit Agreement").

WHEREAS, the Borrower is obligated to pledge the Mortgage Loans to the Lender and also to service the Mortgage Loans pursuant to the terms and conditions of the Credit Agreement and to "Mortgage Notes"),

complete all actions necessary to cause the issuance and delivery to the Lender of the Mortgage Notes (the _____ and

WHEREAS, the Lender and the Borrower desire to have certain Mortgage Loans registered on the MERS® System (defined below) such that the mortgagee of record under each Mortgage (defined below) shall be identified as MERS;

NOW, THEREFORE, the parties, intending to be legally bound, agree as follows:

1. Definitions.

Capitalized terms used in this Agreement shall have the meanings ascribed to them

below.

"Assignment of Mortgage"

"Affected Loans"

_____ shall have the meaning assigned to such term in Section 4(b). _____ shall mean, with respect to any Mortgage, an assignment of

the Mortgage, notice of transfer or equivalent instrument in recordable form, sufficient under the laws of the jurisdiction wherein the related mortgaged property is located to effect the assignment of the Mortgage upon recordation.

"Event of Default"

_____ shall mean a default that is not cured within the applicable grace period as defined in the Credit Agreement.

"MERS Procedures Manual"

_____ shall mean the MERS Procedures Manual attached as Exhibit B hereto, as it may be amended from time to time.

"MERS Designated Mortgage Loan" shall have the meaning assigned to such term in Section 3.

"MERS® System"

_____ shall mean the Electronic Agent's mortgage electronic registry system, as more particularly described in the MERS Procedures Manual.

"Mortgage Loan"

"Mortgage"

_____ shall mean a lien, mortgage or deed of trust securing a Mortgage Note. _____ shall mean each mortgage loan that is pledged by Borrower to Lender.

"Mortgage Loan Documents"

_____ shall mean the originals of the Mortgage Notes and other documents and instruments.

"Mortgage Note"

_____ shall mean a promissory note or other evidence of indebtedness of the obligor thereunder, representing a Mortgage Loan, and secured by the related Mortgage.

"Mortgagor" shall mean the obligor on a Mortgage Note.

"Notice of Default"

_____ shall mean a notice from the Lender that an Event of Default has occurred and is continuing.

"Opinion of Counsel"

_____ shall mean a written opinion of counsel in form and substance reasonably acceptable to the Lender.

"Person"

_____ shall mean any individual, corporation, company, voluntary association, partnership, joint venture, limited liability company, trust, unincorporated association or government (or any agency, instrumentality or political subdivision thereof).

2. Appointment of the Electronic Agent.

(a) The Lender and the Borrower, by execution and delivery of this Agreement, each does hereby appoint MERSCORP Holdings, Inc. as the Electronic Agent, subject to the terms of this Agreement, to perform the obligations set forth herein.

(b) MERSCORP Holdings, Inc., by execution and delivery of this Agreement, does hereby (i) agree with the Lender and the Borrower subject to the terms of this Agreement to perform the services set forth herein, and (ii) accepts its appointment as the Electronic Agent.

MERS.

Designation of MERS as Mortgagee of Record; Designation of Investor and Servicer of Record in

3.

The Borrower represents and warrants that (a) it has designated or shall designate MERS as, and has taken or will take such action as is necessary to cause MERS to be, the mortgagee of _____ **promptly**

record, as nominee for the Borrower, with respect to the pledged Mortgage Loans in accordance with the MERS Procedures Manual and (b) it has designated or will _____ designate itself as the servicer or subservicer in the MERS® System for each such pledged Mortgage Loan (each

"MERS Designated Mortgage Loan"),

pledged Mortgage Loan, so designated is a _____ and has designated or will promptly designate the Lender as the warehouse/gestation lender on the MERS® System with respect to each MERS Designated Mortgage Loan.

4. Obligations of the Electronic Agent

(a) The Electronic Agent shall ensure that MERS, as the mortgagee of record under each MERS Designated Mortgage Loan, shall promptly forward all properly identified notices MERS receives in such capacity to the person or persons identified in the MERS® System as the servicer or if a subservicer is identified in the MERS® System, the subservicer for such MERS Designated Mortgage Loan.

Exhibit C,

(b) Upon receipt of a Notice of Default, in the form of _____ from the Lender in which the Lender shall identify the MERS Designated Mortgage Loans with respect to which the "Affected Loans"),

Borrower's right to act as servicer or subservicer thereof has been terminated by the Lender (the _____, the Electronic Agent shall modify the investor fields and/or servicer fields to reflect the investor and/or servicer on the MERS® System as the Lender or the Lender's designee with respect to such Affected Loans. Following such Notice of Default, the Electronic Agent shall follow the instructions of the Lender with respect to the Affected Loans without further consent of the Borrower, and shall deliver to the Lender any documents and/or information (to the extent such documents or information are in the possession or control of the Electronic Agent) with respect to the Affected Loans requested by the Lender.

(c) Upon the Lender's request and instructions, and at the Borrower's sole cost and expense, the Electronic Agent shall deliver to the Lender or the Lender's designee, an Assignment of Mortgage from MERS, in blank, in recordable form but unrecorded with respect to each Affected Loan; provided however, that the Electronic Agent shall not be required to comply with the foregoing unless the costs of doing so shall be paid by the Borrower or a third party.

(d) The Electronic Agent shall promptly notify the Lender if it has actual knowledge that any mortgage, pledge, lien, security interest or other charge or encumbrance exists with respect to any of the Mortgage Loans. Upon the reasonable request of the Lender, the Electronic Agent shall review the field designated "Warehouse/Gestation Lender" and shall notify the Lender if any Person (other than the Lender) is identified in the field designated "Warehouse/Gestation Lender". Upon the reasonable request of the Lender, the Electronic Agent shall review the field designated and shall notify the Lender if any Person is identified in the field designated "interim funder".

(e) In the event that (i) the Borrower, the Electronic Agent or MERS shall be served by a third party with any type of levy, attachment, writ or court order with respect to any MERS Designated Mortgage Loan or (ii) a third party shall institute any court proceeding by which any MERS Designated Mortgage Loan shall be required to be delivered otherwise than in accordance with the provisions of this Agreement, the Electronic Agent shall promptly deliver or cause to be delivered to the other parties to this Agreement copies of all court papers, orders, documents and other materials concerning such proceedings.

(f) Upon the request of the Lender, the Electronic Agent shall run a query with respect to any and all specified fields with respect to any or all of the MERS Designated Mortgage Loans and, if requested by the Lender, shall change the information in such fields in accordance with the Lender's instructions.

(g) MERS, as mortgagee of record for the MERS Designated Mortgage Loans, shall take all such actions as may be required by a mortgagee in connection with servicing the MERS Designated Mortgage Loans at the request of the applicable servicer identified on the MERS® System, including, but not limited to, executing and/or recording, any modification, waiver, subordination agreement, instrument of satisfaction or cancellation, partial or full release, discharge or any other comparable instruments, at the sole cost and expense of the Borrower.

(h) MERS may cause certain officers of the Lender to be appointed officers of MERS, with authority to wield all of the powers specified in the corporate resolution of MERS, with respect to the MERS Designated Mortgage Loans. The corporate resolution may be modified, amended, replaced, or revoked, and any authorizations and powers specified therein may be subject to change.

5. Access to Information.

Upon the Lender's request, the Electronic Agent shall furnish the Lender or its auditors information in its possession with respect to the MERS Designated Mortgage Loans and shall permit them to inspect the Electronic Agent's and MERS' records relating to the MERS Designated Mortgage Loans at all reasonable times during regular business hours.

6. Representations of the Electronic Agent and MERS.

The Electronic Agent and MERS hereby represent and warrant as of the date hereof that:

(a) each of the Electronic Agent and MERS has the corporate power and authority and the legal right to execute and deliver, and to perform its obligations under this Agreement, and has taken all necessary corporate action to authorize its execution, delivery and performance of this Agreement;

(b) 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 is required in connection with the execution, delivery, performance, validity or enforceability of this Agreement;

(c) this Agreement has been duly executed and delivered on behalf of the Electronic Agent and MERS and constitutes a legal, valid and binding obligation of the Electronic Agent and MERS 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 (whether enforcement is sought in proceedings in equity or at law);

(d) the Electronic Agent and MERS will maintain at all times insurance policies for fidelity and errors and omissions in amounts of at least three million dollars (\$3,000,000) and five million dollars (\$5,000,000) respectively, and a certificate and policy of the insurer shall be furnished to the Lender upon request and shall contain a statement of the insurer that such insurance will not be terminated prior to 30 days' written notice to the Lender.

7. Covenants of MERS.

MERS shall (a) not incur any indebtedness other than in the ordinary course of its business, (b) not engage in any dissolution, liquidation, consolidation, merger or sale of assets, (c) not engage in any business activity in which it is not currently engaged, (d) not take any action that might cause MERS to become insolvent, (e) not form, or cause to be formed, any subsidiaries, (f) maintain books and records separate from any other person or entity, (g) maintain its bank accounts separate from any other person or entity, (h) not commingle its assets with those of any other person or entity and hold all of its assets in its own name, (i) conduct its own business in its own name, (j) pay its own liabilities and expenses only out of its own funds, (k) observe all corporate formalities, (l) enter into transactions with affiliates only if each such transaction is intrinsically fair, commercially reasonable, and on the same terms as would be available in an arm's length transaction with a person or entity that is not an affiliate, (m) pay the salaries of its own employees from its own funds, (n) maintain a sufficient number of employees in light of its contemplated business operations, (o) not guarantee or become obligated for the debts of any other entity or person, (p) not hold out its credit as being available to satisfy the obligation of any other person or entity, (q) not acquire the obligations or securities of its affiliates or owners, including partners, members or shareholders, as appropriate, (r) not make loans to any other person or entity or buy or hold evidence of indebtedness issued by any other person or entity (except for cash and investment-grade securities), (s) allocate fairly and reasonably any overhead expenses that are shared with an affiliate, including paying for office space and services performed by any employee of any affiliate, (t) use separate stationery, invoices, and checks bearing its own name, (u) not pledge its assets for the benefit of any other person or entity, (v) hold itself out as a separate identity, (w) correct any known misunderstanding regarding its separate identity, (x) not identify itself as a division of any other person or entity, and (y) maintain adequate capital in light of its contemplated business operations.

MERS agrees that in no event shall MERS' status as mortgagee of record with respect to any MERS Designated Mortgage Loan confer upon MERS any rights or obligations as an owner of any MERS Designated Mortgage Loan or the servicing rights related thereto, and MERS will not exercise such rights unless directed to do so by the Lender.

8. Covenants of Borrower.

(a) The Borrower covenants and agrees with the Lender that with respect to each MERS Designated Mortgage Loan, it will not identify any party except the Lender in the field "Warehouse/Gestation Lender" on the MERS® System.

(b) The Borrower covenants and agrees with the Lender that with respect to each MERS Designated Mortgage Loan, it will not identify any party in the field "interim funder" on the MERS® System.

(c) Borrower will provide the Lender with a Mortgage Identification Number ("MIN") for each MERS Designated Mortgage Loan that the Lender has extended credit on for which MERS is the mortgagee of record.

9. No Adverse Interest of the Electronic Agent or MERS.

By execution of this Agreement, the Electronic Agent and MERS each represents and warrants that it currently holds, and during the existence of this Agreement shall hold, no adverse interest, by way of security or otherwise, in any MERS Designated Mortgage Loan. The MERS Designated Mortgage Loans shall not be subject to any security interest, lien or right to set-off by the Electronic Agent, MERS, or any third party claiming through the Electronic Agent or MERS, and neither the Electronic Agent nor MERS shall pledge, encumber, hypothecate, transfer, dispose of, or otherwise grant any third party interest in, the MERS Designated Mortgage Loans.

10. Indemnification of the Lender.

The Electronic Agent agrees to indemnify and hold the Lender and its designees harmless against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements, including reasonable attorneys' fees, that the Lender may sustain arising out of any breach by the Electronic Agent of this Agreement, the Electronic Agent's negligence, bad faith or willful misconduct, its failure to comply with the Lender's instructions hereunder or to the extent caused by delays or failures arising out of the inability of the Lender or the Electronic Agent to access information on the MERS® System. The foregoing indemnification shall survive any termination or assignment of this Agreement.

11. Reliance of the Electronic Agent.

(a) In the absence of bad faith on the part of the Electronic Agent, the Electronic Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any request, instruction, certificate or other document furnished to the Electronic Agent, reasonably believed by the Electronic Agent to be genuine and to have been signed or presented by the proper party or parties and conforming to the requirements of this Agreement.

(b) Notwithstanding any contrary information which may be delivered to the Electronic Agent by the Borrower, the Electronic Agent may conclusively rely on any information or Notice of Default delivered by the Lender, and the Borrower shall indemnify and hold the Electronic Agent harmless for any and all claims asserted against it for any actions taken in good faith by the Electronic Agent in connection with the delivery of such information or Notice of Default.

12. Fees.

It is understood that the Electronic Agent or its successor will charge such fees and expenses for its services hereunder as set forth in a separate agreement between the Electronic Agent and the Borrower. The Electronic Agent shall give prompt written notice of any disciplinary action instituted with respect to the Borrower's failure to pay any fees required in connection with its use of the MERS® System, and will give written notice at least thirty (30) days prior to any revocation of the Borrower's membership in the MERS® System.

13. Resignation of the Electronic Agent; Termination.

(a) The Lender has entered into this Agreement with the Electronic Agent and MERS in reliance upon the independent status of the Electronic Agent and MERS, and the representations as to the adequacy of their facilities, personnel, records and procedures, its integrity, reputation and financial standing, and the continuance thereof. Neither the Electronic Agent nor MERS shall assign this Agreement or the responsibilities hereunder or delegate their rights or duties hereunder (except as expressly disclosed in writing to, and approved by, the Lender) or any portion hereof or sell or otherwise dispose of all or substantially all of its property or assets without providing the Lender with at least 60 days' prior written notice thereof.

(b) Neither the Electronic Agent nor MERS shall resign from the obligations and duties hereby imposed on them except by mutual consent of the Electronic Agent, MERS and the Lender, or upon the determination that the duties of the Electronic Agent and MERS hereunder are no longer permissible under applicable law and such incapacity cannot be cured by the Electronic Agent and MERS. Any such determination permitting the resignation of the Electronic Agent and MERS shall be evidenced by an Opinion of Counsel to such effect delivered to the Lender which Opinion of Counsel shall be in form and substance acceptable to the Lender. No such resignation shall become effective until the Electronic Agent and MERS have delivered to the Lender all of the Assignments of Mortgage, in blank, in recordable form but unrecorded for each MERS Designated Mortgage Loan identified by the Lender as collateralized by the Lender.

14. Removal of the Electronic Agent.

(a) The Lender, with or without cause, may remove and discharge the Electronic Agent and MERS from the performance of its duties under this Agreement with respect to some or all of the MERS Designated Mortgage Loans by written notice from the Lender to the Electronic Agent and the Borrower.

(b) In the event of termination of this Agreement, at the Borrower's sole cost and expense, the Electronic Agent shall follow the instructions of the Lender for the disposition of the documents in its possession pursuant to this Agreement, and deliver to the Lender an Assignment of Mortgage, in blank, in recordable form but unrecorded for each MERS Designated Mortgage Loan identified by the Lender as collateralized by the Lender. Notwithstanding the foregoing, in the event that the Lender terminates this Agreement with respect to some, but not all, of the MERS Designated Mortgage Loans, this Agreement shall remain in full force and effect with respect to any MERS Designated Mortgage Loans for which this Agreement is not terminated hereunder. Notwithstanding any termination of this Agreement, the provisions of Section 10 shall survive any termination.

15. Notices.

All written communications hereunder shall be delivered, via facsimile or by overnight courier, to the Electronic Agent and/or the Lender and/or the Borrower as indicated on the signature page hereto, or at such other address as designated by such party in a written notice to the other parties. All such communications shall be deemed to have been duly given when transmitted by facsimile, or in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid.

16. Term of Agreement.

(a) This Agreement shall continue to be in effect until terminated by either the Lender or the Electronic Agent sending written notice to the other parties of this Agreement at least thirty (30) days prior to said termination.

(b) Upon the termination of this Agreement by the Electronic Agent, the Electronic Agent shall, at the Electronic Agent's sole cost and expense, execute and deliver to the Lender or its designee an Assignment of Mortgage with respect to each MERS Designated Mortgage Loan identified by the Lender, in blank, in recordable form but unrecorded. In the event that this Agreement is terminated by the Lender, the duties of the Electronic Agent in the preceding sentence shall be at the sole cost and expense of the Borrower. In addition, the Lender and the Electronic Agent may, at the sole option of the Lender, enter into a separate agreement which shall be mutually acceptable to the parties with respect to any or all of the MERS Designated Mortgage Loans with respect to which this Agreement is terminated.

17. **Authorizations.**

Exhibit A

Any of the persons whose signatures and titles appear on _____ hereto are authorized, acting singly, to act for the Lender, the Borrower or the Electronic Agent, as the case may be, under this Exhibit A

Agreement. The parties may change the information on _____ hereto from time to time but each of the parties shall be entitled to rely conclusively on the then current exhibit **until** receipt of a superseding exhibit.

18. **Amendments.**

This Agreement may be amended from time to time only by written agreement of the Lender, the Borrower and the Electronic Agent.

19. **Severability.**

If any provision of this Agreement is declared invalid by any court of competent jurisdiction, such invalidity shall not affect any other provision, and this Agreement shall be enforced to the fullest extent required by law.

20. **Binding Effect.**

This Agreement shall be binding and inure to the benefit of the parties hereto and their respective successors and assigns.

21. **Governing Law.**

TIDS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY THE LAW OF THE COMMONWEALTH OF VIRGINIA.

THE LENDER, THE BORROWER, THE ELECTRONIC AGENT AND MERS EACH IRREVOCABLY AGREES THAT ANY ACTION OR PROCEEDING ARISING OUT OF OR IN ANY MANNER RELATING TO THIS AGREEMENT MAY BE BROUGHT IN ANY COURT OF THE COMMONWEALTH OF VIRGINIA, OR IN THE U.S. DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA, AND BY THE EXECUTION AND DELIVERY OF THIS AGREEMENT EXPRESSLY AND IRREVOCABLY ASSENT AND SUBMIT TO THE NONEXCLUSIVE JURISDICTION OF ANY SUCH COURTS IN ANY SUCH ACTION OR PROCEEDING.

22. **Waiver of Jury Trial.**

THE LENDER, THE BORROWER, THE ELECTRONIC AGENT AND MERS EACH IRREVOCABLY AGREES TO WAIVE ITS RIGHT TO A JURY TRIAL IN ANY ACTION OR PROCEEDING AGAINST IT ARISING OUT OF, OR RELATED IN ANY MANNER TO, THIS AGREEMENT OR ANY RELATED AGREEMENT.

23. **Execution.**

This Agreement may be executed in one or more counterparts and by the different parties hereto on separate counterparts, each of which, when so executed, shall be deemed to be an original; such counterparts, together, shall constitute one and the same agreement.

24. **Cumulative Rights.**

The rights, powers and remedies of the Electronic Agent, MERS, the Borrower and the Lender under this Agreement shall be in addition to all rights, powers and remedies given to the Electronic Agent, MERS, the Borrower and the Lender by virtue of any statute or rule of law, or any other agreement, all of which rights, powers and remedies shall be cumulative and may be exercised successively or concurrently without impairing the Lender's rights in the Mortgage Loans.

25. **Status of Electronic Agent.**

Nothing herein contained shall be deemed or construed to create a partnership, joint venture between the parties hereto and the services of the Electronic Agent and MERS shall be rendered as independent contractors for the Lender and the Borrower. Other than the obligations of the Electronic Agent and MERS expressly set forth herein, the Electronic Agent and MERS shall have no power or authority to act as agent for the Lender or the Borrower pursuant to any grant of authority made under or pursuant to this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Lender, the Borrower, the Electronic Agent and MERS have duly executed this Agreement as of the date first above written.

INSPIRE HOME LOANS INC., a Delaware
corporation
as Borrower

By: /s/ Cherie Edborg
Name: Cherie Edborg
Title: Treasurer, Vice President

Address for Notices:

19600 Fairchild Road, Suite 200

949-420-9795

Cherie Edborg

Irvine, California 92612 Attention: _____ Telecopier No.: _____ Telephone No.: _____

COMERICA BANK,
as Lender

By: /s/ Arthur H. Shafer
Name: Arthur H. Shafer
Title: Vice President

Address for Notices:

411 W. Lafayette Blvd. Detroit, Michigan 48226 Attention: -----
Telecopier No.: (313)-222-9295 Telephone No.:

ELECTRONIC AGENT:

MERSCORP HOLDINGS, INC.

By: _____

Name: Title:

Sharon McGann Horstkamp Senior Vice President

Address for Notices:

MERSCORP Holdings, Inc. 1818 Library Street, Suite 300
Reston, VA 20190
Attention: Sharon McGann Horstkamp, Esq. Telephone No.: (703) 761-1270
Facsimile No.: (703) 748-0183

MERS:

MORTGAGE ELECTRONIC REGISTRATION SYSTEMS, INC.

By: _____

Name: Title:

Bill Beckmann President

Address for Notices:

Mortgage Electronic Registration Systems, Inc. 1818 Library Street, Suite 300
Reston, VA 20190
Attention: Sharon McGann Horstkamp, Esq. Telephone No.: (703) 761-1270
Facsimile No.: (703) 748-0183

LIST OF AUTHORIZED PERSONS

LENDER AUTHORIZATIONS:

Any of the persons whose signatures and titles appear below, or attached hereto, are authorized, acting singly, to act for the Lender under this Agreement:

By: /s/ Jennifer L. Norris
Name: Jennifer L. Norris
Title: SVP

By: /s/ Braden Fudge
Name: Braden Fudge
Title: Portfolio Manager

By: /s/ Arthur H. Shafer
Name: Arthur H. Shafer
Title: SVP

BORROWER AUTHORIZATIONS:

Any of the persons whose signatures and titles appear below, or attached hereto, are authorized,

By: /s/ Cherie Edborg
Name: Cherie Edborg
Title: Treasurer

By: /s/ Beth Frenzel
Name: Beth Frenzel
Title: Vice President

By: /s/ Lauren Ingersoll
Name: Lauren Ingersoll
Title: Secretary

LIST OF AUTHORIZED PERSONS

ELECTRONIC AGENT AUTHORIZATIONS:

Any of the persons whose signatures and titles appear below, or attached hereto, are authorized, acting singly, to act for the Electronic Agent under this Agreement:

By: Sharon McGann Horstkamp
Vice President

MERS AUTHORIZATIONS:

Any of the persons whose signatures and titles appear below, or attached hereto, are authorized, acting singly, to act for MERS under this Agreement:

By: Bill Beckmann
President

MERS PROCEDURES MANUAL

Shall be found on the MERS website at: <http://www.mersinc.org>

EXHIBITC

NOTICE OF DEFAULT

_____, 20__

Attention: Sharon M. Horstkamp MERSCORP Holdings, Inc.
1818 Library Street, Suite 300

Reston, Virginia 20190 Ladies and Gentlemen:

Please be advised that this Notice of Default is being issued pursuant to Section 4(b) of that certain Electronic Tracking Agreement (the "Electronic Tracking Agreement"), dated as of May

"Electronic Agent")

_____, 2018, by and among Comerica Bank (the "Lender"), Inspire Home Loans Inc., a Delaware corporation (the "Borrower"), MERSCORP Holdings, Inc. (the _____ and Mortgage Schedule 1

("MERS").

Electronic Registration Systems, Inc. _____ The Affected Loans are listed on the attached _____ (including the mortgage identification numbers). Accordingly, the Electronic Agent shall not accept instructions from the Borrower, the Servicer, any subservicer and from no party other than the Lender with respect to such Mortgage Loans, until otherwise notified by the Lender.

Any terms used herein and not otherwise defined shall have such meaning specified in the Electronic Tracking Agreement.

By: _____

____ Title: -----

To: **Inspire Home Loans Inc.**, a Delaware corporation

**USA PATRIOT ACT NOTICE
OF
CUSTOMER IDENTIFICATION**

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

WHAT THIS MEANS FOR YOU: when you open an account, we will ask your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

CLOSING CERTIFICATE

Comerica Bank
2000 Avenue of the Stars, Ste. 210 Los Angeles, California 90067

Ladies/Gentlemen:

I hereby certify that I am the Secretary of Inspire Home Loans Inc., a Delaware corporation (the "Company"), and as such have access to the Company's corporate records and am familiar with the matters therein contained and herein certified, and that:

1. The Company is a corporation with a perpetual charter duly organized and validly existing and in good standing under the laws of the State of Delaware.
2. The Articles of Incorporation and By-Laws of the Company as certified by the undersigned as of 5/4/18 remain in full force and effect without modification or amendment in any respect, except as otherwise attached hereto.
3. No proceedings looking toward the dissolution or liquidation of the Company have been commenced and no such proceedings are contemplated.

IN **WITNESS WHEREOF**, I have hereunto set my hand this 4th day of May, 2018.

/s/ Lauren Ingersoll

Title: Secretary

CORPORATE RESOLUTIONS AND INCUMBENCY CERTIFICATION

Authority to Procure Loans

I certify that I am the duly elected and qualified Secretary of Inspire Home Loans Inc., a Delaware corporation ("Corporation") and the keeper of the records of the Corporation; that the following is a true and correct copy of resolutions duly adopted by the Board of Directors of the Corporation in accordance with its bylaws and applicable statutes on or as of May 4, 2018.

Copy of Resolutions:

Be it Resolved, That:

1. Any (insert number required to sign) Officer (4) of the following (insert titles only) President, Treasurer, Secretary, Vice President, of the Corporation (the "Authorized Signer(s)") are/is authorized, for, on behalf of, and in the name of the Corporation to:
 - (a) otiate and procure loans, letters of credit and other credit or financial accommodations from Comerica Bank (the "Bank") up to an amount not exceeding \$ _ ,in aggregate (if left blank, then unlimited);
 - (b) Discount with the Bank commercial or other business paper belonging to the Corporation made or drawn by or upon third parties, without limit as to amount;
 - (c) Purchase, sell, exchange, assign, endorse for transfer and/or deliver certificates and/or instruments representing stocks, bonds, evidences of indebtedness or other securities owned by the Corporation, whether or not registered in the name of the Corporation;
 - (d) Give security for any liabilities of the Corporation to the Bank by grant, security interest, assignment, lien, deed of trust or mortgage upon any real or personal property, tangible or intangible of the Corporation;
 - (e) Execute and deliver in form and content as may be required by the Bank any and all notes, evidences of indebtedness, applications for letters of credit, guaranties, subordination agreements, loan and security agreements, financing statements, assignments, liens, deeds of trust, mortgages, trust receipts and other agreements, instruments or documents to carry out the purposes of these Resolutions, any or all of which may relate to all or to substantially all of the Corporation's property and assets;
 - (f) Appoint, delegate and authorize such other person(s) (the "Delegated Person(s)") as may be designated in writing from time to time by the above referenced Authorized Signer(s), or any one or more of them, to (i) request loans, and/or advances under any line of credit, loan or other credit or financial accommodation made available by Bank to or in favor of the Corporation, and to execute and/or deliver unto Bank, in form and content as may be required by the Bank, such agreements, instruments and documents as may be necessary or required to carry out such purposes, (ii) make loan payments for and on behalf of the Corporation, and (iii) execute and certify borrowing base certificates, account agings, inventory reports, covenant compliance certificates and collateral reports (together with any documents, reports and certificates required to be delivered in connection with any of the foregoing) for and on behalf of the Corporation; and
 - (g) Designate replacement MWS Administrators from time to time in accordance with the Schedule.
2. The following person or person(s) (do not list more than two (2) persons):

Name	Title	Signature
Cherie Edborg	Treasurer, Vice President	/s/ Cherie Edborg
Beth Frenzel	Vice President	/s/ Beth Frenzel

is/are designated as a MWS Administrator. Each MWS Administrator shall have the authority to designate MWS Users of the Service in accordance with the Schedule. MWS Users are authorized by Corporation to give all instructions contemplated by the Schedule including, without limitation (but subject to any restrictions on wire authority

set forth in the Schedule), instructions by telephone or Electronic Transmission to: (a) request advances from Bank and provide information to Bank with respect to such advances from time to time, (b) execute and deliver to Bank documents, instruments and agreements from time to time for the purpose of pledging, assigning, and granting Bank a continuing security interest and lien in and on mortgage loans and other collateral, (c) request that Bank deliver mortgage loans and other collateral to investors and others for sale, securitization or other disposition from time to time, (d) provide Bank with instructions for the allocation, application, distribution or other disposition of mortgage loans, proceeds thereof, and other collateral from time to time, including, but not limited to, repayment of any indebtedness of Corporation to Bank, and/or (e) give other Electronic Transmissions to Bank from time to time with respect to the loans, collateral and loan documents.

3. Bank is authorized to make loans and advances, pay the proceeds thereof, repay such loans or advances and take other actions in reliance on any telephone or Electronic Transmissions of an MWS Administrator and MWS User. Without limiting the foregoing, the Bank is authorized and directed to pay the proceeds of any such loans or advances or the proceeds of any collateral as directed by an MWS Administrator or MWS User, whether so payable to the order of any of such person in his or her individual capacity or not, and whether such proceeds are deposited to the individual credit of any of such person(s) or not. The procedure permitting requests for advances and repayments and requests for the taking of other actions by an MWS Administrator or MWS User based on a telephone or Electronic Transmission is for the convenience of the Corporation, is not necessarily secure and there are risks associated with such use, including risks of interception, disclosure and abuse, and Corporation assumes and accepts such risks. All risks involved in the use of this procedure, including, but not limited to, the risk that an MWS Administrator or MWS User may not be authorized by Corporation to make such requests, shall be borne by the Corporation, including but not limited to all risk of loss resulting from advances made, loans, advances or other indebtedness repaid and other actions taken by Bank upon any such telephone or Electronic Transmissions, and the Corporation will indemnify and hold Bank harmless therefor under the loan documents. Without limiting the foregoing, the Bank shall have no duty to confirm the identity or authority of any MWS Administrator or MWS User requesting an advance or repayment or other action by telephone or Electronic Transmission, and Corporation shall be obligated to assure that all MWS Administrator(s) and MWS User(s) making requests for advances and repayments and requesting other actions by telephone or Electronic Transmission do in fact have the authority to do so for and on behalf of Corporation.

4. The Corporation shall remain fully responsible for any amounts outstanding and owing to Bank under any notes or other evidence of indebtedness regardless of whether the Corporation's accounts with Bank are sufficient for the repayment of any outstanding indebtedness. All payments are to be made with collected funds.

5. As used in this Authorization, the following terms shall have the following meanings:

"Electronic Transmission" shall mean each document, instruction, authorization, file, information and any other communication transmitted, posted or otherwise made or communicated by e-mail, facsimile transmission or e fax, or otherwise to or from an E-System or other equivalent service.

"E-System" shall mean any electronic system and any other internet or extranet-based site, whether such electronic system is owned, operated, hosted or utilized by the Bank, any of its affiliates or any other person, providing for access to data protected by passcodes or other security system.

"MWS Administrator" shall have the meaning given the term in the Schedule. "MWS User" shall have the meaning given the term in the Schedule.

"Schedule" shall mean the Comerica Mortgage Warehouse Service Schedule between Corporation and Bank dated on or about the date hereof, as it may be amended from time to time.

"Service" shall have the meaning given the term in the Schedule.

6. Any and all agreements, instruments and documents previously executed and acts and things previously done to carry out the purposes of these Resolutions are ratified, confirmed and approved as the act or acts of the Corporation.

7. These Resolutions shall continue in force, and the Bank may consider the holders of said offices and their signatures to be and continue to be as set forth in a certified copy of these Resolutions delivered to the Bank, until notice to the contrary in writing is duly served on the Bank (such notice to have no effect on any action previously taken by the Bank in reliance on these Resolutions).

8. Any person, corporation or other legal entity dealing with the Bank may rely upon a certificate signed by an officer of the Bank to the effect that these Resolutions and any agreement, instrument or document executed pursuant to them are still in full force and effect and binding upon the Corporation.
9. The Bank may consider the holders of the offices of the Corporation and their signatures, respectively, to be and continue to be as set forth in the Certificate of the Secretary of the Corporation until notice to the contrary in writing is duly served on the Bank.

I further certify that the above Resolutions are in full force and effect as of the date of this Certificate; that these Resolutions and any borrowings or financial accommodations under these Resolutions have been properly noted in the corporate books and records, and have not been rescinded, annulled, revoked or modified; that neither the foregoing Resolutions nor any actions to be taken pursuant to them are or will be in contravention of any provision of the articles of incorporation or bylaws of the Corporation or of any agreement, indenture or other instrument to which the Corporation is a party or by which it is bound; and that neither the articles of incorporation nor bylaws of the Corporation nor any agreement, indenture or other instrument to which the Corporation is a party or by which it is bound require the vote or consent of shareholders of the Corporation to authorize any act, matter or thing described in the foregoing Resolutions.

I further certify that the following named persons have been duly elected to the offices set opposite their respective names, that they continue to hold these offices at the present time, and that the signatures which appear below are the genuine, original signatures of each respectively:

(PLEASE SUPPLY GENUINE SIGNATURES OF AUTHORIZED SIGNER(S) BELOW)

Name (Type or Print)	Title	Signature
James Palda	President	/s/ James Palda
Cherie Edborg	Treasurer, Vice President	/s/ Cherie Edborg
Beth Frenzel	Vice President	/s/ Beth Frenzel
Lauren Ingersoll	Secretary	/s/ Lauren Ingersoll

In Witness Whereof, I have affixed my name as Secretary and have caused the corporate seal of said corporation affixed on May 4, 2018.

Ingersoll /s/ Lauren
Secretary

THE ABOVE STATEMENTS ARE CORRECT.

SIGNATURE OF OFFICER OR DIRECTOR OR, IF NONE, A SHAREHOLDER,
OTHER THAN SECRETARY WHEN SECRETARY IS THE SOLE AUTHORIZED SIGNER SET FORTH ABOVE.

Failure to complete the above when the Secretary is the sole Authorized Signer set forth above, shall constitute a certification by the Secretary that the Secretary is the sole Shareholder, Director and Officer of the Corporation.

**ACTION BY UNANIMOUS WRITTEN CONSENT OF THE BOARD OF DIRECTORS
OF
INSPIRE HOME LOANS INC.**

The undersigned, being all of the directors of Inspire Home Loans Inc., a Delaware corporation (the "Corporation"), acting by written consent without a meeting pursuant to Section 141 (f) of the Delaware General Corporation Law, do hereby consent to the adoption of the following resolution:

**BANK
COMERICA
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RESOLVED, that any Officer of the Corporation as elected by Corporate Resolution (the "Authorized Signer(s)") are authorized, on behalf of, and in the name of the Corporation to:

- (a) Negotiate and procure loans, letters of credit and other credit or financial accommodations from Comerica Bank (the "Bank") up to an unlimited amount;
- (b) Discount with the Bank commercial or other business paper belonging to the Corporation made or drawn by or upon third parties, without limit as to amount;
- (c) Purchase, sell, exchange, assign, endorse for transfer and/or deliver certificated and/or instruments representing stocks, bonds, evidences of indebtedness or other securities owned by the Corporation, whether or not registered in the name of the Corporation;
- (d) Give security for any liabilities of the Corporation to the Bank by grant, security, interest, assignment, lien, deed of trust or mortgage upon any real or personal property, tangible or intangible of the Corporation;
- (e) Execute and deliver in form and content as may be required by the Bank any and all notes, evidences of indebtedness, application for letters of credit, guaranties, subordination agreements, loan and security agreements, financing statements, assignments, liens, deeds of trust, mortgages, trust receipts and other agreements, instruments or documents to carry out the purposes of the Resolutions, nay or all of which may relate to all or substantially all of the Corporation's property and asset;
- (f) Appoint, delegate and authorize such other person (s) (the "Delegate Person(s)") as may be designed in writing from time to time by the above referenced Authorized Signer(s), or any one or more of them, to (i) request loans, and/or advances under any line of credit, loan or other credit or financial accomodation made available by Bank to or in

favor of the Corporation, and to execute and/or deliver unto Bank, in full and in accordance with the content as may be required by the Bank, such agreements, instruments and documents as may be necessary or required to carry out such purposes, (ii) make loan payments for and on behalf of the Corporation, and (iii) execute and certify borrowing base certificates, account agings, inventory reports, covenant compliance certificates and collateral reports (together with any documents, reports and certificates required to be delivered in connection with any of the foregoing) for and on behalf of the Corporation; and

(g) Designate replacement MWS Administrators from time to time in accordance with the Schedule

RESOLVED, that the following persons are designated as a MWS Administrators.:

Cherie Edborg Beth Frenzel
Treasurer, Vice President Finance Vice President Secondary

RESOLVED, that each MWS Administrator shall have the authority to designate MWS Users of the service in accordance with the Comerica Mortgage Warehouse Service Schedule between Corporation and Bank ("Schedule"). MWS Users are authorized by Corporation to give all instructions contemplated by the Schedule 111cludthg, witho11t limitation (but subject to any restrictions on wire authority set forth in the Schedule), instructions by telephone or Electronic transmission to; (a) request advances from Bank and provide information to Bank with respect to such advances from time to time, (b) execute and deliver to Bank documents, instruments and agreements from time to time for the purpose of pledging, assigning, and granting Bank a continuing security interest and lien in and on mortgage loans and other collateral, (c) request that Bank deliver mortgage loans and other collateral to investors and others for sale, securitization or other disposition from time to time, (d) provide Bank with instructions for the allocation, application, distribution or other disposition of mortgage loans, proceeds thereof, and other collateral from time to time, including, but not limited to, repayment of any indebtedness of Corporation to Bank, and/or (e) give other Electronic Transmissions to Bank from time to time with respect to the loans, collateral and loan documents. As used herein, "Electronic Transmission" shall mean each document, instruction, authorization; file, information and any other communication transmitted, posted or otherwise made or communicated by e-mail, facsimile transmission or e- fax, or otherwise to or from an E-System or other equivalent service and "E-System" shall mean any electronic system and any other internet or extranet-based site, whether such electronic system is owned, operated, hosted or utilized by the Bank, any of its affiliates or any other person, providing for access to data protected by passcodes or other

security system.

RESOLVED, that Bank is authorized to make loans and advances, pay the proceeds thereof, repay such loans or advances and take other actions in reliance on any telephone or Electronic Transmissions of an MWS Administrator and MWS User. Without limiting the foregoing, the Bank is authorized and directed to pay the proceeds of any such loans or advances or the proceeds of any collateral as directed by an MWS Administrator or MWS User, whether so payable to the order of any such person in his or her individual capacity or not, and whether such proceeds are deposited to the individual credit of any such person(s) or not. The procedure permitting requests for advances and repayments and requests for the taking of other actions by an MWS Administrator or MWS User based on a telephone or Electronic Transmission is for the convenience of the Corporation, is not necessarily secure and there are risks associated with such use, including risks of interception, disclosure and abuse, and Corporation assumed and accepts such risks. All risks involved in the use of this procedure including, but not limited to, the risk that an MWS Administrator or MWS User may not be authorized by Corporation to make such requests, shall be borne by the Corporation, including but not limited to all risk of loss resulting from advances made, loans, advances, or other indebtedness repaid and other actions taken by the Bank upon any such telephone or Electronic Transmissions, and the Corporation will indemnify and hold Bank harmless therefor under the loan documents. Without limiting the foregoing, and except as expressly provided in the Treasury Management Agreement, the Bank shall have no duty to confirm the identity or authority of any MWS Administrator or MWS User requesting an advance or repayment or other action by telephone or Electronic Transmission, and Corporation shall be obligated to assure that all MWS Administrator (s) and MWS User(s) making requests for advances and repayments and requesting other actions by telephone or Electronic Transmission do in fact have the authority to do so for and on behalf of the Corporation.

RESOLVED, that the Corporation shall remain fully responsible for any amounts outstanding and owing to a Bank under any notes or other evidence of indebtedness regardless of whether the Corporation's accounts with Bank are sufficient for the repayment of any outstanding indebtedness. All payments are to be made with collected funds.

RESOLVED, that any and all agreements, instruments and documents previously executed and acts and things previously done to carry out the purposes of these Resolutions are ratified, confirmed and approved as the act or acts of the Corporation.

RESOLVED, that these Resolutions shall continue in force; and the Bank may consider the holders of said offices and their signatures to be and continue to be as set forth in a certified copy of these Resolutions delivered to the Bank, until notice to the contrary in writing is duly served on the Bank (such notice to have no effect on any action previously taken by the Bank in

reliance on these Resolutions).

RESOLVED, that any person, corporation or other legal entity dealing with the Bank may rely upon a certificate signed by an officer of the Bank to the effect that these Resolutions and any agreement, instrument or document executed pursuant to them are still in full force and effect and binding upon the Corporation.

IN WITNESS WHEREOF, the undersigned have executed this Unanimous Written Consent as of the 4th day of May, 2018.

/s/ David Messenger
Dave Messenger

/s/ James Palda
James Palda

**BYLAWS OF
INSPIRE HOME LOANS INC.**

ARTICLE I OFFICES

Section 1.01 Offices. The address of the registered office of Inspire Home Loans Inc. (the "**Corporation**") in the State of Delaware shall be the registered office of the Corporation. The Corporation may have other offices, both within and without the State of Delaware, as the board of directors of the Corporation (the "**Board of Directors**") from time to time shall determine or the business of the Corporation may require.

Section 1.02 Books and Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be maintained on any information storage device or method; *provided that* the records so kept can be converted into clearly legible paper form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect such records pursuant to applicable law.

ARTICLE II

MEETINGS OF THE STOCKHOLDERS

Section 2.01 Place of Meetings. All meetings of the stockholders shall be held at such place, if any, either within or without the State of Delaware, as shall be designated from time to time by resolution of the Board of Directors and stated in the notice of meeting.

Section 2.02 Annual Meeting. The annual meeting of the stockholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held at such date, time and place, if any, as shall be determined by the Board of Directors and stated in the notice of the meeting.

Section 2.03 Special Meetings. Special meetings of stockholders for any purpose or purposes shall be called pursuant to a resolution approved by the Board of Directors and may not be called by any other person or persons. The only business which may be conducted at a special meeting shall be the matter or matters set forth in the notice of such meeting.

Section 2.04 Adjournments. Any meeting of the stockholders, annual or special, may be adjourned from time to time to reconvene at the same or some other place, if any, and notice need not be given of any such adjourned meeting if the time and place, if any, thereof, and the means of remote communication, if any, are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date is fixed for stockholders entitled to vote

at the adjourned meeting, the Board of Directors shall fix a new record date for notice of the adjourned meeting and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at the adjourned meeting as of the record date fixed for notice of the adjourned meeting.

Section 2.05 Notice of Meetings. Notice of the place, if any, date, hour, the record date for determining the stockholders entitled to vote at the meeting (if such date is different from the record date for stockholders entitled to notice of the meeting) and means of remote communication, if any, of every meeting of stockholders shall be given by the Corporation not less than ten (10) days and no more than sixty (60) days before the meeting (unless a different time is specified by law) to every stockholder entitled to vote at the meeting as of the record date for determining the stockholders entitled to notice of the meeting. Notices of special meetings shall also specify the purpose or purposes for which the meeting has been called. Except as otherwise provided herein or permitted by applicable law, notice to stockholders shall be in writing and delivered personally or mailed to the stockholders at their address appearing on the books of the Corporation. Without limiting the manner by which notice otherwise may be given effectively to stockholders, notice of meetings may be given to stockholders by means of electronic transmission in accordance with applicable law. Notice of any meeting need not be given to any stockholder who shall, either before or after the meeting, submit a waiver of notice or who shall attend such meeting, except when the stockholder attends for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of the meeting shall be bound by the proceedings of the meeting in all respects as if due notice thereof had been given.

Section 2.06 List of Stockholders. The officer of the Corporation who has charge of the stock ledger shall prepare a complete list of the stockholders entitled to vote at any meeting of stockholders (provided, however, if the record date for determining the stockholders entitled to vote is less than ten (10) days before the date of the meeting, the list shall reflect the stockholders entitled to vote as of the tenth (10th) day before the meeting date), arranged in alphabetical order, and showing the address of each stockholder and the number of shares of each class of capital stock of the Corporation registered in the name of each stockholder at least ten (10) days before any meeting of the stockholders. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, on a reasonably accessible electronic network if the information required to gain access to such list was provided with the notice of the meeting or during ordinary business hours, at the principal place of business of the Corporation for a period of at least ten (10) days before the meeting. If the meeting is to be held at a place, the list shall also be produced and kept at the time and place of the meeting the whole time thereof and may be inspected by any stockholder who is present. If the meeting is held solely by means of remote communication, the list shall also be open for inspection by any stockholder during the whole time of the meeting as provided by applicable law. Except as provided by applicable law, the stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger and the list of stockholders or to vote in person or by proxy at any meeting of stockholders.

Section 2.07 Quorum. Unless otherwise required by law, the Corporation's Certificate of Incorporation (the "**Certificate of Incorporation**") or these Bylaws, at each meeting of the

stockholders, a majority in voting power of the shares of the Corporation entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power, by the affirmative vote of a majority in voting power thereof, to adjourn the meeting from time to time, in the manner provided in **Section 2.04**, until a quorum shall be present or represented. A quorum, once established, shall not be broken by the subsequent withdrawal of enough votes to leave less than a quorum. At any such adjourned meeting at which there is a quorum, any business may be transacted that might have been transacted at the meeting originally called.

Section 2.08 Conduct of Meetings. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the meeting of the stockholders as it shall deem appropriate. At every meeting of the stockholders, the chairman, or in his or her absence or inability to act or if there be none, the president, or, in his or her absence or inability to act, such other officer of the Corporation or such stockholder as may be appointed by the Board of Directors, shall act as chairman of, and preside at, the meeting. The secretary or, in his or her absence or inability to act, the person whom the chairman of the meeting shall appoint secretary of the meeting, shall act as secretary of the meeting and keep the minutes thereof. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of the stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (c) rules and procedures for maintaining order at the meeting and the safety of those present; (d) limitations on attendance at, or participation in, the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (e) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (f) limitations on the time allotted to questions or comments by participants.

Section 2.09 Voting; Proxies. Unless otherwise required by law or the Certificate of Incorporation, the election of directors shall be decided by a plurality of the votes cast at a meeting of the stockholders by the holders of stock entitled to vote in the election. Unless otherwise required by law, the Certificate of Incorporation or these Bylaws, any matter, other than the election of directors, brought before any meeting of stockholders shall be decided by the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the matter. Each stockholder entitled to vote at a meeting of stockholders or to express consent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by

delivering to the secretary of the Corporation a revocation of the proxy or a new proxy bearing a later date. Voting at meetings of stockholders need not be by written ballot.

Section 2.10 Inspectors at Meetings of Stockholders. The Board of Directors, in advance of any meeting of stockholders, may, and shall if required by law, appoint one or more inspectors, who may be employees of the Corporation, to act at the meeting or any adjournment thereof and make a written report thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall (a) ascertain the number of shares outstanding and the voting power of each, (b) determine the shares represented at the meeting, the existence of a quorum and the validity of proxies and ballots, (c) count all votes and ballots, (d) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors and (e) certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties. Unless otherwise provided by the Board of Directors, the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxies, votes or any revocation thereof or change thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery of the State of Delaware upon application by a stockholder shall determine otherwise. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders, the inspectors may consider such information as is permitted by applicable law. No person who is a candidate for office at an election may serve as an inspector at such election.

Section 2.11 Written Consent of Stockholders Without a Meeting. Any action to be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action to be so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered (by hand or by certified or registered mail, return receipt requested) to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Every written consent shall bear the date of signature of each stockholder who signs the consent, and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days of the earliest dated consent delivered in the manner required by this **Section 2.11**, written consents signed by a sufficient number of holders to take action are delivered to the Corporation as aforesaid. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall, to the extent required by applicable law, be given to those stockholders who have not consented in writing, and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the

record date for notice of such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the Corporation.

Section 2.12 Fixing the Record Date.

(a) In order that the Corporation may determine the stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty (60) and no less than ten (10) days before the date of such meeting. If the Board of Directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of, or to vote at, a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of, or to vote at, a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the Board of Directors may fix a new record date for the determination of stockholders entitled to vote at the adjourned meeting and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for the determination of stockholders entitled to vote therewith at the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting: (i) when no prior action by the Board of Directors is required by law, the record date for such purpose shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery (by hand, or by certified or registered mail, return receipt requested) to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded and (ii) if prior action by the Board of Directors is required by law, the record date for such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(c) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

ARTICLE ID BOARD OF DIRECTORS

Section 3.01 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The Board of Directors may adopt such rules and procedures, not inconsistent with the Certificate of Incorporation, these Bylaws or applicable law, as it may deem proper for the conduct of its meetings and the management of the Corporation.

Section 3.02 Number; Term of Office. The Board of Directors shall consist of two (2) members. Each director shall hold office until a successor is duly elected and qualified or until such director's earlier death, resignation, disqualification or removal.

Section 3.03 Newly Created Directorships and Vacancies. Any newly created directorships resulting from an increase in the authorized number of directors and any vacancies occurring in the Board of Directors, may be filled by the affirmative votes of a majority of the remaining members of the Board of Directors, although less than a quorum, or by a sole remaining director. A director so elected shall be elected to hold office until the earlier of the expiration of the term of office of the director whom he or she has replaced or the vacancy he or she is filling, a successor is duly elected and qualified or the earlier of such director's death, resignation or removal.

Section 3.04 Resignation. Any director may resign at any time by notice given in writing or by electronic transmission to the Corporation. Such resignation shall take effect at the date of receipt of such notice by the Corporation or at such later time as is therein specified.

Section 3.05 Removal. Except as prohibited by applicable law or the Certificate of Incorporation, the stockholders entitled to vote in an election of directors may remove any director from office at any time, with or without cause, by the affirmative vote of a majority in voting power thereof.

Section 3.06 Fees and Expenses. Directors shall receive such fees and expenses as the Board of Directors shall from time to time prescribe, provided that the stockholders approve such fees and expenses in their sole and absolute discretion.

Section 3.07 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such times and at such places as may be determined from time to time by the Board of Directors or its chairman, if any.

Section 3.08 Special Meetings. Special meetings of the Board of Directors may be held at such times and at such places as may be determined by the chairman, if any, or the president on at least twenty-four (24) hours' notice to each director given by one of the means specified in **Section 3.11** other than by mail, or on at least three (3) days' notice if given by mail. Special meetings shall be called by the chairman, if any, or the president in like manner and on like notice on the written request of any director.

Section 3.09 Telephone Meetings. The Board of Directors or Board of Directors committee meetings may be held by means of telephone conference or other communications equipment by means of which all persons participating in the meeting can hear each other and be heard. Participation by a director in a meeting pursuant to this **Section 3.09** shall constitute presence in person at such meeting.

Section 3.10 Adjourned Meetings. A majority of the directors present at any meeting of the Board of Directors, including an adjourned meeting, whether or not a quorum is present, may adjourn and reconvene such meeting to another time and place. At least twenty-four (24) hours' notice of any adjourned meeting of the Board of Directors shall be given to each director whether or not present at the time of the adjournment, if such notice shall be given by one of the means specified in **Section 3.11** other than by mail, or at least three (3) days' notice if by mail. Any business may be transacted at an adjourned meeting that might have been transacted at the meeting as originally called.

Section 3.11 Notices. Subject to **Section 3.08, Section 3.10 and Section 3.12** hereof, whenever notice is required to be given to any director by applicable law, the Certificate of Incorporation or these Bylaws, such notice shall be deemed given effectively if given in person or by telephone, mail addressed to such director at such director's address as it appears on the records of the Corporation, facsimile, e-mail or by other means of electronic transmission.

Section 3.12 Waiver of Notice. Whenever notice to directors is required by applicable law, the Certificate of Incorporation or these Bylaws, a waiver thereof, in writing signed by, or by electronic transmission by, the director entitled to the notice, whether before or after such notice is required, shall be deemed equivalent to notice. Attendance by a director at a meeting shall constitute a waiver of notice of such meeting except when the director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting was not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special Board of Directors or committee meeting need be specified in any waiver of notice.

Section 3.13 Organization. At each meeting of the Board of Directors, the chairman or, in his or her absence or if there be none, another director selected by the Board of Directors shall preside. The secretary shall act as secretary at each meeting of the Board of Directors. If the secretary is absent from any meeting of the Board of Directors, an assistant secretary shall

perform the duties of secretary at such meeting, and in the absence from any such meeting of the secretary and all assistant secretaries, or if there be none, the person presiding at the meeting may appoint any person to act as secretary of the meeting.

Section 3.14 Quorum of Directors. The presence of a majority of the Board of Directors shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Board of Directors.

Section 3.15 Action by Majority Vote. Except as otherwise expressly required by these Bylaws, the Certificate of Incorporation or by applicable law, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 3.16 Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all directors or members of such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writings or electronic transmissions are filed with the minutes of proceedings of the Board of Directors or committee in accordance with applicable law.

Section 3.17 Committees of the Board of Directors. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. If a member of a committee shall be absent from any meeting, or disqualified from voting thereat, the remaining member or members present at the meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent permitted by applicable law, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation, if any, to be affixed to all papers that may require it to the extent so authorized by the Board of Directors. Unless the Board of Directors provides otherwise, at all meetings of such committee, a majority of the then authorized members of the committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members of the committee present at any meeting at which there is a quorum shall be the act of the committee. Each committee shall keep regular minutes of its meetings. Unless the Board of Directors provides otherwise, each committee designated by the Board of Directors may make, alter and repeal rules and procedures for the conduct of its business. In the absence of such rules and procedures each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to this **Article III**.

ARTICLE IV OFFICERS

Section 4.01 Positions and Election. The officers of the Corporation shall be elected by the Board of Directors and shall include a president and a secretary. The Board of Directors, in its discretion, may also elect a chairman (who must be a director), one or more vice chairmen (who must be directors) and one or more vice presidents, assistant treasurers, assistant secretaries and other officers. Any two or more offices may be held by the same person.

Section 4.02 Term. Each officer of the Corporation shall hold office until such officer's successor is elected and qualified or until such officer's earlier death, resignation or removal. Any officer elected or appointed by the Board of Directors may be removed by the Board of Directors at any time with or without cause by the majority vote of the members of the Board of Directors then in office. The removal of an officer shall be without prejudice to his or her contract rights, if any. The election or appointment of an officer shall not of itself create contract rights. Any officer of the Corporation may resign at any time by giving written notice of his or her resignation to the board of directors. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Should any vacancy occur among the officers, the position shall be filled for the unexpired portion of the term by appointment made by the Board of Directors.

Section 4.03 Chairman. The Board of Directors may elect a chairman. If elected, the chairman will. preside at all meetings of the Board of Directors and be vested with such other powers and duties as the Board of Directors may from time to time delegate.

Section 4.04 President. The president shall have general supervision over the business of the Corporation and other duties incident to the office of president, and any other duties as may be from time to time assigned to the president by the Board of Directors and subject to the control of the Board of Directors in each case.

Section 4.05 Vice Presidents. Each vice president, if any, shall have such powers and perform such duties as may be assigned to him or her from time to time by the chairman of the Board of Directors or the president.

Section 4.06 Secretary. The secretary shall attend all sessions of the Board of Directors and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform like duties for committees when required. He or she shall give, or cause to be given, notice of all meetings of the stockholders and meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the president. The secretary shall keep in safe custody the seal of the Corporation, if any, and have authority to affix the seal to all documents requiring it and attest to the same.

Section 4.07 Treasurer. The treasurer, if any, shall have the custody of the corporate funds and securities, except as otherwise provided by the Board of Directors, and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and

shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the president and the directors, at the regular meetings of the Board of Directors, or whenever they may require it, an account of all his or her transactions as treasurer and of the financial condition of the Corporation.

Section 4.08 Salaries. The salaries of the officers of the Corporation may be fixed from time to time by the Board of Directors, provided that the stockholders approve of such salaries in their sole and absolute discretion. No officer will be prevented from receiving a salary by reason of the fact that he or she is also a director of the corporation.

Section 4.09 Duties of Officers May Be Delegated. In case any officer is absent, or for any other reason that the Board of Directors may deem sufficient, the president or the Board of Directors may delegate for the time being the powers or duties of such officer to any other officer or to any director.

ARTICLE V

STOCK CERTIFICATES AND THEIR TRANSFER

Section 5.01 Certificates Representing Shares. The shares of stock of the Corporation shall be represented by certificates; provided that the Board of Directors may provide by resolution or resolutions that some or all of any class or series shall be uncertificated shares that may be evidenced by a book-entry system maintained by the registrar of such stock. If shares are represented by certificates, such certificates shall be in the form, other than bearer form, approved by the Board of Directors. The certificates representing shares of stock of each class shall be signed by, or in the name of, the Corporation by (a) the chairman, any vice chairman, the president or any vice president, and (b) the secretary, any assistant secretary, the treasurer or any assistant treasurer. Any or all such signatures may be facsimiles. Although any officer, transfer agent or registrar whose manual or facsimile signature is affixed to such a certificate ceases to be such officer, transfer agent or registrar before such certificate has been issued, it may nevertheless be issued by the Corporation with the same effect as if such officer, transfer agent or registrar were still such at the date of its issue.

Section 5.02 Transfers of Stock. Stock of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Corporation only by the holder of record thereof, by such person's attorney lawfully constituted in writing and, in the case of certificated shares, upon the surrender of the certificate thereof, which shall be cancelled before a new certificate or uncertificated shares shall be issued. No transfer of stock shall be valid as against the Corporation for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing from and to whom transferred. To the extent designated by the president or any vice president or the treasurer of the Corporation, the Corporation may recognize the transfer of fractional uncertificated shares, but shall not otherwise be required to recognize the transfer of fractional shares.

Section 5.03 Transfer Agents and Registrars. The Board of Directors may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

Section 5.04 Lost, Stolen or Destroyed Certificates. The Board of Directors may direct a new certificate or uncertificated shares to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the owner of the allegedly lost, stolen or destroyed certificate. When authorizing such issue of a new certificate or uncertificated shares, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of the lost, stolen or destroyed certificate, or the owner's legal representative to give the Corporation a bond sufficient to indemnify it against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificate or uncertificated shares.

ARTICLE VI GENERAL PROVISIONS

Section 6.01 Seal. The seal of the Corporation, if one is approved by the Board of Directors, shall be in such form as shall be approved by the Board of Directors. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise, as may be prescribed by law or custom or by the Board of Directors.

Section 6.02 Fiscal Year. The fiscal year of the Corporation shall be determined by the Board of Directors.

Section 6.03 Checks, Notes, Drafts, Etc. All checks, notes, drafts or other orders for the payment of money of the Corporation shall be signed, endorsed or accepted in the name of the Corporation by such officer, officers, person or persons as from time to time may be designated by the Board of Directors or by an officer or officers authorized by the Board of Directors to make such designation.

Section 6.04 Dividends. Subject to applicable law and the Certificate of Incorporation, dividends upon the shares of capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting of the Board of Directors. Dividends may be paid in cash, in property or in shares of the Corporation's capital stock, unless otherwise provided by applicable law or the Certificate of Incorporation.

Section 6.05 Conflict with Applicable Law or Certificate of Incorporation. These Bylaws are adopted subject to any applicable law and the Certificate of Incorporation. Whenever these Bylaws may conflict with any applicable law or the Certificate of Incorporation, such conflict shall be resolved in favor of such law or the Certificate of Incorporation.

ARTICLE VII AMENDMENTS

These Bylaws may be amended, altered, changed, adopted and repealed or new bylaws adopted by the Board of Directors. The stockholders may make additional bylaws and may alter and repeal any bylaws whether such bylaws were originally adopted by them or otherwise.

CERTIFICATE OF SECRETARY

I hereby certify that the foregoing Bylaws are a true and correct copy of the Bylaws of Inspire Home Loans Inc. as duly adopted by the Board of Directors of
17th

said corporation on the ____ day of October, 2016 and that such Bylaws have not been amended, modified or rescinded and remain in full force and effect as of the date hereof.

Dated: October 17, 2016

/s/ James Palda

James Palda; *Secretary*

**CERTIFICATE OF INCORPORATION OF
INSPIRE HOME LOANS INC.**

ARTICLE ONE

The name of the corporation is "Inspire Home Loans Inc." (the "Corporation").

ARTICLE TWO

The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, Wilmington, New Castle County, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE THREE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE FOUR

The Corporation shall be authorized to issue only one class of stock. The total number of shares of stock that the Corporation has authority to issue is one hundred thousand (100,000) shares of common stock, par value \$.0001 per share.

ARTICLE FIVE

Election of members to the board of directors of the Corporation (the "Board of Directors") need not be by written ballot unless and except to the extent that the bylaws of the Corporation (the "Bylaws") shall so require.

Meetings of the stockholders of the Corporation may be held within or outside of the State of Delaware, as the Bylaws may provide. Unless otherwise designated from time to time in the Bylaws or by the Board of Directors, the books of the Corporation may be kept (subject to any provision contained in the General Corporation Law of the State of Delaware) within or outside of the State of Delaware, including at the principal executive offices of the Corporation,

ARTICLE SIX

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to make, alter and repeal the Bylaws, subject to, the power of the stockholders of the Corporation *to* adopt, alter or repeal any Bylaw, whether adopted by them or otherwise, to the extent required by the General Corporation Law of the State of Delaware.

Delaware

The First State

Page 1

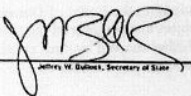
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I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "INSPIRE HOME LOANS INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE SECOND DAY OF NOVEMBER, A.D. 2016.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL FRANCHISE TAXES HAVE BEEN ASSESSED TO DATE.




Jeffrey W. Bullock, Secretary of State

6178326 8300

SR# 20166474312

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 203271785

Date: 11-02-16

ARTICLE SEVEN

To the fullest extent permitted by the General Corporation Law of the State of Delaware, as the same may be amended and supplemented from time to time, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director of the Corporation; provided, that the foregoing provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of Title 8 of the General Corporation Law of the State of Delaware; or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of the State of Delaware is amended to authorize corporate action further eliminating or limiting the liability of directors, the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as amended. Any amendment, modification or repeal of this Article Seven shall not adversely affect any right or protection of a director or former director of the Corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

The provisions of this Article Seven shall not be deemed to limit or preclude indemnification of a director by the Corporation for any liability of a director which has not been eliminated by the provisions of this Article Seven.

To the fullest extent permitted by the General Corporation Law of the State of Delaware, as the same may be amended and supplemented from time to time, the Corporation shall indemnify any person who is or was a director or officer of the Corporation, with respect to action taken or omitted by such person in such capacities, and such right to indemnification shall continue as to a person who has ceased to be a director or officer, as the case may be, and shall inure to the benefit of such person's heirs, executors and personal and legal representatives. These rights of indemnification shall not be exclusive of any other right that any person may have or hereafter acquire under this Certificate of Incorporation, the Bylaws, any statute, agreement; vote of stockholders or disinterested directors or otherwise. Any amendment, repeal or modification of this indemnification provision shall not adversely affect any rights to indemnification any person may have at the time of such amendment, repeal or modification with respect to any acts or omissions occurring prior to such amendment, repeal or modification.

Expenses incurred by a director or officer of the Corporation in defending a civil or criminal action, suit or proceeding by reason of the fact that he or she is or was a director or officer of the Corporation (or was serving at the Corporation's request as a director or officer of another corporation) shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of a written undertaking by or on behalf of such director to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized by relevant sections of the General Corporation Law of the State of Delaware. Notwithstanding the foregoing, the Corporation shall not be required to advance such expenses to a director or officer who is a party to an action, suit or proceeding brought by the Corporation and approved by a majority of the Board of Directors of the Corporation that alleges willful misappropriation of corporate assets by such director or officer, disclosure of confidential information in violation of such director's or officer's fiduciary

or contractual obligations to the Corporation or any other willful and deliberate breach in bad faith of such director's or officer's duty to the Corporation or its stockholders.

The Board of Directors, in its discretion, shall have the power on behalf of the Corporation to indemnify any person, other than a director or officer, made a party to any action, suit or proceeding by reason of the fact that he or she is or was an employee or authorized agent of the Corporation.

The foregoing provisions of this Article Seven shall be deemed to be a contract between the Corporation and each director and officer of the Corporation who serves in such capacity at any time while this Article Seven is in effect, and any repeal or modification of this Article Seven shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

The indemnification provided for in this Article Seven shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement or vote of stockholders or disinterested directors or otherwise, both as to action in their official capacities and as to action in another capacity while holding such office; provided, however, that the Corporation's obligation to provide indemnification under this Article Seven shall be offset to the extent of amounts collected from any other source of indemnification or otherwise applicable insurance coverage under a policy maintained by the Corporation or any other person; provided, that, no indemnified person shall have the obligation to reduce, offset, allocate, pursue or apportion any indemnification advancement, contribution or insurance coverage among multiple parties possessing such duties to such indemnified person prior to the Corporation's satisfaction of its obligations under the provisions of this Article Seven.

ARTICLE EIGHT

The Corporation reserves the right at any time, and from time to time, to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article Eight.

ARTICLE NINE

The name and address of the incorporator is David Messenger, 8390 East Crescent Parkway, Suite 650, Greenwood Village, Colorado 80111.

I, THE UNDERSIGNED, for the purposes of incorporating and organizing a corporation under the General Corporation Law of the State of Delaware, do execute this Certificate of Incorporation, and do certify that the facts herein stated are true.

DATED this 17th day of October, 2016.

/s/ David Messenger

David Messenger, *Incorporator*

[\(Back To Top\)](#)

Section 5: EX-10.3 (EX-10.3)

[Employee – Performance Share Units]

NOTICE OF PERFORMANCE SHARE UNIT AWARD GRANT UNDER THE CENTURY COMMUNITIES, INC. 2017 OMNIBUS INCENTIVE PLAN

Century Communities, Inc., a Delaware corporation (the “Company”), pursuant to the Century Communities, Inc. 2017 Omnibus Incentive Plan (as may be amended from time to time, the “Plan”), hereby grants to the individual named below (the “Participant”) the number of Performance Share Units, a form of Restricted Stock Unit (as defined in the Plan), set forth below (the “Performance Share Units”). The Performance Share Units are subject to all of the terms and conditions set forth herein, in the Performance Share Units Award Agreement attached hereto (the “Agreement”), and in the Plan, all of which are incorporated herein in their entirety. Capitalized terms not otherwise defined herein will have the meaning set forth in the Plan. This Performance Share Unit grant has been made as of the grant date indicated below, which shall be referred to as the “Grant Date”.

Grant ID: [Insert Grant ID number]

Participant: [Insert Participant Name]

Grant Date: [Insert Grant Date]

Threshold Potential Payout: [Insert _____ - Number of Underlying Shares], subject to adjustment as provided in the Plan.

Target Potential Payout: [Insert _____ - Number of Underlying Shares], subject to adjustment as provided in the Plan.

Above Target Potential Payout: [Insert _____ - Number of Underlying Shares], subject to adjustment as provided in the Plan.

Maximum Potential Payout: [Insert _____ - Number of Underlying Shares], subject to adjustment as provided in the Plan.

Performance Period January 1, ____ – December 31, ____

Performance Goals See [Exhibit A](#) attached hereto

* * * * *

This Performance Share Unit Award grant will be null and void unless the Participant accepts the grant by executing it in the space provided below and returning such original execution copy to the Company or otherwise indicating affirmative acceptance of the Performance Share Unit Award grant electronically pursuant to procedures established by the Company and/or its third party administrator. The undersigned Participant acknowledges that he or she has received a copy of this Notice of Performance Share Unit Grant (this “Notice”), the Agreement, the Plan and the Plan Prospectus. As an express condition to the grant of the Performance Share Units hereunder, the Participant agrees to be bound by the terms of this Notice, the Agreement and the Plan. The Participant has read carefully and in its entirety the Agreement and specifically the acknowledgements in Section 9.9 thereof. This Notice, the Agreement and the Plan set forth the entire agreement and understanding of the Company and the Participant with respect to the grant, vesting and administration of this Performance Share Unit award and supersede all prior agreements, arrangements, plans and understandings.

This Notice (which includes the attached Agreement) may be executed in two counterparts each of which will be deemed an original and both of which together will constitute one and the same instrument.

* * * * *

CENTURY COMMUNITIES, INC.

PARTICIPANT

By: Dale Francescon
Title: Co-Chief Executive Officer

PERFORMANCE SHARE UNIT AWARD AGREEMENT

Pursuant to the Notice of Performance Share Unit Grant (the “Grant Notice”) to which this Performance Share Unit Award Agreement (this “Agreement”) is attached and which Grant Notice is included in and part of this Agreement, and subject to the terms of this Agreement and the Century Communities, Inc. 2017 Omnibus Incentive Plan (as may be amended from time to time, the “Plan”), Century Communities, Inc., a Delaware corporation (the “Company”), and the Participant named in the Grant Notice (the “Participant”) agree as follows.

1. Incorporation of Plan; Definitions. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement will be construed in accordance with the provisions of the Plan and any capitalized terms not otherwise defined in this Agreement or in the Grant Notice will have the same meanings as set forth in the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized by or is inconsistent with the terms of the Plan, the terms of the Plan will prevail. The Committee will have final authority to reasonably interpret and construe the Plan and this Agreement and to make any and all determinations thereunder, and its decision will be binding and conclusive upon the Participant and his or her legal representatives in respect of any questions arising under the Plan or this Agreement. A copy of the Plan and the Plan Prospectus have been delivered to the Participant together with this Agreement.

2. Grant of Performance Share Units. The Company hereby grants to the Participant Performance Share Units, as set forth in the Grant Notice and this Agreement, subject to adjustment as provided in the Plan, and each of which, once vested and earned pursuant to this Agreement, will be settled in one (1) share of Common Stock, at the time and subject to the terms, conditions and restrictions set forth below and in the Plan.

3. Performance Vesting; Determination of Amount of Performance Share Units.

3.1 Performance Vesting; Performance Measures and Performance Goals. Except as otherwise provided in this Section 3, Section 6 of this Agreement, the Plan or an Individual Agreement, the Performance Share Units will vest and the number of shares of Common Stock payable in settlement of such vested Performance Share Units shall be determined as of the end of the Performance Period (the “Vesting Date”) by reference to the Performance Goal achieved during the Performance Period in accordance with the table set forth in Exhibit A to this Agreement and may range from 0% to [200%] [250%] of the Participant’s Target Potential Payout as set forth in the Grant Notice. The Performance Measures and the Performance Goals to be achieved on a cumulative basis over the Performance Period and their respective weightings and their respective Threshold, Target, Above Target and Maximum levels of performance, are described in the table set forth in Exhibit A to this Agreement.

1.1 Determination of Amount of Earned Performance Share Units. The number of Performance Share Units to be settled in shares of Common Stock (the “Earned Performance Share Units”) will be determined by prorated, straight-line interpolation between Threshold and Target, Target and Above Target, or Above Target and Maximum if the level of the performance attained for the Performance Goal for the Performance Measure for the Performance Period falls between such levels, as specified in the table set forth in Exhibit A to this Agreement, and the determination will be rounded up to the nearest whole number of Performance Share Units. The Earned Performance Share Units will be settled in shares of Common Stock as provided in Section 4 of this Agreement.

1.2 Requirement to Meet Threshold Level of Performance. Except as otherwise provided in Section 17 of the Plan or an Individual Agreement, and to the extent not previously forfeited or terminated pursuant to Section 6 of this Agreement, the Performance Share Units shall be immediately forfeited and terminated as of the end of the Performance Period if the Performance Goal for the Performance Measure does not meet the Threshold as described in the table set forth in Exhibit A to this Agreement and the Committee reasonably determines that Section 3.4 or 6 of this Agreement does not apply.

1.3 Adjustments for Certain Pre-Determined Events. In determining whether and to what extent each Performance Goal has been achieved, the Committee shall include or exclude from the calculation of the Performance Goal, applying U.S. generally accepted accounting principles, each of the events identified on Exhibit A that occurs during the Performance Period.

4. Settlement; Issuance of Common Stock.

4.1 Settlement; Amount of Payment. In the event of the achievement of at least the Threshold level of performance with respect to the Performance Goal described in the table set forth in Exhibit A to this Agreement during the Performance Period, which achievement must be certified in writing by the Committee as soon as practicable following the expiration of the Performance Period, the Participant shall vest in the Earned Performance Share Units up to the Maximum Potential Payout as determined pursuant to Section 3 and Exhibit A to this Agreement. If the Performance Goal is not achieved at the Threshold level of performance or above, after adjustments under Section 3.4 of this Agreement, if applicable, and the Committee determines that Section 3.4 or 6 of this Agreement does not apply, then the Performance Share Units shall be forfeited and canceled and the Participant shall not be entitled to receive any shares in settlement thereof. The Participant may not be entitled to receive a greater number of Performance Share Units than the Maximum Potential Payout, subject to adjustment as provided in the Plan. In the event the Performance Share Units are forfeited or cancelled for any reason pursuant to Section 3, 4 or 6 of this Agreement or otherwise, no shares of Common Stock shall be issued or payment made in settlement of the Performance Share Units.

4.2 Timing and Manner of Settlement. Earned Performance Share Units will be converted to shares of Common Stock which the Company will issue and deliver to the Participant (either by delivering one or more certificates for such shares or by entering such shares in book entry form in the name of the Participant or depositing such shares for the Participant's benefit with any broker with which the Participant has an account relationship or the Company has engaged to provide such services under the Plan, as determined by the Company in its sole discretion) within sixty (60) days following the Vesting Date, except to the extent that shares of Common Stock are withheld to pay tax withholding obligations pursuant to Section 8 of this Agreement or the Participant has properly elected to defer income that may be attributable to such Performance Share Units under a Company deferred compensation plan or arrangement.

4.3 Section 409A. If any shares of Common Stock shall be issuable with respect to the Performance Share Units as a result of the Participant's "separation from service" at such time as the Participant is a "specified employee" within the meaning of Section 409A of the Code, then no shares shall be issued, except as permitted under Section 409A of the Code, prior to the earlier of (i) the date immediately after the end of the six-month period following the Participant's "separation from service", or (ii) the Participant's death. Payment of amounts under this Agreement (by issuance of shares of Common Stock or otherwise) is intended to comply with the requirements of Section 409A of the Code and this Agreement shall in all respects be administered and construed to give effect to such intent. The Committee in its sole discretion may accelerate or delay the distribution of any payment under this Agreement to the extent allowed under Section 409A of the Code.

5. Holding Period. Except as provided under Section 6.3, any net shares of Common Stock received by the Participant in connection with the settlement of the Earned Performance Share Units must be held by the Participant for at least twelve (12) months after such settlement. For purposes of this Section 5, "net shares" means those shares of Common Stock that remain after shares of Common Stock are sold or netted to pay any required withholding taxes associated with the settlement of the Earned Performance Share Units.

6. Employment or Service Requirement.

6.1 Service Condition. Except as otherwise provided in Section 3 of this Agreement, this Section 6, this Agreement, an Individual Agreement or the Plan, the Performance Share Units will vest on the Vesting Date, provided the Participant remains continuously employed by or provides services to the Company or any Subsidiary through the Vesting Date.

6.2 Change in Control. Except as otherwise provided in an Individual Agreement between the Company and the Participant, upon a Change in Control, the Performance Share Units will be subject to Section 17 of the Plan.

6.3 Effect of Termination of Employment or Other Service. Except as otherwise provided in Section 17 of the Plan or an Individual Agreement between the Company and the Participant, in the event the Participant's employment or other service with the Company and all Subsidiaries is terminated for any reason, including for Cause, by reason of death, Disability or Retirement of the Participant, all outstanding but unvested Performance Share Units held by the Participant as of the effective date of such termination will be terminated and forfeited. Vested shares of Common Stock issued in settlement of the vested Performance Share Units will remain subject to the holding period under Section 5, provided, if Termination of Employment is by reason of death or disability of the Participant, or by the Company within twenty four (24) months following a Change in Control, the remaining term of the holding period under Section 5, if any, will lapse.

6.4 Effect of Actions Constituting Cause or Adverse Action; Forfeiture or Clawback. The Performance Share Units are subject to the forfeiture provisions set forth in Section 15.5 of the Plan, including those applicable if the Participant is determined by the Committee to have taken any action that would constitute Cause or an Adverse Action and any forfeiture or clawback requirement under Applicable Law or any policy adopted from time to time by the Company.

7. Rights of Participant.

7.1 Employment or Other Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of the Participant at any time, nor confer upon the Participant any right to continue employment with the Company or any Subsidiary.

1.4 Rights as a Stockholder. The Participant will have no rights as a stockholder with respect to shares of Common Stock covered by the Performance Share Units unless and until the Participant becomes the holder of record of such shares of Common Stock issued in settlement of the Performance Share Units. By way of example and without limitation, the Participant will not be entitled to vote any of the shares of Common Stock covered by the Performance Share Units, or otherwise exercise any incidents of ownership with respect to such shares until such shares have been issued pursuant to Section 4 of this Agreement, and the Participant will not receive any cash dividends or Dividend Equivalents based on the dividends declared on the Common Stock during the period between the Grant Date and the date the Performance Share Units are settled.

7.2 Restrictions on Transfer. Except pursuant to testamentary will or the laws of descent and distribution or as otherwise expressly permitted by the Plan, no right or interest of the Participant in the Performance Share Units prior to the vesting, issuance or settlement of the Performance Share Units will be assignable or transferable, or subjected to any lien, during the lifetime of the Participant, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise. Any attempt to transfer, assign or encumber the Performance Share Units other than in accordance with this Agreement and the Plan will be null and void and the Performance Share Units for which the Restrictions have not lapsed will be forfeited and immediately returned to the Company.

8. Withholding Taxes. The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts that may be due and owing to the Participant from the Company or a Subsidiary), or make other arrangements for the collection of, all amounts the Company reasonably determines are legally required to satisfy any and all federal, foreign, state and local withholding and employment related tax requirements attributable to the Performance Share Units, or (b) require the Participant promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to the Performance Share Units. The Committee may, in its sole discretion and upon terms and conditions established by the Committee, permit or require the Participant to satisfy, in whole or in part, any withholding or employment related tax obligation in connection with the settlement of the Performance Share Units by withholding shares of Common Stock issuable upon settlement of the Performance Share Units. When withholding shares of Common Stock for taxes is effected under this Agreement and the Plan, it will be withheld only up to the minimum amount the Company reasonably determines is necessary to satisfy any tax withholding obligation in the Participant's applicable tax jurisdiction.

9. Miscellaneous.

9.1 Governing Law; Mandatory Jurisdiction. The validity, construction, interpretation, administration and effect of this Agreement and any rules, regulations and actions relating to this Agreement will be governed by and construed exclusively in accordance with the laws of the State of Delaware, notwithstanding the conflicts of laws principles of any jurisdictions. The Company and the Participant hereby irrevocably submit to the jurisdiction and venue of the Federal or State courts of the States of Colorado and Delaware relative to any and all disputes, issues and/or claims that may arise out of or relate to the Plan or this Agreement. The Company and the Participant further agree that any and all such disputes, issues and/or claims arising out of or related to the Plan or this Agreement will be brought and decided in the Federal or State courts of the States of Colorado or Delaware, with such jurisdiction and venue selected by and at the sole discretion of the Company.

9.2 Interpretation. Any dispute regarding the interpretation of this Agreement will be submitted by the Participant or by the Company forthwith to the Committee for review. The resolution of such a dispute by the Committee will be final and binding on all parties.

9.3 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement will inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement will be binding upon the Participant and his or her heirs, executors, administrators, successors and assigns.

9.4 Notices. All notices, requests or other communications provided for in this Agreement must be made, if to the Company, to Century Communities, Inc., Attn: Chief Financial Officer, 8390 E. Crescent Parkway, Suite 650, Greenwood Village, Colorado 80111, and if to the Participant, to the last known mailing address of the Participant contained in the records of the Company. All notices, requests or other communications provided for in this Agreement must be made in writing either (a) by personal

delivery, (b) by facsimile or electronic mail with confirmation of receipt, (c) by mailing in the United States mails or (d) by express courier service. The notice, request or other communication will be deemed to be received upon personal delivery, upon confirmation of receipt of facsimile or electronic mail transmission or upon receipt by the party entitled thereto if by United States mail or express courier service; provided, however, that if a notice, request or other communication sent to the Company is not received during regular business hours, it will be deemed to be received on the next succeeding business day of the Company.

9.5 Electronic Delivery and Acceptance. The Company may, in its sole discretion, deliver any documents related to the Performance Share Units by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line system established and maintained by the Company or a third party vendor designated by the Company.

9.6 Other Laws. The Company will have the right to refuse to issue to you or transfer any shares of Common Stock subject to this Performance Share Units if the Company acting in its absolute discretion determines that the issuance or transfer of such shares might violate any Applicable Law.

9.7 Investment Representation. The Participant hereby represents and covenants that (a) any share of Common Stock acquired upon the vesting and settlement of the Performance Share Units will be acquired for investment and not with a view to the distribution thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), unless such acquisition has been registered under the Securities Act and any applicable state securities laws; (b) any subsequent sale of any such shares will be made either pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or pursuant to an exemption from registration under the Securities Act and such state securities laws; and (c) if requested by the Company, the Participant will submit a written statement, in form satisfactory to the Company, to the effect that such representation (x) is true and correct as of the date of vesting of any shares of Common Stock hereunder or (y) is true and correct as of the date of any sale of any such share, as applicable. As a further condition precedent to the delivery to the Participant of any shares of Common Stock subject to the Performance Share Units, the Participant will comply with all regulations and requirements of any regulatory authority having control of or supervision over the issuance or delivery of the shares and, in connection therewith, will execute any documents which the Company will in its sole discretion deem necessary or advisable.

9.8 Non-Negotiable Terms. The terms of this Agreement and the Performance Share Units are not negotiable, but the Participant may refuse to accept the Performance Share Units by notifying the Company's Chief Financial Officer or Vice President, Human Resources in writing within thirty (30) day after the Grant Date set forth in the Grant Notice.

9.9 Acknowledgement by the Participant. In accepting the Performance Share Units, the Participant hereby acknowledges that:

(a) The Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan.

(b) The grant of the Performance Share Units is voluntary and occasional and does not create any contractual or other right to receive future Performance Share Units, or benefits in lieu of Performance Share Units, even if Performance Share Units have been granted repeatedly in the past.

-
- (c) All decisions with respect to future Performance Share Unit grants, if any, will be at the sole discretion of the Company.
-
- (d) The Participant is voluntarily participating in the Plan.
-
- (e) The grant of Performance Share Units is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any Subsidiary.
-
- (f) The Performance Share Units or this Agreement will not be interpreted to form an employment contract with the Company or any Subsidiary.
-
- (g) The future value of the shares of Common Stock subject to the Performance Share Units is unknown and cannot be predicted with certainty and if the Performance Share Units vest and the shares of Common Stock become issuable in accordance with the terms of this Agreement, the value of those shares of Common Stock may increase or decrease.
-
- (h) In consideration of the grant of the Performance Share Units, no claim or entitlement to compensation or damages shall arise from termination of the Performance Share Units or diminution in value of the Performance Share Units or shares of Common Stock acquired upon vesting of the Performance Share Units resulting from termination of employment by the Company (for any reason whatsoever and whether or not in breach of applicable labor laws) and the Participant hereby irrevocably releases the Company and its Subsidiaries from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by acceptance of the Performance Share Units, the Participant shall be deemed irrevocably to have waived his or her entitlement to pursue such claim.
-
- (i) Except as otherwise provided in an Individual Agreement, in the event of termination of the Participant's employment with the Company (whether or not in breach of local labor laws), the Participant's right to receive the Performance Share Units and vest in the Performance Share Units under the Plan, if any, will terminate effective as of the date of termination of his or her active employment as determined in the sole discretion of the Committee and will not be extended by any notice of termination of employment or severance period provided to the Participant by contract or practice of the Company or any Subsidiary or mandated under local law and the Committee will have the sole discretion to determine the date of termination of the Participant's active employment for purposes of the Performance Share Units.
-
- (j) Neither the Company nor any Subsidiary is providing any tax, legal or financial advice, nor is the Company or any Subsidiary making any recommendations regarding the Participant's participation in the Plan, acceptance of the Performance Share Units, acquisition of shares of Common Stock upon vesting of the Performance Share Units or any sale of such shares.
-
- (k) The Participant has been advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.
-
- (l) The Participant hereby agrees to accept electronic delivery of copies of any future amendments or supplements to the Prospectus or any future Prospectuses relating the Plan
-

and copies of all reports, proxy statements and other communications distributed to the Company's security holders generally by email directed to the Participant's Company email address.

* * * * *

[\(Back To Top\)](#)**Section 6: EX-21.1 (EX-21.1)**

Exhibit 21.1

CENTURY COMMUNITIES, INC.
LIST OF SUBSIDIARIES

<u>Name of Subsidiary</u>	<u>State of Formation, Organization, or Incorporation</u>
Arcadia Holdings at CC Highlands One, LLC	Colorado
Arcadia Holdings at CC Highlands Two, LLC	Colorado
Augusta Pointe, LLC	Colorado
Avalon at Inverness, LLC	Colorado
AVR A, LLC	Colorado
AVR B, LLC	Colorado
AVR C, LLC	Colorado
Barrington Heights, LLC	Colorado
Beacon Pointe, LLC	Colorado
Belvedere at Ridgeway, LLC	Colorado
Benchmark Builders North Carolina, LLC	Delaware
Benchmark Communities, LLC	Delaware
Blackstone Homes, LLC	Colorado
Bluffmont Estates, LLC	Colorado
BMC East Garrison, LLC	Delaware
BMC EG Bluffs, LLC	Delaware
BMC EG Bungalow, LLC	Delaware
BMC EG Courtyards, LLC	Delaware
BMC EG Garden, LLC	Delaware
BMC EG Grove, LLC	Delaware
BMC EG Towns, LLC	Delaware
BMC EG Village, LLC	Delaware
BMC Meadowood II, LLC	Delaware
BMC Pine Ridge, LLC	Delaware
BMC Promise Way, LLC	Delaware
BMC Rancho Etiwanda, LLC	Delaware
BMC Realty Advisors, Inc.	California
BMC Red Hawk, LLC	Delaware
BMC Rosemead, LLC	Delaware
BMC Sagewood, LLC	Delaware
BMC Shields Locan, LLC	Delaware
BMC Touchstone, LLC	Delaware
BMCH California, LLC	Delaware
BMCH North Carolina, LLC	Delaware
BMCH Tennessee, LLC	Delaware
BMCH Washington, LLC	Delaware

<u>Name of Subsidiary</u>	<u>State of Formation or Organization</u>
Bradburn Village Homes, LLC	Colorado
Casa Acquisition Corp.	Delaware
CC Communities, LLC	Colorado
CC Southeast Constructors, LLC	North Carolina
CCC Holdings, LLC	Colorado
CCG Constructors LLC	Georgia
CCG Realty Group LLC	Georgia
CCH Homes, LLC	Colorado
CCNC Realty Group, LLC	North Carolina
CCSC Realty Group, LLC	South Carolina
Centennial Holding Company, LLC	Colorado
Central Park Rowhomes, LLC	Colorado
Century at Anthology, LLC	Colorado
Century at Ash Meadows, LLC	Colorado
Century at Autumn Valley Ranch, LLC	Colorado
Century at Beacon Pointe, LLC	Colorado
Century at Bellevue Place, LLC	Colorado
Century at Caley, LLC	Colorado
Century at Candelas, LLC	Colorado
Century at Carousel Farms, LLC	Colorado
Century at Castle Pines Town Center, LLC	Colorado
Century at Claremont Ranch, LLC	Colorado
Century at Compark Village North, LLC	Colorado
Century at Compark Village South, LLC	Colorado
Century at Coyote Creek, LLC	Colorado
Century at Colliers Hill, LLC	Colorado
Century at Forest Meadows, LLC	Colorado
Century at Harvest Meadows, LLC	Colorado
Century at Landmark, LLC	Colorado
Century at Littleton Village, LLC	Colorado
Century at Littleton Village II, LLC	Colorado
Century at LOR, LLC	Colorado
Century at Lowry, LLC	Colorado
Century at Marvella, LLC	Colorado
Century at Mayfield, LLC	Colorado
Century at Meadowbrook, LLC	Colorado
Century at Midtown, LLC	Colorado
Century at Millennium, LLC	Colorado
Century at Murphy Creek, LLC	Colorado
Century at Oak Street, LLC	Colorado
Century at Observatory Heights, LLC	Colorado

<u>Name of Subsidiary</u>	<u>State of Formation or Organization</u>
Century at Outlook, LLC	Colorado
Century at Pearson Grove, LLC	Colorado
Century at Salisbury Heights, LLC	Colorado
Century at Shalom Park, LLC	Colorado
Century at Southshore, LLC	Colorado
Century at Spring Valley Ranch, LLC	Colorado
Century at Sterling Ranch, LLC	Colorado
Century at Tanglewood, LLC	Colorado
Century at Terrain, LLC	Colorado
Century at The Grove, LLC	Colorado
Century at the Heights, LLC	Colorado
Century at The Meadows, LLC	Colorado
Century at Vista Ridge, LLC	Colorado
Century at Wildgrass, LLC	Colorado
Century at Wolf Ranch, LLC	Colorado
Century at Wyndham Hill, LLC	Colorado
Century City, LLC	Colorado
Century Communities, Inc.	Delaware
Century Communities Construction, LLC	Utah
Century Communities of California, LLC	Delaware
Century Communities of Georgia, LLC	Colorado
Century Communities of Nevada, LLC	Delaware
Century Communities of Nevada Realty, LLC	Nevada
Century Communities of North Carolina, LLC	Delaware
Century Communities of South Carolina, LLC	Delaware
Century Communities of Tennessee, LLC	Delaware
Century Communities of Utah, LLC	Utah
Century Communities of Washington, LLC	Delaware
Century Communities Southeast, LLC	Colorado
Century Communities Realty of Utah, LLC	Utah
Century Group LLC	Colorado
Century Land Holdings, LLC	Colorado
Century Land Holdings II, LLC	Colorado
Century Land Holdings of Texas, LLC	Colorado
Century Land Holdings of Utah, LLC	Utah
Century Rhodes Ranch GC, LLC	Delaware
Century Townhomes at Candelas, LLC	Colorado
Century Tuscany GC, LLC	Delaware
Cherry Hill Park, LLC	Colorado
Compass Pointe, LLC	Colorado

Name of Subsidiary	State of Formation or Organization
Cottages at Willow Park, LLC	Colorado
Crown Hill, LLC	Colorado
Enclave at Boyd Ponds, LLC	Colorado
Enclave at Cherry Creek, LLC	Colorado
Enclave at Pine Grove, LLC	Colorado
Estates at Chatfield Farms, LLC	Colorado
Hearth at Oak Meadows, LLC	Colorado
Highlands at Westbury, LLC	Colorado
Hometown, LLC	Colorado
Hometown South, LLC	Colorado
Horizon Building Services, LLC	Colorado
Inspire Home Loans, Inc.	Delaware
Ladera, LLC	Colorado
Lakeview Fort Collins, LLC	Colorado
Lincoln Park at Ridgeway, LLC	Colorado
Madison Estates, LLC	Colorado
Meridian Ranch, LLC	Colorado
Montecito at Ridgeway, LLC	Colorado
Neighborhood Associations Group, LLC	Delaware
Park 5th Avenue Development Co., LLC	Colorado
Parkway Financial Group, LLC	Colorado
Parkway Title, LLC	Georgia
Parkwood Estates, LLC	Colorado
Peninsula Villas, LLC	Colorado
Preserve at Briargate, LLC	Colorado
Red Rocks Pointe, LLC	Colorado
Renaissance at Ridgeway, LLC	Colorado
Reserve at Highpointe Estates, LLC	Colorado
Reserve at The Meadows, LLC	Colorado
Saddleback Heights, LLC	Colorado
Saddle Rock Golf, LLC	Colorado
SAH Holdings, LLC	Colorado
Sawgrass at Plum Creek, LLC	Colorado
Sawgrass at Plum Creek II, LLC	Colorado
Shoenberg Farms, LLC	Colorado
Stetson Ridge Homes, LLC	Colorado
Stonybridge Villas, LLC	Colorado
Summerlane Village, LLC	Colorado
SWMJ Construction, Inc.	Texas
The Overlook at Tallyn's Reach, LLC	Colorado
The Retreat at Ridgeway, LLC	Colorado

Name of Subsidiary	State of Formation or Organization
The Veranda, LLC	Colorado
The Vistas at Nor'wood, LLC	Colorado
The Wheatlands, LLC	Colorado
UCP, LLC	Delaware
UCP Barclay III, LLC	Delaware
UCP East Garrison, LLC	Delaware
UCP Hillcrest Hollister, LLC	Delaware
UCP Kerman, LLC	Delaware
UCP Meadowood III, LLC	Delaware
UCP Quail Run, LLC	Delaware
UCP Sagewood, LLC	Delaware
UCP Santa Ana Hollister, LLC	Delaware
UCP Soledad, LLC	Delaware
UCP Tapestry, LLC	Delaware
Venue at Arista, LLC	Colorado
Verona Estates, LLC	Colorado
Villas at Highland Park, LLC	Colorado
Villas at Murphy Creek, LLC	Colorado
Waterside at Highland Park, LLC	Colorado
Westown Condominiums, LLC	Colorado
Westown Townhomes, LLC	Colorado
Wildgrass, LLC	Colorado
WJH LLC	Delaware

[\(Back To Top\)](#)

Section 7: EX-23.1 (EX-23.1)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-226054) of Century Communities, Inc. and related Prospectuses for the registration of \$869,000,000 in common stock, preferred stock, debt securities, warrants, units, and/or guarantees of debt securities;
- (2) Registration Statement (Form S-8 No. 333-217851) and related Prospectus for the registration of common stock issued and/or to be issued to eligible participants under the Century Communities, Inc. 2017 Omnibus Incentive Plan; and
- (3) Registration Statement (Form S-8 No. 333-197353) and related Prospectus for the registration of common stock issued and/or to be issued to eligible participants under the Century Communities, Inc. First Amended & Restated 2013 Long-Term Incentive Plan and related Reoffer Prospectus;

of our reports dated February 12, 2019, with respect to the consolidated financial statements of Century Communities, Inc. and the effectiveness of internal control over financial reporting of Century Communities, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2018.

/s/ Ernst & Young LLP

Denver, Colorado

February 12, 2019

[\(Back To Top\)](#)

Section 8: EX-31.1 (EX-31.1)

EXHIBIT 31.1

CERTIFICATION OF CO-PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dale Francescon, certify that:

1. I have reviewed this Annual Report on Form 10-K of Century Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2019

/s/ Dale Francescon
Dale Francescon
Chairman of the Board and Co-Chief Executive Officer
(Co-Principal Executive Officer)

[\(Back To Top\)](#)

Section 9: EX-31.2 (EX-31.2)

EXHIBIT 31.2

CERTIFICATION OF CO-PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Francescon, certify that:

1. I have reviewed this Annual Report on Form 10-K of Century Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2019

/s/ Robert J. Francescon
Robert J. Francescon
Co-Chief Executive Officer and President
(Co-Principal Executive Officer)

[\(Back To Top\)](#)

Section 10: EX-31.3 (EX-31.3)

EXHIBIT 31.3

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David Messenger, certify that:

1. I have reviewed this Annual Report on Form 10-K of Century Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2019

/s/ David Messenger
David Messenger
Chief Financial Officer
(Principal Financial Officer)

[\(Back To Top\)](#)

Section 11: EX-32.1 (EX-32.1)

EXHIBIT 32.1

CERTIFICATION OF CO-PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Century Communities, Inc. (the "Company") for the fiscal year ended December 31, 2018, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Dale Francescon, Chairman of the Board and Co-Chief Executive Officer (Co-Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 12, 2019

/s/ Dale Francescon
Dale Francescon
Chairman of the Board and Co-Chief Executive Officer
(Co-Principal Executive Officer)

[\(Back To Top\)](#)

Section 12: EX-32.2 (EX-32.2)

EXHIBIT 32.2

**CERTIFICATION OF CO-PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Century Communities, Inc. (the "Company") for the fiscal year ended December 31, 2018, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Robert J. Francescon, Co-Chief Executive Officer and President (Co-Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 12, 2019

/s/ Robert J. Francescon
Robert J. Francescon
Co-Chief Executive Officer and President
(Co-Principal Executive Officer)

[\(Back To Top\)](#)

Section 13: EX-32.3 (EX-32.3)

EXHIBIT 32.3

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Century Communities, Inc. (the "Company") for the fiscal year ended December 31, 2018, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Annual Report"), I, David Messenger, Chief Financial Officer (Principal Financial Officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 12, 2019

/s/ David Messenger
David Messenger
Chief Financial Officer
(Principal Financial Officer)

[\(Back To Top\)](#)