

## 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 Meritage Homes Corporation, Meritage Homes of California, Inc., formerly known as Meritage Homes of Northern California, Inc., and Meritage Homes of Nevada, Inc., formerly known as MTH-Homes Nevada, Inc., and Meritage Homes of Arizona, Inc., formerly known as Hancock-MTH Communities, Inc., and including Monterey Homes Arizona, Inc., which heretofore merged with and into Meritage Homes of Arizona, Inc., (collectively, with all the subsidiaries and affiliates “Meritage”) and Meritage Paseo Crossing, LLC (“Paseo Crossing”) all located at 17851 North 85<sup>th</sup> Street, Suite 300, Scottsdale, AZ 85255. HUD, Meritage and Paseo Crossing 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**, Meritage builds homes in various states and has referred home buyers to certain companies for title insurance; and

**WHEREAS**, on or about October 10, 2000, Meritage Homes of Arizona, a wholly-owned subsidiary of Meritage Homes Corporation, formed Paseo Crossing; and

**WHEREAS**, on or about September 1, 2003, Paseo Crossing joined as a participant in Fidelity National Financial Title Reinsurance Company (“FNF Reinsurance”), a captive title reinsurance company that reinsures certain title insurance business, and on or about January 1, 2004, Paseo Crossing joined as a participant in First American Homebuilders Reinsurance Company (“FAHRC”), another captive title reinsurance company that also reinsures certain title insurance business; and

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

**WHEREAS**, it is the position of Meritage and Paseo Crossing that title reinsurance is not a “settlement service” as that term is defined by RESPA or its regulations, and, therefore, reinsurance activities are not subject to the Act. Moreover, the separate captive reinsurance agreements that Paseo Crossing entered into with multiple title insurance carriers each provided for a quota share title reinsurance arrangement that was created in good faith reliance on HUD’s regulations, guidelines,

and interpretations, including the Department's 1997 and 2004 Letters regarding reinsurance ("HUD Letters"). Meritage and Paseo Crossing believed that participation in these arrangements was and is in compliance with applicable law (including, but not limited to RESPA and the HUD Letters). Meritage and its customers historically did business with a range of title insurance companies before and after the participation of Paseo Crossing in reinsurance arrangements. It is the position of Meritage and Paseo Crossing that there is no evidence that title reinsurance agreements impacted or caused referrals of title insurance. Further, Meritage customers were notified in writing: of the reinsurance arrangement between Paseo Crossing and the title insurance companies; that Paseo Crossing was an affiliate of Meritage; that Meritage and Paseo Crossing would benefit from such an arrangement; and, that their participation was strictly voluntary. The insurance fees paid by Meritage customers were in many instances regulated and set by State law and in all instances the same regardless of whether the customer's policy was reinsured by Paseo Crossing or not. In many instances, Meritage actually paid for title insurance on behalf of its customers. Finally, Meritage believes that the amount of premiums paid to Paseo Crossing were clearly justified based on the risk associated with the reinsurance program and the possibility that a title insurance claim, if one had to be paid, would be significant; and

**WHEREAS**, Meritage represents that title reinsurance was only done in California, Arizona and Nevada and that no new title reinsurance business was written after 2005, notwithstanding Meritage'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 Meritage or Paseo Crossing; and

**WHEREAS**, Meritage and Paseo Crossing have cooperated with HUD; and

**WHEREAS**, recognizing that Meritage and Paseo Crossing 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 Meritage’s and Paseo Crossing’s compliance with this Settlement Agreement, the Department: (a) will terminate its investigation of Meritage and Paseo Crossing; (b) hereby waives, releases, remits and compromises any and all claims, causes, and actions, direct or indirect (together, “Claims”) against Meritage and Paseo Crossing, and their respective past and present shareholders, partners, directors, officers, principals, employees, attorneys and representatives (collectively and individually the “Released Parties”) with respect to captive title reinsurance business described herein, or any matter about which the Department received information during its investigation; and (c) agrees to take no enforcement action under RESPA and its implementing regulations against any of the Released Parties with respect to captive title reinsurance business described herein, or any matter about which the Department received information during its investigation. If any of the Released Parties engage in captive title reinsurance arrangements, after the effective date of this Settlement Agreement, and the Department deems the arrangements to be in violation of RESPA, the Department retains the right to

pursue Claims and/or enforcement actions under RESPA against any of the Released Parties with respect to such future captive arrangements and any Claims still covered by the statute of limitations.

3. Meritage and Paseo Crossing agree to fully comply with all provisions of RESPA and its implementing regulations.
4. Meritage and Paseo Crossing 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, unless HUD has reviewed and approved such arrangements or business. 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, Meritage will make a settlement payment of Sixty-Six Thousand Dollars (\$66,000.00) 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 Meritage or Paseo Crossing 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 or following 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 Meritage, Paseo Crossing, 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 Meritage and Paseo Crossing).
8. Meritage and Paseo Crossing 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 Meritage or Paseo Crossing 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 Meritage Homes Corporation**

*CT White*

Signature

4/19/07

Date

C. Timothy White

Print Name

SVP

Title

**On Behalf of Meritage Homes of Arizona, Inc.**

*CT White*

Signature

4/19/07

Date

C. Timothy White

Print Name

E.V.P.

Title

**On Behalf of Meritage Paseo Crossing, LLC**  
By Meritage Homes of Arizona, Inc  
Its Manager

*CT White*

By Signature

4/19/07

Date

C. Timothy White

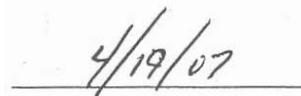
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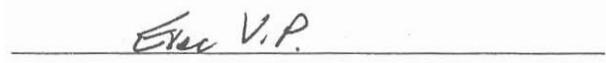
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**On Behalf of Meritage Homes of California, Inc.**

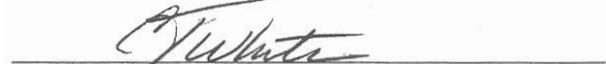
  
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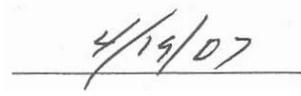
  
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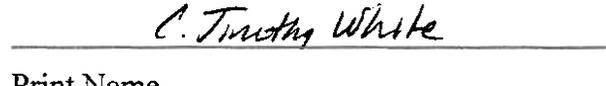
  
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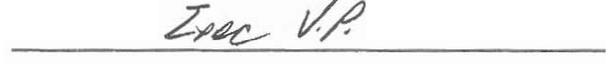
  
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**On Behalf of Meritage Homes of Nevada, Inc.**

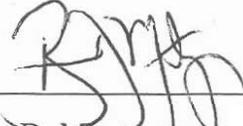
  
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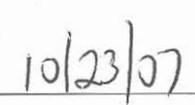
  
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**On Behalf of the U.S. Department of Housing and Urban Development  
in settlement with Meritage Homes Corporation, Meritage Homes of California,  
Inc., Meritage Homes of Nevada, Inc., Meritage Homes of Arizona, Inc. and  
Meritage Paseo Crossing, LLC**



\_\_\_\_\_  
Brian D. Montgomery  
Assistant Secretary of Housing—Federal  
Housing Commissioner



\_\_\_\_\_  
Date