D.R. HORTON, INC. AND SUBSIDIARIES

FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2021	September 30, 2020
	(In millions) (Unaudited)	
ASSETS		
Cash and cash equivalents	$ 2,205.2	$ 3,018.5
Restricted cash	26.7	21.6
Total cash, cash equivalents and restricted cash	2,231.9	3,040.1
Inventories:		
Construction in progress and finished homes	7,300.1	5,984.1
Residential land and lots — developed and under development	7,066.1	6,171.8
Land held for development	86.0	53.2
Land held for sale	24.1	28.3
Total inventory	14,476.3	12,237.4
Mortgage loans held for sale	1,755.8	1,529.0
Deferred income taxes, net of valuation allowance of $7.4 million and $7.5 million at March 31, 2021 and September 30, 2020, respectively	142.8	144.9
Property and equipment, net	895.0	683.7
Other assets	1,418.5	1,113.7
Goodwill	163.5	163.5
Total assets	$ 21,083.8	$ 18,912.3
LIABILITIES		
Accounts payable	$ 1,137.4	$ 900.5
Accrued expenses and other liabilities	2,198.1	1,607.0
Notes payable	4,472.3	4,283.3
Total liabilities	7,807.8	6,790.8
Commitments and contingencies (Note L)		
EQUITY		
Preferred stock, $.10 par value, 30,000,000 shares authorized, no shares issued	—	—
Common stock, $.01 par value, 1,000,000,000 shares authorized, 396,696,502 shares issued and 360,479,511 shares outstanding at March 31, 2021 and 394,741,349 shares issued and 363,999,982 shares outstanding at September 30, 2020	4.0	3.9
Additional paid-in capital	3,208.4	3,240.9
Retained earnings	11,333.5	9,757.8
Treasury stock, 36,216,991 shares and 30,741,367 shares at March 31, 2021 and September 30, 2020, respectively, at cost	(1,582.8)	(1,162.6)
Stockholders' equity	12,963.1	11,840.0
Noncontrolling interests	312.9	281.5
Total equity	13,276.0	12,121.5
Total liabilities and equity	$ 21,083.8	$ 18,912.3

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
	(In millions, except per share data) (Unaudited)			
Revenues	$ 6,446.9	$ 4,500.0	$ 12,380.3	$ 8,520.7
Cost of sales	4,650.9	3,450.8	8,983.5	6,535.0
Selling, general and administrative expense	621.5	466.8	1,207.4	922.6
Gain on sale of assets	—	(28.5)	(14.0)	(59.5)
Other (income) expense	(5.4)	(10.4)	(10.8)	(21.9)
Income before income taxes	1,179.9	621.3	2,214.2	1,144.5
Income tax expense	246.0	137.3	485.1	228.1
Net income	933.9	484.0	1,729.1	916.4
Net income attributable to noncontrolling interests	4.4	1.3	7.8	2.4
Net income attributable to D.R. Horton, Inc.	$ 929.5	$ 482.7	$ 1,721.3	$ 914.0
Basic net income per common share attributable to D.R. Horton, Inc.	$ 2.57	$ 1.32	$ 4.74	$ 2.49
Weighted average number of common shares	362.3	365.8	363.4	367.1
Diluted net income per common share attributable to D.R. Horton, Inc.	$ 2.53	$ 1.30	$ 4.67	$ 2.46
Adjusted weighted average number of common shares	367.2	370.1	368.6	371.8

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF TOTAL EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Non-controlling Interests	Total Equity
	(In millions, except common stock share data) (Unaudited)					
Balances at September 30, 2020 (363,999,982 shares)	$ 3.9	$ 3,240.9	$ 9,757.8	$ (1,162.6)	$ 281.5	$ 12,121.5
Net income	—	—	791.8	—	3.4	795.2
Exercise of stock options (42,950 shares)	—	0.9	—	—	—	0.9
Stock issued under employee benefit plans (604,947 shares)	0.1	—	—	—	—	0.1
Cash paid for shares withheld for taxes	—	(26.3)	—	—	—	(26.3)
Stock-based compensation expense	—	21.7	—	—	—	21.7
Cash dividends declared ($0.20 per share)	—	—	(72.9)	—	—	(72.9)
Repurchases of common stock (1,000,000 shares)	—	—	—	(69.8)	—	(69.8)
Distributions to noncontrolling interests	—	—	—	—	(0.1)	(0.1)
Change of ownership interest in Forestar	—	(0.3)	—	—	0.3	—
Balances at December 31, 2020 (363,647,879 shares)	$ 4.0	$ 3,236.9	$ 10,476.7	$ (1,232.4)	$ 285.1	$ 12,770.3
Net income	—	—	929.5	—	4.4	933.9
Exercise of stock options (391,047 shares)	—	1.4	—	—	—	1.4
Stock issued under employee benefit plans (916,209 shares)	—	3.2	—	—	—	3.2
Cash paid for shares withheld for taxes	—	(56.6)	—	—	—	(56.6)
Stock-based compensation expense	—	25.4	—	—	—	25.4
Cash dividends declared ($0.20 per share)	—	—	(72.7)	—	—	(72.7)
Repurchases of common stock (4,475,624 shares)	—	—	—	(350.4)	—	(350.4)
Change of ownership interest in Forestar and other	—	(1.9)	—	—	23.4	21.5
Balances at March 31, 2021 (360,479,511 shares)	$ 4.0	$ 3,208.4	$ 11,333.5	$ (1,582.8)	$ 312.9	$ 13,276.0

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31, 2021	Six Months Ended March 31, 2020
	(In millions) (Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 1,729.1	$ 916.4
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	39.3	38.8
Amortization of discounts and fees	4.8	5.8
Stock-based compensation expense	47.1	37.9
Equity in earnings of unconsolidated entities	(1.0)	(0.9)
Deferred income taxes	2.6	10.0
Inventory and land option charges	12.1	12.8
Gain on sale of assets	(14.0)	(59.5)
Changes in operating assets and liabilities:		
Increase in construction in progress and finished homes	(1,295.8)	(724.4)
Increase in residential land and lots – developed, under development, held for development and held for sale	(975.2)	(324.2)
Increase in other assets	(295.2)	(153.1)
Net increase in mortgage loans held for sale	(226.8)	(307.4)
Increase in accounts payable, accrued expenses and other liabilities	818.1	152.7
Net cash used in operating activities	(154.9)	(395.1)
INVESTING ACTIVITIES		
Expenditures for property and equipment	(30.5)	(47.6)
Proceeds from sale of assets	31.8	129.8
Expenditures related to rental properties	(173.9)	(113.0)
Return of investment in unconsolidated entities	2.2	2.4
Net principal increase of other mortgage loans and real estate owned	(1.5)	(0.6)
Payments related to business acquisitions	(24.2)	(5.6)
Net cash used in investing activities	(196.1)	(34.6)
FINANCING ACTIVITIES		
Proceeds from notes payable	494.1	1,591.3
Repayment of notes payable	(400.1)	(918.9)
Advances on mortgage repurchase facility, net	70.9	297.6
Proceeds from stock associated with certain employee benefit plans	5.6	12.9
Cash paid for shares withheld for taxes	(82.9)	(38.1)
Cash dividends paid	(145.6)	(128.7)
Repurchases of common stock	(420.2)	(360.4)
Distributions to noncontrolling interests, net	(0.1)	(0.4)
Net proceeds from issuance of Forestar common stock	23.3	—
Other financing activities	(2.2)	(2.3)
Net cash (used in) provided by financing activities	(457.2)	453.0
Net (decrease) increase in cash, cash equivalents and restricted cash	(808.2)	23.3
Cash, cash equivalents and restricted cash at beginning of period	3,040.1	1,514.0
Cash, cash equivalents and restricted cash at end of period	$ 2,231.9	$ 1,537.3
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES:		
Notes payable issued for inventory	$ 12.5	$ —
Stock issued under employee incentive plans	$ 114.5	$ 84.3
Accrued expenditures for property and equipment	$ 24.9	$ 8.6
Accrual for holdback payments related to acquisitions	$ 1.4	$ 3.9

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2021

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited, consolidated financial statements include the accounts of D.R. Horton, Inc. and all of its 100% owned, majority-owned and controlled subsidiaries, which are collectively referred to as the Company, unless the context otherwise requires. Noncontrolling interests represent the proportionate equity interests in consolidated entities that are not 100% owned by the Company. The Company owns a 64% controlling interest in Forestar Group Inc. (Forestar) and therefore is required to consolidate 100% of Forestar within its consolidated financial statements, and the 36% interest the Company does not own is accounted for as noncontrolling interests. All intercompany accounts, transactions and balances have been eliminated in consolidation.

The financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, these financial statements reflect all adjustments considered necessary to fairly state the results for the interim periods shown, including normal recurring accruals and other items. These financial statements, including the consolidated balance sheet as of September 30, 2020, which was derived from audited financial statements, do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2020.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Seasonality

Historically, the homebuilding industry has experienced seasonal fluctuations; therefore, the operating results for the three and six months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2021 or subsequent periods.

Business Acquisition

In October 2020, the Company acquired the homebuilding operations of Braselton Homes in Corpus Christi, Texas for approximately $23.0 million in cash. The assets acquired included approximately 90 homes in inventory, 95 lots and control of approximately 840 additional lots through purchase contracts. The Company also acquired a sales order backlog of approximately 125 homes.

Pending Accounting Standards

In December 2019, the Financial Accounting Standards Board (FASB) issued ASU 2019-12 related to simplifying the accounting for income taxes. The guidance is effective for the Company beginning October 1, 2021, although early adoption is permitted. The Company is currently evaluating the impact of this guidance, and it is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform," which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) or by another reference rate expected to be discontinued. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued ASU 2021-01, "Reference Rate Reform - Scope," which clarified the scope and application of the original guidance. The Company will adopt these standards when LIBOR is discontinued and does not expect them to have a material impact on its consolidated financial statements or related disclosures.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this quarterly report and with our annual report on Form 10-K for the fiscal year ended September 30, 2020. Some of the information contained in this discussion and analysis constitutes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those described in the "Forward-Looking Statements" section following this discussion.

BUSINESS

D.R. Horton, Inc. is the largest homebuilding company in the United States as measured by number of homes closed. We construct and sell homes through our operating divisions in 91 markets across 29 states, primarily under the names of D.R. Horton, *America's Builder,* Emerald Homes, Express Homes and Freedom Homes. Our common stock is included in the S&P 500 Index and listed on the New York Stock Exchange under the ticker symbol "DHI." Unless the context otherwise requires, the terms "D.R. Horton," the "Company," "we" and "our" used herein refer to D.R. Horton, Inc., a Delaware corporation, and its predecessors and subsidiaries.

Our business operations consist of homebuilding, a majority-owned residential lot development company, financial services and other activities. Our homebuilding operations are our core business and primarily include the construction and sale of single-family homes with sales prices generally ranging from $150,000 to more than $1,000,000, with an average closing price of $308,800 during the six months ended March 31, 2021. Approximately 91% of our home sales revenue in the six months ended March 31, 2021 was generated from the sale of single-family detached homes, with the remainder from the sale of attached homes, such as townhomes, duplexes and triplexes.

Our position as the most geographically diverse and largest volume homebuilder in the United States provides a strong platform for us to compete for new home sales. Our product offerings include a broad range of homes for entry-level, move-up, active adult and luxury buyers across our markets. Our entry-level homes at affordable price points have experienced very strong demand from homebuyers, as this segment of the new home market remains under-served, with low inventory levels relative to demand.

During fiscal 2020, we also began constructing and leasing homes as income-producing single-family rental communities. After a rental community is constructed and achieves a stabilized level of leased occupancy, we generally expect to market the community for a bulk sale of homes. These operations are reported in our homebuilding segment. During the six months ended March 31, 2021, we completed our first sale of a single-family rental community representing 124 homes for $31.8 million, resulting in a gain on sale of $14.0 million. At March 31, 2021, our homebuilding fixed assets included $182.6 million of assets related to 27 single-family rental communities, and our single-family rental platform included 1,650 homes and finished lots, of which 570 homes were completed.

At March 31, 2021, we owned 64% of the outstanding shares of Forestar Group Inc. (Forestar), a publicly traded residential lot development company listed on the New York Stock Exchange under the ticker symbol "FOR." Forestar is a key part of our homebuilding strategy to enhance operational and capital efficiency and returns by expanding relationships with land developers and increasing the portion of our land and lot position controlled under land purchase contracts. Forestar has made significant investments in land acquisition and development over the last few years to expand its business across the United States.

Our financial services operations provide mortgage financing and title agency services to homebuyers in many of our homebuilding markets. DHI Mortgage, our 100% owned subsidiary, provides mortgage financing services primarily to our homebuyers and sells substantially all of the mortgages it originates and the majority of the related servicing rights to third-party purchasers. DHI Mortgage originates loans in accordance with purchaser guidelines and sells substantially all of its mortgage production shortly after origination. Our 100% owned subsidiary title companies serve as title insurance agents by providing title insurance policies, examination, underwriting and closing services, primarily related to our homebuilding transactions.

Homes Closed and Home Sales Revenue

	Three Months Ended March 31,								
	Homes Closed			Value (In millions)			Average Selling Price		
	2021	2020	% Change	2021	2020	% Change	2021	2020	% Change
East	2,669	1,983	35 %	$ 861.3	$ 579.5	49 %	$ 322,700	$ 292,200	10 %
Midwest	1,248	877	42 %	467.9	308.7	52 %	374,900	352,000	7 %
Southeast	6,996	4,831	45 %	2,043.2	1,315.4	55 %	292,100	272,300	7 %
South Central	5,707	4,167	37 %	1,502.9	1,057.2	42 %	263,300	253,700	4 %
Southwest	807	680	19 %	243.1	199.7	22 %	301,200	293,700	3 %
West	2,274	2,001	14 %	1,052.0	902.8	17 %	462,600	451,200	3 %
	19,701	14,539	36 %	$ 6,170.4	$ 4,363.3	41 %	$ 313,200	$ 300,100	4 %

	Six Months Ended March 31,								
	Homes Closed			Value (In millions)			Average Selling Price		
	2021	2020	% Change	2021	2020	% Change	2021	2020	% Change
East	5,261	3,781	39 %	$ 1,665.9	$ 1,099.9	51 %	$ 316,700	$ 290,900	9 %
Midwest	2,384	1,690	41 %	879.9	590.9	49 %	369,100	349,600	6 %
Southeast	13,292	9,062	47 %	3,819.5	2,464.7	55 %	287,400	272,000	6 %
South Central	11,376	7,947	43 %	2,976.3	2,015.2	48 %	261,600	253,600	3 %
Southwest	1,580	1,343	18 %	475.3	395.7	20 %	300,800	294,600	2 %
West	4,547	3,675	24 %	2,052.2	1,660.2	24 %	451,300	451,800	— %
	38,440	27,498	40 %	$11,869.1	$ 8,226.6	44 %	$ 308,800	$ 299,200	3 %

Home Sales Revenue

Revenues from home sales increased 41% to $6.2 billion (19,701 homes closed) for the three months ended March 31, 2021 from $4.4 billion (14,539 homes closed) in the prior year period. Revenues from home sales increased 44% to $11.9 billion (38,440 homes closed) for the six months ended March 31, 2021 from $8.2 billion (27,498 homes closed) in the prior year period. Home sales revenues increased in all of our regions primarily due to an increase in the number of homes closed.

The number of homes closed increased 36% and 40% in the three and six months ended March 31, 2021, respectively, compared to the prior year periods. The markets contributing most to the increased closing volume in our regions were as follows: the Carolina markets in the East; the Denver and Indianapolis markets in the Midwest; the Florida markets in the Southeast; the Houston, Dallas and San Antonio markets in the South Central; the Phoenix market in the Southwest; and the California markets in the West.

Homebuilding Operating Margin Analysis

	Percentages of Related Revenues			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Gross profit – home sales	24.6 %	21.3 %	24.4 %	21.1 %
Gross profit – land/lot sales and other	26.6 %	27.1 %	28.8 %	29.8 %
Inventory and land option charges	(0.1)%	(0.2)%	(0.1)%	(0.2)%
Gross profit – total homebuilding	24.6 %	21.1 %	24.3 %	21.0 %
Selling, general and administrative expense	7.6 %	8.3 %	7.7 %	8.7 %
Gain on sale of assets	— %	— %	(0.1)%	— %
Other (income) expense	— %	(0.1)%	— %	(0.1)%
Homebuilding pre-tax income	17.0 %	12.9 %	16.7 %	12.4 %

Home Sales Gross Profit

Gross profit from home sales increased to $1.5 billion in the three months ended March 31, 2021 from $927.8 million in the prior year period and increased 330 basis points to 24.6% as a percentage of home sales revenues. The percentage increase resulted from improvements of 320 basis points due to the average selling price of our homes closed increasing by more than the average cost of those homes, 10 basis points from a decrease in the amount of purchase accounting adjustments related to prior year acquisitions, 10 basis points due to a decrease in the amortization of capitalized interest, partially offset by increased warranty and construction defect costs of 10 basis points.

Gross profit from home sales increased to $2.9 billion in the six months ended March 31, 2021 from $1.7 billion in the prior year period and increased 330 basis points to 24.4% as a percentage of home sales revenues. The percentage increase resulted from improvements of 300 basis points due to an increase in the average selling price while the cost of our homes closed decreased slightly, 10 basis points from a decrease in the amount of purchase accounting adjustments related to prior year acquisitions, 10 basis points due to a decrease in the amortization of capitalized interest and 10 basis points due to a decrease in warranty and construction defect costs.

We remain focused on managing the pricing, incentives and sales pace in each of our communities to optimize the returns on our inventory investments and adjust to local market conditions and new home demand. These actions could cause our gross profit margins to fluctuate in future periods. If new home demand declines from current levels, we would expect our gross profit margins to also decline.

Land/Lot Sales and Other Revenues

Land/lot sales and other revenues from our homebuilding operations were $17.3 million and $37.2 million in the three and six months ended March 31, 2021, respectively, and $15.5 million and $35.2 million in the comparable periods of fiscal 2020. We continually evaluate our land and lot supply, and fluctuations in revenues and profitability from land sales occur based on how we manage our inventory levels in various markets. We generally purchase land and lots with the intent to build and sell homes on them. However, some of the land that we purchase includes commercially zoned parcels that we may sell to commercial developers. We may also sell residential lots or land parcels to manage our supply or for other strategic reasons. As of March 31, 2021, our homebuilding operations had $24.1 million of land held for sale that we expect to sell in the next twelve months.

Inventory and Land Option Charges

At the end of each quarter, we review the performance and outlook for all of our communities and land inventories for indicators of potential impairment and perform detailed impairment evaluations and analyses when necessary. As of March 31, 2021, we determined that no communities were impaired, and no impairment charges were recorded during the three months ended March 31, 2021. During the six months ended March 31, 2021, impairment charges totaled $5.6 million. There were $1.7 million of impairment charges recorded in the three and six months ended March 31, 2020.

As we manage our inventory investments across our operating markets to optimize returns and cash flows, we may modify our pricing and incentives, construction and development plans or land sale strategies in individual active communities and land held for development, which could result in the affected communities being evaluated for potential impairment. If the housing market or economic conditions are adversely affected for a prolonged period due to C-19 or otherwise, we may be required to evaluate additional communities for potential impairment. These evaluations could result in additional impairment charges which could be significant.

During the three and six months ended March 31, 2021, earnest money and pre-acquisition cost write-offs related to land purchase contracts that we have terminated or expect to terminate were $3.2 million and $5.6 million, respectively, compared to $7.1 million and $10.7 million in the same periods of fiscal 2020.

Selling, General and Administrative (SG&A) Expense

SG&A expense from homebuilding activities increased 30% to $469.5 million and 28% to $920.6 million in the three and six months ended March 31, 2021, respectively, from $361.8 million and $720.2 million in the prior year periods. SG&A expense as a percentage of homebuilding revenues was 7.6% and 7.7% in the three and six months ended March 31, 2021, respectively, compared to 8.3% and 8.7% in the prior year periods.

Employee compensation and related costs represented 81% and 80% of SG&A costs in the three and six months ended March 31, 2021, respectively, compared to 73% in both prior year periods. These costs increased 44% to $382.3 million and 40% to $738.3 million in the three and six months ended March 31, 2021, respectively, from $265.7 million and $527.7 million in the prior year periods. Our homebuilding operations employed 7,916 and 6,987 employees at March 31, 2021 and 2020, respectively.

We attempt to control our SG&A costs while ensuring that our infrastructure adequately supports our operations; however, we cannot make assurances that we will be able to maintain or improve upon the current SG&A expense as a percentage of revenues.

Interest Incurred

We capitalize interest costs incurred to inventory during active development and construction (active inventory). Capitalized interest is charged to cost of sales as the related inventory is delivered to the buyer. Interest incurred by our homebuilding operations was $22.6 million and $47.0 million in the three and six months ended March 31, 2021, respectively, compared to $22.9 million and $47.2 million in the prior year periods. Interest charged to cost of sales was 0.7% and 0.8% of total cost of sales (excluding inventory and land option charges) in the three and six months ended March 31, 2021, respectively, compared to 0.8% in both prior year periods.

Gain on Sale of Assets

During the six months ended March 31, 2021, we sold one single-family rental community representing 124 homes for $31.8 million, resulting in a gain on sale of $13.1 million in our homebuilding segment and $0.9 million in our other businesses.

Other Income

Other income, net of other expenses, included in our homebuilding operations was $1.8 million and $3.3 million in the three and six months ended March 31, 2021, respectively, compared to $4.1 million and $9.6 million in the prior year periods. Other income consists of interest income and various other types of ancillary income, gains, expenses and losses not directly associated with sales of homes, land and lots. The activities that result in this ancillary income are not significant, either individually or in the aggregate.

Business Acquisition

In October 2020, we acquired the homebuilding operations of Braselton Homes in Corpus Christi, Texas for approximately $23.0 million in cash. The assets acquired included approximately 90 homes in inventory, 95 lots and control of approximately 840 additional lots through purchase contracts. We also acquired a sales order backlog of approximately 125 homes.

Homebuilding Results by Reporting Region

	Three Months Ended March 31,					
	2021			2020		
	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues
	(In millions)					
East	$ 861.5	$ 146.0	16.9 %	$ 579.7	$ 73.3	12.6 %
Midwest	468.4	60.9	13.0 %	308.7	23.6	7.6 %
Southeast	2,054.9	376.7	18.3 %	1,316.7	187.8	14.3 %
South Central	1,504.1	266.8	17.7 %	1,066.4	156.2	14.6 %
Southwest	243.1	39.5	16.2 %	199.7	30.8	15.4 %
West	1,055.7	162.2	15.4 %	907.6	93.8	10.3 %
	$ 6,187.7	$ 1,052.1	17.0 %	$ 4,378.8	$ 565.5	12.9 %

	Six Months Ended March 31,					
	2021			2020		
	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues
	(In millions)					
East	$ 1,670.7	$ 278.5	16.7 %	$ 1,100.2	$ 133.2	12.1 %
Midwest	881.5	110.1	12.5 %	591.3	42.3	7.2 %
Southeast	3,833.3	682.5	17.8 %	2,467.3	333.9	13.5 %
South Central	2,979.0	531.5	17.8 %	2,025.1	288.9	14.3 %
Southwest	475.7	78.1	16.4 %	410.7	65.3	15.9 %
West	2,066.1	306.6	14.8 %	1,667.2	163.5	9.8 %
	$ 11,906.3	$ 1,987.3	16.7 %	$ 8,261.8	$ 1,027.1	12.4 %

(1) Expenses maintained at the corporate level consist primarily of interest and property taxes, which are capitalized and amortized to cost of sales or expensed directly, and the expenses related to operating our corporate office. The amortization of capitalized interest and property taxes is allocated to each segment based on the segment's cost of sales, while expenses associated with the corporate office are allocated to each segment based on the segment's inventory balances.

East Region — Homebuilding revenues increased 49% and 52% in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to increases in the number of homes closed in our New Jersey, Myrtle Beach, Greenville and Charlotte markets. The region generated pre-tax income of $146.0 million and $278.5 million in the three and six months ended March 31, 2021, respectively, compared to $73.3 million and $133.2 million in the prior year periods. Gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) increased by 370 basis points in both the three and six months ended March 31, 2021 compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 80 and 120 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

Midwest Region — Homebuilding revenues increased 52% and 49% in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to increases in the number of homes closed in our Denver, Chicago and Indianapolis markets. The region generated pre-tax income of $60.9 million and $110.1 million in the three and six months ended March 31, 2021, respectively, compared to $23.6 million and $42.3 million in the prior year periods. Home sales gross profit percentage increased by 360 basis points in both the three and six months ended March 31, 2021 compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 160 and 190 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

Southeast Region — Homebuilding revenues increased 56% and 55% in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to increases in the number of homes closed in all of our markets. The region generated pre-tax income of $376.7 million and $682.5 million in the three and six months ended March 31, 2021, respectively, compared to $187.8 million and $333.9 million in the prior year periods. Home sales gross profit percentage increased by 320 and 330 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to the average selling price of homes closed increasing while the average cost of those homes decreased slightly. As a percentage of homebuilding revenues, SG&A expenses decreased by 90 and 110 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

South Central Region — Homebuilding revenues increased 41% and 47% in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to increases in the number of homes closed in most of our Texas markets. The region generated pre-tax income of $266.8 million and $531.5 million in the three and six months ended March 31, 2021, respectively, compared to $156.2 million and $288.9 million in the prior year periods. Home sales gross profit percentage increased by 220 and 210 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 50 and 80 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

Southwest Region — Homebuilding revenues increased 22% and 16% in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to increases in the number of homes closed in our Arizona markets. The region generated pre-tax income of $39.5 million and $78.1 million in the three and six months ended March 31, 2021, respectively, compared to $30.8 million and $65.3 million in the prior year periods. Home sales gross profit percentage increased by 190 and 180 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses increased by 90 and 110 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, due to increased costs to support the growth in inventories.

West Region — Homebuilding revenues increased 16% and 24% in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to increases in the number of homes closed in our Las Vegas, Southern California and Sacramento markets. The region generated pre-tax income of $162.2 million and $306.6 million in the three and six months ended March 31, 2021, respectively, compared to $93.8 million and $163.5 million in the prior year periods. Home sales gross profit percentage increased by 450 and 400 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to the average cost of homes closed decreasing while the average selling price increased in the three month period and decreased slightly in the six month period. As a percentage of homebuilding revenues, SG&A expenses decreased by 40 and 100 basis points in the three and six months ended March 31, 2021, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

HOMEBUILDING INVENTORIES, LAND AND LOT POSITION AND HOMES IN INVENTORY

We routinely enter into contracts to purchase land or developed residential lots at predetermined prices on a defined schedule commensurate with planned development or anticipated new home demand. At the time of purchase, the undeveloped land is generally vested with the rights to begin development or construction work, and we plan and coordinate the development of our land into residential lots for use in our homebuilding business. We manage our inventory of owned land and lots and homes under construction relative to demand in each of our markets, including starting construction on unsold homes to capture new home demand and actively controlling the number of unsold, completed homes in inventory.

Our homebuilding segment's inventories at March 31, 2021 and September 30, 2020 are summarized as follows:

	As of March 31, 2021				
	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Land Held for Sale	Total Inventory
			(In millions)		
East	$ 975.1	$ 536.8	$ 5.5	$ 1.4	$ 1,518.8
Midwest	614.1	497.6	—	1.8	1,113.5
Southeast	2,112.4	1,175.4	17.5	0.6	3,305.9
South Central	1,930.5	1,546.4	0.3	0.6	3,477.8
Southwest	382.2	504.8	1.1	—	888.1
West	1,238.8	1,113.0	5.7	19.4	2,376.9
Corporate and unallocated (1)	124.3	90.4	0.4	0.3	215.4
	$ 7,377.4	$ 5,464.4	$ 30.5	$ 24.1	$ 12,896.4

	As of September 30, 2020				
	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Land Held for Sale	Total Inventory
			(In millions)		
East	$ 785.3	$ 531.2	$ 5.5	$ 6.3	$ 1,328.3
Midwest	497.0	459.0	1.8	0.7	958.5
Southeast	1,655.5	1,231.5	32.3	0.6	2,919.9
South Central	1,596.3	1,282.3	0.3	1.0	2,879.9
Southwest	244.2	449.7	1.6	0.3	695.8
West	1,137.3	847.1	5.7	19.0	2,009.1
Corporate and unallocated (1)	121.9	100.6	0.6	0.4	223.5
	$ 6,037.5	$ 4,901.4	$ 47.8	$ 28.3	$ 11,015.0

(1) Corporate and unallocated inventory consists primarily of capitalized interest and property taxes.

Our homebuilding segment's land and lot position and homes in inventory at March 31, 2021 and September 30, 2020 are summarized as follows:

	As of March 31, 2021			
	Land/Lots Owned (1)	Lots Controlled Under Land and Lot Purchase Contracts (2)(3)	Total Land/Lots Owned and Controlled	Homes in Inventory (4)
East	11,000	69,100	80,100	5,900
Midwest	8,500	28,300	36,800	3,100
Southeast	27,000	124,600	151,600	14,400
South Central	46,200	98,200	144,400	14,700
Southwest	7,100	13,700	20,800	3,200
West	21,700	31,300	53,000	4,800
	121,500	365,200	486,700	46,100
	25 %	75 %	100 %	

	As of September 30, 2020			
	Land/Lots Owned (1)	Lots Controlled Under Land and Lot Purchase Contracts (2)(3)	Total Land/Lots Owned and Controlled	Homes in Inventory (4)
East	11,300	50,500	61,800	4,900
Midwest	8,000	17,800	25,800	2,600
Southeast	28,700	95,700	124,400	11,500
South Central	40,100	65,200	105,300	12,600
Southwest	7,200	7,600	14,800	1,800
West	17,300	27,500	44,800	4,600
	112,600	264,300	376,900	38,000
	30 %	70 %	100 %	

(1) Land/lots owned included approximately 31,600 and 33,800 owned lots that are fully developed and ready for home construction at March 31, 2021 and September 30, 2020, respectively. Land/lots owned also included land held for development representing 1,400 and 1,600 lots at March 31, 2021 and September 30, 2020, respectively.

(2) The total remaining purchase price of lots controlled through land and lot purchase contracts at March 31, 2021 and September 30, 2020 was $13.5 billion and $9.9 billion, respectively, secured by earnest money deposits of $873.9 million and $653.4 million, respectively. The total remaining purchase price of lots controlled through land and lot purchase contracts at March 31, 2021 and September 30, 2020 included $1.5 billion and $1.0 billion, respectively, related to lot purchase contracts with Forestar, secured by $139.6 million and $98.2 million, respectively, of earnest money.

(3) Lots controlled at March 31, 2021 included approximately 37,100 lots owned or controlled by Forestar, 20,400 of which our homebuilding divisions have under contract to purchase and 16,700 of which our homebuilding divisions have a right of first offer to purchase. Of these, approximately 17,400 lots were in our Southeast region, 5,600 lots were in our South Central region, 5,300 lots were in our West region, 4,100 lots were in our East region, 2,700 lots were in our Southwest region, and 2,000 lots were in our Midwest region. Lots controlled at September 30, 2020 included approximately 30,400 lots owned or controlled by Forestar, 14,000 of which our homebuilding divisions had under contract to purchase and 16,400 of which our homebuilding divisions had a right of first offer to purchase.

(4) Approximately 12,200 and 14,900 of our homes in inventory were unsold at March 31, 2021 and September 30, 2020, respectively. At March 31, 2021, approximately 700 of our unsold homes were completed, of which approximately 100 homes had been completed for more than six months. At September 30, 2020, approximately 1,900 of our unsold homes were completed, of which approximately 300 homes had been completed for more than six months. Homes in inventory exclude approximately 1,900 and 1,800 model homes at March 31, 2021 and September 30, 2020, respectively.

RESULTS OF OPERATIONS – FORESTAR

In fiscal 2018, we acquired 75% of the outstanding shares of Forestar and at March 31, 2021, we owned 64% of its outstanding shares. Forestar is a publicly traded residential lot development company with operations in 54 markets across 22 states as of March 31, 2021. Forestar's segment results are presented on their historical cost basis, consistent with the manner in which management evaluates segment performance. (See Note B for additional Forestar segment information.)

Results of operations for the Forestar segment for the three and six months ended March 31, 2021 and 2020 were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
	(In millions)			
Residential lot sales	$ 280.2	$ 156.4	$ 587.1	$ 373.5
Tract sales and other	6.9	2.7	7.1	32.9
Total revenues	$ 287.1	$ 159.1	$ 594.2	$ 406.4
Cost of sales	233.8	136.6	496.7	353.2
Selling, general and administrative expense	16.3	11.2	31.8	21.7
Gain on sale of assets	—	(0.3)	—	(0.1)
Other (income) expense	(0.6)	(2.1)	(1.1)	(4.2)
Income before income taxes	$ 37.6	$ 13.7	$ 66.8	$ 35.8

At March 31, 2021, Forestar owned directly or controlled through land and lot purchase contracts approximately 84,500 residential lots, of which approximately 4,800 are fully developed. Approximately 37,100 of these lots are under contract to sell to D.R. Horton or subject to a right of first offer under the master supply agreement with D.R. Horton. Approximately 700 of these lots are under contract to sell to other builders.

Residential land and lot sales primarily consist of the sale of single-family lots to local, regional and national homebuilders. During the three and six months ended March 31, 2021 and 2020, Forestar's land and lot sales, including the portion sold to D.R. Horton and the revenues generated from those sales, were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
	($ in millions)			
Total residential single-family lots sold	3,588	1,951	7,155	4,373
Residential single-family lots sold to D.R. Horton	3,358	1,906	6,747	4,296
Residential lot sales revenues from sales to D.R. Horton	$ 265.3	$ 151.9	$ 559.5	$ 366.0
Tract acres sold to D.R. Horton	14	—	14	36
Tract sales revenues from sales to D.R. Horton	$ 3.0	$ —	$ 3.0	$ 7.2

SG&A expense for the three and six months ended March 31, 2021 included charges of $0.9 million and $2.0 million, respectively, related to the shared services agreement between Forestar and D.R. Horton whereby D.R. Horton provides Forestar with certain administrative, compliance, operational and procurement services. Shared services charges were $1.3 million and $2.6 million, respectively, in the same periods of fiscal 2020.

RESULTS OF OPERATIONS – FINANCIAL SERVICES

The following tables and related discussion set forth key operating and financial data for our financial services operations, comprising DHI Mortgage and our subsidiary title companies, for the three and six months ended March 31, 2021 and 2020.

	Three Months Ended March 31,			Six Months Ended March 31,		
	2021	2020	% Change	2021	2020	% Change
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	13,227	9,740	36 %	25,949	18,141	43 %
Number of homes closed by D.R. Horton	19,701	14,539	36 %	38,440	27,498	40 %
Percentage of D.R. Horton homes financed by DHI Mortgage	67 %	67 %		68 %	66 %	
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	13,240	9,792	35 %	25,978	18,234	42 %
Total number of loans originated or brokered by DHI Mortgage	13,553	10,029	35 %	26,626	18,752	42 %
Captive business percentage	98 %	98 %		98 %	97 %	
Loans sold by DHI Mortgage to third parties	12,371	8,774	41 %	25,829	17,519	47 %

	Three Months Ended March 31,			Six Months Ended March 31,		
	2021	2020	% Change	2021	2020	% Change
			(In millions)			
Loan origination and other fees	$ 11.7	$ 7.6	54 %	$ 22.9	$ 15.0	53 %
Gains on sale of mortgage loans and mortgage servicing rights	178.6	73.3	144 %	317.4	147.0	116 %
Servicing income	—	—	— %	2.4	—	— %
Total mortgage operations revenues	190.3	80.9	135 %	342.7	162.0	112 %
Title policy premiums	34.8	23.6	47 %	69.6	45.4	53 %
Total revenues	225.1	104.5	115 %	412.3	207.4	99 %
General and administrative expense	123.7	85.9	44 %	233.3	163.8	42 %
Other (income) expense	(6.3)	(6.1)	3 %	(12.8)	(11.6)	10 %
Financial services pre-tax income	$ 107.7	$ 24.7	336 %	$ 191.8	$ 55.2	247 %

Financial Services Operating Margin Analysis

	Percentages of Financial Services Revenues			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
General and administrative expense	55.0 %	82.2 %	56.6 %	79.0 %
Other (income) expense	(2.8)%	(5.8)%	(3.1)%	(5.6)%
Financial services pre-tax income	47.8 %	23.6 %	46.5 %	26.6 %

Mortgage Loan Activity

The volume of loans originated by our mortgage operations is directly related to the number of homes closed by our homebuilding operations. In the three and six months ended March 31, 2021, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased 36% and 43%, respectively, from the prior year periods, due to increases in the number of homes closed by our homebuilding operations of 36% and 40%. In the six month period, a 2% increase in the percentage of homes closed for which DHI Mortgage handled our homebuyers’ financing also contributed to the increase in loan origination volume.

Homes closed by our homebuilding operations constituted 98% of DHI Mortgage loan originations in both the three and six months ended March 31, 2021 compared to 98% and 97%, respectively, in the prior year periods. These percentages reflect DHI Mortgage’s consistent focus on the captive business provided by our homebuilding operations.

The number of loans sold increased 41% and 47% in the three and six months ended March 31, 2021, respectively, compared to the prior year periods. Virtually all of the mortgage loans held for sale on March 31, 2021 were eligible for sale to the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). During the six months ended March 31, 2021, approximately 54% of our mortgage loans were sold directly to Fannie Mae or into securities backed by Ginnie Mae, and 37% were sold to two other major financial entities. Changes in market conditions could result in a greater concentration of our mortgage sales in future periods to fewer financial entities and directly to Fannie Mae or Ginnie Mae, and we may need to make other adjustments to our mortgage operations.

Due to the disruption in the secondary mortgage markets beginning in late March 2020 caused by C-19 and the uncertainty of the impact of the CARES Act, many financial entities began offering lower pricing and limiting their purchases of mortgages and servicing rights. As a result of the rapid decline in servicing values at the end of March 2020, we began retaining the servicing rights on a portion of our loan originations. Servicing values have since improved, and we sold a portion of our retained mortgage servicing rights in the six months ended March 31, 2021. We expect to continue retaining some servicing rights prior to selling them to third parties, typically within six months of loan origination.

Financial Services Revenues and Expenses

Revenues from our mortgage operations increased 135% to $190.3 million and 112% to $342.7 million in the three and six months ended March 31, 2021, respectively, from $80.9 million and $162.0 million in the prior year periods, primarily due to increases of 35% and 42% in loan originations and higher net gains achieved on the sale of loan originations in the secondary market. Revenues from our title operations increased 47% to $34.8 million and 53% to $69.6 million in the three and six months ended March 31, 2021, respectively, from $23.6 million and $45.4 million in the prior year periods, primarily due to increases of 41% and 46% in escrow closings.

General and administrative (G&A) expense related to our financial services operations increased 44% to $123.7 million and 42% to $233.3 million in the three and six months ended March 31, 2021, respectively, from $85.9 million and $163.8 million in the prior year periods. The increases were primarily due to increases in employee related costs to support a higher volume of transactions. Our financial services operations employed 2,578 and 1,934 employees at March 31, 2021 and 2020, respectively.

As a percentage of financial services revenues, G&A expense was 55.0% and 56.6% in the three and six months ended March 31, 2021, respectively, compared to 82.2% and 79.0% in the prior year periods. Our significant increase in loan volume resulted in better G&A leverage in the current year periods. However, fluctuations in financial services G&A expense as a percentage of revenues can occur because some components of revenue fluctuate differently than loan volumes, and some expenses are not directly related to mortgage loan volume or to changes in the amount of revenue earned.

Other income, net of other expense, included in our financial services operations consists primarily of the interest income of our mortgage subsidiary.

As a result of the revenue increases from higher volumes of mortgage originations and escrow closings and better leverage of our G&A expenses, pre-tax income from our financial services operations increased 336% to $107.7 million and 247% to $191.8 million in the three and six months ended March 31, 2021, respectively, from $24.7 million and $55.2 million in the prior year periods.

RESULTS OF OPERATIONS - OTHER BUSINESSES

The combined pre-tax income of all of our subsidiaries engaged in other business activities was $0.1 million and $2.3 million in the three and six months ended March 31, 2021, respectively, compared to $28.0 million and $57.5 million in the prior year periods. Income generated by our other businesses can vary significantly based on the timing of multi-family rental property sales. There were no multi-family rental properties sold during the current year periods. There were two multi-family rental properties sold during the prior year periods, one in November 2019 and another in February 2020, for a total of $128.5 million with gains on sale totaling $59.4 million.

Our multi-family rental operations develop, construct, lease and own multi-family residential properties that produce rental income. We primarily focus on constructing garden style multi-family communities, which typically accommodate 200 to 400 dwelling units, in high growth suburban markets. After we complete construction and achieve a stabilized level of leased occupancy, the property is typically marketed for sale. At March 31, 2021, we had eight multi-family rental projects under active construction and four projects that were substantially complete and in the lease-up phase. These 12 projects represent 3,760 multi-family units, including 2,450 units under active construction and 1,310 completed units.

RESULTS OF OPERATIONS - CONSOLIDATED

Income before Income Taxes

Pre-tax income for the three and six months ended March 31, 2021 was $1.2 billion and $2.2 billion, respectively, compared to $621.3 million and $1.1 billion in the prior year periods. The increases were primarily due to increases in pre-tax income generated by our homebuilding operations as a result of higher revenues from increased home closings and an increase in home sales gross margin.

Income Taxes

Our income tax expense for the three and six months ended March 31, 2021 was $246.0 million and $485.1 million, respectively, compared to $137.3 million and $228.1 million in the prior year periods. Our effective tax rate was 20.8% and 21.9% for the three and six months ended March 31, 2021 compared to 22.1% and 19.9% in the prior year periods. The effective tax rates for all periods include an expense for state income taxes and tax benefits related to stock-based compensation and the federal energy efficient homes tax credit. For the six months ended March 31, 2020, the retroactive reinstatement of the federal energy efficient homes tax credit reduced our effective tax rate by 2.6%. For the three and six months ended March 31, 2021, a change in the estimate of homes qualifying for the fiscal 2020 retroactive extension of the energy efficient tax credit reduced our effective tax rate by 0.6% and 0.3%, respectively.

Our deferred tax assets, net of deferred tax liabilities, were $150.2 million at March 31, 2021 compared to $152.4 million at September 30, 2020. We have a valuation allowance of $7.4 million and $7.5 million at March 31, 2021 and September 30, 2020, respectively, related to state deferred tax assets for net operating loss (NOL) carryforwards that are more likely than not to expire before being realized. We will continue to evaluate both the positive and negative evidence in determining the need for a valuation allowance with respect to our remaining state NOL carryforwards. Any reversal of the valuation allowance in future periods will impact our effective tax rate.

The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of our deferred tax assets.

CAPITAL RESOURCES AND LIQUIDITY

We have historically funded our operations with cash flows from operating activities, borrowings under bank credit facilities and the issuance of new debt securities. Our current levels of cash, borrowing capacity and balance sheet leverage provide us with the operational flexibility to adjust to changes in economic and market conditions.

Currently, we are increasing our investments in homebuilding inventories and single-family and multi-family rental properties to expand our operations and grow our revenues and profitability, as well as considering opportunistic strategic investments as they arise. We are also returning capital to our shareholders through dividend payments and repurchases of our common stock. We are maintaining higher homebuilding cash balances than in prior years to support the increased scale and level of activity in our business and to provide flexibility to adjust to changing conditions and opportunities.

At March 31, 2021, our ratio of debt to total capital (notes payable divided by stockholders' equity plus notes payable) was 25.7% compared to 26.6% at September 30, 2020 and 29.2% at March 31, 2020. Our ratio of homebuilding debt to total capital (homebuilding notes payable divided by stockholders' equity plus homebuilding notes payable) was 16.8% compared to 17.5% at September 30, 2020 and 19.2% at March 31, 2020. Over the long term, we intend to maintain our ratio of homebuilding debt to total capital below 35%, and we expect it to remain significantly lower than 35% throughout fiscal 2021. We believe that the ratio of homebuilding debt to total capital is useful in understanding the leverage employed in our homebuilding operations and comparing our capital structure with other homebuilders. We exclude the debt of Forestar and our financial services business because they are separately capitalized and not guaranteed by our parent company or any of our homebuilding entities.

We regularly assess our projected capital requirements to fund growth in our business, repay debt obligations, pay dividends, repurchase our common stock and maintain sufficient cash levels to support our other operational needs, and we regularly evaluate our opportunities to raise additional capital. D.R. Horton has an automatically effective universal shelf registration statement filed with the Securities and Exchange Commission (SEC) in August 2018, registering debt and equity securities that may be issued from time to time in amounts to be determined. Forestar also has an effective shelf registration statement filed with the SEC in September 2018, registering $500 million of equity securities. At March 31, 2021, $370.6 million remained available under Forestar's shelf registration statement, of which $76.3 million is reserved for sales under its at-the-market equity offering program. As market conditions permit, we may issue new debt or equity securities through the capital markets or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity. We believe that our existing cash resources, revolving credit facilities, mortgage repurchase facility and ability to access the capital markets or obtain additional bank financing will provide sufficient liquidity to fund our near-term working capital needs and debt obligations.

Capital Resources - Homebuilding

Cash and Cash Equivalents — At March 31, 2021, cash and cash equivalents of our homebuilding segment totaled $1.9 billion.

Bank Credit Facilities — We have a $1.59 billion senior unsecured homebuilding revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $2.5 billion, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to 100% of the revolving credit commitment. Letters of credit issued under the facility reduce the available borrowing capacity. The interest rate on borrowings under the revolving credit facility may be based on either the Prime Rate or London Interbank Offered Rate (LIBOR) plus an applicable margin, as defined in the credit agreement governing the facility. The maturity date of the facility is October 2, 2024. At March 31, 2021, there were no borrowings outstanding and $143.6 million of letters of credit issued under the revolving credit facility, resulting in available capacity of $1.45 billion.

In April 2021, our senior unsecured homebuilding revolving credit facility was amended to extend its maturity date to April 20, 2026. The maturity date may be extended subject to the approval of lenders holding a majority of the commitments. The capacity of the homebuilding revolving credit facility was increased to $2.19 billion with an uncommitted accordion feature that could increase the size of the facility to $3.0 billion, subject to certain conditions and availability of additional bank commitments.

In May 2020, we entered into a credit agreement providing for a $375 million 364-day senior unsecured homebuilding revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $550 million, subject to certain conditions and availability of additional bank commitments. The interest rate on borrowings under the 364-day revolving credit facility may be based on either the Prime Rate or LIBOR plus an applicable margin, as defined in the credit agreement governing the facility. There were no borrowings outstanding under the facility at March 31, 2021. This facility is not expected to be renewed upon its maturity on May 27, 2021.

Our homebuilding revolving credit facilities impose restrictions on our operations and activities, including requiring the maintenance of a maximum allowable leverage ratio and a borrowing base restriction if our leverage ratio exceeds a certain level. Both facilities include substantially the same affirmative and negative covenants, events of default and financial covenants. These covenants are measured as defined in the credit agreements governing the facilities and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facilities or cause any outstanding borrowings to become due and payable prior to maturity. The credit agreements governing the facilities impose restrictions on the creation of secured debt and liens. At March 31, 2021, we were in compliance with all of the covenants, limitations and restrictions of our homebuilding revolving credit facilities.

Public Unsecured Debt — We have $2.55 billion principal amount of homebuilding senior notes outstanding as of March 31, 2021 that mature from September 2022 through October 2027. In October 2020, we issued $500 million principal amount of 1.4% senior notes due October 15, 2027, with interest payable semi-annually. The annual effective interest rate of these notes after giving effect to the amortization of the discount and financing costs is 1.6%. In December 2020, we repaid $400 million principal amount of our 2.55% senior notes at maturity. The indentures governing our senior notes impose restrictions on the creation of secured debt and liens. At March 31, 2021, we were in compliance with all of the limitations and restrictions associated with our public debt obligations.

Repurchases of Common Stock — We repurchased 5.5 million shares of our common stock for $420.2 million during the six months ended March 31, 2021.

Debt and Equity Repurchase Authorizations — Effective July 30, 2019, our Board of Directors authorized the repurchase of up to $500 million of debt securities and $1.0 billion of our common stock. At March 31, 2021, the full amount of the debt repurchase authorization was remaining, and $115.1 million of the equity repurchase authorization was remaining. These authorizations have no expiration date. Effective April 20, 2021, our Board of Directors authorized the repurchase of up to $1.0 billion of our common stock, replacing the prior authorization. The authorization has no expiration date.

Capital Resources - Forestar

The achievement of Forestar's long-term growth objectives will depend on its ability to obtain financing in sufficient capacities. As market conditions permit, Forestar may issue new debt or equity securities through the capital markets or obtain additional bank financing to provide capital for future growth and additional liquidity.

Cash and Cash Equivalents — At March 31, 2021, Forestar had cash and cash equivalents of $167.2 million.

Bank Credit Facility — Forestar has a $380 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $570 million, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to the greater of $100 million and 50% of the revolving credit commitment. Borrowings under the revolving credit facility are subject to a borrowing base calculation based on Forestar's book value of its real estate assets and unrestricted cash. Letters of credit issued under the facility reduce the available borrowing capacity. The maturity date of the facility is October 2, 2022. At March 31, 2021, there were no borrowings outstanding and $46.0 million of letters of credit issued under the revolving credit facility, resulting in available capacity of $334.0 million.

In April 2021, Forestar's revolving credit facility was amended to extend its maturity date to April 16, 2025. The maturity date may be extended subject to the approval of lenders holding a majority of the commitments. The capacity of Forestar's revolving credit facility was increased to $410 million with an uncommitted accordion feature that could increase the size of the facility to $600 million, subject to certain conditions and availability of additional bank commitments.

The Forestar revolving credit facility includes customary affirmative and negative covenants, events of default and financial covenants. The financial covenants require Forestar to maintain a minimum level of tangible net worth, a minimum level of liquidity and a maximum allowable leverage ratio. These covenants are measured as defined in the credit agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. At March 31, 2021, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility.

Unsecured Debt — As of March 31, 2021, Forestar had $350 million principal amount of 8.0% senior notes due 2024 and $300 million principal amount of 5.0% senior notes due 2028. The notes were issued pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended, and represent unsecured obligations of Forestar.

In April 2021, Forestar issued $400 million principal amount of 3.85% senior notes that mature May 15, 2026 with interest payable semiannually. The annual effective interest rate of the notes after giving effect to the amortization of financing costs is 4.1%. A portion of the net proceeds from the issuance of the notes will be used to redeem the $350 million principal amount of 8.0% senior notes due April 15, 2024 in full, and the remainder of the proceeds will be used for general corporate purposes.

In April 2021, Forestar delivered notice for the full redemption of its $350 million principal amount of 8.0% senior notes outstanding. The redemption price of $365.6 million includes a call premium of $14.0 million and accrued and unpaid interest of $1.6 million. The notes are scheduled to be redeemed May 7, 2021.

Forestar's revolving credit facility and its senior notes are not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt. At March 31, 2021, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility and senior note obligations.

Debt Repurchase Authorization — Effective April 30, 2020, Forestar's Board of Directors authorized the repurchase of up to $30 million of Forestar's debt securities. The authorization has no expiration date. All of the $30 million authorization was remaining at March 31, 2021.

Issuance of Common Stock — During the three months ended March 31, 2021, Forestar issued 1.0 million shares of common stock under its at-the-market equity offering program for proceeds of $23.3 million, net of commissions and other issuance costs. At March 31, 2021, $370.6 million remained available for issuance under Forestar's shelf registration statement, of which $76.3 million is reserved for sales under its at-the-market equity offering program.

Capital Resources - Financial Services

Cash and Cash Equivalents — At March 31, 2021, cash and cash equivalents of our financial services operations totaled $94.7 million.

Mortgage Repurchase Facility — Our mortgage subsidiary, DHI Mortgage, has a mortgage repurchase facility that provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparties upon receipt of funds from the counterparties. DHI Mortgage then has the right and obligation to repurchase the purchased loans upon their sale to third-party purchasers in the secondary market or within specified time frames from 45 to 60 days in accordance with the terms of the mortgage repurchase facility. In February 2021, the mortgage repurchase facility was amended to increase its capacity and extend its maturity date to February 18, 2022. The total capacity of the facility is $1.4 billion; however, the capacity increases, without requiring additional commitments, to $1.633 billion for approximately 30 days at each quarter end and 45 days at fiscal year end. The capacity of the facility can also be increased to $1.8 billion, subject to the availability of additional commitments.

As of March 31, 2021, $1.69 billion of mortgage loans held for sale with a collateral value of $1.66 billion were pledged under the mortgage repurchase facility. As a result of advance paydowns totaling $454.8 million, DHI Mortgage had an obligation of $1.2 billion outstanding under the mortgage repurchase facility at March 31, 2021 at a 2.1% annual interest rate.

The mortgage repurchase facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt. The facility contains financial covenants as to the mortgage subsidiary's minimum required tangible net worth, its maximum allowable leverage ratio and its minimum required liquidity. These covenants are measured and reported to the lenders monthly. At March 31, 2021, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

In the past, DHI Mortgage has been able to renew or extend its mortgage credit facility at a sufficient capacity and on satisfactory terms prior to its maturity and obtain temporary additional commitments through amendments to the credit agreement during periods of higher than normal volumes of mortgages held for sale. The liquidity of our financial services business depends upon its continued ability to renew and extend the mortgage repurchase facility or to obtain other additional financing in sufficient capacities.

Operating Cash Flow Activities

In the six months ended March 31, 2021, net cash used in operating activities was $154.9 million compared to $395.1 million in the prior year period. Cash used in operating activities in the current year period primarily consisted of $249.5 million and $32.3 million of cash used in our Forestar and financial services segments, respectively, partially offset by $138.0 million of cash provided by our homebuilding segment.

Cash used to increase construction in progress and finished home inventory was $1.3 billion in the current year period compared to $724.4 million in the prior year period. In both periods, the expenditures were made to support increased sales and closing volumes. Cash used to increase residential land and lots in the current year period was $975.2 million compared to $324.2 million in the prior year period. Of these amounts, $377.2 million and $171.4 million, respectively, related to Forestar. The most significant source of cash provided by operating activities in both periods was net income. Also, pursuant to IRS News Release 2021-43, we have deferred approximately $215 million of federal and certain state estimated tax payments originally due March 15, 2021 until June 15, 2021 as a result of the Texas winter storm. This deferral provided $215 million of cash from operations during the six months ended March 31, 2021.

Investing Cash Flow Activities

In the six months ended March 31, 2021, net cash used in investing activities was $196.1 million compared to $34.6 million in the prior year period. In the current year period, uses of cash included expenditures related to our rental operations totaling $173.9 million, an acquisition of the homebuilding operations of Braselton Homes for $23.0 million and purchases of property and equipment totaling $30.5 million, partially offset by proceeds from the sale of a single-family rental community for $31.8 million. In the prior year period, uses of cash included expenditures related to our rental operations totaling $113.0 million and purchases of property and equipment totaling $47.6 million, partially offset by proceeds from the sale of assets primarily consisting of $128.5 million related to the sale of two multi-family rental properties.

Financing Cash Flow Activities

We expect the short-term financing needs of our operations will be funded with existing cash, cash generated from operations and borrowings under our credit facilities. Long-term financing needs for our homebuilding and Forestar operations may be funded with the issuance of senior unsecured debt securities or equity securities through the capital markets.

During the six months ended March 31, 2021, net cash used in financing activities was $457.2 million, consisting primarily of repayment of $400 million principal amount of our 2.55% homebuilding senior notes at maturity, payment of cash dividends totaling $145.6 million and cash used to repurchase shares of our common stock of $420.2 million. These uses of cash were partially offset by note proceeds from our issuance of $500 million principal amount of 1.4% homebuilding senior notes and net advances of $70.9 million on our mortgage repurchase facility.

During the six months ended March 31, 2020, net cash provided by financing activities was $453.0 million, consisting primarily of note proceeds of $800 million from draws on our homebuilding revolving credit facility, our issuance of $500 million principal amount of 2.5% homebuilding senior notes, Forestar's issuance of $300 million principal amount of 5.0% senior notes and net advances of $297.6 million on our mortgage repurchase facility. Note proceeds were partially offset by repayment of amounts drawn on our homebuilding revolving credit facility totaling $300 million, repayment of $500 million principal amount of our 4.0% senior notes at maturity, Forestar's repayment of $118.9 million principal amount of its 3.75% convertible senior notes at maturity, cash used to repurchase shares of our common stock of $360.4 million and payment of cash dividends totaling $128.7 million.

During each of the first two quarters of fiscal 2021, our Board of Directors approved a quarterly cash dividend of $0.20 per common share, the most recent of which was paid on February 25, 2021 to stockholders of record on February 17, 2021. In April 2021, our Board of Directors approved a quarterly cash dividend of $0.20 per common share, payable on May 20, 2021 to stockholders of record on May 10, 2021. Cash dividends of $0.175 per common share were approved and paid in each quarter of fiscal 2020. The declaration of future cash dividends is at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, cash flows, capital requirements, financial condition and general business conditions.

CONTRACTUAL CASH OBLIGATIONS, COMMERCIAL COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

Our primary contractual cash obligations are payments under our debt agreements and lease payments under operating leases. We expect to fund our contractual obligations in the ordinary course of business through a combination of our existing cash resources, cash flows generated from profits, our credit facilities or other bank financing, and the issuance of new debt or equity securities through the public capital markets as market conditions may permit.

At March 31, 2021, we had outstanding letters of credit of $189.6 million and surety bonds of $2.1 billion, issued by third parties to secure performance under various contracts. We expect that our performance obligations secured by these letters of credit and bonds will generally be completed in the ordinary course of business and in accordance with the applicable contractual terms. When we complete our performance obligations, the related letters of credit and bonds are generally released shortly thereafter, leaving us with no continuing obligations. We have no material third-party guarantees.

Our mortgage subsidiary enters into various commitments related to the lending activities of our mortgage operations. Further discussion of these commitments is provided in Item 3 “Quantitative and Qualitative Disclosures About Market Risk” under Part I of this quarterly report on Form 10-Q.

We enter into land and lot purchase contracts to acquire land or lots for the construction of homes. Lot purchase contracts enable us to control significant lot positions with limited capital investment. Among our homebuilding land and lot purchase contracts at March 31, 2021, there were a limited number of contracts with $80.5 million of remaining purchase price subject to specific performance provisions that may require us to purchase the land or lots upon the land sellers meeting their respective contractual obligations. Of this amount, $41.5 million related to contracts between our homebuilding segment and Forestar. Further information about our land purchase contracts is provided in the “Homebuilding Inventories, Land and Lot Position and Homes in Inventory” section included herein.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

As of March 31, 2021, D.R. Horton, Inc. had outstanding $2.55 billion principal amount of homebuilding senior notes due through October 2027 and no amounts outstanding on its homebuilding revolving credit facilities.

All of the homebuilding senior notes and the homebuilding revolving credit facilities are fully and unconditionally guaranteed, on a joint and several basis, by certain subsidiaries of D.R. Horton, Inc. (Guarantors or Guarantor Subsidiaries). Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by D.R. Horton, Inc. Our subsidiaries associated with the Forestar lot development operation, financial services operations, multi-family residential construction and certain other subsidiaries do not guarantee the homebuilding senior notes or the homebuilding revolving credit facilities (collectively, Non-Guarantor Subsidiaries). The guarantees are senior unsecured obligations of each Guarantor and rank equal with all existing and future senior debt of such Guarantor and senior to all subordinated debt of such Guarantor. The guarantees are effectively subordinated to any secured debt of such Guarantor to the extent of the value of the assets securing such debt. The guarantees will be structurally subordinated to indebtedness and other liabilities of Non-Guarantor Subsidiaries of the Guarantors.

The guarantees by a Guarantor Subsidiary will be automatically and unconditionally released and discharged upon: (1) the sale or other disposition of its common stock whereby it is no longer a subsidiary of ours; (2) the sale or other disposition of all or substantially all of its assets (other than to us or another Guarantor); (3) its merger or consolidation with an entity other than us or another Guarantor; or (4) its ceasing to guarantee any of our publicly traded debt securities and ceasing to guarantee any of our obligations under our homebuilding revolving credit facility.

The following tables present summarized financial information for D.R. Horton, Inc. and the Guarantor Subsidiaries on a combined basis after intercompany transactions and balances have been eliminated among D.R. Horton, Inc. and the Guarantor Subsidiaries, as well as their investment in, and equity in earnings from the Non-Guarantor Subsidiaries.

D.R. Horton, Inc. and Guarantor Subsidiaries

Summarized Balance Sheet Data	**March 31, 2021**	**September 30, 2020**
	(In millions)	
Assets		
Cash	$ 1,832.0	$ 2,498.5
Inventories	12,860.1	10,921.8
Amount due from Non-Guarantor Subsidiaries	618.8	524.6
Total assets	17,202.8	15,503.9
Liabilities & Stockholders' Equity		
Notes payable	$ 2,616.9	$ 2,514.4
Total liabilities	5,489.6	4,746.9
Stockholders' equity	11,713.2	10,757.0

Summarized Statement of Operations Data	**Six Months Ended March 31, 2021**	**Year Ended September 30, 2020**
	(In millions)	
Revenues	$ 11,898.0	$ 19,630.0
Cost of sales	9,009.9	15,379.2
Selling, general and administrative expense	889.3	1,584.4
Income before income taxes	1,983.4	2,666.4
Net income	1,553.6	2,134.7

A court could void or subordinate any Guarantor's guarantee under the fraudulent conveyance laws if existing or future creditors of any such Guarantor were successful in establishing that: (i) such guarantee was incurred with fraudulent intent; or (ii) such Guarantor did not receive fair consideration or reasonably equivalent value for issuing its guarantee and was insolvent at the time of the guarantee, was rendered insolvent by reason of the guarantee, was engaged in a business or transaction for which its assets constituted unreasonably small capital to carry on its business, or intended to incur, or believed that it would incur, debt beyond its ability to pay such debt as it matured.

The measures of insolvency for purposes of determining whether a fraudulent conveyance occurred would vary depending upon the laws of the relevant jurisdiction and upon the valuation assumptions and methodology applied by the court. Generally, however, a company would be considered insolvent for purposes of the foregoing if the sum of the company's debts, including contingent, unliquidated and unmatured liabilities, is greater than all of such company's property at a fair valuation, or if the present fair saleable value of the company's assets is less than the amount that will be required to pay the probable liability on its existing debts as they become absolute and matured.

The indentures governing our homebuilding senior notes contain a "savings clause," which limits the liability of each Guarantor on its guarantee to the maximum amount that such Guarantor can incur without risk that its guarantee will be subject to avoidance as a fraudulent transfer. This provision may not be effective to protect such guarantees from fraudulent transfer challenges or, if it does, it may reduce such Guarantor's obligation such that the remaining amount due and collectible under the guarantees would not suffice, if necessary, to pay the notes in full when due.

On the basis of historical financial information, operating history and other factors, we believe that each of the Guarantors, after giving effect to the issuance of the guarantees when such guarantees were issued, was not insolvent, did not have unreasonably small capital for the business in which it engaged and did not and has not incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

CRITICAL ACCOUNTING POLICIES

As disclosed in our annual report on Form 10-K for the fiscal year ended September 30, 2020, our most critical accounting policies relate to revenue recognition, inventories and cost of sales, warranty claims and legal claims and insurance. Since September 30, 2020, there have been no significant changes to those critical accounting policies.

As disclosed in our critical accounting policies in our Form 10-K for the fiscal year ended September 30, 2020, our reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. At March 31, 2021 and September 30, 2020, we had reserves for approximately 320 and 260 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the six months ended March 31, 2021, we established reserves for approximately 115 new construction defect claims and resolved 55 construction defect claims for a total cost of $6.2 million. At March 31, 2020 and September 30, 2019, we had reserves for approximately 220 and 180 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the six months ended March 31, 2020, we established reserves for approximately 85 new construction defect claims and resolved 45 construction defect claims for a total cost of $18.3 million.

SEASONALITY

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again in the future, we generally close more homes and generate greater revenues and operating income in the third and fourth quarters of our fiscal year. The seasonal nature of our business can also cause significant variations in our working capital requirements in our homebuilding, lot development and financial services operations. As a result of seasonal activity, our quarterly results of operations and financial position at the end of a particular fiscal quarter are not necessarily representative of the balance of our fiscal year.

Forward-Looking Statements

Some of the statements contained in this report, as well as in other materials we have filed or will file with the SEC, statements made by us in periodic press releases and oral statements we make to analysts, stockholders and the press in the course of presentations about us, may be construed as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's beliefs as well as assumptions made by, and information currently available to, management. These forward-looking statements typically include the words "anticipate," "believe," "consider," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "likely," "may," "outlook," "plan," "possible," "potential," "predict," "projection," "seek," "should," "strategy," "target," "will," "would" or other words of similar meaning. Any or all of the forward-looking statements included in this report and in any other of our reports or public statements may not approximate actual experience, and the expectations derived from them may not be realized, due to risks, uncertainties and other factors. As a result, actual results may differ materially from the expectations or results we discuss in the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- the effects of public health issues such as a major epidemic or pandemic, including the impact of C-19 on the economy and our businesses;
- the cyclical nature of the homebuilding and lot development industries and changes in economic, real estate and other conditions;
- constriction of the credit and public capital markets, which could limit our ability to access capital and increase our costs of capital;
- reductions in the availability of mortgage financing provided by government agencies, changes in government financing programs, a decrease in our ability to sell mortgage loans on attractive terms or an increase in mortgage interest rates;
- the risks associated with our land and lot inventory;
- our ability to effect our growth strategies, acquisitions or investments successfully;
- the impact of an inflationary, deflationary or higher interest rate environment;
- home warranty and construction defect claims;
- the effects of health and safety incidents;
- supply shortages and other risks of acquiring land, building materials and skilled labor;
- reductions in the availability of performance bonds;
- increases in the costs of owning a home;
- the effects of governmental regulations and environmental matters on our homebuilding and land development operations;
- the effects of governmental regulations on our financial services operations;
- competitive conditions within the homebuilding, lot development and financial services industries;
- our ability to manage and service our debt and comply with related debt covenants, restrictions and limitations;
- the effects of negative publicity;
- the effects of the loss of key personnel; and
- information technology failures, data security breaches and our ability to satisfy privacy and data protection laws and regulations.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. Additional information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained in our annual report on Form 10-K for the fiscal year ended September 30, 2020, including the section entitled "Risk Factors," which is filed with the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our long-term debt. We monitor our exposure to changes in interest rates and utilize both fixed and variable rate debt. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact the fair value of the debt instrument, but may affect our future earnings and cash flows. Except in very limited circumstances, we do not have an obligation to prepay fixed-rate debt prior to maturity and, as a result, interest rate risk and changes in fair value would not have a significant impact on our cash flows related to our fixed-rate debt until such time as we are required to refinance, repurchase or repay such debt.

We are exposed to interest rate risk associated with our mortgage loan origination services. We manage interest rate risk through the use of forward sales of mortgage-backed securities (MBS), which are referred to as “hedging instruments” in the following discussion. We do not enter into or hold derivatives for trading or speculative purposes.

Interest rate lock commitments (IRLCs) are extended to borrowers who have applied for loan funding and who meet defined credit and underwriting criteria. Typically, the IRLCs have a duration of less than six months. Some IRLCs are committed immediately to a specific purchaser through the use of best-efforts whole loan delivery commitments, while other IRLCs are funded prior to being committed to third-party purchasers. The hedging instruments related to IRLCs are classified and accounted for as derivative instruments in an economic hedge, with gains and losses recognized in revenues in the consolidated statements of operations. Hedging instruments related to funded, uncommitted loans are accounted for at fair value, with changes recognized in revenues in the consolidated statements of operations, along with changes in the fair value of the funded, uncommitted loans. The fair value change related to the hedging instruments generally offsets the fair value change in the uncommitted loans. The net fair value change, which for the three and six months ended March 31, 2021 and 2020 was not significant, is recognized in current earnings. At March 31, 2021, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled a notional amount of $3.6 billion. Uncommitted IRLCs totaled a notional amount of approximately $2.7 billion and uncommitted mortgage loans held for sale totaled a notional amount of approximately $1.1 billion at March 31, 2021.

We also use hedging instruments as part of a program to offer below market interest rate financing to our homebuyers. At March 31, 2021 and September 30, 2020, we had MBS totaling $1.5 billion and $1.1 billion, respectively, that did not yet have IRLCs or closed loans created or assigned and recorded an asset of $5.0 million and a liability of $5.3 million, respectively, for the fair value of such MBS position.

The following table sets forth principal cash flows by scheduled maturity, effective weighted average interest rates and estimated fair value of our debt obligations as of March 31, 2021. Because the mortgage repurchase facility is effectively secured by certain mortgage loans held for sale that are typically sold within 60 days, its outstanding balance is included in the most current period presented. The interest rate for our variable rate debt represents the weighted average interest rate in effect at March 31, 2021.

	Six Months Ending September 30, 2021	Fiscal Year Ending September 30,							Fair Value at March 31, 2021
		2022	2023	2024	2025	2026	Thereafter	Total	
	($ in millions)								
Debt:									
Fixed rate	$75.0	$350.3	$700.3	$365.3	$500.4	$500.4	$800.3	$3,292.0	$3,437.8
Average interest rate	3.7%	4.5%	5.5%	8.4%	2.7%	2.8%	3.0%	4.2%	
Variable rate	$1,203.5	$—	$—	$—	$—	$—	$—	$1,203.5	$1,203.5
Average interest rate	2.1%	—%	—%	—%	—%	—%	—%	2.1%	

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as of March 31, 2021 were effective in providing reasonable assurance that information required to be disclosed in the reports the Company files, furnishes, submits or otherwise provides the SEC under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in reports filed by the Company under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, in such a manner as to allow timely decisions regarding the required disclosure.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in lawsuits and other contingencies in the ordinary course of business. While the outcome of such contingencies cannot be predicted with certainty, we believe that the liabilities arising from these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds our estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

In fiscal 2013, our mortgage subsidiary was subpoenaed by the United States Department of Justice (DOJ) regarding the adequacy of certain underwriting and quality control processes related to Federal Housing Administration loans originated and sold in prior years. We have provided information related to these loans and our processes to the DOJ, and communications are ongoing. The DOJ has to date not asserted any formal claim amount, penalty or fine.

With respect to administrative or judicial proceedings involving the environment, we have determined that we will disclose any such proceeding if we reasonably believe such proceeding will result in monetary sanctions, exclusive of interest and costs, at or in excess of $1 million.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

We may repurchase shares of our common stock from time to time pursuant to our common stock repurchase authorization. The following table sets forth information concerning our common stock repurchases during the three months ended March 31, 2021. All share repurchases were made in accordance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934.

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1) (In millions)
January 1, 2021 - January 31, 2021	—	$ —	—	$ 465.5
February 1, 2021 - February 28, 2021	3,894,379	78.78	3,894,379	158.7
March 1, 2021 - March 31, 2021	581,245	74.98	581,245	115.1
Total	4,475,624	$ 78.29	4,475,624	$ 115.1

(1) Shares purchased during the three months ended March 31, 2021 were part of a $1.0 billion common stock repurchase authorization approved by our Board of Directors effective July 30, 2019. The authorization has no expiration date. At March 31, 2021, there was $115.1 million remaining on the repurchase authorization. Effective April 20, 2021, our Board of Directors authorized the repurchase of up to $1.0 billion of our common stock, replacing the prior authorization. The authorization has no expiration date.

ITEM 6. EXHIBITS

(a) Exhibits.

2.1		Agreement and Plan of Merger dated June 29, 2017 by and among D.R. Horton, Inc., Force Merger Sub, Inc. and Forestar Group Inc. (incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K dated June 29, 2017, filed with the SEC on June 29, 2017).
3.1		Certificate of Amendment of the Amended and Restated Certificate of Incorporation, as amended, of the Company dated January 31, 2006, and the Amended and Restated Certificate of Incorporation, as amended, of the Company dated March 18, 1992 (incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the SEC on February 2, 2006).
3.2		Amended and Restated Bylaws of the Company (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 2, 2017, filed with the SEC on November 8, 2017).
4.1		Indenture, dated as of April 21, 2021, by and among Forestar Group Inc., the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of Forestar's Current Report on Form 8-K filed with the SEC on April 21, 2021).
10.1		Amendment No. 10 to Credit Agreement, dated April 20, 2021 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 20, 2021, filed with the SEC on April 22, 2021).
10.2		Amendment No. 2 to Credit Agreement, dated April 16, 2021 by and among Forestar Group Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to Forestar's Current Report on Form 8-K dated April 16, 2021, filed with the SEC on April 20, 2021).
10.3		Third Amended and Restated Master Repurchase Agreement, dated February 19, 2021, among DHI Mortgage Company, Ltd., U.S. Bank National Association, as Administrative Agent, Sole Book Runner, Lead Arranger, and a Buyer and all other Buyers (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 19, 2021, filed with the SEC on February 23, 2021).
22.1		List of Guarantor Subsidiaries (incorporated by reference from Exhibit 22.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2020, filed with the SEC on November 20, 2020).
31.1	*	Certificate of Chief Executive Officer provided pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	*	Certificate of Chief Financial Officer provided pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	*	Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company's Chief Executive Officer.
32.2	*	Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company's Chief Financial Officer.
101.INS	**	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	**	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	**	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	**	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	**	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	**	Cover Page Interactive Data File (embedded within the Inline XBRL document contained in Exhibit 101).

*	Filed or furnished herewith.
**	Submitted electronically herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

D.R. HORTON, INC.

Date: April 26, 2021	By: /s/ Bill W. Wheat
	Bill W. Wheat Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: April 26, 2021	By: /s/ Aron M. Odom
	Aron M. Odom Vice President and Controller (Principal Accounting Officer)