

SETTLEMENT AGREEMENT

This SETTLEMENT AGREEMENT ("Agreement") is made and entered into between the United States Department of Housing and Urban Development ("HUD") and Fairfield Resorts, Inc. ("Fairfield"). HUD and Fairfield shall be referred to herein as the "Parties."

WHEREAS the Interstate Land Sales Full Disclosure Act, 15 U.S.C. §§ 1701 *et seq.* ("Act"), requires certain developers, as that term is defined in Section 1402(5) of the Act, to file a statement of record with HUD and to furnish a property report to purchasers of lots subject to the Act, and prohibits developers from, among other things, selling or leasing any lot where any part of the statement of record or the property report contains an untrue statement of a material fact or omits to state a material fact;

WHEREAS Fairfield was engaged in the sale of lots in the Fairfield Glade community located in Cumberland County, Tennessee ("Fairfield Glade") during the time period covered by this Agreement;

WHEREAS, HUD alleges that, in connection with lots located in Fairfield Glade, Fairfield as developer under the Act and its implementing regulations and its agents, (i) engaged in various misrepresentations regarding the investment potential of lots, the development, quality and condition of Fairfield Glade and the completion of infrastructure at Fairfield Glade, specifically the failure to provide water distribution facilities, sewer collection and treatment systems, electrical services and certain roads as represented in various promotional materials and Property Reports since the inception of Fairfield Glade to date, particularly the Property Reports effective from May 11, 1973 through November 21, 1975; (ii) failed to deliver Property Reports to certain consumers and prevented certain consumers from reading all or certain sections of the Property Reports before making their purchases; and (iii) engaged in marketing and sales

practices at Fairfield Glade which violated the Act or any of its implementing regulations (collectively, the “Alleged Practices”);

WHEREAS Fairfield states that any of the Alleged Practices would have occurred in the 1970’s. Fairfield Glade has been registered with HUD since the early 1970’s and has since that time delivered Property Reports to purchasers of lots at Fairfield Glade. Fairfield believes that it has accurately disclosed in these HUD Property Reports the status of completion of utilities and improvement of roads to the lots set forth in the Property Reports;

WHEREAS Fairfield denies any wrongdoing in connection with the Alleged Practices and states that it has entered into this Agreement to bring closure to this matter and to demonstrate and fulfill its longstanding commitment to Fairfield Glade;

WHEREAS the Agreement shall not constitute an admission of wrongdoing, liability, or legal fault on the part of Fairfield for any conduct underlying this Agreement, nor shall it be construed as an admission that any person or entity acted wrongfully, unjustifiably or otherwise;

WHEREAS, to avoid litigation and further expense, and to reach a mutually satisfactory settlement, the Parties agree that this Agreement constitutes the full and final settlement of the Alleged Practices

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

This Agreement is effective on the date of signature of the last signatory to the Agreement (hereinafter the “Effective Date”).

2. Notwithstanding Fairfield’s position, the parties agree that Fairfield shall offer to all of the consumers who meet all of the following criteria a 100% refund of the purchase price

paid to acquire their lot in exchange for deeding such Undeveloped Lot (as defined in Paragraph 2.c. below) back to Fairfield, free and clear of all liens and encumbrances related to a mortgage or past due property taxes at the time of the deed back, using a special warranty deed. This deed shall not require a consumer to pay for any fees, transfer taxes, title policies or any other costs to deed the property back to Fairfield. The consumer's obligation to pay any assessments payable to the Fairfield Glade Community Club ("Community Club") shall be governed by and consistent with the terms of the Tennessee Assurance of Voluntary Compliance between the State of Tennessee and the Community Club dated September 29, 2006 ("Club AVC").

- a. The consumer is the original purchaser and is living at the time of written notification of the offer from Fairfield. (Heirs of original purchasers and resale purchasers are not included.)
- b. The purchase contract between Fairfield and the consumer was entered between May 11, 1973 and November 21, 1975;
The lot bought by the original purchaser presently remains unserved by utilities or improved roads and no dwelling has been constructed on the lot (an "Undeveloped Lot"); and
- d. If the consumer has received relief under the Tennessee Assurance of Voluntary Compliance between the State of Tennessee and Fairfield dated August 29, 2006 ("Tennessee AVC"), the consumer shall be entitled to the difference between 100% of their purchase price and the 65% of their purchase price already received or to be paid to such consumer under the Tennessee AVC

3. Fairfield shall also offer to all of the consumers who meet all of the following criteria a 65% refund of the purchase price paid to acquire their lot in exchange for deeding such Undeveloped Lot back to Fairfield, free and clear of all liens and encumbrances related to a mortgage or past due property taxes at the time of the deed back, using a special warranty deed. This deed shall not require a consumer to pay for any fees, transfer taxes, title policies or any other costs to deed the property back to Fairfield. **The consumer's obligation to pay any assessments payable to the Community Club shall be governed by and consistent with the terms of the Club AVC**

- a. The consumer is the original purchaser and is living at the time of written notification of the offer from Fairfield. (Heirs of original purchasers and resale purchasers are not included.);
- b. The lot bought by the original purchaser is presently an Undeveloped Lot;
- c. The consumer filed a written complaint with HUD that was received on or after August 30, 2006, and postmarked on or before December 31, 2006, or a written complaint with no postmark that was received by HUD on or before January 12, 2007. Such complaints shall be included on a complete written list of complainants provided by HUD to Fairfield by March 6, 2007, along with a copy of such complaints;
- d. The consumer has not received any relief from Fairfield under the **Tennessee AVC; and**
- e. The consumer is not entitled to any relief from Fairfield pursuant to **Paragraph 2 hereof.**

4 Fairfield agrees to pay HUD a total of \$375,000, which includes a settlement payment of \$300,000 and reimbursement of \$75,000 for the cost of HUD's investigation of this matter, within thirty (30) business days of the Effective Date of this Agreement payable to the United States Treasury and delivered to counsel for HUD.

5 HUD and Fairfield agree that all written complaints pertaining to Fairfield Glade which were received by HUD on or before August 29, 2006, were delivered by HUD to the Tennessee Attorney General's office and those complaints are in the process of being resolved by Fairfield pursuant to the terms of the Tennessee AVC.

6. The parties agree that all complaints from consumers not eligible for relief under Paragraphs 2 and 3 of this Agreement shall be promptly forwarded to Fairfield by HUD to be handled by Fairfield in the normal course of business as similar complaints received from complaint-handling agencies. This will include reviewing each complaint on a case-by-case basis to determine whether the allegations are substantiated and providing relief, as determined by Fairfield.

7 Fairfield will communicate with the consumers identified in Paragraphs 2 and 3 of this Agreement in the following manner:

- a. Fairfield will send mutually agreed upon written notification letters and claim forms via certified, first class postage pre-paid mail to each consumer who is eligible for relief under this Agreement within sixty (60) days after the Effective Date of this Agreement;
- b. The notification letters will clearly set forth the like-kind trade policy explained in Paragraph 8 below;

- c. The envelopes will be clearly marked “POSTMASTER PLEASE FORWARD AND ADDRESS CORRECTION REQUESTED.” In the event any envelope is returned with a corrected or forwarding address, Fairfield shall again mail the written notification offer to the eligible consumer via certified, first class postage pre-paid mail to the new address. For said consumers, the sixty (60) day period referred to in Paragraph 7.d. below, shall not commence until the receipt of the second notice;
- d. Eligible consumers will have sixty (60) days from the date the written notification letter is received to accept the offer made by Fairfield by properly completing the mutually agreed upon refund claim form and returning it by first class mail to Fairfield;
- e. If an eligible consumer satisfies the requirements in Paragraph 7.d above, Fairfield will send via certified, first class postage pre-paid mail a special warranty deed to each such eligible consumer within forty-five (45) days from receipt by Fairfield of such consumer's properly completed refund claim form;
- f. Each eligible consumer will have sixty (60) days from the date the special warranty deed is received by him or her to properly execute and notarize the special warranty deed, where indicated, pay off any liens or encumbrances encumbering the subject lot, including, without limitation, any mortgage or past due property taxes, and return the executed deed by first-class mail to Fairfield;

- g Fairfield will establish a dedicated toll-free telephone number to answer consumer inquiries;
 - h Fairfield will pay all mailing, title search and preparation expenses related to the notification letters and deed back process made pursuant to this Agreement; and
- All notification letters, letters containing the applicable special warranty deeds, and envelopes will be on Fairfield letterhead or contain the Fairfield logo.

8 Fairfield will clarify its trade policy to make clear that any Undeveloped Lot purchased directly from Fairfield or its predecessors may be exchanged for a like-kind Improved Lot, provided such lot is available, where the owner indicates to Fairfield a readiness to build. “Improved Lot” means a lot served by utilities and improved roads, but which lot does not currently include a dwelling. “Like-kind” means, e.g., waterfront lot for waterfront lot, golf course lot for golf course lot, non-waterfront non-golf course lot for non-waterfront non-golf course lot. “Like-kind” shall also mean that if the original lot purchased was South of Peavine Road, then the lot to be exchanged into will also be South of Peavine Road. Fairfield will use its best efforts to find available Like-kind Improved Lots or develop lots to satisfy the demand for such lots to exchange when owners indicate to Fairfield a readiness to build. Fairfield shall distribute the clarified trade policy in writing to all owners through the newsletter published by the Community Club and incorporate the trade policy into its amended Property Report for the Fairfield Glade. The trade policy will not apply to any “Membership Lots” offered by Fairfield as such term will be defined in the amended Property Report for Fairfield Glade.

9. Within six (6) months after the Effective Date of this Agreement, Fairfield will provide HUD with a list of the names and addresses of all eligible consumers who were sent a notification offer as set forth herein.

10. Within twelve (12) months after the Effective Date of this Agreement, Fairfield will provide HUD with a list of:

a. The names and addresses of all eligible consumers who elected to accept the notification offer set forth herein and received a refund check, the amount of such refund and the total amount of all refunds provided.

b. The names and addresses of all eligible consumers who have elected not to accept the notification offer set forth herein;

c. The names and addresses of all eligible consumers who were contacted but failed to respond to Fairfield in the time frames set forth herein, and

d. The names and last know addresses of all eligible consumers whom Fairfield was unable to contact

11 In consideration for entering into this Agreement and for Fairfield's offer to provide to eligible consumers the agreed upon refunds as set forth herein, HUD and Fairfield agree that Fairfield may require that eligible consumers exercising their right to a refund pursuant to this Agreement waive, release and remit any claim each of the consumers may have relating to the Alleged Practices referenced in this Agreement, directly or indirectly, against Fairfield and its directors, officers, investors, lenders, employees, agents, representatives, subsidiaries, affiliates, parent company, successors and assigns (collectively, the "Fairfield Companies").

12. No other relief for any consumer except as set forth herein is required of Fairfield under this Agreement.

13. Eligible consumer refunds shall be by check drawn on an account with sufficient cash balance to fund all refunds in accordance with this Agreement. So long as an eligible consumer complies with all of the terms of Paragraphs 7.d and 7.f above, such eligible consumer's refund check shall be mailed by certified, first class postage pre-paid mail within sixty (60) days of the receipt by Fairfield of the properly executed and notarized special warranty deed from such eligible consumer. In the event an eligible consumer fails to return the completed refund claim form and special warranty deed in the manner and time frames required hereunder, the consumer will waive his or her right to a refund.

14 Any eligible consumer refund check due to multiple parties where their lot is jointly owned shall be issued to all persons listed as property owners on the existing deed Fairfield shall have no liability or further responsibility for identifying the correct eligible consumer to receive a refund check in such multiple owner situations

15 Fairfield is responsible for all costs associated with the processes set forth herein, including, but not limited to, all costs associated with the mailing and content of the notices, all letterhead, envelopes, copying charges, postage and costs associated with the issuance of refund checks and costs associated with this process, with the exception of all costs associated with paying off and releasing any existing mortgage or other lien encumbering the Undeveloped Lot and past due property taxes to be paid by each eligible consumer as a condition to the deed back process.

16. HUD hereby acknowledges and agrees that Fairfield may offer for sale and sell Undeveloped Lots at Fairfield Glade as so-called "Membership Lots" so long as such term is

clearly defined in the new Property Report or amended Property Report for Fairfield Glade and it is expressly disclosed therein that such Membership Lots shall not be developed with utilities and improved roads but the purchasers thereof shall be entitled to membership in the Community Club and use of the recreational amenities and facilities available to all owners at Fairfield Glade pursuant to the terms of their purchase.

17. In consideration of Fairfield's entering into this Agreement, HUD hereby waives, releases, and remits Fairfield and the Fairfield Companies from any civil or administrative claim, sanction, or remedy, direct or indirect, that HUD has arising under the Act or its implementing regulations relating to the Alleged Practices.

18 Fairfield and the Fairfield Companies hereby waive, release, and remit any and all claims, directly or indirectly, against HUD, or any employee of HUD, for the actions of HUD in pursuing its rights and claims leading to this Agreement.

19 Notwithstanding any other term or condition of this Agreement, specifically reserved and excluded from the scope and terms of the releases in this Agreement are any and all claims based on such obligations as are created by this Agreement

20 Fairfield and the Fairfield Companies, each agree to comply with the provisions of the Act and its implementing regulations.

21 This Agreement constitutes the complete agreement between the Parties as to the matters addressed herein. This Agreement may not be amended except by written consent of the Parties.

22 Each of the Parties to this Agreement shall bear its own attorney's fees and costs, including the preparation and performance of this Agreement except that the amount referred to in Paragraph 4 above, shall be attributable to HUD's investigative costs.

23 The Parties represent that this Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever. No provision of this Agreement shall be construed against either of the parties by reason of such party having drafted such provision of the Agreement.

24. By this Agreement, the Parties do not waive, compromise, or release any claims or causes of action against any other person or entity not expressly released by this Agreement

25. Failure by any of the Parties to enforce any provision of this Agreement shall not be construed as a waiver by such party of any provision, nor in any way affect the validity of this Agreement or any part thereof.

26. If any provision of this Agreement is determined to be invalid or unenforceable for any reason, then such provision shall be treated as severed from the remainder of this Agreement and shall not affect the validity and enforceability of all the other provisions of this Agreement as long as such severance does not materially change the Parties' rights and obligations.

27 This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same agreement.

28 Each person who signs this Agreement in a representative capacity warrants that his or her execution of this Agreement is duly authorized, executed, and delivered by and for the entity for which he or she signs

29 Fairfield, for itself and on behalf of the Fairfield Companies, agrees that any future successors in interest shall be bound by the terms of this Agreement

30. Upon the Effective Date of this Agreement, HUD shall consider all matters underlying this Agreement closed, consistent with the faithful performance by the Parties of the obligations imposed herein.

THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK.

Fairfield Resorts, Inc.:

By: _____

Laurence E. Kinsolving
Executive Vice President and
General Counsel

Date

March 30, 2007

U.S. Department of Housing and Urban Development:

By: _____

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

Date: _____

6/6/07

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