

## SETTLEMENT AGREEMENT

### RECITALS

This Settlement Agreement is made and entered into between the U.S. Department of Housing and Urban Development (“HUD” or “Department”), William Lyon Homes (“Lyon”), located at 4490 Von Karman Avenue, Newport Beach, CA 92660, and Duxford Title Reinsurance, Inc. (“Duxford Title”), located at 199 Main Street, P.O. Box 190, Burlington, VT 05402-0190. HUD, Lyon and Duxford Title shall be referred to herein as the “Parties.”

**WHEREAS**, the Secretary of Housing and Urban Development is authorized to enforce the Real Estate Settlement Procedures Act of 1974 (“RESPA” or “the Act”), 12 U.S.C. § 2601 *et seq.*, and its implementing regulations, 24 C.F.R. § 3500 *et seq.*; and

**WHEREAS**, the Secretary is authorized by Section 19 of RESPA to investigate any facts, conditions, practices, or matters deemed necessary to determine whether any person, as defined in Section 3(5) of the Act, has violated or is about to violate any provision of the Act or any rule or regulation prescribed pursuant thereto; and

**WHEREAS**, Section 8(a) of RESPA, 12 U.S.C. § 2607(a), and the implementing regulations at 24 C.F.R. § 3500.14, prohibit the giving or accepting of any fee, kickback or thing of value pursuant to an agreement or understanding, oral or otherwise, that business incident to or part of a real estate settlement service involving a federally related mortgage loan shall be referred to any person; and

**WHEREAS**, Lyon builds homes in three states and refers home buyers to certain companies for title insurance; and

**WHEREAS**, on or about October 30, 2000, Lyon created Duxford Title, a captive title reinsurance company to reinsure certain title insurance business from title insurance companies; and

**WHEREAS**, HUD initiated an investigation to determine if Lyon's reinsurance arrangements constituted a violation of Section 8(a) of RESPA; and

**WHEREAS**, it is the position of Lyon that it, through Duxford Title, reinsured certain title insurance business for Fidelity National Title Insurance Co. ("FNF") and First American Title Insurance Co. ("FATCO"), in good faith reliance on HUD's regulations, guidelines and interpretations of RESPA, including its 1997 and 2004 Letters regarding reinsurance ("HUD Letters"). Further it is Lyon's position that its participation was in compliance with applicable law (including, but not limited to, RESPA and the HUD Letters), for instance because it believes its share of premiums received did not exceed the value of reinsurance provided and risk assumed. In particular, the low incidence of claims made is offset by the large size of those claims that could be filed, and for which Lyon and Duxford Title continue to bear liability. Further, it is Lyon's position that its share of premiums received was not excessive, because the premium rates charged were not challenged by the Insurance Commissioners of the states where Lyon and Duxford Title participated in reinsurance programs. Also, Lyon referred title insurance business to FATCO and FNF even before reinsuring certain of their title insurance business, because those entities consistently provided the highest quality of services to Lyon's clients. Lyon thus did not, and does not, consider its participation to be a reward or incentive for a referral of business to those entities. Moreover, before, during and after it provided title reinsurance, many of Lyon's

homebuyers did not pay for their title insurance themselves; rather, Lyon paid – and continues to pay – for their title insurance policies; thus, in any event, Lyon believes its homebuyers were not affected by Lyon’s reinsurance activities; and

**WHEREAS**, Duxford Title represents that title reinsurance was only done in Arizona, California and Nevada and that no new title reinsurance business was written after February 1, 2005, notwithstanding Lyon’s view that the arrangements complied with applicable law; and

**WHEREAS**, it is HUD's position that it is a violation of Section 8(a) of RESPA to accept a thing of value in the form of an opportunity to participate in money-making captive title reinsurance arrangements in return for the referral of settlement service business to primary title insurance companies. Further, it is HUD's position that any captive title reinsurance arrangement in which payments to the reinsurer are not bona fide and exceed the value of the reinsurance would violate Section 8 of RESPA. Moreover, in HUD's view, there is almost never any bona fide need or business purpose for title reinsurance on a single family residence, especially from an entity or an affiliate of an entity that is in a position to refer business to the primary title insurer. Further, when there is a history of little or no claims paid or the premium payments to the captive reinsurer far exceed the risk borne by the reinsurer, there is strong evidence there is an arrangement constructed for the purpose of payment of referral fees or other things of value in violation of Section 8 of RESPA; and

**WHEREAS**, HUD has made no finding of violations of RESPA by Lyon or Duxford Title; and

**WHEREAS**, Lyon and Duxford Title have cooperated with HUD; and

**WHEREAS**, recognizing that Lyon and Duxford Title are not admitting liability or wrongdoing, the Parties desire to avoid prolonged proceedings, any further expense of investigation and/or possible litigation, and to finally resolve this matter under the terms and conditions set forth below; and

**WHEREAS**, the terms of this Settlement Agreement are an appropriate disposition of this case and are in the public interest;

**NOW, THEREFORE**, in consideration of the mutually negotiated promises, covenants, and obligations in this Settlement Agreement, the Parties reach a final settlement as set forth below:

#### **AGREEMENTS**

1. This Settlement Agreement is effective on the date of signature of the last signatory to the Settlement Agreement (hereinafter the "Effective Date").
2. Based on Lyon's and Duxford Title's compliance with this Settlement Agreement, the Department will terminate its investigation of Lyon and Duxford Title, and hereby waives, releases, remits and compromises any and all claims, causes, and actions, direct or indirect (together, "Claims"), and agrees to take no enforcement action under RESPA and its implementing regulations against Lyon or Duxford Title, their respective shareholders, directors, officers, principals, employees and representatives, with respect to captive title reinsurance business described herein, or any matter about which the Department received information during its investigation, unless such practices recur.
3. Lyon and Duxford Title agree to fully comply with all provisions of RESPA and its implementing regulations.

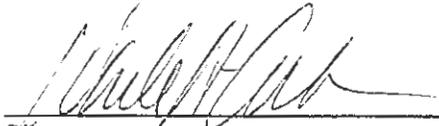
4. Lyon and Duxford Title and their subsidiaries, and their respective directors, officers, shareholders, principals, employees, and representatives (in such individuals' official capacities as directors, officers, principals, employees or representatives) will not enter into any new captive title reinsurance arrangements and will cease writing new captive title reinsurance business; provided, however, that nothing in this Settlement Agreement shall be construed as prohibiting conduct permitted by any future amendments to or repeal of RESPA, or new statutory or regulatory provisions, or HUD policy statements interpreting and applying Section 8 of RESPA.
5. Within thirty (30) business days of the Effective Date, Lyon will make a settlement payment of Eight Hundred Fifty Thousand Dollars (\$850,000.00) payable to the United States Treasury, and delivered to counsel for HUD at an address to be specified by HUD; provided, however, such payment shall not be considered for any purposes to be a civil money penalty or fine.
6. Nothing in this Settlement Agreement shall be construed as preventing Lyon or Duxford Title from unwinding its captive title reinsurance arrangements, including without limitation through the ceding of risk and/or premium to one or more third parties under terms and conditions that differ from the terms and conditions under which such risk and/or premium was obtained. HUD will not consider such unwinding undertaken in conjunction with this Settlement Agreement to be in violation of RESPA or the implementing regulations, provided that the unwinding does not involve an agreement or understanding for the referral of future settlement service business.

7. This Settlement Agreement applies to and binds Lyon, Duxford Title, their respective predecessors, successors, assigns, and their respective directors, officers, principals, employees, and representatives (in such individuals' official capacities as directors, officers, principals, employees or representatives of Lyon and Duxford Title).
8. Lyon and Duxford Title hereby waive, release, remit and compromise any and all Claims against the Department, or any of its employees, agents, or representatives, with respect to HUD's investigation of this matter or this Settlement Agreement.
9. Should Lyon or Duxford Title fail to comply with the terms set out above, or should any of its representations prove to be false or incomplete in any material manner, HUD may take appropriate enforcement action, and/or refer the matter to other governmental authorities for further action.
10. This Settlement Agreement constitutes the complete agreement between the Parties as to the matters addressed herein. This Settlement Agreement may not be amended except by written consent of the Parties.
11. By this Settlement Agreement the Parties do not waive, release, remit or compromise any Claims against any other person not expressly released by this Settlement Agreement.
12. The Parties represent that this Settlement Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever.
13. Nothing in this Settlement Agreement shall be construed as an admission of wrongdoing, liability, or legal fault for any conduct underlying this Settlement

Agreement, or an admission that any person acted wrongfully.

14. Each person who signs this Settlement Agreement in a representative capacity warrants that his or her execution of this Settlement Agreement is duly authorized, executed, and delivered by and for the entity for which he or she signs.
15. Each of the Parties to this Settlement Agreement shall bear its own attorney's fees and costs, including the preparation and performance of this Settlement Agreement.
16. This Settlement Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute the same agreement.

On Behalf of William Lyon Homes

  
\_\_\_\_\_  
Signature

8/15/2006  
Date

Wade Cable  
Print Name

President and Chief Operating Officer  
Title

On Behalf of Duxford Title Reinsurance, Inc.

  
\_\_\_\_\_  
Signature

8/15/2006  
Date

Wade Cable  
\_\_\_\_\_  
Print Name

President and Chief Operating Officer  
\_\_\_\_\_  
Title

On Behalf of the U.S. Department of Housing and Urban Development:



\_\_\_\_\_  
Brian D. Montgomery  
Assistant Secretary for Housing-Federal  
Housing Commissioner

9/15/06

\_\_\_\_\_  
Date