

Ryland Derivative Litigation

COURT: Superior Court of the State of California, County of Los Angeles

CASE NUMBER: BC-411143

Derivative action filed on April 3, 2009 in the Superior Court of the State of California, County of Los Angeles on behalf of The Ryland Group, Inc. ("Ryland") against Ryland's Board of Directors (the "Board") by Plaintiff City of Miami Police Relief and Pension Fund ("Plaintiff"). The action alleged breaches of fiduciary duty, waste of corporate assets, unjust enrichment and violations of state and federal laws during the period January 1, 2003 through the present.

Ryland was found in violation of the United States Department of Housing and Urban Development monitoring requirements and even then, the action alleged defendants failed to implement and execute an appropriate quality control plan. To the contrary, the action alleged, defendants breached their fiduciary duties to Ryland and its shareholders by fostering and encouraging a reckless business and lending environment at Ryland's subsidiary, the Ryland Mortgage Company. This reckless practice caused harm to Ryland by exposing the company to indemnification and buy-back claims for defective loans sold to third parties.

The Court held an initial Status Conference with the parties on July 17, 2009 and stayed discovery, but permitted Plaintiff to serve document requests and meet and confer with defendants. Plaintiff filed an Amended Complaint on September 3, 2009 and defendants demurred on October 9, 2009 solely on the grounds that Plaintiff failed to make a demand on the Board and that such an exercise would not have been futile. Following a hearing held on March 10, 2010, the Court denied defendants' demurrer in its entirety and ordered discovery to commence immediately with document productions completed by October 29, 2010 and fact discovery completed no later than June 2011.

Following completion of the document phase of discovery, on November 30, 2010, the parties mediated the action before the Honorable Layn R. Phillips (Ret.) and ultimately reached an arm's-length settlement which included a monetary payment to Ryland on behalf of the Ryland board of directors and the following significant corporate governance reforms designed to improve Ryland's home mortgage lending practices:

- Establish a Mortgage Underwriting Quality Assurance Subcommittee of the Ryland board of directors;
- Propound additional Quality Control Department internal guidelines relating to the origination and underwriting of home mortgage loans;
- Provide additional educational/training programs for its loan origination and underwriting;
- Ensure current compensation practices for origination, underwriting, quality control, and audit employees;
- Establish an "Ombudsperson Program" to report alleged underwriting misconduct; and
- Develop controls governing handling of requests to repurchase or indemnification for loans originated and sold by Ryland.

The Court approved the settlement on June 6, 2011 and the action was dismissed.