

Risk Factors Comparison 2024-02-14 to 2023-02-15 Form: 10-K

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Our business is affected by the risks generally incident to the residential construction business, including, but not limited to: • actual and expected direction of interest rates, which affect the availability of mortgage financing for potential purchasers of homes; • the availability of adequate land in desirable locations on favorable terms; • employment levels, consumer confidence and spending and unexpected changes in customer preferences; and • changes in the national economy and in the local economies of the markets in which we operate. All of these risks are discussed in detail below. Business and Industry Risks An economic downturn or decline in economic conditions could adversely affect our business and our results of operations. Demand for new homes is sensitive to economic changes driven by conditions such as employment levels, job growth, consumer confidence, inflation and interest rates. If the housing industry suffers a downturn, our sales may decline which could have a material adverse effect on our profitability, stock performance, ability to service our debt obligations and future cash flows. Interest rate movements, inflation and other economic factors can negatively impact our business. High rates of inflation generally affect the homebuilding industry adversely because of their adverse impact on interest rates. High interest rates not only increase the cost of borrowed funds to homebuilders **and developers** but also have a significant adverse effect on housing demand and on the affordability of permanent mortgage financing to prospective purchasers. We are also subject to potential volatility in the price of commodities that impact costs of materials used in our homebuilding business. Increases in prevailing interest rates could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. Our financial results also are affected by the risks **attributable** ~~generally incident~~ to our mortgage banking business, including interest rate levels, the impact of government regulation on mortgage loan originations and servicing and the need to issue forward commitments to fund and sell mortgage loans. Our homebuilding customers account for almost all of our mortgage banking business. The volume of our continuing homebuilding operations therefore affects our mortgage banking business. Our mortgage banking business also is affected by interest rate fluctuations. We also may experience **secondary** marketing losses resulting from daily ~~increases~~ **movements** in interest rates to the extent we are unable to match interest rates and amounts on loans we have committed to originate with forward commitments from third parties to purchase such loans. ~~Increases~~ **Volatility** in interest rates may have a material adverse effect on our mortgage banking revenue, profitability, stock performance, ability to service our debt obligations and future cash flows. Our operations may also be adversely affected by other economic factors within our markets such as negative changes in employment levels, job growth, wage growth, consumer confidence and household formation and availability of mortgage financing, one or all of which could result in reduced demand or price depression from current levels. Such negative trends could have a material adverse effect on homebuilding operations. These factors and thus, the homebuilding and mortgage banking businesses, have at times in the past been cyclical in nature. Any downturn in the national economy or the local economies of the markets in which we operate could have a material adverse effect on our sales, profitability, stock performance and ability to service our debt obligations. ~~In particular, during 2022, approximately 16 % of our home settlements, accounting for 21 % of our homebuilding revenue, occurred in the Washington, D. C. metropolitan area. Thus, we are dependent to a significant extent on the economy and demand for housing in that market.~~ Because almost all of our customers require mortgage financing, the **limited** availability of suitable mortgage financing could impair the affordability of our homes, lower demand for our products, and limit our ability to fully deliver our backlog. Our business and earnings depend on the ability of our potential customers to obtain mortgages for the purchase of our homes. In addition, many of our potential customers must sell their existing homes in order to buy a home from us. The tightening of credit standards and ~~the limited~~ **the limited** availability of suitable mortgage financing could prevent customers from buying our homes and could prevent buyers of our customers' homes from obtaining mortgages they need to complete that purchase, either of which could result in potential customers' inability to buy a home from us. If potential customers or the buyers of our customers' current homes are not able to obtain suitable financing, the result could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. If our ability to sell mortgages to investors is impaired, we may be required to fund these commitments ourselves, or we may not be able to originate loans at all. Our mortgage banking business sells all of the loans it originates into the secondary market, usually within 30 days from the date of closing, and has up to \$ 150 million available under a repurchase agreement to fund mortgage closings. See " Management' s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources " in Item 7 of this Form 10- K for more information about the repurchase agreement. In the event that disruptions to the secondary markets tighten or eliminate the available liquidity within the secondary markets for mortgage loans, or the underwriting requirements by our secondary market investors continue to become more stringent, our ability to sell future mortgages could decline and we could be required, among other things, to fund our commitments to our buyers with our own financial resources, which is limited, or require our home buyers to find another source of financing. The result of such secondary market disruption could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. If the market value of our inventory or controlled lot position declines, our profit could decrease and we may incur losses. Inventory risk can be substantial for homebuilders. The market value of building lots and housing inventories can fluctuate significantly as a result of changing market conditions. In addition, inventory carrying costs can be significant and can result in losses in a poorly performing community or market. We must continuously acquire lots for expansion into new markets as well as for replacement and expansion within our current markets, which we generally accomplish by entering into LPAs and paying forfeitable deposits under the LPAs to developers for the contractual right to

acquire the lots. In the event of adverse changes in economic, market or community conditions, we may cease further building activities in certain communities or restructure existing LPAs, resulting in forfeiture of some or all of any remaining land contract deposit paid to the developer. We may also have significant impairments of land under development. The forfeiture of land contract deposits or inventory impairments may result in a loss that could have a material adverse effect on our profitability, stock performance, ability to service our debt obligations and future cash flows. We face competition in our homebuilding and mortgage banking operations. The homebuilding industry is highly competitive. We compete with numerous homebuilders of varying size, ranging from local to national in scope, some of whom have greater financial resources than we do. We face competition: • for suitable and desirable lots at acceptable prices; • from selling incentives offered by competing builders within and across developments; and • from the existing home resale market. Our homebuilding operations compete primarily on the basis of price, location, design, quality, service and reputation. The mortgage banking industry is also competitive. Our main competition comes from national, regional and local mortgage bankers, credit unions, banks and mortgage brokers in each of these markets. Our mortgage banking operations compete primarily on the basis of customer service, variety of products offered, interest rates offered, prices of ancillary services and relative financing availability and costs. We might not be able to continue to compete successfully in our homebuilding or mortgage banking operations. An inability to effectively compete may have an adverse impact on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. Our inability to secure and control an adequate inventory of lots could adversely impact our operations. The results of our homebuilding operations depend upon our continuing ability to control an adequate number of homebuilding lots in desirable locations. There can be no assurance that an adequate supply of building lots will continue to be available to us on terms similar to those available in the past, or that we will not be required to devote a greater amount of capital to controlling building lots than we have historically. An insufficient supply of building lots in one or more of our markets, an inability of our developers to deliver finished lots in a timely fashion due to their inability to secure financing to fund development activities or for other reasons, or our inability to purchase or finance building lots on reasonable terms could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. A shortage of building materials or labor, or increases in materials or labor costs may adversely impact our operations. The homebuilding business has from time to time experienced building material and labor shortages, including fluctuating lumber prices and supply. In addition, strong construction market conditions could restrict the labor force available to our subcontractors and us in one or more of our markets. Significant increases in costs resulting from these shortages, or delays in construction of homes, could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. We rely on subcontractors to construct our homes. The failure of our subcontractors to properly construct our homes may be costly. We engage subcontractors to perform the actual construction of our homes. Despite our quality control efforts, we may discover that our subcontractors have engaged in improper construction practices. The occurrence of such events could require us to repair the homes in accordance with our standards and as required by law. The cost of satisfying our legal obligations in these instances may be significant, and we may be unable to recover the cost of repairs from subcontractors, suppliers and insurers. Product liability litigation and warranty claims may adversely impact our operations. Construction defect and home warranty claims are common and can represent a substantial risk for the homebuilding industry. The cost of insuring against construction defect and product liability claims, as well as the claims themselves, can be high. In addition, insurance companies limit coverage offered to protect against these claims. Further restrictions on coverage availability, or significant increases in premium costs or claims, could have a material adverse effect on our financial results. We are subject to litigation proceedings that could harm our business if an unfavorable ruling were to occur. From time to time, we are involved in litigation and other legal proceedings relating to claims arising from our operations in the normal course of business. As described in, but not limited to, Item 3, “ Legal Proceedings ” of this Form 10- K, we are currently subject to certain legal proceedings. Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. These or other litigation or legal proceedings could materially affect our ability to conduct our business in the manner that we expect or otherwise adversely affect us should an unfavorable ruling occur. If the underwriting quality of our mortgage originations is found to be deficient, our profit could decrease and we may incur losses. We originate several different loan products to our customers to finance the purchase of their home. We sell all of the loans we originate into the secondary mortgage market, generally within 30 days from the date of closing. All of the loans that we originate are underwritten to the standards and specifications of the ultimate investor. Insofar as we underwrite our originated loans to those standards, we bear no increased concentration of credit risk from the issuance of loans, except in certain limited instances where repurchases or early payment ~~default~~ **defaults** occur. In the event that a substantial number of the loans that we have originated fall into default and the investors to whom we sold the loans determine that we did not underwrite the loans in accordance with their requirements, we could be required to repurchase the loans from the investor or indemnify the investor for any losses incurred. Any resulting losses could have a material adverse effect on our profitability, stock performance, ability to service our debt obligations and future cash flows. We may be subject to claims on mortgage loans sold to third parties. Our mortgage banking operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to certain representations and warranties that the loans sold meet certain requirements, including representations as to underwriting standards, the type of collateral, the existence of private mortgage insurance, and the validity of certain borrower representations in connection with the loan. The resolution of claims related to alleged breaches of these representations and warranties and repurchase claims could have a material adverse effect on our financial condition, cash flows and results of operations and could result in losses that exceed existing estimates and accruals. Because of the uncertainties inherent in estimating these matters, there can be no assurance that any amounts reserved will be adequate or that any potential inadequacies will not have a material adverse effect on our results of operations. The loss of key personnel could adversely impact our business. We rely on our key personnel to effectively operate and manage our business. Specifically, our future success depends heavily on the performance of our senior management team. Our business

may be adversely affected if we are unable to retain key personnel or attract qualified personnel to manage our business. Our failure to maintain the security of our electronic and other confidential information could expose us to liability and materially adversely affect our financial condition and results of operations. Privacy, security, and compliance concerns have continued to increase as technology has evolved. As part of our normal business activities, we collect and store certain confidential information, including personal information of homebuyers / borrowers and information about employees, vendors and suppliers, some of which is processed and stored on third party vendor platforms. This information is entitled to protection under a number of federal and state laws. We may share some of this information with vendors who assist us with certain aspects of our business, particularly our mortgage and title businesses. We have implemented systems and processes intended to secure our information technology systems and prevent unauthorized access to or loss of sensitive, confidential and personal data, including through the use of encryption and authentication technologies. Additionally, we have continued to elevate our monitoring capabilities to enhance early detection and rapid response to potential security anomalies. Our management team regularly reviews our response readiness and completes tabletop exercises on potential cybersecurity breaches with the assistance of a third party cybersecurity consultant. We also require employees to complete training sessions regarding matters such as cybersecurity threats and data protection on a regular basis. These security measures may not be sufficient for all possible occurrences and may be vulnerable to hacking, employee error, malfeasance, system error, faulty password management or other irregularities. Further, development and maintenance of these measures are costly and require ongoing monitoring and updating as technologies change and efforts to overcome security measures become increasingly sophisticated. Our failure to maintain the security of the data we are required to protect, including via the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also in deterioration in customers' confidence in us and other competitive disadvantages, and thus could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. Volatility in the credit and capital markets may impact our ability to access necessary financing. If we require working capital greater than that provided by our operations and our credit facility, we may be required to seek to increase the amount available under the facility or seek alternative financing, which might not be available on terms that are favorable or acceptable. If we are required to seek financing to fund our working capital requirements, volatility in credit or capital markets may restrict our flexibility to access financing. If we are at any time unsuccessful in obtaining sufficient capital to fund our planned homebuilding expenditures, we may experience a substantial delay in the completion of homes then under construction, or we may be unable to control or purchase finished building lots. Any delay could result in cost increases and could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. Our mortgage banking operations depend in part on the availability, cost and other terms of mortgage financing facilities, and may be adversely affected by any shortage or increased cost of such financing. Additional or replacement financing might not be available on terms that are favorable or acceptable. Our mortgage banking operations are also dependent upon the securitization market for mortgage-backed securities, and could be materially adversely affected by any fluctuation or downturn in such market. Our current indebtedness may impact our future operations. As of December 31, 2022-2023 we had \$ 900 million in senior notes outstanding. Our existing indebtedness contains restrictive covenants and any future indebtedness may also contain such covenants. These covenants include, or could include, restrictions on our ability to create, incur, assume or guarantee secured debt, enter into sale and leaseback transactions and conditions related to mergers and / or the sale of assets. Substantial losses by us or other action or inaction by us or our subsidiaries could result in the violation of one or more of these covenants, which could result in decreased liquidity or a default on our current or future indebtedness, thereby having a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. Regulatory Risk Government regulations and environmental matters could negatively affect our operations. We are subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations that 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. These regulations may further increase the cost to produce and market our products. In addition, we have from time to time been subject to, and may also be subject in the future to, periodic delays in our homebuilding projects due to building moratoriums in the areas in which we operate or delays in receiving the necessary governmental approvals. Changes in regulations that restrict homebuilding activities in one or more of our principal markets could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows. In addition, new housing developments are often subject to various assessments or impact fees for schools, parks, streets, highways and other public improvements. The cost of these assessments is subject to substantial change and could cause increases in the construction cost of our homes, which, in turn, could reduce our profitability. We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. We are subject to a variety of environmental conditions that can affect our business and our homebuilding projects. The particular environmental laws that apply to any given homebuilding site vary greatly according to the location and environmental condition of the site and the present and former uses of the site and adjoining properties. Environmental laws and conditions may result in delays, cause us to incur substantial compliance and other costs, or prohibit or severely restrict homebuilding activity in certain environmentally sensitive regions or areas . In recent years, thereby an increasing number of state and Federal regulations have been enacted or proposed to reduce the impact of greenhouse gas emissions and other human activities on climate change. Some of this legislation relates to matters such as restrictions and reporting on carbon dioxide emissions and higher building code energy efficiency standards. The impact of such restrictions and requirements on us and our suppliers could increase our operating and compliance costs, as well as the cost of raw materials used in the building process. Higher operating costs could result in us having to increase our home prices to a

~~level that may adversely affecting--- affect our sales, or if we are unable to increase prices, negatively impact our profitability, stock performance, ability to service our debt obligations and future cash flows.~~ Increased regulation of the mortgage industry could harm our future sales and earnings. The mortgage industry **is subject** ~~remains under intense scrutiny and continues to face increasing~~ regulation at the federal, state and local level. Potential changes to federal laws and regulations could have the effect of limiting the activities of FNMA, **GNMA** and FHLMC, the entities that provide liquidity to the secondary mortgage market, which could lead to increases in mortgage interest rates. Tighter underwriting requirements and fee restrictions and the increasingly complex regulatory environment may negatively impact our mortgage loan origination business in the form of lower demand, decreased revenue and increased operating costs. We are an approved seller / servicer of FNMA and FHLMC mortgage loans and an approved seller / issuer **/servicer** of GNMA, VA and FHA mortgage loans, and are subject to all of those agencies' rules and regulations. Any significant impairment of our eligibility to sell / service these loans could have a material adverse impact on our mortgage operations. In addition, we are subject to regulation at the state and federal level with respect to specific origination, selling and servicing practices including the Real Estate Settlement and Protection Act. Adverse changes in governmental regulation may have a negative impact on our mortgage loan origination business.

Related to Other External Risks Health epidemics, including the recent COVID- 19 pandemic, have had, and could in the future have, an adverse impact on our business and operations, and the markets, states and local communities in which we operate. Our business and operations could be adversely affected by health epidemics, including the COVID-19 pandemic, impacting the markets, states and local communities in which we operate. The recent COVID- 19 pandemic had a significant impact on our operations and supply chains . ~~General uncertainty continues regarding the near- term and long- term impact of the COVID- 19 virus on the domestic and international economy and on public health. The ultimate impact of the COVID- 19 pandemic or a similar health epidemic is highly uncertain and subject to change.~~ There is no guarantee that a future **health outbreak of COVID-19 or any other widespread epidemics- epidemic** will not occur ~~. There is,~~ **which could result in** uncertainty regarding governmental actions that may occur, and the effects of economic relief efforts on the U. S. economy, either of which could be potential disruptors to our business. Over the long term, these disruptions could lower demand for our products, impair our ability to sell and / or build homes in our normal manner, increase our losses on contract land deposits, and negatively impact our lending and secondary mortgage market activities. These developments and other consequences of an outbreak could materially and adversely affect our operations, profitability and cash flows. Weather- related and other events beyond our control may adversely impact our operations. Extreme weather or other events, such as significant ~~snowfalls,~~ hurricanes, tornadoes, earthquakes, forest fires, floods, **, snowfalls**, terrorist attacks or war may affect our markets, our operations and our profitability. These events may impact our physical facilities or those of our suppliers or subcontractors and our housing inventories, causing us material increases in costs, or delays in construction of homes **. In addition, which demand** could ~~have a material adverse effect upon~~ **be negatively impacted in certain of our markets perceived sales, profitability, stock performance, ability to service our debt obligations be more vulnerable to increased severe weather events and future cash flows other impacts of climate change.** Our continued success is dependent on positive perceptions of us and our brands which, if eroded, could adversely affect our business and our relationships with our customers. We believe that one of the reasons our customers buy from us, our employees choose NVR as a place of employment, and our vendors choose to do business with us is the reputation we have built over many years. To be successful in the future, we must continue to preserve our reputation. Reputational value is based in large part on perceptions, and broad access to social media makes it easy for anyone to provide public feedback that can influence perceptions of the brands under which we do business. It may be difficult to control negative publicity, regardless of whether it is accurate. While reputations may take decades to build, negative incidents can quickly erode trust and confidence, could damage our reputation, reduce the demand for our homes or negatively impact the morale and performance of our employees, all of which could adversely affect our business.