

# **CORPORATE GOVERNANCE GUIDELINES**

**(Last Updated on December 7, 2007)**

## **Introduction:**

Hovnanian's Board of Directors' ("Board") has adopted the following Corporate Governance guidelines or principles to assist the Board in fulfilling its responsibilities related to corporate governance conduct. These guidelines serve as a framework, addressing the function, structure, and operations of the Board, for purposes of promoting consistency of the Board's role in overseeing the work of management. These guidelines reflect the Company's commitment to our shareholders in fostering sound corporate governance principles.

These guidelines should be interpreted in the context of all applicable laws and the company's certificate of incorporation, bylaws and other corporate governance documents, and are in addition to any other policies or codes adopted by the Board from time to time. The Board will periodically review and revise these principles to reflect the evolving nature of corporate governance.

## **I. Company's Objective**

One of the Company's primary objectives is to maximize shareholder value over the long term while adhering to the laws of the jurisdictions within which it operates and observing the highest ethical standards. These guidelines are intended to promote the Company's objective by establishing standards for which the Board operates.

## **II. Responsibilities of the Board**

The Board delegates authority to management to pursue the company's respective goals and objectives. Management, not the Board, is responsible for managing the Company. However, the Board, which is elected by the stockholders, actively participates in overseeing the management of the Company. Oversight includes, but is not limited to, the following key general areas of responsibilities:

- Reviewing and, where appropriate, approving the Company's strategic, financial and business objectives, plans and actions; including significant capital allocations and expenditures and associated risks;
- Assessing and monitoring the Company's financial results and risks;
- Reviewing and, where appropriate, approving the Company's policies and procedures related to financial and internal controls;
- Reviewing and approving actions taken by board committees on significant issues delegated to them;

- Assessing and modifying company policies and initiatives which promote ethical behavior and compliance with laws and regulation, auditing and accounting principles, and the corporation's own governing documents;
- Other functions as prescribed by law, or assigned to the Board in the corporation's governing documents.

### **III. Committees of the Board**

The Board may delegate some of its responsibilities to the Committees of the Board of Directors. The Company's Committees maintain charters which disclose in greater detail the Committees' tasks. The Committees of the Board include:

#### **A. Corporate Governance Committee**

The Corporate Governance Committee of the Board of Directors is responsible for overseeing the development of guidelines, policies, and procedures which enhance the Company's commitment to Corporate Governance. These guidelines are typically incorporated into this document, the Company's Corporate Governance Guidelines.

#### **B. Audit Committee**

The Audit Committee of the Board of Directors oversees the Company's financial reporting process on behalf of the Board and is governed by its Charter. The Audit Committee provides assistance to the Board in fulfilling its oversight responsibilities with respect to the integrity of the corporation's financial statements, the corporation's compliance with legal and regulatory requirements, the independent auditor's qualification and independence, and the performance of the corporation's internal audit function and independent auditors.

#### **C. Compensation Committee**

The Compensation Committee is charged with the responsibility of assisting the Board in determining the cash and other incentive compensation, if any, to be paid to the Company's outside Directors and senior executive officers (the "executive group") required to file reports of ownership and change of ownership with the Securities and Exchange Commission and the New York Stock Exchange.

### **IV. Composition and Term of the Board**

- **Size of the Board.** As provided by the company's Bylaws, the Directors of the Corporation shall be up to eleven in number; members of the Board, in connection with its self assessment, will determine on a periodic basis whether or not the size of the Board is sufficient in meeting its responsibilities;
- **Mix of Management Directors and Independent directors.** Hovnanian Enterprises, Inc. qualifies as a "controlled company" and is not required to have a majority of independent directors. A "controlled company" is one in which 50%

of the voting power is held by an individual, group or another company. The Company's Audit Committee and Compensation Committee members are fully independent. Non-management Directors meet periodically without the presence of management directors.

- **Selection and/or Removal of Directors.** Directors shall be elected at the annual meeting of the stockholders of the Corporation and each Director shall be elected to serve until the next annual meeting of stockholders, or until his or her successor shall be elected and qualified. Any Director may be removed, either with or without cause, and his successor elected, at any time by a vote of the stockholders at a special meeting called for such purpose.
- **Board Term Limits**  
The Board does not believe it should establish term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole.
- **Changes in Professional Status or Director Resignation**  
Directors of the Company are expected to report to the Chairman any changes in their business or professional affiliations or responsibilities. A director who resigns from the Board must submit the resignation in writing to the Chairman.

## **V. Corporate Governance & Board Conduct**

General Company policies and procedures involving Board members that are intended to promote sound corporate governance are as follows:

- The Committees of the Board are fully independent and periodically review corporate governance responsibilities as disclosed in their charters;
- Non-management Directors meet periodically without the presence of management directors and are expressly permitted to retain outside advisors, including, but not limited to, attorneys and accountants should they deem it necessary by a majority vote of the non-management Board members;
- The Board conducts a self-evaluation, at least annually, and as circumstances otherwise dictate;
- Board members are free to contact members of senior management and are encouraged to contact the Chief Executive Officer;
- The Board may seek legal or other expert advice from a source independent of management;
- The Company has established internal policies and procedures for the anonymous reporting of accounting, audit related, compliance, human resources, and anti-retaliation complaints;
- The Board is subject to the Company's Code of Ethics; and

- The Board is subject to the Company's Related Person Transaction Policy as provided below in detail under Exhibit A.

## **VI. Stock Ownership Guidelines for Directors and Executives**

The Board of Directors of Hovnanian Enterprises, Inc. has adopted "Stock Ownership Guidelines" recommending that the Company's directors and certain senior executive officers maintain ownership, directly or beneficially, of a minimum amount of the Company's stock as noted below. In addition to these guidelines, other members of the Company's Senior Management also receive a portion of their annual bonuses in Company stock, currently 30% of the total bonus, subject to certain vesting periods. The Company believes these guidelines further enhance the Company's commitment in aligning the interests of our directors and executive management with those of our stockholders.

### **Board Members**

The Company's non-employee directors receive a portion of their annual retainer in Company stock (up to 50% in previous years) and an annual grant of stock options.

Non-employee Directors of Hovnanian Enterprises, Inc. are requested to achieve and maintain holdings which amount to 2X the total value of their Annual Director Retainer within 5 years once they become subject to the guidelines.

### **Senior Management Associates**

The following Senior Executive Officers of the Company are requested to achieve and maintain minimum ownership amounts as follows:

Chairman of the Board – 5X current Base Salary  
Chief Executive Officer – 5X current Base Salary  
Chief Financial Officer – 2X current Base Salary

## **VII. Limitations on Outside Board Service**

In consideration of the demands that serving on Boards outside of the Company may impose on the Company's Directors in effectively carrying out their responsibilities, the Company has established certain limitations on the number of outside boards that Directors may serve on. Directors of Hovnanian Enterprises, Inc. may serve on no more than four other public boards.

**Furthermore, in according with NYSE rules, if any member of the Company's Audit Committee simultaneously serves on the Audit Committee of more than three public companies, the Board of Directors must make a determination whether this simultaneous service would impair the ability of the member to effectively serve on the company's Audit Committee.**

Regardless of these limitations, Directors should consider whether taking on the responsibility of any outside activity would compromise their current effectiveness as Board members.

### **VIII. Board Meetings**

- An executive meeting of independent Directors shall be held during each Board meeting;
- Regular meetings of the Board of Directors shall be held at such times and places as may from time to time be fixed by the Board of Directors or as may be specified in a notice of meeting;
- Special meetings of the Board of Directors may be held at any time upon the call of the President and shall be called by the President or Secretary if directed by the Board of Directors;
- Telephonic or written-notice of each special meeting of the Board of Directors shall be sent to each Director not less than two days before such meeting;
- A meeting of the Board of Directors may be held without notice immediately after the annual meeting of the stockholders. Notice need not be given of regular meetings of the Board of Directors.
- Minutes of all Board meetings are prepared and distributed to all Board members and approved at subsequent meetings.

### **IX. Board of Directors Guidelines**

- The Board's Corporate Governance Committee will review on a periodic basis the set of corporate governance principles as disclosed by these guidelines and make recommendations to the Board regarding any modifications intended to promote corporate governance standards.

### **X. Annual Performance Evaluation of the Board**

- Board members complete a detailed and thorough D & O questionnaire annually and perform an annual performance evaluation. The Corporate Governance Committee oversees the annual performance evaluation of the Board and its Committees.

### **XI. Continuing Education and Training**

- Board members are encouraged to attend continuing education seminars or programs which further their understanding and mastery of Board responsibilities at the Company's expense.
- The Corporate Governance Committee recommends that all non-management Board members attend a minimum of one continuing education session per year.

### **XII. Related Person Transaction Policy**

The Board of Directors of Hovnanian Enterprises, Inc. has adopted, as part of these Corporate Governance Guidelines, the Related Person Transaction Policy set forth as Exhibit A hereto.

### **Exhibit A. Related Person Transaction Policy**

Except as set forth in this Policy, any “Related Person Transaction” (as defined below) and any material amendment or modification to a Related Person Transaction must be reviewed and approved or ratified by the disinterested members of the Board of Directors or a designated committee thereof consisting solely of independent directors who are disinterested (the “Committee”). Until further notice, the Board of Directors has designated the Corporate Governance Committee to serve as the Committee. All “Related Persons” (as defined below) involved in a Related Person Transaction are required to follow the procedures specified in this Policy under “Procedures.”

In addition, any employment relationship or transaction involving an Executive Officer and any related compensation must be approved by the Company’s Compensation Committee or recommended by the Compensation Committee to the Board of Directors for its approval.

This policy forms a part of the Company’s Corporate Governance Guidelines and is intended to supplement, and not to supersede, the Company’s other policies that may be applicable to or to involve transactions with Related Persons.

### **Scope**

This policy applies to all divisions and areas of Hovnanian Enterprises, Inc. and its subsidiaries.

### **Definitions**

“Associate” means: all employees of the Company.

“Company” means: Hovnanian and its subsidiaries.

“Executive Officer” means: those persons identified as such in Hovnanian’s most recent Annual Report on Form 10-K and any additional persons identified by management and the Board of Directors as an “executive officer” as defined in Rule 3b-7 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

“Hovnanian” means: Hovnanian Enterprises, Inc.

An “Immediate Family Member” includes: spouse, parents, stepparents, children, stepchildren, siblings, mothers-in-laws, fathers-in-laws, son-in-laws, daughter-in-laws, sisters-in-laws, and brother-in-laws. It also includes anyone else (other than a tenant or employee) sharing the household of the Related Person.

A “Related Person” means:

- any Associate, director, director nominee or Executive Officer of the Company;

- any Immediate Family Member of an Associate, director, director nominee or Executive Officer of the Company; and
- a shareholder who is known to Hovnanian to own of record or beneficially more than 5% of any class of Hovnanian's voting securities ("greater than 5% shareholder") and any Immediate Family Member of such greater than 5% shareholder.

A "Related Person Transaction" is any Transaction that would be required to be disclosed pursuant to Item 404(a) of Regulation S-K.<sup>1</sup> Excluded from this definition is remuneration related to standard employment arrangements or agreements for Related Persons other than Executive Officers, greater than 5% shareholders and Immediate Family Members of directors, director nominees, Executive Officers and greater than 5% shareholders, which have been approved by the Company's Human Resources Department or otherwise approved in accordance with Company practice. Also excluded is compensation to directors. In addition, a Related Person's purchase of a home from Hovnanian or its affiliates in accordance with Hovnanian's Corporate Policies and Procedures applicable on the same basis to all full-time Associates is not considered a Related Person Transaction for purposes of this policy.

A "Transaction" includes, but is not limited to, any financial transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships.

## **Procedures**

Prior to a Related Person's involvement or participation in any Related Person Transaction, each Associate, director, director nominee and Executive Officer shall promptly notify the Company's General Counsel or Chief Financial Officer of any purported Related Person Transaction (or any variation of the initial disclosure or "expanded" undertaking of the original Transaction), which notice shall include:

- the name of the Related Person and the basis on which the person is a Related Person,
- a complete description of the Transaction,
- the Related Person's interest in the Transaction with the Company, including the Related Person's position(s) or relationship(s) with, or ownership in, a firm, corporation, or other entity that is a party to, or has interest in, the Transaction,
- the approximate dollar value of the amount involved in the Transaction,

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<sup>1</sup> Currently, Item 404(a) of Regulation S-K generally requires disclosure of any Transaction, since the beginning of the Company's last fiscal year, or any currently proposed transaction, in which the Company was or is to be a participant and the amount involved exceeds \$120,000, and in which any Related Person had or will have a direct or indirect material interest, subject to certain relevant exceptions.

- the approximate dollar value of the amount of the Related Person’s direct or indirect interest in the Transaction, which shall be computed without regard to the amount of profit or loss, and
- any other information regarding the Transaction or the Related Person in the context of the Transaction that could be material to investors in light of the circumstances of the particular Transaction.

All Related Person Transactions involving a director, director nominee, Executive Officer or greater than 5% shareholder or an Immediate Family Member of such Related Person (“Reportable Related Person Transactions”) must be reviewed and approved or ratified by the disinterested members of the Board of Directors or the Committee. Any member of the Board of Directors or the Committee who has an interest in the Transaction under discussion will abstain from voting on the approval of the Related Person Transaction, but may, if so requested by the Chairperson of the Board of Directors or the Committee, as applicable, participate in some or all of the Board’s or the Committee’s, as applicable, discussions of the Related Person Transaction. The Company’s General Counsel or Chief Financial Officer will inform the Company’s Compliance Manager, who maintains a log of the Company’s Related Person Transactions (the “Log”), of all non-Reportable Related Person Transactions, which the Company’s Compliance Manager will document in the Log.

The Company’s General Counsel or Chief Financial Officer will promptly forward any such notice and related information in connection with a Reportable Related Person Transaction to the Chairperson of the Board of Directors or the Committee, as applicable, and will advise the Committee or disinterested directors, as applicable, as to whether the Related Person Transaction will be required to be disclosed in the Company’s applicable filings under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act, and related rules. The Company’s Compliance Manager will document all approved and ratified Reportable Related Person Transactions in the Log.

In reviewing a transaction or proposed transaction, the Committee or disinterested directors, as applicable, shall consider all relevant facts and circumstances, including without limitation:

- the commercial reasonableness of the terms,
- the benefit and perceived benefit, or lack thereof, to the Company,
- opportunity costs of alternate transactions, and
- the materiality and character of the Related Person’s direct or indirect interest, and the actual or apparent conflict of interest of the Related Person.

The Committee or disinterested directors, as applicable, will not approve or ratify a Related Person Transaction unless it shall have determined that, upon consideration of all relevant information, the Transaction is in, or is not inconsistent with, the best interests of

the Company and its shareholders. The Committee or disinterested directors, as applicable, may also conclude, upon review of all relevant information, that the transaction does not constitute a Related Person Transaction, and thus that no further review is required under this Policy.

Prior to any approval or ratification of a Related Person Transaction involving a non-employee director or nominee for director, the Committee or disinterested directors, as applicable, will also consider whether the transaction would compromise such director's status as: (1) an independent director under the New York Stock Exchange Listing Standards or an "independent Director" under the Company's Amended Certificate of Incorporation, (2) an "outside director" under Section 162(m) of the Internal Revenue Code or a "non-employee director" under Rule 16b-3 under the Exchange Act, if such non-employee director serves on the Compensation Committee of the Board of Directors or (3) an independent director under Rule 10A-3 of the Securities Exchange Act of 1934, if such non-employee director serves on the Audit Committee of the Board of Directors.

If after the review described above, the Committee or disinterested directors, as applicable, determines not to approve or ratify a Related Person Transaction (whether such Transaction is being reviewed for the first time or has previously been approved and is being re-reviewed), the Transaction will not be entered into or continued, as the Committee or disinterested directors, as applicable, shall direct and the Company's Compliance Manager shall so note in the Log.

Any questions related to this policy should be directed to the Corporate General Counsel's office, or Corporate Legal-Compliance area.