

SETTLEMENT AGREEMENT

RECITALS

This Settlement Agreement is made and entered into between the U.S. Department of Housing and Urban Development (“HUD” or “Department”) and Shea Homes Limited Partnership and its general partners, Shea Homes, Inc., Shea Financial Services, Inc. and Shea Mortgage, Inc. (collectively, “Shea”), and Shea Insurance Services, Inc. (“Shea Insurance”) all located at 655 Brea Canyon Road, Walnut, California 91789. HUD, Shea and Shea Insurance 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, Shea builds homes in various states and refers home buyers to certain companies for title insurance; and

WHEREAS, on or about July 9, 2001, Shea Insurance joined as a participant in First American Homebuilders Reinsurance Company (“FAHRC”), a captive title reinsurance company that reinsures certain title insurance business and on or about October 12, 2003, Shea Insurance joined as a participant in Fidelity National Financial Title Reinsurance Company (“FNF Reinsurance”), another captive title reinsurance company that also reinsures certain title insurance business; and

WHEREAS, HUD initiated an investigation to determine if Shea Insurance’s reinsurance arrangements constituted a violation of Section 8(a) of RESPA; and

WHEREAS, it is the position of Shea that Shea Insurance participated in a quota share title reinsurance program through FAHRC and FNF Reinsurance in good faith reliance on HUD’s regulations, guidelines and interpretations of RESPA, including its 1997 and 2004 Letters regarding reinsurance (“HUD Letters”) and that its participation in these programs was and is in compliance with applicable law (including, but not limited to, RESPA and the HUD Letters). Shea and Shea home buyers historically have done and continue to do a substantial amount of title insurance business with First American and Fidelity, and such business has never been conditioned upon Shea Insurance’s participation in the title reinsurance programs. Shea has paid title insurance premiums on behalf of its buyers that it believes equal or exceed the amount of any economic benefit Shea has derived from the reinsurance programs. Shea believes, based on independent professional economic analysis commissioned by Shea, that the amount of reinsurance

premiums paid to Shea Insurance is clearly justified based on the concentration of risk associated with the reinsurance program and the possibility that a title insurance claim, if one had to be paid, would be large; and

WHEREAS, Shea Insurance represents that title reinsurance was only done in California and Arizona and that no new title reinsurance business was written after January 31, 2005, notwithstanding Shea'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 a sham 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 Shea or Shea Insurance; and

WHEREAS, Shea and Shea Insurance have cooperated with HUD; and

WHEREAS, recognizing that Shea and Shea Insurance 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 Shea's and Shea Insurance's compliance with this Settlement Agreement, the Department will terminate its investigation of Shea and Shea Insurance, 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 Shea or Shea Insurance, and their respective shareholders, partners, 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. Shea and Shea Insurance agree to fully comply with all provisions of RESPA and its implementing regulations.
4. Shea and Shea Insurance and their parents and 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, Shea Insurance will make a settlement payment of Nine Hundred Fifty Thousand Dollars (\$950,000.00) 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 Shea or Shea Insurance 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 Shea, Shea Insurance, their subsidiaries and their respective predecessors, successors, parents, subsidiaries and assigns, and their respective directors, officers, principals, employees, and representatives (in such individuals' official capacities as directors, officers, principals, employees or representatives of Shea and Shea Insurance).
8. Shea and Shea Insurance 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 Shea or Shea Insurance 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 Shea Homes Limited Partnership and its general partners, Shea Homes, Inc.,
Shea Financial Services, Inc., Shea Mortgage, Inc. and Shea Insurance Services, Inc.

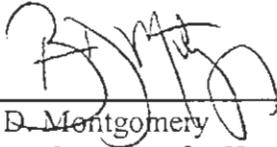

Signature

8-21-06
Date

JOHN C. MORRISSEY
Print Name

EXECUTIVE VICE PRESIDENT
Title

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



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

9/19/06

Date