

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-9977

Meritage Corporation
(Exact Name of Registrant as Specified in its Charter)

Maryland 86-0611231
(State or Other Jurisdiction (IRS Employer Identification No.)
of Incorporation or Organization)

6613 North Scottsdale Road, Suite 200 85250
Scottsdale, Arizona (Zip Code)
(Address of Principal Executive Offices)

(480) 998-8700
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, \$.01 par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

At March 15, 2000 the aggregate market value of common stock held by non-affiliates of the Registrant was \$33,507,271. For purposes of this computation, all executive officers and directors of the Registrant have been deemed to be affiliates.

The number of shares outstanding of the Registrant's common stock on March 15, 2000 was 5,563,796.

DOCUMENTS INCORPORATED BY REFERENCE

Portions from the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 10, 2000 have been incorporated by reference into Part III, Items 10, 11, 12 and 13.

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PART I

ITEM 1. BUSINESS

HISTORY OF THE COMPANY

We design, construct and sell single family homes ranging from entry-level to semi-custom luxury in three large and growing Sunbelt states; Texas, Arizona and California. We have recently undergone significant growth and at December 31, 1999, were actively selling homes in 46 communities. We pursue a strategy of diversifying our product mix and the geographic scope of our operations.

We were formed in 1988 as a real estate investment trust ("REIT") and operated under the name of Homeplex Mortgage Investments Corporation. Homeplex invested in mortgage-related assets and selected real estate loans. On December 31, 1996, the Company acquired by merger the homebuilding operations of various entities under the Monterey Homes name (the "merger"). Following the merger the Company focused on the business of homebuilding, and changed its name to Monterey Homes Corporation. On July 1, 1997, as part of our strategy to further diversify operations, we combined with Legacy Homes (the "combination"), a group of entities with homebuilding operations in Texas. Legacy, in business since 1988, designs, builds and sells entry-level and move-up homes. In July 1998, we acquired Sterling Communities, a homebuilder in Northern California. In September 1998, with shareholder approval, Meritage Corporation became the new corporate name. Operations continue in Texas under the Legacy Homes name, in Arizona as Monterey Homes and Meritage Homes of Arizona, and in California as Meritage Homes of Northern California.

BUSINESS STRATEGY

We seek to distinguish ourselves from other production homebuilders and to respond rapidly to changing market conditions through a business strategy focused on the following:

SUPERIOR DESIGN AND QUALITY. We believe we maximize customer satisfaction by offering homes that are built with quality materials and craftsmanship, exhibit distinctive design features and are situated in premium locations. We believe that we generally offer higher caliber homes in their defined price range or category than those built by our competitors.

PRODUCT BREADTH. We design our new homes to appeal to a wide variety of consumers. In Texas, we target entry-level and move-up buyers, offering homes at prices that reflect the production efficiencies of a high-volume tract builder. In Arizona, we focus on the luxury market, which is characterized by unique communities and distinctive luxury homes, and the move-up homebuyers' market. Continued expansion into the first and second-time move-up segments of the Arizona market reflects our desire to increase our share of the overall housing market in the Phoenix and Tucson metropolitan areas. In California, our focus is on quality first and second-time move-up homes. We believe this product breadth and geographical diversity helps to reduce exposure to variable economic cycles.

HIGHEST LEVEL OF SERVICE. We are committed to achieving the highest level of customer satisfaction as an integral part of our competitive strategy. During the sales process our experienced sales personnel keep customers informed of their home's construction progress. After delivery, our customer care departments respond to any questions or warranty matters a customer may have.

CONSERVATIVE LAND ACQUISITION POLICY. We seek to maximize our return on capital employed by practicing a conservative land acquisition policy that minimizes risks associated with land investment. We accomplish this by:

- * focusing on development sites where we expect to have less than a three-year lot inventory;
- * generally purchasing land subject to complete entitlement, including zoning and utility services; and
- * controlling lots on a non-recourse, rolling option basis where we have the right, but not the obligation, to buy lots at predetermined prices based on a takedown schedule that reflects anticipated home closings.

We generally do not speculate in raw land held for investment.

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COST MANAGEMENT. Throughout our history, we have focused on controlling costs and minimizing overhead, and consider this a key factor in maintaining profitability. Management seeks to reduce costs by:

- * using subcontractors to carry out home construction and site improvement on a fixed-price basis;
- * obtaining favorable pricing from subcontractors through long-term relationships and large volume jobs;
- * reducing interest carry by minimizing our inventory of unsold or speculative homes and shortening the home construction cycle;
- * generally beginning construction on a home under contract only after a satisfactory down payment and/or receipt of mortgage approval has been received from the buyer;
- * minimizing overhead by centralizing certain administrative activities; and
- * maintaining management information systems to allow the monitoring of homebuilding production, scheduling and budgeting.

DECENTRALIZED OPERATING STRUCTURE WITH EXPERIENCED DIVISION MANAGERS. We rely upon the expertise of divisional managers, each with significant experience in the homebuilding industry, to serve the needs of our regional markets. Corporate-level management provides centralized control for risk elements such as land acquisition approval, financing, cash management, capital allocation and risk management.

EXPANSION IN NEW AND EXISTING MARKETS. Depending on market conditions, we may explore expansion opportunities in new or existing geographic areas where we see an ability to exploit a competitive advantage. Expansion may take place through strategic acquisitions of existing homebuilders, through start-up operations or through internal growth.

MARKETS AND PRODUCTS

We operate in the Dallas/Fort Worth, Austin and Houston, Texas markets using the Legacy Homes brand name, in the Phoenix and Tucson, Arizona markets as Monterey Homes and Meritage Homes of Arizona and in the San Francisco Bay and Sacramento, California markets as Meritage Homes of Northern California. We believe that these areas represent attractive homebuilding markets with opportunities for long-term growth. We also believe that our operations in certain markets, such as Dallas/Fort Worth and Phoenix, are well established and that we have developed a reputation for building distinctive quality homes within the market segments served by these communities.

Our homes range from entry-level to semi-custom luxury, with base prices ranging from \$100,000 to \$600,000. A summary of activity by market and product type follows (dollars in thousands):

<TABLE>
<CAPTION>

	Number of Homes Closed in 1999	Average Closing Price	Units in Backlog at Year End	Dollar Value of Backlog at Year End	Home Sites Remaining(1)	Number of Active Subdivisions
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Texas - Move-up	835	\$162.6	381	\$ 67,197	1,936	19
Texas - Entry-level	300	130.4	185	26,786	886	6
Arizona - Luxury	196	419.8	127	54,179	592	7
Arizona - Move-up	204	189.4	89	18,699	1,199	7
California - Move-up	108	354.1	103	32,584	880	7
	-----	-----	----	-----	-----	----
Total Company	1,643	\$203.3	885	\$199,445	5,493	46
	=====	=====	=====	=====	=====	=====

</TABLE>

(1) "Home Sites Remaining" is the number of homes that could be built both on the remaining lots available for sale and land to be developed into lots as estimated by management.

LAND ACQUISITION AND DEVELOPMENT

We typically purchase land only after necessary entitlements have been obtained so that development or construction may begin as market conditions dictate. The term "entitlements" refers to development agreements, tentative maps or recorded plats, depending on the jurisdiction within which the land is located. Entitlements generally give the developer the right to obtain building permits upon compliance with conditions that are ordinarily within the developer's control. Even though entitlements are usually obtained before land is purchased, we are still required to secure a variety of other governmental approvals and permits during development. The process of obtaining such approvals and permits can substantially delay the development process. For this reason, we may consider purchasing unentitled property in the future when we can do so in a manner consistent with our business strategy.

We select land for development based upon a variety of factors, including:

- * internal and external demographic and marketing studies;
- * project suitability, which is generally a development with fewer than 150 lots;
- * suitability for development generally within a one to three year time period from the beginning of the development process to the delivery of the last home;
- * financial review as to the feasibility of the proposed project, including projected profit margins, return on capital employed, and the capital payback period;
- * the ability to secure governmental approvals and entitlements;
- * results of environmental and legal due diligence;
- * proximity to local traffic corridors and amenities; and
- * management's judgment as to the real estate market, economic trends, and experience in a particular market.

We occasionally purchase larger properties consisting of 200 to 500 lots or more if the situation presents an attractive profit potential and acceptable risk limitations.

We acquire land through purchases and rolling option contracts. Purchases are financed through traditional bank financing or working capital. Rolling options allow us to control lots and land through a third party who owns or buys the property on which we plan to build homes. We enter into option contracts with the third party to purchase finished lots as home construction begins. These contracts are generally non-recourse and require non-refundable deposits of 2% to 10% of the sales price. We acquire a majority of our land through rolling option contracts.

Once we have acquired land, we generally initiate development through contractual agreements with subcontractors. These activities include site planning and engineering, as well as constructing road, sewer, water, utilities, drainage, recreation facilities and other refinements. We often build homes in master planned communities with home sites that are along or near a major amenity, such as a golf course.

We develop a design and marketing concept for each project, which includes determination of size, style and price range of homes, street layout, size and layout of individual lots, and overall community design. The product line offered in a particular project depends upon many factors, including the housing generally available in the area, the needs of a particular market, and our lot costs for the project.

Occasionally we use partnerships or joint ventures to purchase and develop land where these arrangements are necessary to acquire the property or appear to be otherwise economically advantageous.

The following table presents information regarding land owned or land under contract or option by market as of December 31, 1999:

<TABLE>
<CAPTION>

	Land Owned (1)			Land Under Contract or Option (1)		
	Finished Lots	Lots Under Development (Estimated)	Lots Held for Development (Estimated)	Finished Lots	Lots Under Development (Estimated)	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
TEXAS:						
Dallas/Ft. Worth Area	501	568	340	267	250	1,926

Austin Area	129	--	--	110	604	843
Houston Area	156	--	--	--	160	316
	-----	-----	-----	-----	-----	-----
Total Texas	786	568	340	377	1,014	3,085
	-----	-----	-----	-----	-----	-----
ARIZONA:						
Phoenix Area	88	223	43	177	673	1,204
Tucson Area	58	--	--	175	358	591
	-----	-----	-----	-----	-----	-----
Total Arizona	146	223	43	352	1,031	1,795
	-----	-----	-----	-----	-----	-----
CALIFORNIA:						
Sacramento Area	1	--	--	199	53	253
San Francisco Bay Area	--	19	--	83	480	582
	-----	-----	-----	-----	-----	-----
Total California	1	19	--	282	533	835
	-----	-----	-----	-----	-----	-----
TOTAL COMPANY	933	810	383	1,011	2,578	5,715
	=====	=====	=====	=====	=====	=====

</TABLE>

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(1) Excludes lots with finished homes or homes under construction

CONSTRUCTION

We are the general contractor for our projects and typically hire subcontractors on a project-by-project or reasonable geographic proximity basis to complete construction at a fixed price. We usually enter into agreements with subcontractors and materials suppliers after receiving competitive bids on an individual basis. We obtain information from prospective subcontractors and suppliers with respect to their financial condition and ability to perform their agreements before formal bidding begins. Occasionally, we enter into longer-term contracts with subcontractors and suppliers if management can obtain more favorable terms. Our project managers and field superintendents, who coordinate and supervise the activities of subcontractors and suppliers, subject the work to quality and cost controls, and assure compliance with zoning and building codes.

We specify that quality, durable materials be used in construction of our homes and we do not maintain significant inventories of construction materials, except for work in process materials for homes under construction. When possible, management negotiates price and volume discounts with manufacturers and suppliers on behalf of its subcontractors to take advantage of production volume. Usually, access to our principal subcontracting trades, materials and supplies is readily available in each of its markets. Prices for these goods and services may fluctuate due to various factors, including supply and demand shortages that may be beyond the control of our vendors. We believe that our relationships with suppliers and subcontractors are good.

We generally build and sell homes in clusters or phases within a project, which management believes creates efficiencies in land development and construction, and improves customer satisfaction by reducing the number of vacant lots surrounding a completed home. A typical Meritage home is completed within four to ten months from the start of construction, depending upon home size and complexity. Schedules may vary depending on the availability of labor, materials and supplies, product type, location and weather. Our homes are usually designed to promote efficient use of space and materials, and to minimize construction costs and time.

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MARKETING AND SALES

We believe that we have an established reputation for developing high quality homes, which helps generate interest in each new project. We also use advertising and other promotional activities, including magazine and newspaper advertisements, brochures, direct mail, and the placement of strategically located signs in the immediate areas of our developments.

We use furnished model homes as tools in demonstrating the competitive advantages of our home designs and features to prospective homebuyers. We generally employ or contract with interior designers who are responsible for creating an attractive model home for each product line within a project. We generally build between one and four model homes for each active community, depending upon the number of homes to be built in the project and the products to be offered. Occasionally we sell our model homes and lease them back from buyers who purchased the homes for investment purposes or who do not intend to move in immediately. A summary of model homes owned or leased at December 31, 1999 follows:

	Model Homes Owned	Model Homes Leased Back	Monthly Lease Amount	Models Under Construction
	-----	-----	-----	-----
Texas	23	--	--	3
Arizona	13	17	\$ 41,600	10
California	20	1	3,500	--

	---	---	-----	---
Total	56	18	\$ 45,100	13
	===	===	=====	===

Our homes generally are sold by full-time, commissioned employees who typically work from a sales office located in the model homes for each project. Our goal is to ensure that the sales force has extensive knowledge of our operating policies and housing products. To achieve this goal, we train our sales personnel and conduct periodic meetings to update them on sales techniques, competitive products in the area, financing availability, construction schedules, marketing and advertising plans, and the available product lines, pricing, options, and warranties offered. Sales personnel are licensed real estate agents where required by law. Independent brokers also sell our homes, and are usually paid a sales commission on the base price of the home.

Occasionally we offer various sales incentives, such as landscaping and certain interior home improvements, to attract buyers. The use and type of incentives depends largely on economic and competitive market conditions.

BACKLOG

Most of our home sales are made under standard sales contracts signed before construction of the home begins. The contracts require substantial cash deposits and are usually subject to certain contingencies such as the buyer's ability to qualify for financing. Homes covered by such sales contracts but not yet closed are considered "backlog". We do not recognize revenue on homes in backlog until sales are closed, the buyer has made a minimum down payment and other criteria for sale and profit recognition are met. We sometimes build homes in a project before obtaining a sales contract, though these homes are excluded from backlog until a sales contract is signed. We believe we will deliver almost all homes in backlog at December 31, 1999 to customers during 2000.

Our backlog increased to 885 units with a value of \$199.4 million at December 31, 1999 from 688 units with a value of \$145.3 million at December 31, 1998. These increases are primarily due to additional communities that opened for sale in 1999, along with strong home sales.

CUSTOMER FINANCING

We attempt to help qualified homebuyers who require financing to obtain loans from mortgage lenders that offer a variety of financing options. We provide mortgage-banking services in our Dallas/Fort Worth markets through a

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related mortgage lending company, Texas Home Mortgage Corporation, which originates loans on behalf of third party lenders. In Tucson we provide mortgage services through MTH Mortgage Limited Partnership, a joint venture with an independent mortgage banking company. In our other markets we use unaffiliated preferred mortgage lenders. We may pay a portion of the closing costs and discount mortgage points to assist homebuyers with financing. Since many customers use long-term mortgage financing to purchase homes, adverse economic conditions, unemployment increases and high mortgage interest rates may deter or reduce the number of potential homebuyers.

CUSTOMER RELATIONS, QUALITY CONTROL AND WARRANTY PROGRAMS

Management believes that positive customer relations and an adherence to stringent quality control standards are fundamental to continued success. We believe that our commitment to buyer satisfaction and quality control have significantly contributed to our reputation as a high quality builder.

A Meritage project manager or project superintendent, and a customer relations representative generally oversee compliance with quality control standards for each development. These representatives allocate responsibility to:

- * oversee home construction;
- * oversee subcontractor and supplier performance;
- * review the progress of each home and conduct formal inspections as specific stages of construction are completed; and
- * regularly update buyers on the progress their homes.

We generally provide a one-year limited warranty on workmanship and building materials with each home. Subcontractors usually provide an indemnity and a certificate of insurance before they begin work. Claims relating to workmanship and materials are therefore usually the subcontractors' primary responsibility. Reserves for future warranty costs are established based on historical experience within each division or region, and are recorded when the homes are delivered. Reserves range from 3/10 of one per cent to 3/4 of one percent of a home's sale price. To date, these reserves have been sufficient to cover warranty repairs.

COMPETITION AND MARKET FACTORS

The development and sale of residential property is a highly competitive industry. We compete for sales in each of our markets with national, regional, and local developers and homebuilders, existing home resales, and to a lesser extent, condominiums and available rental housing. Some competitor homebuilders have significantly greater financial resources and/or lower costs than we do. Competition among both small and large residential homebuilders is based on a number of interrelated factors, including location, reputation, amenities, design, quality and price. We believe that we compare favorably to other homebuilders in the markets in which we operate due to our:

- * experience within our geographic markets which allows us to develop and offer new products;
- * ability to reflect and adapt to changing market conditions;
- * ability, from a capital and resource perspective, to respond to market conditions;
- * ability to capitalize on opportunities to acquire land on favorable terms; and
- * reputation for outstanding service and quality products.

The homebuilding industry is cyclical and is affected by consumer confidence levels, job availability, prevalent economic conditions in general, and interest rates. Other factors affecting the homebuilding industry and demand for new homes are changes in costs associated with home ownership such as increases in property taxes and energy costs, changes in consumer preferences, demographic trends, availability of and changes in mortgage financing programs, and the availability and cost of land and building materials. Any slowing in new home sales would increase competition among homebuilders in our market areas. There is no assurance that we will be able to compete successfully against other homebuilders in our current markets in a more competitive business environment

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resulting from a slowdown in home sales or that such increased competition will not have a material adverse affect on our business and operating results.

GOVERNMENT REGULATIONS AND ENVIRONMENTAL MATTERS

We purchase most of our land with entitlements, providing for zoning and utility services to project sites and giving us the right to obtain building permits. Construction may begin almost immediately upon compliance with specified conditions, which generally are within our control. The time needed to obtain such approvals and permits affects the carrying costs of unimproved property acquired for development and construction. The continued effectiveness of permits already granted is subject to factors such as changes in policies, rules and regulations, and their interpretation and application. To date, the government approval processes discussed above have not had a material adverse effect on our development activities, though there is no assurance that these and other restrictions will not adversely affect future operations.

Because most of our land is entitled, construction moratoriums generally would only adversely affect us if they arose from health, safety, and welfare issues, such as insufficient water or sewage facilities. Local and state governments have broad discretion regarding the imposition of development fees for projects under their jurisdictions. These fees are normally established when we receive recorded maps and building permits. As we expand, we may also become increasingly subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums, "slow growth" initiatives or building permit allocation ordinances, which could be implemented in future operating markets.

We are also subject to a variety of local, state, and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. In some markets, we are subject to environmentally sensitive land ordinances that mandate open space areas with public elements in housing developments, and prevent development on hillsides, wetlands and other protected areas. We must also comply with flood plain restrictions, desert wash areas, native plant regulations, endangered species acts and view restrictions. These and similar laws may result in delays, cause substantial compliance and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas. To date, compliance with such ordinances has not materially affected our operations, though no assurance is given that such a material adverse effect will not occur in the future.

We usually will condition our obligation to purchase property on, among other things, an environmental review of the land. To date, we have not incurred any unanticipated liabilities relating to the removal of unknown toxic wastes or other environmental matters. However, there is no assurance that we will not incur material liabilities in the future relating to toxic waste removal or other environmental matters affecting land currently or previously owned.

BONDS AND OTHER OBLIGATIONS

We obtain letters of credit and performance, maintenance, and other bonds in support of our related obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with pending development activities. In the event the bonds or

letters are drawn upon, we would be obligated to reimburse the issuer of the bond or letter of credit. At December 31, 1999 there were approximately \$1.0 million in outstanding letters of credit and \$16.3 million in performance bonds for such purposes. We do not believe that any of these bonds or letters of credit are likely to be drawn upon.

EMPLOYEES AND SUBCONTRACTORS

At December 31, 1999, we had 295 employees, including 68 in management and administration, 101 in sales and marketing, and 126 in construction operations. Our employees are not unionized, and we believe that employee relations are good. We act solely as a general contractor and all construction operations are conducted through project managers and field superintendents who manage third party subcontractors. We use independent contractors for construction, architectural and advertising services, and believe that our relations with subcontractors and independent contractors are good.

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NET OPERATING LOSS CARRYFORWARD

By December 31, 1999, our federal income tax net operating loss (NOL) carryforward was fully utilized. Income tax payments were reduced during the periods the NOL carryforward was available and during that time income tax payments consisted primarily of state income taxes and the federal alternative minimum tax.

STOCK REPURCHASE PROGRAM

In May 1999, we announced a stock repurchase program in which our Board of Directors approved the buyback of up to \$6 million of outstanding Meritage common stock. As of December 31, 1999, 186,000 shares had been repurchased for an aggregate price of approximately \$1.9 million.

MORTGAGE ASSETS ACQUIRED PRIOR TO MERGER

Prior to the merger, we acquired a number of mortgage assets, consisting of mortgage interests (commonly known as "residuals") and mortgage instruments. During 1998 and 1997, we sold the mortgage assets for a gain or generated interest income from these assets prior to sale, of approximately \$5.2 and \$5.1 million, respectively.

ITEM 2. PROPERTIES

We lease the following office space:

City	Square Footage	Annual Lease Rate	Term	Expiration
	-----	-----	----	-----
Plano, Texas*	13,000	\$179,500	5 years	5/15/02
Phoenix, Arizona*	11,600	242,000	5 years	8/30/04
Tucson, Arizona	2,800	58,000	2 years	10/31/00
Walnut Creek, California	2,700	50,500	2 years	7/14/00
Austin, Texas	1,500	28,400	3 years	4/30/02
Fort Worth, Texas	1,400	18,200	3 years	6/30/02
Houston, Texas	900	9,500	1 year	7/1/00

* Leases are with companies owned beneficially either by one our Co-Chairmen or by one of our Co-Chairmen and a Director. Management believes lease rates are competitive with rates for comparable space in the area and terms of the leases are similar to those we could obtain in an arm's length transaction.

We also lease 18 model homes at a total monthly lease amount of \$45,100. The leases are for terms ranging from three months to 36 months, with various renewal options.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various routine legal proceedings incidental to our business. Management believes that none of these matters, certain of which are covered by insurance, will have a material adverse impact upon our financial condition if decided adversely against us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matters to a vote of shareholders during the fourth quarter of 1999.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

GENERAL

Our common stock is publicly traded on the New York Stock Exchange ("NYSE") under the symbol "MTH". The high and low closing sales prices of the common stock, as reported by the NYSE, follow:

	1999		1998	
	High	Low	High	Low
First Quarter	\$15 11/16	\$11	\$19 15/16	\$12 7/16
Second Quarter	\$13 1/2	\$10 15/16	\$19 1/4	\$15 5/8
Third Quarter	\$13 1/4	\$10 11/16	\$19 3/4	\$12 1/16
Fourth Quarter	\$12	\$ 9 15/16	\$14 11/16	\$ 9 11/16

On March 15, 2000, the closing sales price of the common stock as reported by the NYSE was \$10 13/16 per share. At that date, there were approximately 280 owners of record. There are approximately 2,500 beneficial owners of common stock.

The transfer agent for our common stock is ChaseMellon Shareholder Services, L.L.C., Overpeck Centre, 85 Challenger Road, Ridgefield Park, NJ 07660.

We did not declare cash dividends in 1999, 1998 or 1997, nor do we intend to declare cash dividends in the foreseeable future. Earnings will be retained to finance the growth of the business. Future cash dividends, if any, will depend upon our financial condition, results of operations and capital requirements, as well as other factors considered relevant by our board of directors.

FACTORS THAT MAY AFFECT FUTURE STOCK PERFORMANCE

The performance of our common stock depends upon several factors, including those listed below and in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results and Financial Condition."

The market price of our common stock could be subject to significant fluctuations in response to certain factors, such as variations in anticipated or actual results of our operations or that of other homebuilding companies, changes in conditions affecting the general economy, widespread industry trends and analysts' reports, as well as other factors unrelated to our operating results.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical consolidated financial data for each of the years in the five-year period ended December 31, 1999. The data for 1996 through 1999 are derived from our Consolidated Financial Statements audited by KPMG LLP, independent auditors. The data for 1995 is derived from the Consolidated Financial Statements audited by Ernst & Young LLP, independent auditors. For additional information, see the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. The following table should be read in conjunction with Management's Discussion and Analysis of Financial Condition and the Results of Operations. These historical results may not be indicative of future results.

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<TABLE>
<CAPTION>

	Historical Consolidated Financial Data				
	Years Ended December 31,				
	(Dollars in Thousands, Except Per Share Data)				
	1999	1998 (3)	1997 (4)	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement Data:					
Home and land sales revenue	\$ 341,786	\$ 257,113	\$ 149,630	N/A	N/A
Cost of home and land sales	(277,287)	(205,188)	(124,594)		
Gross profit	64,499	51,925	25,036		
Earnings from mortgage assets and other income	2,065	5,982	5,435	\$ 2,244	\$ 3,564
Interest expense	(6)	(461)	(165)	(238)	(868)
Commissions and other sales costs and general and administrative expenses	(34,343)	(24,925)	(15,107)	(1,684)	(1,599)
Minority interest in net income of consolidated joint ventures	--	(2,021)	--	--	--
Earnings before income taxes and extraordinary loss	32,215	30,500	15,199	322	1,097

Income taxes(1)	(13,270)	(6,497)	(962)	(26)	--
Extraordinary loss(2)	--	--	--	(149)	--
	-----	-----	-----	-----	-----
Net earnings	\$ 18,945	\$ 24,003	\$ 14,237	\$ 147	\$ 1,097
	=====	=====	=====	=====	=====
Earnings per diluted share before effect of extraordinary loss	\$ 3.14	\$ 3.92	\$ 2.68	\$.09	\$.34
Extraordinary loss per diluted share	--	--	--	(.05)	--
	-----	-----	-----	-----	-----
Diluted earnings per share	\$ 3.14	\$ 3.92	\$ 2.68	\$.04	\$.34
	=====	=====	=====	=====	=====
Cash dividends per share (1)	\$ N/A	\$ N/A	\$ N/A	\$.06	\$.09
	=====	=====	=====	=====	=====

	1999	1998	1997	1996(5)	1995
	-----	-----	-----	-----	-----
Balance Sheet Data:					
Real estate under development	\$ 171,012	\$ 104,759	\$ 63,955	\$ 35,991	\$ --
Residual interests	--	--	1,422	3,909	5,457
Total assets	226,559	152,250	96,633	72,821	27,816
Notes payable	85,937	37,205	22,892	30,542	7,819
Total liabilities	136,148	79,971	50,268	45,876	9,368
Stockholders' equity	90,411	72,279	46,365	26,945	18,448

</TABLE>

- (1) Due to the use of our net operating loss carryforward, we paid limited income taxes during 1997 and 1998 until the NOL was fully utilized. During 1995 and 1996 we qualified and elected to be treated as a REIT under federal tax laws and we were not subject to federal income tax on that portion of our taxable income that was distributed to stockholders in or with respect to that year.
- (2) Reflects extraordinary loss from early extinguishment of long-term debt.
- (3) Includes the accounts of Meritage Homes of Northern California from July 1, 1998, the acquisition date.
- (4) Includes the accounts of Legacy Homes from July 1, 1997, the combination date.
- (5) Reflects the merger consummated on December 31, 1996.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

The following discussion and analysis provides information regarding the results of operations of Meritage and its subsidiaries for the years ended December 31, 1999 and December 31, 1998. All material balances and transactions between Meritage and its subsidiaries have been eliminated. Total results include those of the California operations from July 1, 1998. In management's opinion, the data reflects all adjustments, consisting of only normal recurring adjustments, necessary to fairly present our financial position and results of operations for the periods presented.

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HOME SALES REVENUE

Home sales revenue is the product of the number of homes closed during the period and the average sales price per home. Comparative 1999 and 1998 home sales revenue follow (dollars in thousands):

	Year Ended December 31,		Dollar/unit Increase (Decrease)	Percentage Increase (Decrease)
	1999	1998		
	-----	-----	-----	-----
Total				
Dollars	\$334,007	\$255,985	\$ 78,022	31%
Homes closed	1,643	1,291	352	27%
Average sales price	\$ 203.3	\$ 198.3	\$ 5.0	3%
Texas				
Dollars	\$174,850	\$130,860	\$ 43,990	34%
Homes closed	1,135	932	203	22%
Average sales price	\$ 154.1	\$ 140.4	\$ 13.7	10%
Arizona				
Dollars	\$120,909	\$105,942	\$ 14,967	14%
Homes closed	400	317	83	26%
Average sales price	\$ 302.3	\$ 334.2	\$ (31.9)	(10)%
California				
Dollars	\$ 38,248	\$ 19,183	\$ 19,065	99%
Homes closed	108	42	66	157%
Average sales price	\$ 354.1	\$ 456.7	\$ (102.6)	(23)%

The increase in revenue and number of homes closed in 1999 compared to 1998 resulted mainly from the inclusion of the California operations for the full

year and continued growth in our Texas and Arizona operations.

HOME SALES GROSS PROFIT

Gross profit equals home sales revenue, net of housing cost of sales, which include developed lot costs, home construction costs, amortization of common community costs (such as the cost of model complex and architectural, legal and zoning costs), interest, sales tax, warranty, construction overhead and closing costs. Comparative 1999 and 1998 home sales gross profit follows (dollars in thousands):

	Year Ended December 31,		Dollar/percentage Increase (Decrease)	Percentage Increase (Decrease)
	1999	1998		
Dollars	\$63,810	\$51,576	\$12,234	24%
Percent of home sales revenue	19.1%	20.1%	(1.0)%	(5)%

The dollar increase in gross profit for the twelve months ended December 31, 1999 is attributable to the increase in number of homes closed due to the inclusion of California operations for the full year, and continued growth in our Texas and Arizona operations. The gross profit percentage decreased in 1999 due to somewhat lower profit margins in our Texas operations and a change in the Arizona housing mix, reflecting a greater proportion of move-up home closings, which typically have lower gross profit margins than our luxury homes.

EARNINGS FROM MORTGAGE ASSETS AND OTHER INCOME

All of our remaining mortgage securities were sold in 1998, causing the 1999 decrease in earnings from mortgage assets. Other income increased primarily due to an increase in mortgage company income.

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COMMISSIONS AND OTHER SALES COSTS

Commissions and other sales costs, such as advertising and sales office expenses, were approximately \$19.2 million, or 5.8% of home sales revenue, in 1999, as compared to approximately \$14.3 million, or 5.6% of home sales revenue in 1998. A greater number of communities were operating in 1999 than in 1998, which primarily caused the increase.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were approximately \$15.1 million, or 4.4% of total revenue in 1999, as compared to approximately \$10.6 million, or 4.1% of total revenue in 1998. Operating costs associated with our geographic expansions primarily caused this increase.

MINORITY INTEREST

The minority interest recorded in 1998 is due to our acquisition of Sterling Communities, which included two 50% owned limited partnership interests which Meritage controlled. We recorded the minority interest partners' share of net income as an expense. The limited partnerships' operations were concluded in the fourth quarter of 1998.

INCOME TAXES

The increase in income taxes to \$13.3 million for the year ended December 31, 1999 from \$6.5 million in the prior year resulted from an increase in pre-tax income and a higher effective tax rate. The lower 1998 effective tax rate was caused by utilization of our net operating loss carryforward. In future periods we expect to have an effective tax rate approximating the statutory federal and state tax rates.

SALES CONTRACTS

Sales contracts for any period represent the number of homes ordered by customers (net of homes canceled) multiplied by the average sales price per home ordered. Comparative 1999 and 1998 sales contracts follow (dollars in thousands):

	Year Ended December 31,		Dollar/unit Increase (Decrease)	Percentage Increase (Decrease)
	1999	1998		
Total				
Dollars	\$388,158	\$283,746	\$104,412	37%
Homes ordered	1,840	1,466	374	26%
Average sales price	\$ 211.0	\$ 193.6	\$ 17.4	9%
Texas				
Dollars	\$191,655	\$166,020	\$ 25,635	15%
Homes ordered	1,198	1,131	67	6%

Average sales price	\$ 160.0	\$ 146.8	\$ 13.2	9%
Arizona				
Dollars	\$127,408	\$115,375	\$ 12,033	10%
Homes ordered	436	329	107	33%
Average sales price	\$ 292.2	\$ 350.7	\$ (58.5)	(17)%
California				
Dollars	\$ 69,095	\$ 2,351	\$ 66,744	*
Homes ordered	206	6	200	*
Average sales price	\$ 335.4	\$ 391.8	\$ (56.4)	(14)%

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* Not meaningful

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We do not include sales contingent upon the sale of a customer's existing home as a sales contract until the contingency is removed. Historically, we have experienced a cancellation rate approximating 20% of gross sales. Total sales contracts increased in 1999 compared to 1998 due to the expansion into California, and continued growth in our Texas and Arizona operations.

NET SALES BACKLOG

Backlog represents net sales contracts that have not closed. Comparative 1999 and 1998 net sales backlog follows (dollars in thousands):

	At December 31,		Dollar/unit Increase (Decrease)	Percentage Increase (Decrease)
	1999	1998		
Total				
Dollars	\$199,445	\$145,294	\$54,151	37%
Homes in backlog	885	688	197	29%
Average sales price	\$ 225.4	\$ 211.2	\$ 14.2	7%
Texas				
Dollars	\$ 93,983	\$ 77,178	\$16,805	22%
Homes in backlog	566	503	63	13%
Average sales price	\$ 166.0	\$ 153.4	\$ 12.6	8%
Arizona				
Dollars	\$ 72,878	\$ 66,379	\$ 6,499	10%
Homes in backlog	216	180	36	20%
Average sales price	\$ 337.4	\$ 368.8	\$ (31.4)	(9)%
California				
Dollars	\$ 32,584	\$ 1,737	\$30,847	*
Homes in backlog	103	5	98	*
Average sales price	\$ 316.3	\$ 347.4	\$ (31.1)	(9)%

- -----
* Not meaningful

Total dollar backlog increased 37% over the prior year due to a corresponding increase in homes in backlog. Homes in backlog have increased 29% over the prior year due mainly to the increase in net orders caused by expansion into California and continued growth in our Texas and Arizona operations. Our backlog also increased somewhat due to extended construction times, which caused longer periods between the time sales contracts were taken and home deliveries were made.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Total results for the comparison of the years ended December 31, 1998 and 1997 include those of the Texas operations from July 1, 1997 and of the California operations from July 1, 1998. Texas 1997 results are pro forma in that they are shown for the entire year, even though the Texas operations were not acquired until July 1, 1997.

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HOME SALES REVENUE

Comparative 1998 and 1997 home sales revenue follow (dollars in thousands):

	Year Ended December 31,		Dollar/unit Increase (Decrease)	Percentage Increase (Decrease)
	1998	1997		
Total				
Dollars	\$255,985	\$149,385	\$106,600	71%
Homes closed	1,291	644	647	100%
Average sales price	\$ 198.3	\$ 232.0	\$ (33.7)	(15)%

Texas*

Dollars	\$130,860	\$ 91,190	\$ 39,670	44%
Homes closed	932	633	299	47%
Average sales price	\$ 140.4	\$ 144.1	\$ (3.7)	(3)%
Arizona				
Dollars	\$105,942	\$ 97,922	\$ 8,020	8%
Homes closed	317	284	33	12%
Average sales price	\$ 334.2	\$ 344.8	\$ (10.6)	(3)%
California				
Dollars	\$ 19,183	**	**	**
Homes closed	42	**	**	**
Average sales price	\$ 456.7	**	**	**

 * Full year 1997 Texas information includes pre-combination results and is for comparative purposes only.
 ** Not meaningful

The increase in revenue and number of homes closed in 1998 compared to 1997 resulted mainly from the inclusion of the Texas operations for the full year. The lower average sales price in 1997 is also due to sales in the Texas market, where we focus on entry-level and move-up homes.

HOME SALES GROSS PROFIT

Comparative 1998 and 1997 home sales gross profit follows (dollars in thousands):

	Year Ended December 31,		Dollar/percentage Increase	Percentage Increase
	1998	1997		
Dollars	\$51,576	\$25,016	\$26,560	106%
Percent of home sales revenue	20.1%	16.7%	3.4%	20%

The dollar increase in gross profit for the twelve months ended December 31, 1998 is attributable to the increase in number of homes closed due to the inclusion of Texas operations for the full year, along with increased closings in highly profitable Arizona communities. The gross profit margin increased in 1998 due to generally higher margins in Texas, the addition of the California operations in the last half of the year and an increase in sales of more profitable custom options and upgrades with respect to Arizona home closings.

EARNINGS FROM MORTGAGE ASSETS AND OTHER INCOME

The increase in earnings from mortgage assets primarily is due to gains from the sales of our remaining mortgage securities in 1998. These gains exceeded 1997 gains from residual sales by approximately \$2.1 million. The increase was somewhat offset by decreased residual interest earned in 1998.

The 1998 increase in other income primarily is due to an increase in interest income on cash accounts and overnight investments. Texas operations were included for the full year in 1998, which also contributed to higher income amounts.

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COMMISSIONS AND OTHER SALES COSTS

Commissions and other sales costs, such as advertising and sales office expenses, were approximately \$14.3 million, or 5.6% of home sales revenue, in 1998, as compared to approximately \$8.3 million, also 5.6% of home sales revenue, in 1997. Sales costs resulting from a greater number of operating communities due to our expansions into Texas and California primarily caused the dollar increase.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were approximately \$10.6 million, or 4.1% of total revenue in 1998, as compared to approximately \$6.8 million, or 4.6% of total revenue in 1997. Operating costs associated with our Texas and California expansions, including the amortization of goodwill, primarily caused the increase.

MINORITY INTEREST

The increase in minority interest in 1998 is due to our acquisition of Sterling Communities, which included two 50% owned limited partnership interests which Meritage controls. We recorded the minority interest partners' share of net income as an expense. The limited partnerships' operations were concluded in the fourth quarter of 1998.

INCOME TAXES

The increase in income taxes to \$6.5 million for the year ended December 31, 1998 from \$962,000 in the prior year resulted from a significant increase in pre-tax income and a higher effective tax rate. The lower 1997 effective tax rate was caused by a larger reduction in the valuation allowance applicable to deferred tax assets than occurred in 1998. In future periods we expect to have an effective tax rate approximating the statutory federal and state tax rates.

SALES CONTRACTS

Comparative 1998 and 1997 sales contracts follow (dollars in thousands):

	Year Ended December 31,		Dollar/unit Increase (Decrease)	Percentage Increase (Decrease)
	1998	1997		
Total				
Dollars	\$283,746	\$157,479	\$126,267	80%
Homes ordered	1,466	693	773	112%
Average sales price	\$ 193.6	\$ 227.2	\$ (33.6)	(15)%
Texas*				
Dollars	\$166,020	\$102,261	\$ 63,759	62%
Homes ordered	1,131	740	391	53%
Average sales price	\$ 146.8	\$ 138.2	\$ 8.6	6%
Arizona				
Dollars	\$115,375	\$112,207	\$ 3,168	3%
Homes ordered	329	332	(3)	**
Average sales price	\$ 350.7	\$ 338.0	\$ 12.7	4%
California				
Dollars	\$ 2,351	**	**	**
Homes ordered	6	**	**	**
Average sales price	\$ 391.8	**	**	**

* Full year 1997 Texas information includes pre-combination results and is for comparative purposes only.

** Not meaningful

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Total sales contracts increased in 1998 compared to 1997 due to the expansion into Texas and California, and the economic strength of all of our operating markets.

NET SALES BACKLOG

Comparative 1998 and 1997 net sales backlog follows (dollars in thousands):

	At December 31,		Dollar/unit Increase	Percentage Increase
	1998	1997		
Total				
Dollars	\$145,294	\$ 98,963	\$46,331	47%
Homes in backlog	688	472	216	46%
Average sales price	\$ 211.2	\$ 209.7	\$ 1.5	*
Texas				
Dollars	\$ 77,178	\$ 42,018	\$35,160	84%
Homes in backlog	503	304	199	65%
Average sales price	\$ 153.4	\$ 138.2	\$ 15.2	11%
Arizona				
Dollars	\$ 66,379	\$ 56,945	\$ 9,434	17%
Homes in backlog	180	168	12	7%
Average sales price	\$ 368.8	\$ 339.0	\$ 29.8	9%
California				
Dollars	\$ 1,737	*	*	*
Homes in backlog	5	*	*	*
Average sales price	\$ 347.4	*	*	*

* Not meaningful

Total dollar backlog increased 47% over the prior year due to a corresponding increase in homes in backlog. Homes in backlog have increased 46% over the prior year due mainly to the increase in net orders caused by expansion into Texas and California.

Arizona and Texas backlogs have increased due to the number of sales orders taken in 1998, along with slight industry-wide construction delays. These delays caused more closings to be pushed into the following year than usual.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of working capital are land purchases, lot development and home construction. We use a combination of borrowings and funds generated by operations to meet our working capital requirements.

Cash flow for each of our communities depends on the status of the development cycle, and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, plat and other approvals, and construction of model homes, roads, certain utilities, general landscaping and other amenities. Because these costs are capitalized, income reported for financial statement purposes during those early stages may significantly exceed cash flow. Later, cash flow can significantly exceed earnings reported for financial statement purposes, as cost of sales includes charges for substantial amounts of previously expended costs.

At December 31, 1999 we had short-term secured revolving construction loan and acquisition and development facilities totaling \$169.5 million of which approximately \$71 million was outstanding. An additional \$35 million of unborrowed funds supported by approved collateral were available under our credit facilities at that date. Borrowings under the credit facilities are subject to our inventory collateral position and a number of other conditions,

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including minimum net worth, debt to equity and debt coverage tests. We also have \$15 million outstanding in unsecured, senior subordinated notes due September 15, 2005, which were issued in October 1998.

Management believes that the current borrowing capacity, cash on hand at December 31, 1999 and anticipated cash flows from operations are sufficient to meet liquidity needs for the foreseeable future. There is no assurance, however, that future amounts available from our sources of liquidity will be sufficient to meet future capital needs. The amount and types of indebtedness that we incur may be limited by the terms of the indenture governing our senior subordinated notes and credit agreements.

SEASONALITY

We historically have closed more homes in the second half of the fiscal year than in the first half, due in part to the slightly seasonal nature of the market for our semi-custom luxury and move-up products. Management expects this seasonal trend to continue, though it may vary as operations continue to expand.

YEAR 2000 COMPLIANCE

We have assessed our homebuilding and corporate operations that use significant information technology ("IT") systems and non-IT systems (collectively, "business systems") for what was commonly referred to as the Year 2000 ("Y2K") issue. We experienced no business disruptions due to failures of our business systems, nor did any of our suppliers or business partners. We have converted to new versions of substantially all of our homebuilding database systems, and believe that the IT system is Y2K compliant in all respects. We do not anticipate further costs or potential disruptions associated with the Y2K issue, however there is no assurance that there will be no unforeseen Y2K events in the future.

The remediation and testing of our business systems cost approximately \$160,000. These costs were expensed in the period incurred and funded through cash flows from operations. The financial impact was not material to our financial position or results of operations.

NEW ACCOUNTING STANDARDS

In June, 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which establishes standards for the accounting and reporting for derivative instruments including certain derivative instruments embedded in other contracts and hedging activities. This statement generally requires that all derivatives are recognized as assets or liabilities in the balance sheet and measured at fair value, and that recognition of gains and losses are required on hedging instruments based on changes in fair value or the earnings effect of forecasted transactions. As issued, SFAS No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133", as an amendment to SFAS No. 133, which deferred the effective date of SFAS No. 133 until June 15, 2000. We are currently evaluating the impact of SFAS No. 133.

In June 1999, the FASB issued FASB Interpretation No. 43, "Real Estate Sales - an Interpretation of FASB Statement No. 66", which we have adopted. The interpretation clarified that SFAS No. 66 applies to all sales of real estate, including sales of real estate with property improvements or integral equipment, entered into after June 30, 1999. This pronouncement has had no effect on our accounting policies.

In August 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 99, "Materiality" which expresses the views of the staff that exclusive reliance on certain quantitative benchmarks to assess materiality in preparing financial statements is inappropriate since misstatements are not immaterial simply because they fall beneath a numerical threshold. In December 1999, the SEC issued SAB No. 101, "Revenue Recognition in Financial Statements" which summarizes the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. These pronouncements have had no effect on our accounting policies.

FACTORS THAT MAY AFFECT OUR FUTURE RESULTS AND FINANCIAL CONDITION

Future operating results and financial condition depend on our ability to successfully design, develop, construct and sell homes that satisfy dynamic customer demand patterns. Inherent in this process are factors that we must successfully manage to achieve favorable future operating results and financial condition. These operating and financial conditions, along with many other factors, could affect the price of our common stock. Potential risks and uncertainties that could affect future operating results and financial condition could include the factors discussed below.

HOMEBUILDING INDUSTRY FACTORS. The homebuilding industry is cyclical and is significantly affected by changes in economic and other conditions, such as employment levels, availability of financing, interest rates, and consumer confidence. Although management believes that many of our customers (particularly purchasers of luxury and move-up homes) tend to be less price-sensitive than generally is the case for other homebuilders, such uncertainties could adversely affect our performance. Homebuilders are also subject to various risks, many of which are outside their control, including delays in construction schedules, cost overruns, changes in governmental regulations, increases in real estate taxes and other local government fees, and availability and cost of land, materials, and labor. Although the principal raw materials used in the homebuilding industry generally are available from a variety of sources, the materials are subject to periodic price fluctuations. There is no assurance that the occurrence or continuation of any of the above items will not have a material adverse effect on our business.

The homebuilding industry is subject to the potential for significant variability and fluctuations in real estate values, as evidenced by the changes in real estate prices in recent years in Texas, Arizona and Northern California. Although we believe that our projects are currently reflected on our balance sheet at appropriate values, there is no assurance that write-downs of some or

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all of our projects will not occur if market conditions deteriorate, or that such write-downs will not be material in amount.

FLUCTUATIONS IN OPERATING RESULTS. We historically have experienced, and expect to continue to experience, variability in home sales and net earnings on a quarterly basis. As a result of such variability, our historical performance may not be a meaningful indicator of future results. Factors that contribute to this variability include:

- * timing of home deliveries and land sales;
- * the ability to continue the acquisition of additional land or options to acquire additional land on acceptable terms;
- * conditions of the real estate market and the general economy in areas where we operate;
- * the cyclical nature of the homebuilding industry, changes in prevailing interest rates and the availability of mortgage financing;
- * costs or shortages of materials and labor; and
- * delays in construction schedules due to strikes, adverse weather, acts of God, and the availability of subcontractors or governmental restrictions.

INTEREST RATES AND MORTGAGE FINANCING. We believe that many of our move-up and luxury home customers have been less sensitive to interest rate fluctuations than other homebuyers. However, most of our buyers finance their home purchase through third-party lenders providing mortgage financing. In general, housing demand is adversely affected by increases in interest rates and housing costs, and the unavailability of mortgage financing. If mortgage interest rates increase and the ability of prospective buyers to finance home purchases is consequently affected adversely, home sales, gross margins and net income may also be adversely impacted and the impact may be material. Our homebuilding activities depend upon the availability and costs of mortgage financing for buyers of homes owned by potential customers so those customers ("move-up buyers") can sell their homes and purchase a Meritage home. Any limitations or restrictions of financing availability could adversely affect home sales. Changes in federal income tax laws may also affect demand for new homes. Various proposals have been publicly discussed to limit mortgage interest deductions and to eliminate or limit tax-free rollover treatment provided under current law where the proceeds of the sale of a principal residence are reinvested in a new principal residence. Enactment of such proposals may have an adverse effect on the homebuilding industry in general, and on demand for our products in

particular. No prediction can be made whether any such proposals will be enacted and, if enacted, the particular form such laws would take.

INFLATION. Meritage, as well as other homebuilders in the industry, may be adversely affected during periods of high inflation, mainly because of higher land and construction costs. Also, higher mortgage interest rates may significantly affect the affordability of permanent mortgage financing to prospective buyers. Inflation also increases our interest, material and labor costs. We attempt to pass cost increases on to our customers through higher selling prices. To date, inflation has not had a material adverse effect on our results of operations; however, there is no assurance that inflation will not have a material adverse effect on our future operating results.

COMPETITION. The single-family residential housing industry is highly competitive. Homebuilders vie for desirable properties, financing, raw materials, and skilled labor. We compete for residential home sales with other developers and individual resales of existing homes. Competitors include large homebuilding companies, some of which have greater financial resources than we have, and smaller homebuilders, which may have lower costs. Competition is expected to continue and become more intense, and there may be new entrants in the markets in which we currently operate and in markets we may enter in the future.

LACK OF GEOGRAPHIC DIVERSIFICATION. We have operations in Texas, Arizona and Northern California. Failure to be more geographically diversified could adversely impact us if the homebuilding business in our current markets should decline, for there may not be a balancing opportunity in a healthier market in other geographic regions.

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ADDITIONAL FINANCING; LIMITATIONS. The homebuilding industry is capital intensive and requires significant up-front expenditures to acquire land and begin development. Accordingly, we incur substantial indebtedness to finance our homebuilding activities. At December 31, 1999, our debt totaled approximately \$85.9 million. We may be required to seek additional capital in the form of equity or debt financing from a variety of potential sources, including bank financing and securities offerings. Also, lenders are increasingly requiring developers to invest significant amounts of equity in a project both in connection with origination of new loans as well as the extension of existing loans. If we cannot obtain sufficient capital to fund our planned capital or other expenditures, new projects may be delayed or abandoned, which could result in a reduction in home sales and may adversely affect operating results. There is no assurance that additional debt or equity financing will be available in the future or on acceptable terms.

The terms and conditions of our current indebtedness limit the amount and types of indebtedness that we can incur. We must comply with numerous operating and financial maintenance covenants and there is no assurance that we will be able to maintain compliance with these financial and other covenants. Failure to comply with the covenants would result in default and resulting cross defaults under our other indebtedness, and could result in an acceleration of all indebtedness, which would have a material adverse affect on us.

GOVERNMENT REGULATIONS; ENVIRONMENTAL CONDITIONS. We are subject to local, state, and federal statutes and rules regulating certain developmental matters, as well as building and site design. We are subject to various fees and charges of governmental authorities designed to defray the cost of providing certain governmental services and improvements. We may be subject to additional costs and delays or may be precluded entirely from building projects because of "no growth" or "slow growth" initiatives, building permit ordinances, building moratoriums, or similar government regulations that could be imposed in the future due to health, safety, welfare, or environmental concerns. We must also obtain licenses, permits, and approvals from government agencies to engage in certain activities, the granting or receipt of which are beyond our control.

Meritage and its competitors are also subject to a variety of local, state, and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. Environmental laws or permit restrictions may result in project delays, may cause substantial compliance and other costs, and may prohibit or severely restrict development in certain environmentally sensitive regions or areas. Environmental regulations can also have an adverse impact on the availability and price of certain raw materials such as lumber.

RECENT AND FUTURE EXPANSION. In 1998, we expanded into the Northern California market, and may continue to consider growth in other areas of the country. The magnitude, timing and nature of any future expansion will depend on a number of factors, including suitable acquisition candidates, the negotiation of acceptable terms, our financial capabilities, and general economic and business conditions. New acquisitions may result in the incurrence of additional debt and/or amortization of expenses related to goodwill and intangible assets that could adversely affect our profitability, or result in potentially dilutive issuances of equity securities. Acquisitions also involve numerous risks, including difficulties in the assimilation of the acquired company's operations, the diversion of management's attention from other business concerns, risks of

entering markets in which we have had no or only limited direct experience and the potential loss of key employees of the acquired company. There can be no assurance that we will be able to expand into new markets on a profitable basis or that we can successfully manage our expansion into California or any additional markets.

DEPENDENCE ON KEY PERSONNEL. Our success is largely dependent on the continuing services of certain key employees, and the ability to attract new personnel required for our favorable development. We have entered into employment agreements with various key officers, and loss of their services could have a material adverse affect on our business.

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DEPENDENCE ON SUBCONTRACTORS. We conduct our business only as a general contractor in connection with the design, development and construction of our communities. Virtually all architectural and construction work is performed by subcontractors. As a consequence, we are dependent upon the continued availability and satisfactory performance by unaffiliated third parties for the design and construction of our homes. There is no assurance that there will be sufficient availability and satisfactory performance by unaffiliated third-party subcontractors, and such a lack could have a material adverse affect on our business.

SPECIAL NOTE OF CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this annual report may constitute "forward-looking statements" within the meaning of federal securities laws. Forward-looking statements are based on management's beliefs, assumptions and expectations of our future economic performance, taking into account the information currently available to them. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition expressed or implied in any forward-looking statement.

When used in this annual report, the words "anticipate," "estimate," "expect," "objective," "projection," "forecast," "goal" or similar words are intended to identify forward-looking statements. Management qualifies any forward-looking statements entirely by these cautionary factors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not trade in derivative financial instruments and at December 31, 1999 had no significant financial instruments. We do have other financial instruments in the form of notes payable and senior debt. Our lines of credit and credit facilities are at variable interest rates and are subject to market risk in the form of interest rate fluctuations. The interest rate on our senior debt is at a fixed rate.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements as of December 31, 1999 and 1998 and for each of the years in the three-year period ended December 31, 1999, together with related notes and the report of KPMG LLP, independent auditors, are on the following pages. Other required financial information is more fully described in Item 14.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Meritage Corporation

We have audited the accompanying consolidated balance sheets of Meritage Corporation and subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly in all material respects, the financial position of Meritage Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting

principles.

/s/ KPMG LLP

Phoenix, Arizona
February 4, 2000

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MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	1999	1998
ASSETS		
Cash and cash equivalents	\$ 13,422,016	\$ 12,386,806
Real estate under development	171,012,405	104,758,530
Deposits on real estate under option or contract	15,699,609	7,338,406
Other receivables	1,643,187	2,460,966
Deferred tax asset	698,634	6,935,000
Goodwill	18,741,625	14,640,712
Property and equipment, net	4,040,134	2,566,163
Other assets	1,301,286	1,163,737
	-----	-----
Total Assets	\$ 226,558,896	\$ 152,250,320
	=====	=====
LIABILITIES		
Accounts payable and accrued liabilities	\$ 41,950,761	\$ 34,068,178
Home sale deposits	8,261,000	8,587,245
Notes payable	85,936,601	37,204,845
Minority interest in consolidated joint ventures	--	110,922
	-----	-----
Total Liabilities	136,148,362	79,971,190
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, par value		
\$.01 per share; 50,000,000 shares authorized; issued and outstanding - 5,474,906 shares at December 31, 1999, and 5,334,942 shares at December 31, 1998	54,749	53,349
Additional paid-in capital	100,406,745	99,319,669
Accumulated deficit	(8,148,535)	(27,093,888)
Less cost of shares held in treasury (186,000 shares)	(1,902,425)	--
	-----	-----
Total Stockholders' Equity	90,410,534	72,279,130
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 226,558,896	\$ 152,250,320
	=====	=====

See accompanying notes to consolidated financial statements

24
MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31,		
	1999	1998	1997
Home sales revenue	\$ 334,007,420	\$ 255,984,499	\$ 149,384,548
Land sales revenue	7,778,761	1,128,208	245,000
	-----	-----	-----
	341,786,181	257,112,707	149,629,548
Cost of home sales	(270,197,356)	(204,408,950)	(124,368,782)
Cost of land sales	(7,089,379)	(778,457)	(225,000)
	-----	-----	-----
	(277,286,735)	(205,187,407)	(124,593,782)
Home sales gross profit	63,810,064	51,575,549	25,015,766
Land sales gross profit	689,382	349,751	20,000

	64,499,446	51,925,300	25,035,766
Commissions and other sales costs	(19,243,248)	(14,292,152)	(8,294,028)
General and administrative expense	(15,099,457)	(10,632,212)	(6,812,171)
Interest expense	(6,383)	(461,475)	(165,173)
Other income, net	2,064,399	750,950	346,271
Earnings from mortgage assets	--	5,230,549	5,088,693
Minority interest in net income of consolidated joint ventures	--	(2,021,230)	--
Earnings before income taxes	32,214,757	30,499,730	15,199,358
Income taxes	(13,269,404)	(6,496,943)	(961,916)
Net earnings	\$ 18,945,353	\$ 24,002,787	\$ 14,237,442
Basic earnings per share	\$ 3.49	\$ 4.51	\$ 2.93
Diluted earnings per share	\$ 3.14	\$ 3.92	\$ 2.68

See accompanying notes to consolidated financial statements

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MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

<TABLE>
<CAPTION>

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1996	4,580,611	\$ 45,806	\$ 92,643,658	\$ (65,334,117)	\$ (410,283)	\$ 26,945,064
Net earnings	--	--	--	14,237,442	--	--
14,237,442						
Exercise of stock options	8,162	81	118,510	--	--	118,591
Shares issued in connection with the Legacy combination	666,667	6,667	3,393,335	--	--	3,400,002
Stock option and contingent stock compensation expense	--	--	1,664,081	--	--	1,664,081
--						
Balance at December 31, 1997	5,255,440	52,554	97,819,584	(51,096,675)	(410,283)	46,365,180
Net earnings	--	--	--	24,002,787	--	--
24,002,787						
Exercise of stock options	43,660	437	513,135	--	--	513,572
Contingent and warrant shares issued	88,888	888	(888)	--	--	-
-						
Stock option and contingent stock compensation expenses	--	--	1,397,591	--	--	1,397,591
Retirement of treasury stock	(53,046)	(530)	(409,753)	--	410,283	--
--						
Balance at December 31, 1998	5,334,942	53,349	99,319,669	(27,093,888)	--	72,279,130
Net earnings	--	--	--	18,945,353	--	--
18,945,353						
Exercise of stock options	51,076	511	494,650	--	--	495,161
Contingent shares issued	88,888	889	(889)	--	--	-
-						
Stock option and contingent stock compensation expenses	--	--	593,315	--	--	593,315
Purchase of treasury stock (1,902,425)	--	--	--	--	(1,902,425)	--
--						
Balance at December 31, 1999	5,474,906	\$ 54,749	\$100,406,745	\$ (8,148,535)	\$ (1,902,425)	\$ 90,410,534

</TABLE>

See accompanying notes to consolidated financial statements

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MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1999	1998	1997
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 18,945,353	\$ 24,002,787	\$ 14,237,442
Adjustments to reconcile net earnings to net depreciation and amortization	2,528,346	1,637,474	376,916
Minority interest in net income of consolidated joint ventures	--	2,021,230	--
Deferred tax expense	6,236,366	4,969,000	--
Stock option compensation expense	593,315	1,397,591	1,664,081
Gain on sales of residual interests	--	(5,180,046)	(3,067,829)
Increase in real estate under development	(66,253,875)	(32,045,609)	(10,575,738)
Increase in deposits on real estate under option or contract	(8,361,203)	(3,577,986)	(1,712,139)
(Increase) decrease in other receivables and other assets	680,230	(1,775,151)	2,313,632
Increase in accounts payable and accrued liabilities	9,570,526	4,375,102	2,974,442
Increase (decrease) in home sale deposits	(326,245)	1,809,629	465,409
Net cash provided by (used in) operating activities	(36,387,187)	(2,365,979)	6,676,216
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash acquired in merger/acquisition	--	785,403	1,306,998
Cash paid for merger/acquisition	(6,966,890)	(9,744,607)	(1,952,857)
Purchases of property and equipment	(2,935,205)	(1,568,642)	(174,257)
Principal payments received on real estate loans	--	--	2,124,544
Real estate loans funded	--	--	(428,272)
Decrease in short term investments	--	--	4,696,495
Proceeds from sales of residual interest	--	6,600,000	5,500,000
Net cash provided by (used in) investing activities	(9,902,095)	(3,927,846)	11,072,651
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings	273,824,450	174,445,708	67,900,899
Repayment of borrowings	(225,092,694)	(164,524,041)	(92,896,553)
Purchase of treasury shares	(1,902,425)	--	--
Stock options exercised	495,161	513,572	118,591
Dividends paid	--	--	(194,330)
Net cash provided by (used in) financing activities	47,324,492	10,435,239	(25,071,393)
Net increase (decrease) in cash and cash equivalents	1,035,210	4,141,414	(7,322,526)
Cash and cash equivalents at beginning of year	12,386,806	8,245,392	15,567,918
Cash and cash equivalents at end of year	\$ 13,422,016	\$ 12,386,806	\$ 8,245,392
Supplemental information:			
Cash paid for interest	\$ 5,872,607	\$ 3,996,771	\$ 3,801,764
Cash paid for income taxes	\$ 5,422,500	\$ 2,332,604	\$ 49,871

</TABLE>

See accompanying notes to consolidated financial statements

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MERITAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999, 1998 AND 1997

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

BUSINESS. Meritage Corporation develops, constructs and sells new high quality, single-family homes in the semi-custom luxury, move-up and entry-level markets.

We were formed in 1988 as a real estate investment trust ("REIT") that invested in mortgage-related assets and real estate loans. On December 31, 1996, the Company acquired by merger the homebuilding operations of various entities operating under the Monterey Homes name, and has phased out the mortgage-related operations. Monterey has been building homes in Arizona for over 14 years,

specializing in move-up and semi-custom luxury homes.

As part of our strategy to diversify operations, on July 1, 1997, we combined with Legacy Homes, a group of entities with homebuilding operations in Texas. Legacy has been in business since 1988, and designs, builds and sells entry-level and move-up homes. On July 1, 1998 we acquired Sterling Communities, now Meritage Homes of Northern California, which has homebuilding operations in the San Francisco Bay and Sacramento metropolitan areas, and designs, builds and sells move-up homes. In September 1998, with shareholder approval, Meritage Corporation became the new corporate name.

BASIS OF PRESENTATION. Consolidated financial statements include the accounts of Meritage Corporation and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to be consistent with current financial statement presentation. Results include the operations of Legacy from July 1, 1997 and of Meritage Homes of Northern California from July 1, 1998.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS. We consider short-term investments with an initial maturity of three months or less to be cash equivalents. Amounts in transit from title companies for home closings of approximately \$1,568,000 and \$6,254,000 are included in cash as of December 31, 1999 and 1998, respectively.

REAL ESTATE UNDER DEVELOPMENT. Amounts are carried at cost unless such costs would not be recovered from the cash flows generated by future disposition. In this case, amounts are carried at estimated fair value less disposal costs. Costs capitalized include direct construction costs for homes, development period interest and certain common costs that benefit the entire community. Common costs are allocated on a community-by-community basis to residential lots based on the number of lots to be built in the community, which approximates the relative sales value method.

Deposits paid related to options and contracts to purchase land are capitalized and classified as deposits on real estate under option or contract until the related land is purchased. The deposits are then transferred to real estate under development.

COST OF HOME SALES. Cost of sales includes land acquisition and development costs, direct home construction costs, development period interest and closing costs, and an allocation of common costs.

REVENUE RECOGNITION. Revenues and profits from sales of residential real estate and related activities are recognized when closings have occurred and the buyer has made a minimum down payment and other criteria for sale and profit recognition are satisfied.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

PROPERTY AND EQUIPMENT. We state property and equipment at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Accumulated depreciation was approximately \$3,503,000 and \$2,862,000 at December 31, 1999 and 1998, respectively. Maintenance and repair costs are expensed as incurred.

GOODWILL. Goodwill represents the excess of purchase price over fair value of net assets acquired and is being amortized on a straight-line basis over a 20-year period. Accumulated amortization was approximately \$1,771,700 at December 31, 1999 and \$704,600 at December 31, 1998. Management periodically evaluates the businesses to which the goodwill relates to insure the carrying value of goodwill has not been impaired. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting our average cost of funds. No goodwill impairment was recorded in the accompanying statements of earnings.

RESIDUAL INTERESTS. Prior to year-end 1998, we owned residual interests in collateralized mortgage obligations (CMOs) and in mortgage participation certificates (MPCs) (collectively residual interests). We used the prospective net level yield method, in which interest is recorded at cost and amortized over the life of the related CMO or MPC issuance, to account for the residual interests. All residual interests were sold in 1997 and 1998.

INCOME TAXES. We account for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in future years and are subsequently adjusted for changes in the

rates. The effect on deferred tax assets and liabilities of a change in tax rates is a charge or credit to deferred tax expense in the period of enactment.

EARNINGS PER SHARE. Basic earnings per share are computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in our earnings. We adopted SFAS No. 128, "Earnings Per Share" in 1997.

USE OF ESTIMATES. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions relating to amounts reported in the financial statements and accompanying notes. Actual results could differ materially from these estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS. The carrying amounts of our short-term financial instruments are reasonable approximations of fair value. Our notes payable carry interest rates that are variable and/or comparable to current market rates based on the nature of the loans, their terms and remaining maturity, and therefore are stated at approximate fair value. Considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, these fair value estimates are subjective and not necessarily indicative of the amounts we would pay or receive in actual market transactions.

MERITAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

STOCK OPTION PLANS. We have elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion (APB) No. 25 as allowed by SFAS No. 123 "Accounting for Stock-Based Compensation". As such, compensation expense would be recorded on the date of the grant only if the market price of the stock underlying the grant was greater than the exercise price. The pro forma disclosures that are required by SFAS No. 123 are presented in Note 6.

SEGMENT INFORMATION. The FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments for an Enterprise and Related Information" in June 1997. FASB No. 131 establishes standards for the way that public companies report selected information about operating segments in financial reports issued to stockholders. We have adopted the provisions of FASB No. 131, which caused no significant impact on our definitions of our operating segments and related disclosures.

NOTE 3 - REAL ESTATE UNDER DEVELOPMENT AND CAPITALIZED INTEREST

The components of real estate under development at December 31 follow (in thousands):

	1999	1998
	----	----
Homes under contract, in production	\$ 71,987	\$ 44,186
Finished lots and lots under development	63,610	43,508
Land held for development	3,618	3,050
Model homes and homes held for resale	31,797	14,015
	-----	-----
	\$171,012	\$104,759
	=====	=====

We capitalize certain interest costs during development and construction. Capitalized interest is allocated to real estate under development and charged to cost of home sales when the homes are delivered. Summaries of interest capitalized and interest expensed follow (in thousands):

	Year Ended December 31,	
	-----	-----
	1999	1998
	-----	-----
Beginning unamortized capitalized interest	\$ 1,982	\$ 1,890
Interest capitalized	7,025	3,711
Amortized cost of home sales	(5,036)	(3,619)
	-----	-----
Ending unamortized capitalized interest	\$ 3,971	\$ 1,982
	=====	=====
Interest incurred	\$ 7,031	\$ 4,172
Interest capitalized	(7,025)	(3,711)
	-----	-----
Interest expense	\$ 6	\$ 461
	=====	=====

MERITAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

NOTE 4 - NOTES PAYABLE

Notes payable at December 31 consist of the following (in thousands):

	1999 -----	1998 -----
\$70 million bank construction line of credit, interest payable monthly approximating prime (8.5% at December 31, 1999) or LIBOR (30 day LIBOR 5.832% at December 31, 1999), plus 1.75% payable at December 31, 2001, secured by first deeds of trust on real estate	\$37,411	\$ 7,955
\$80 million bank construction line of credit, interest payable monthly approximating prime or LIBOR plus 2.25%, payable at the earlier of close of escrow, maturity date of individual homes within the line or July 31, 2000, secured by first deeds of trust on real estate	26,104	10,925
\$15 million unsecured bank revolving line of credit, interest payable monthly at prime, maturing on January 17, 2000	6,000	--
Acquisition and development credit facilities totaling \$4.5 million, interest payable monthly, ranging from prime to prime plus .25%; payable at the earlier of funding of construction financing or the maturity date of the individual projects, secured by first deeds of trust on real estate	1,396	2,407
Senior unsecured notes, maturing September 15, 2005, annual interest of 9.1% payable quarterly, principal payable in three equal installments on September 15, 2003, 2004 and 2005	15,000	15,000
Other	26	918
	-----	-----
Total	\$85,937 =====	\$37,205 =====

The bank credit facilities and senior subordinated notes contain covenants which require certain levels of tangible net worth, the maintenance of certain minimum financial ratios, place limitations on the payment of dividends and limit incurrence of indebtedness, asset dispositions and creations of liens, among other items. As of December 31, 1999 and throughout the year, we were in compliance with these covenants.

On October 2, 1998, we issued \$15,000,000 in 9.1% Senior Unsecured Notes due September 1, 2005 in a private placement to accredited investors under Section 4(2) of the Securities Act. Warburg Dillon Read and Dain Rauscher Wessels were the underwriters of the issue and were paid a fee of 2.75% of the face amounts of the notes. The notes were sold at par to four entities controlled by Massachusetts Mutual Life Insurance Company. The proceeds of the issue were used to pay down existing indebtedness.

MERITAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Scheduled maturities of notes payable as of December 31, 1999 follow (in thousands):

Year Ended December 31, -----	
2000	\$33,526
2001	37,411
2002	--
2003	5,000
2004	5,000
Thereafter	5,000

	\$85,937 =====

NOTE 5 - EARNINGS PER SHARE

A summary of the reconciliation from basic earnings per share to diluted earnings per share for the years ended December 31, 1999, 1998 and 1997 follows. (in thousands, except per share amounts):

	1999 -----	1998 -----	1997 -----
Net earnings	\$18,945	\$24,003	\$14,237
Basic EPS - Weighted average shares outstanding	5,431 -----	5,317 -----	4,864 -----
Basic earnings per share	\$ 3.49 =====	\$ 4.51 =====	\$ 2.93 =====
Basic EPS - Weighted average shares outstanding	5,431	5,317	4,864
Effect of dilutive securities:			
Contingent shares and warrants	89	158	114
Stock options	512 -----	641 -----	330 -----
Dilutive EPS - Weighted average shares outstanding	6,032 -----	6,116 -----	5,308 -----
Diluted earnings per share	\$ 3.14 =====	\$ 3.92 =====	\$ 2.68 =====
Antidilutive stock options not included in diluted EPS	279 =====	59 =====	4 =====

NOTE 6 - STOCK OPTIONS AND CONTINGENT STOCK

Our Board of Directors administers our stock option plans. The plans provide for stock option grants to key personnel and directors, and provide a means of performance-based compensation in order to attract and retain qualified employees.

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MERITAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

We apply APB Opinion No. 25 and related interpretations in accounting for our plans. Under APB 25, if the exercise price of the Company's stock options is equal to the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

Had compensation cost for these plans been determined consistent with SFAS 123, our net earnings and earnings per share would have been reduced to the following pro forma amounts (in thousands, except for per share amounts):

		1999 ----	1998 ----	1997 ----
Net earnings	As reported	\$18,945	\$24,003	\$14,237
	Pro forma	18,472	23,573	13,892
Basic earnings per share	As reported	3.49	4.51	2.93
	Pro forma	3.40	4.43	2.86
Diluted earnings per share	As reported	3.14	3.92	2.68
	Pro forma	3.06	3.85	2.62

The per share weighted average fair values of stock options granted during 1999, 1998 and 1997 were \$7.81, \$9.91 and \$4.58, respectively, on the dates of grant using the Black-Scholes pricing model based on the following weighted average assumptions:

	1999 ----	1998 ----	1997 ----
Expected dividend yield	0%	.5%	1.2%
Risk-free interest rate	4.76%	5.75%	6.00%
Expected volatility	52%	51%	43%
Expected life (in years)	6	7	5

THE MERITAGE PLAN

Our shareholders approved a new stock option plan at our 1997 Annual Meeting. The plan authorizes grants of incentive stock options and non-qualified stock options to our executives, directors, employees and consultants. A total of 225,000 shares of Meritage common stock were reserved for issuance upon exercise of stock options granted under this plan, with an additional 250,000 shares added to the reserve by vote of the shareholders at our 1998 Annual Meeting. The options vest over periods from two to five years, are based on continued employment, and expire five to ten years after the date of grant.

THE PRIOR PLAN

The 1988 Homeplex Mortgage Investments Corporation Stock Option Plan (the prior plan) was in effect at the time of the merger. No new grants have been issued under this plan since the merger, and 62,726 option shares were outstanding under this plan at December 31, 1999. Accounts payable and accrued liabilities in the accompanying 1999 and 1998 balance sheets include approximately \$253,200 and \$524,800, respectively, related to options granted under the prior plan. This liability will remain on the consolidated balance sheets until the options are exercised, canceled or expire.

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MERITAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

OTHER OPTIONS

In connection with the merger and Legacy combination, Mssrs. Hilton, Landon and Cleverly each received 166,667 non-qualified stock options that vest over three years. The exercise price of the options is \$5.25 per share, which was negotiated at the time of the transactions. Mr. Hilton's and Mr. Cleverly's options expire in December 2002 and Mr. Landon's expire in June 2003.

A current member of our board of directors who served as our president and chairman prior to the merger holds 250,000 non-qualified stock options. The options were granted in exchange for the director forgoing his annual salary and bonus, and were approved by shareholders at the 1996 Annual Meeting. These options are fully vested, have an exercise price of \$ 4.50 per share and expire on December 21, 2000.

SUMMARY OF STOCK OPTION ACTIVITY:

<TABLE>

<CAPTION>

	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding at beginning of year	1,028,302	\$ 6.25	1,041,480	\$ 5.86	732,975	\$ 5.78
Options granted	264,500	14.74	57,500	16.54	150,000	7.16
Merger/combination options granted	--	--	--	--	166,667	5.25
Options exercised	(51,076)	7.08	(43,660)	10.04	(8,162)	9.36
Options canceled	(68,500)	14.39	(27,018)	7.22	--	--
Options outstanding at end of year	1,173,226	\$ 7.65	1,028,302	\$ 6.25	1,041,480	\$ 5.86
Options exercisable at end of year	801,669		613,579		515,090	
Price range of options exercised	\$5.62-\$11.25		\$4.50-\$11.25		\$4.37-\$6.38	
Price range of options outstanding	\$4.50-\$17.63		\$4.50-\$17.63		\$3.62-\$13.32	
Total shares reserved at December 31	1,386,583		1,525,547		1,383,146	

STOCK OPTIONS OUTSTANDING AT DECEMBER 31, 1999 WERE:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
\$ 4.50 - \$ 6.38	815,944	2.6 years	\$ 5.02	724,387	\$ 4.98
\$ 8.50 - \$12.50	97,066	4.3	9.88	63,566	10.42
\$13.37 - \$17.63	260,216	6.0	15.06	13,716	16.33
	1,173,226	3.5 years	\$ 7.65	801,669	\$ 5.61

</TABLE>

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MERITAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

CONTINGENT SHARES

In connection with the merger, 266,666 shares of contingent stock were

reserved for equal issuance to Mr. Hilton and Mr. Cleverly on the first, second and third anniversaries of the transaction. The requirements for the release of the contingent stock were met and Mr. Hilton and Mr. Cleverly were each issued 44,444 shares of common stock subsequent to the first, second and third anniversaries of the merger.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

We are involved in legal proceedings and claims that arise in the ordinary course of business. Management believes the amount of ultimate liability with respect to these actions will not materially affect our financial statements taken as a whole.

Also in the normal course of business, we provide standby letters of credit and performance bonds issued to third parties to secure performance under various contracts. At December 31, 1999 outstanding letters of credit were \$1.0 million and performance bonds were \$16.3 million.

We lease office facilities, model homes and equipment under various operating lease agreements. Approximate future minimum lease payments for noncancellable operating leases as of December 31, 1999 are as follows:

Year Ending December 31 -----	
2000	\$1,111,498
2001	768,987
2002	381,560
2003	291,882
2004 and thereafter	--

	\$2,553,927
	=====

Rental expense was approximately \$1,113,000 in 1999, \$1,074,900 in 1998, and \$1,185,400 in 1997. Included in these amounts are \$415,000 in 1999, \$380,000 in 1998 and \$274,000 in 1997 related to office facilities leased from companies owned beneficially either by one of our Co-Chairmen or by a Co-Chairman and a Director.

NOTE 8 - MERGERS/COMBINATIONS/ACQUISITIONS

LEGACY HOMES

On May 29, 1997 we signed a definitive agreement to acquire the homebuilding and related mortgage service business of Legacy Homes, Ltd. and its affiliates. The transaction was effective on July 1, 1997. Legacy Homes has been building entry-level and move-up homes in Texas since 1988 and is headquartered in the Dallas/Fort Worth metropolitan area.

Consideration consisted of approximately \$1.5 million in cash, 666,667 shares of Meritage common stock valued at \$3.4 million and \$370,000 of transaction costs. We used the purchase method of accounting and the purchase price was allocated among our net assets based on their estimated fair market value at the transaction date. Goodwill of approximately \$1.5 million was recorded, which is being amortized over 20 years. Provisions also were made to pay additional consideration not to exceed \$15 million, based on our earnings. Additional consideration was approximately \$5.2 million in 1999, \$7.0 million in 1998 and \$2.8 million in 1997, and was paid subsequent to each year-end. These amounts are recorded as goodwill and are being be amortized over 20 years.

STERLING COMMUNITIES

On June 15, 1998, we signed a definitive agreement with Sterling Communities, S.H. Capital, Inc., Sterling Financial Investments, Inc., Steve Hafener and W. Leon Pyle (together, the Sterling Entities), to acquire substantially all of the assets of Sterling Communities. The transaction was effective as of July 1, 1998. Assets acquired principally consist of real property and other residential homebuilding assets located in the San Francisco Bay and Sacramento areas of California. Operations of the Sterling Entities continue under the name Meritage Homes of Northern California.

Consideration paid for the assets and stock acquired, and various liabilities assumed, consisted of \$6.9 million in cash and additional consideration to be paid for up to four years after the transaction date. We used the purchase method of accounting and the purchase price was allocated among our net assets based on their estimated fair market value at the transaction date. Goodwill of approximately \$2.2 million was recorded, which is being amortized over 20 years. The additional consideration will be equal to 20%

of the pre-tax income of our California division and will be expensed as earned.

The following unaudited pro forma information presents a summary of consolidated results of operations as if the Legacy combination and Sterling acquisition had occurred at January 1, 1997, with pro forma adjustments together with related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would actually have occurred had the combination been in effect on the date indicated (in thousands except per share data).

	Years Ended December 31,	

	(Unaudited)	
	1998	1997
	----	----
Home sales revenue	\$274,754	\$ 220,852
Net earnings	\$ 24,949	\$ 19,835
Basic earnings per share	\$ 4.69	\$ 3.82
Diluted earnings per share	\$ 4.08	\$ 3.49

NOTE 9 - INCOME TAXES

Components of income tax expense are (in thousands):

	1999	1998	1997
	----	----	----
Current taxes:			
Federal	\$ 5,748	\$ 561	\$222
State	1,285	967	740
	-----	-----	----
	7,033	1,528	962
	-----	-----	----
Deferred taxes:			
Federal	6,121	4,587	--
State	115	382	--
	-----	-----	----
	6,236	4,969	--
	-----	-----	----
Total	\$13,269	\$6,497	\$962
	=====	=====	=====

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MERITAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Deferred tax assets and liabilities have been recognized in the consolidated balance sheets due to the following temporary differences and carryforwards (in thousands):

	12/31/99	12/31/98
	-----	-----
Net operating loss carryforward	\$ --	\$ 4,360
Warranty reserve	311	67
Real estate and fixed asset basis differences	374	509
Stock options	282	--
Deductible merger/acquisition costs	--	1,163
Alternative minimum tax credit	--	782
Sale/leaseback gain deferred	154	--
Other	102	54
	-----	-----
	1,223	6,935
Deductible merger/acquisition costs	(524)	--
	-----	-----
Net deferred tax asset	\$ 699	\$ 6,935
	=====	=====

Management believes it is more likely than not that the net deferred tax asset will be realized.

RECONCILIATION OF EFFECTIVE INCOME TAX EXPENSE:

Income taxes differ for the years ended December 31, 1999, 1998 and 1997 from the amounts computed using the federal statutory income tax rate as a result of the following (in thousands):

	1999	1998	1997
	-----	-----	-----
Expected taxes at current federal statutory income tax rate	\$ 10,953	\$ 10,678	\$ 5,320
State income taxes	890	967	740
Utilization of NOL	--	(5,709)	(5,320)
Alternative minimum tax	--	561	222
Non-deductible merger/acquisition costs	1,565	--	--

Other	(139)	--	--
Income tax expense	\$ 13,269	\$ 6,497	\$ 962

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MERITAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

NOTE 10 - SELECTED QUARTERLY FINANCIAL DATA SUMMARY (UNAUDITED)

<TABLE>
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	Home Sales Revenue	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
	-----	-----	-----	-----
	(in thousands, except per share amounts)			
1999 - THREE MONTHS ENDED:				
<S>	<C>	<C>	<C>	<C>
March 31	\$ 51,306	\$2,325	\$.43	\$.38
June 30	76,647	4,541	.83	.75
September 30	76,786	4,027	.74	.67
December 31	129,268	8,052	1.50	1.37
1998 - THREE MONTHS ENDED:				
March 31	\$ 36,513	\$5,452	\$1.03	\$.90
June 30	55,608	6,696	1.26	1.10
September 30	68,417	4,268	.80	.70
December 31	95,446	7,587	1.42	1.28

NOTE 11 - SEGMENT INFORMATION

We classify our operations into three primary geographic segments: Texas, Arizona and California. These segments generate revenues through the sales of homes to external customers. We are not dependent on any one major customer.

Operational information relating to the different business segments follows. Information has been included for the Texas operations from July 1, 1997, the combination date, and for the California operations from July 1, 1998, the acquisition date. Certain information has not been included by segment due to the immateriality of the amount to the segment or in total. We evaluate segment performance based on several factors, of which the primary financial measure is earnings before interest and taxes (EBIT). The accounting policies of the business segments are the same as those described in Notes 1 and 2. There are no significant transactions between segments.

	(in thousands)		
	1999	1998	1997
	-----	-----	-----
HOME SALES REVENUE:			
Texas	\$ 174,850	\$130,860	\$ 51,463
Arizona	120,909	105,942	97,922
California	38,248	19,183	--
Total	\$ 334,007	\$255,985	\$149,385
	=====	=====	=====
EBIT:			
Texas	\$ 22,652	\$ 18,300	\$ 7,059
Arizona	14,515	12,918	9,744
California	4,185	1,858	--
Corporate and other	(4,094)	1,504	350
Total	\$ 37,258	\$ 34,580	\$ 17,153
	=====	=====	=====

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AMORTIZATION OF CAPITALIZED INTEREST:			
Texas	\$ 1,758	\$ 1,143	\$ 392
Arizona	2,777	2,410	1,397
California	501	66	--
Total	\$ 5,036	\$ 3,619	\$ 1,789
	=====	=====	=====
ASSETS AT YEAR END:			
Texas	\$ 97,832	\$ 64,448	\$ 32,702
Arizona	77,195	58,758	47,867
California	43,773	12,321	--
Corporate and other	7,759	16,723	16,065
Total	\$ 226,559	\$152,250	\$ 96,634

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding this item is included under the captions "Election of Directors," "Director and Officer Information," and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Notice and Proxy Statement relating to our 2000 Annual Meeting of Stockholders and is incorporated by reference into this Form 10-K Report. With the exception of the foregoing information and other information specifically incorporated by reference into this Form 10-K Report, our 2000 Proxy Statement is not being filed as a part of this report.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is included under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Director Compensation" and "Employment Agreements" in our 2000 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is included under the caption "Security Ownership of Principal Stockholders and Management" in our 2000 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is included under the caption "Certain Transactions and Relationships" and "Compensation Committee Interlocks and Insider Participation" in our 2000 Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

Page or
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(a) FINANCIAL STATEMENTS AND SCHEDULES

(i) Financial Statements

- | | |
|---|---------|
| (1) Report of KPMG LLP | Page 23 |
| (2) Consolidated Financial Statements and Notes to Consolidated Financial Statements of the Company, including Consolidated Balance Sheets as of December 31, 1999 and 1998 and related Consolidated Statements of Earnings, Stockholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 1999 | Page 24 |

(ii) Financial Statement Schedules Schedules have been omitted because of the absence of conditions under which they are required or because the required material information is included in the Consolidated Financial Statements or Notes to the Consolidated Financial Statements included herein.

(b) REPORTS ON FORM 8-K

We filed no reports on Form 8-K in the fourth quarter of 1999.

(c) EXHIBITS

<TABLE>
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Exhibit

Number	Description	Page or Method of Filing
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<S>	<C>	<C>
2.1	Agreement and Plan of Reorganization, dated as of September 13, 1996, by and among Homeplex, the Monterey Merging Companies and the Monterey Stockholders	Incorporated by reference to Exhibit 2 of Form S-4 2.1 Registration Statement No. 333-15937 ("S-4 #333-15937").

2.2	Agreement of Purchase and Sale of Assets, dated as of May 20, 1997, by and among Monterey, Legacy Homes, Ltd., Legacy Enterprises, Inc., and John and Eleanor Landon	Incorporated by reference to Exhibit 2 of Form 8-K/A dated June 18, 1997.
2.3	Agreement of Purchase and Sale of Assets, dated as of June 15, 1998, by and among the Company, Sterling Communities, S.H. Capital, Inc., Sterling Financial Investments, Inc. Steve Hafener, and W. Leon Pyle	Incorporated by reference to Exhibit 2.2 of Form 10-Q.
3.1	Restated Articles of Incorporation of the Company	Incorporated by reference to Exhibit 3.2 of Form 10-Q.
3.2	Amendment to Articles of Incorporation	Incorporated by reference to Exhibit 3.1 of Form 10-Q.
3.3	Amended and Restated Bylaws of the Company	Incorporated by reference to Exhibit 3.3 of Form S-3.
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Exhibit Number	Description	Page or Method of Filing
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<S>	<C>	<C>
4.1	Specimen of Common Stock Certificate	Incorporated by reference to Exhibit 4 to the Form 10-K for the year ended December 31, 1996.
4.2	Warrant Agreement dated as of October 17, 1994 among Monterey and the Warrant Agent	Incorporated by reference to Exhibit 4.2 of Registration Statement No. 333-29737, filed on June 20, 1997.
4.3	Assumption Agreement dated as of December 31, 1996 modifying the Warrant Agreement in certain respects, and relating to the assumption of the Warrant Agreement by the Company and certain other matters	Incorporated by reference to Exhibit 4.3 of Registration Statement No. 333-29737, filed on June 20, 1997.
4.4	Specimen Warrant Certificate	Incorporated by reference to Exhibit 4.4 of Registration Statement No. 333-29737, filed on June 20, 1997.
4.5	Note Purchase Agreement	Incorporated by reference to Exhibit 4.1 of Form 10-Q for the quarterly period ended September 30, 1998.
10.1	\$70 Million Borrowing Base Loan Agreement by and among the Company, Norwest Bank, Arizona, N.A. and California Bank and Trust, Dated as of September 15, 1999	Filed herewith.
10.2	\$15 Million Credit Agreement by and among Meritage Corporation and California Bank and Trust, Dated as of September 15, 1999	Incorporated by reference to Exhibit 10.23 of Form 10-Q.
10.3	Modification to Guaranty Federal Bank Loan, Dated as of May 19, 1998	Incorporated by reference to Exhibit 10.1 of Form 10-Q.
10.4	Modification to Guaranty Federal Bank Loan, Dated as of July 31, 1999	Filed herewith.
10.5	Stock Option Plan*	Incorporated by reference to Exhibit 10(d) of Form 10-K for the fiscal year ended December 31, 1995 ("1995 Form 10-K").
10.6	Amendment to Stock Option Plan *	Incorporated by reference to Exhibit 10(e) of 1995 Form 10-K.
10.7	Amendment to Stock Option Plan dated December 31, 1996*	Incorporated by reference to Exhibit 10.9 of Registration Statement No. 333-29737, filed on June 20, 1997.
10.8	Meritage Corporation Stock Option Plan	Incorporated by reference to Exhibit 10.9 to the Form 10-K for the year ended December 31, 1996.
10.9	Meritage Corporation 1997 Stock Option Plan*	Incorporated by reference to Exhibit 4.1 of Registration Statement No. 333-37859, filed on October 14, 1997.
10.10	Employment Agreement between the Company and	Incorporated by reference to Exhibit 10.10

William W. Cleverly*

to the Form 10-K for the year ended December 31, 1996.

10.11	Separation and Consulting Agreement between the Company and William W. Cleverly*	Incorporated by reference to Exhibit C of the Form 8-K filed on March 23, 1999.
10.12	Employment Agreement between the Company and Steven J. Hilton*	Incorporated by reference to Exhibit 10.11 to the Form 10-K for the year ended December 31, 1996.

</TABLE>

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Exhibit
Number

Description

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-----	-----	-----
10.13	Employment Agreement between the Company and John R. Landon*	Incorporated by reference to Exhibit C of the Form 8-K filed on June 18, 1997.
10.14	Stock Option Agreement between the Company and William W. Cleverly*	Incorporated by reference to Exhibit 10.12 of the Form 10-K for the year ended December 31, 1996.
10.15	Stock Option Agreement between the Company and Steven J. Hilton*	Incorporated by reference to Exhibit 10.13 to the Form 10-K for the year ended December 31, 1996.
10.16	Stock Option Agreement between the Company and John R. Landon*	Incorporated by reference to Exhibit C of the Form 8-K filed on June 18, 1997.
10.17	Registration Rights Agreement between the Company and William W. Cleverly*	Incorporated by reference to Exhibit 10.14 to the Form 10-K for the year ended December 31, 1996.
10.18	Registration Rights Agreement between the Company and Steven J. Hilton*	Incorporated by reference to Exhibit 10.15 to the Form to the Form 10-K for the year ended December 31, 1996.
10.19	Registration Rights Agreement between the Company and John R. Landon*	Incorporated by reference to Exhibit C of the Form 8-K filed on June 18, 1997.
10.20	Escrow and Contingent Stock Agreement	Incorporated by reference to Exhibit 10.16 of the Form 10-K for the year ended December 31, 1996.
10.21	Amended and Restated Employment Agreement and Addendum between the Company and Alan D. Hamberlin*	Incorporated by reference to Exhibit 10(g) of the 1995 Form 10-K.
10.22	Stock Option Agreement between the Company and Alan D. Hamberlin*	Incorporated by reference to Exhibit 10(h) of the 1995 Form 10-K.
10.23	Agreement regarding sale of residual interests between the Company and PaineWebber	Incorporated by reference to Exhibit 10.24 to the Form to the Form 10-K for the year ended December 31, 1996.
10.24	Employment Agreement between the Company and Larry W. Seay*	Incorporated by reference to Exhibit 10.2 of Form 10-Q for the quarterly period ended June 30, 1998.
10.25	Employment Agreement between the Company Steven Hafener*	Filed herewith.
10.26	Amendment to Employment Agreement between the Company and Steven Hafener*	Filed herewith.
23	Consent of KPMG LLP	Filed herewith.
24	Powers of Attorney	See signature page.
27	Financial Data Schedules	Filed herewith.

</TABLE>

*Indicates a management contract or compensation plan.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly cause this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, this 23rd day of March 2000.

MERITAGE CORPORATION,
a Maryland Corporation

By /s/ Steven J. Hilton

Steven J. Hilton
CO-CHAIRMAN AND CHIEF EXECUTIVE OFFICER

By /s/ John R. Landon

John R. Landon
CO-CHAIRMAN AND CHIEF EXECUTIVE OFFICER

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Steven J. Hilton, John R. Landon and Larry W. Seay, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K Annual Report, and to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act of things requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to these requirements of the Securities Exchange Act of 1934, the following persons on behalf of the registrant and in the capacities and on the dates indicated have signed this report on Form 10-K below:

Signature -----	Title -----	Date ----
/s/ Steven J. Hilton ----- Steven J. Hilton	Co-Chairman and Chief Executive Officer	March 23, 2000
/s/ John R. Landon ----- John R. Landon	Co-Chairman and Chief Executive Officer	March 23, 2000
/s/ Larry W. Seay ----- Larry W. Seay	Chief Financial Officer, Vice President-Finance, Secretary and Treasurer (Principal Financial and Accounting Officer)	March 23, 2000
/s/ William W. Cleverly ----- William W. Cleverly	Director	March 23, 2000
/s/ Alan D. Hamberlin ----- Alan D. Hamberlin	Director	March 23, 2000
/s/ Raymond Oppel ----- Raymond Oppel	Director	March 23, 2000
/s/ Robert G. Sarver ----- Robert G. Sarver	Director	March 23, 2000
/s/ C. Timothy White ----- C. Timothy White	Director	March 23, 2000

LOAN AGREEMENT
(BORROWING BASE)

BY AND AMONG

MONTEREY HOMES CONSTRUCTION, INC., AN ARIZONA CORPORATION,
MONTEREY HOMES ARIZONA, INC., AN ARIZONA CORPORATION,
CHANDLER 110, LLC, AN ARIZONA LIMITED LIABILITY COMPANY, AND
MERITAGE HOMES OF NORTHERN CALIFORNIA, INC.,
A CALIFORNIA CORPORATION

SEVERALLY AND COLLECTIVELY, BORROWER

THE BANKS NAMED HEREIN

NORWEST BANK ARIZONA, NATIONAL ASSOCIATION,
A NATIONAL BANKING ASSOCIATION

ADMINISTRATIVE AGENT AND ISSUING BANK

CALIFORNIA BANK & TRUST, A CALIFORNIA BANKING CORPORATION

DOCUMENTATION AND SYNDICATION AGENT

DATED AS OF
DECEMBER 29, 1999

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LOAN AGREEMENT
(Borrowing Base)

BY THIS AGREEMENT (together with any amendments or modifications, the "Agreement") made and entered into as of the 29th day of December, 1999, by and among MONTEREY HOMES CONSTRUCTION, INC., an Arizona corporation ("MHC"), MONTEREY HOMES ARIZONA, INC., an Arizona corporation ("MHA"), CHANDLER 110, LLC, an Arizona limited liability company ("Chandler"), and MERITAGE HOMES OF NORTHERN CALIFORNIA, INC., a California corporation ("MHNC") (MHC, MHA, Chandler and MHNC are sometimes hereinafter severally and collectively called "Borrower"), the banks and financial institutions that are parties to this Agreement from time to time (the "Banks"), NORWEST BANK ARIZONA, NATIONAL ASSOCIATION, a national banking association, as administrative agent for the Banks (in such capacity, the "Administrative Agent") and as Issuing Bank (as hereinafter defined), and CALIFORNIA BANK & TRUST, a California banking corporation, as documentation and syndication agent for the Banks (in such capacity, the "Documentation and Syndication Agent"), for and in consideration

of the recitals and mutual promises contained herein, confirm and agree as follows:

SECTION 1. RECITALS

1.1 Borrower has applied to the Banks for a revolving line of credit loan facility in the aggregate amount of SEVENTY MILLION AND NO/100 DOLLARS (\$70,000,000.00) (the "Loan") against which Borrower may, from time to time during the term hereof, make draws, repay all or part of the same and then draw additional sums, subject to the terms, conditions and provisions set forth herein, for the purpose of financing the acquisition and development of entitled land, lots under development, improved single family residential lots and the construction of single family residential units within subdivisions located in the metropolitan areas of Phoenix, Tucson, Sacramento and San Francisco, and other Northern California metropolitan areas, and approved by Administrative Agent pursuant to the terms hereof.

SECTION 2. DEFINITIONS

2.1 DEFINITIONS. Unless otherwise defined herein, the following terms shall have the following meanings:

"ACQUISITION COST" means the actual purchase price paid by Borrower to acquire the Entitled Land or Lots in question, excluding any lot premiums.

"ADJUSTED TANGIBLE NET WORTH" means, as of any date of determination, the amount of consolidated Owners' Equity of the Meritage Group as shown on its consolidated balance sheet, plus Subordinated Debt, minus the Net Book Value (after deducting reserves applicable thereto) of all assets classified as intangible assets under GAAP, including, without limitation, goodwill, trademarks, trade names, service marks, copyrights, patents, licenses, permits, covenants not to compete, and rights related thereto.

"ADMINISTRATIVE AGENT" shall have the meaning assigned to such term in the Preamble, and any assign or successor thereto.

"ADVANCE" means a disbursement of the proceeds of the Loan.

"AGENCY FEE" means the Agency Fee set forth in a side letter between Borrower and Administrative Agent of even date herewith.

"AGREEMENT" means this Loan Agreement, as it may be amended, modified, extended, renewed, restated, or supplemented from time to time.

"APPLICABLE INTEREST RATE," with respect to a given Advance, shall mean the interest rate in effect for that Advance.

"APPRAISAL" means, as the context requires, an appraisal of the Entitled Land, Lots Under Development, Finished Lots or Units that constitute the Borrowing Base which sets forth the Appraised Value and which is (i) ordered by Administrative Agent, (ii) prepared by an appraiser satisfactory to

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Administrative Agent, (iii) in compliance with all federal and state standards for appraisals, (iv) reviewed by Administrative Agent, and (v) in form and substance satisfactory to Administrative Agent in its sole and absolute discretion.

"APPRAISED VALUE" means:

(a) With respect to Entitled Land, the market value for such Entitled Land on a bulk "as is" value basis as set forth in the Appraisal.

(b) With respect to Lots Under Development, the market value for such Lots Under Development on a bulk "as complete" value basis, as set forth in the Appraisal.

(c) With respect to Finished Lots, the market value for the Lots on a bulk "as complete" value basis, as set forth in the Appraisal or, if such Finished Lots are purchased under an option agreement (but not to exceed 25 Finished Lots per Subdivision at any one time), the retail value of the Finished Lots as set forth in the Appraisal of the applicable Units.

(d) With respect to Units, the value of a Unit and a typical Lot, without lot premiums, options, and upgrades, as set forth in the Appraisal.

"APPROVALS AND PERMITS" means each and all approvals, authorizations, bonds, consents, certificates, franchises, licenses, permits, registrations, qualifications, entitlements and other actions and rights granted by or filings with any Person necessary, or appropriate for acquisition and development of Entitled Land, Lots Under Development or Finished Lots, for construction of Units and Improvements, for the sale of Units and Finished Lots, for occupancy, ownership, and use by Borrower and other Persons of the Entitled Land, Lots Under Development, Finished Lots or Units, or otherwise for the conduct of, or in connection with, the business and operations of Borrower.

"APPROVED SUBDIVISION" means a Subdivision that has been approved as provided in Section 11. Subject to the satisfaction of the conditions set forth

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in Section 11, the parties intend to include the Subdivisions listed on EXHIBIT "F" as the initial Approved Subdivisions under the Loan.

"AVAILABLE COMMITMENT" means, at any time, the lower of:

(a) The Commitment Amount; or

(b) The Collateral Value of the Borrowing Base, as reflected in the most recent Borrowing Base Report,

LESS in either case any remarking payment required pursuant to Section 3.17 but not yet paid.

"BANK" and "BANKS" shall have the meaning assigned to such terms in the Preamble.

"BOARD" shall mean the Board of Governors of the Federal Reserve System of the United States.

"BORROWER": See initial paragraph hereof.

"BORROWING BASE" means the Entitled Land, Lots Under Development, Finished Lots and Units that meet the requirements of this Agreement for inclusion in the Borrowing Base and that are included in a Borrowing Base Report from time to time prior to the Termination Date.

"BORROWING BASE REPORT" means a report, prepared by Administrative Agent setting forth the Collateral then constituting the Borrowing Base, the Collateral Value of the Borrowing Base, and certain other information as required by this Agreement, in the format prescribed by Administrative Agent from time to time.

"BUDGET" means the amount allocated by Borrower to the hard and soft costs associated with the construction of Improvements or each Unit (which shall include an estimate for options and upgrades that shall not exceed thirty percent (30%) of the base hard and soft costs for such Improvements).

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"BUSINESS DAY" shall mean any day (other than a day which is a Saturday, Sunday or legal holiday in the State of Arizona) on which commercial banks are open for business in Phoenix, Arizona; PROVIDED, HOWEVER, that, when used in connection with a LIBOR Advance, the term "Business Day" shall exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"CB&T FACILITY" means that revolving line of credit from California Bank & Trust, a California banking corporation, to Meritage pursuant to that Credit Agreement dated September 17, 1999, by and between California Bank & Trust as administrative agent for the banks from time to time parties thereto and as issuing bank, and Meritage as borrower.

"CALENDAR MONTH" shall mean the twelve (12) calendar months of the year. Any payment or obligation that is due or required to be performed within a specified number of Calendar Months shall become due on the day in the last of such specified number of Calendar Months that corresponds numerically to the date on which such payment or obligation was incurred or commenced, provided, however, that with respect to any obligation that is incurred or commences on the 29th, 30th, or 31st day of any Calendar Month and if the Calendar Month in which such payment or obligation would otherwise be due does not have a numerically corresponding date, such payment or obligation shall become due on the first day of the next succeeding Calendar Month.

"CAPITALIZED LEASE" of a Person means any lease of property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with GAAP.

"CAPITALIZED LEASE OBLIGATIONS" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with GAAP.

"CHANGE IN CONTROL" means the occurrence or existence of either of the following events or conditions without the prior written consent of Administrative Agent, if different than the state of affairs as of the closing of the Loan:

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(a) the acquisition by any Person or two or more Persons acting in concert of "beneficial ownership" (within the meaning of Rule 13d-3 promulgated by the SEC under the Securities Exchange Act of 1934, as amended, or as otherwise specified under the provisions of this Agreement)

of securities of any member of the Meritage Group having more than 50% of the ordinary voting power for the election of directors; or

(b) the acquisition by any Person or two or more Persons acting in concert of Control of any member of the Meritage Group.

"CO-LENDER AGREEMENT" shall mean that Co-Lender Agreement of even date herewith, by and among the Administrative Agent, the Co-Agent and the Banks, as it may be amended, modified, supplemented, restated or replaced from time to time.

"COLLATERAL" means the property, interests in property, and rights to property securing any or all Obligations from time to time.

"COLLATERAL CERTIFICATE" means the certificate of Borrower, in form and substance satisfactory to Administrative Agent and containing such certifications as Administrative Agent may require, setting forth the information required by Section 5.9.

"COLLATERAL INVENTORY REPORT" means the report prepared by Borrower as required by Section 5.9.

"COLLATERAL VALUE" means, from time to time, the amounts determined in accordance with Section 5.2.

"COMMITMENT" shall mean, with respect to each Bank, the commitment of such Bank as set forth in Schedule 3.1, as such Bank's Commitment may be modified from time to time pursuant to the terms hereof. Each Bank's Commitment shall

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fully, automatically and permanently terminate on the Termination Date.

"COMMITMENT AMOUNT" means the lesser of (i) the aggregate amount of the Banks' Commitment as set forth on Schedule 3.1, and (ii) the amount of \$70,000,000.00, as the same may be reduced from time to time pursuant to Section 3.15.

"COMPLETION PERCENTAGE" means:

(a) For any Unit, the current percentage of construction completed as reflected in each Borrowing Base Report and/or Collateral Inventory Report, based upon the Construction Schedule attached hereto as EXHIBIT "G" and the Budget for that Unit; and

(b) For Lots Under Development, the current percentage of completion of Improvements in an Approved Subdivision as determined by Administrative Agent based on its review of the current Borrowing Base Report and/or Collateral Inventory Report and inspections of the Collateral made pursuant to this Agreement.

"CONSOLIDATED NET INCOME" means, for any period, the combined Net Income (or loss) of the Meritage Group for such period (taken as a cumulative whole), as determined in accordance with GAAP, after eliminating all offsetting debits and credits between or among the Meritage Group and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Meritage Group in accordance with GAAP.

"CONTINGENT OBLIGATION" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating

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agreement, take-or-pay contract and reimbursement agreements with financial institutions (including the Banks) relating to letters of credit issued by such financial institutions for the account of such Person.

"CONTROL" when used with respect to any Person means the power, directly or indirectly, to direct the management policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"CONTROLLED GROUP" means, severally and collectively, the members of the group controlling, controlled by and/or in common control of Borrower, within the meaning of Section 4001(b) of ERISA.

"CONVERSION DATE" means December 29, 2001; provided, however, that the Banks may, in the Banks' sole and absolute discretion, extend the Conversion Date pursuant to Section 3.15.

"CONVERSION PERIOD" means the period of time following the Conversion Date during which the Commitment Amount is reduced from time to time pursuant to

Section 3.15.

"DEED OF TRUST" and "DEEDS OF TRUST" mean, respectively, each and all Deeds of Trust, Assignments of Rent, Security Agreements and Fixture Filings, in each case securing the Note and the other Obligations, each being substantially in the form of EXHIBIT "B-1" for Subdivisions located in Arizona and EXHIBIT "B-2" for Subdivisions located in California, granted from time to time by Borrower, as trustor, for the benefit of Administrative Agent, as beneficiary, as the same may be amended from time to time by a Modification of Deed of Trust in substantially the form of EXHIBIT "C-1" for Subdivisions located in Arizona and EXHIBIT "C-2" for Subdivisions located in California, to encumber additional real property, and as the same may be amended, modified, extended, renewed, restated, or supplemented from time to time. Deed of Trust shall also mean an Existing Deed of Trust as modified by the Modification of Existing Deeds of Trust.

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"DEFAULT RATE" shall mean a rate per annum (computed as provided in Section 3.7) equal to the Applicable Interest Rate plus three percent (3%) and changing in conformity with each change in the Applicable Interest Rate.

"DISBURSEMENT": See Section 6.4 hereof.

"DOCUMENTATION AND SYNDICATION AGENT" shall have the meaning assigned to such term in the Preamble. The Documentation and Syndication Agent shall have no rights, duties or responsibilities under the Loan Documents beyond those of a Bank.

"DOLLARS" or "\$" shall mean lawful money of the United States of America.

"DRAW REQUEST" means a completed, written request in a form acceptable to or specified by Administrative Agent from Borrower to Administrative Agent for an Advance, together with such other documents and information as Administrative Agent may require or specify from time to time.

"EBITDA" means, for any period, an amount equal to (a) Consolidated Net Income for such period, plus (b) gross accrued interest expense of the Meritage Group on a consolidated basis (other than capitalized interest) during such period, plus (c) accruals for federal, state and local income taxes attributable to such Consolidated Net Income, plus (d) depreciation and amortization expense of the Meritage Group on a consolidated basis during such period. EBITDA shall be adjusted to add back any non-cash writedowns.

"ELIGIBILITY DATE" means:

(a) With respect to Entitled Land, the date on which such Entitled Land is first included in the Borrowing Base as Entitled Land in a Borrowing Base Report.

(b) With respect to Lots Under Development, the date on which the Entitled Land is first included in the Borrowing Base as Lots Under Development in a Borrowing Base Report;

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(c) With respect to Finished Lots, the date on which such Lots are first included in the Borrowing Base as Finished Lots in a Borrowing Base Report; and

(d) With respect to each Unit, the date on which that Unit is first included in the Borrowing Base as a Unit in a Borrowing Base Report, and regardless of whether periods exist during which such Unit is not included in the Borrowing Base.

"ENTITLED LAND" means land located in a Subdivision with respect to which all of the following is correct:

(a) Borrower has received a vested zoning classification that is consistent with Borrower's actual and proposed use of such land;

(b) A preliminary subdivision plat or tentative map has been completed and has been approved by all applicable Governmental Authorities; and

(c) Borrower has satisfied the other conditions precedent set forth in Section 12.

"ENVIRONMENTAL AGREEMENT" and "ENVIRONMENTAL AGREEMENTS" means, respectively, each and all Environmental Indemnity Agreements in form and substance satisfactory to Administrative Agent, executed by Borrower and Guarantors from time to time, for the benefit of Administrative Agent and the Banks, and relating to the Collateral, as the same may be amended, modified, extended, renewed, restated, or supplemented from time to time.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA AFFILIATE" shall mean any trade or business (whether or not incorporated) that is a member of a group of which the Borrower is a member and which is treated as a single employer under Section 414 of the Code.

"ERISA LIABILITIES" shall mean at any time the minimum liability with respect to Plans that would be required to be reflected at such time as a liability on the consolidated balance sheet of the Borrower under GAAP.

"EURODOLLAR LENDING OFFICE," with respect to any Bank (or transferee) or the Administrative Agent, shall mean such office or branch as such Bank (or transferee) or the Agent has designated to the Borrower herein in Schedule 3.1 as the office or branch of such Bank (or transferee) or the Administrative Agent which shall constitute the Lending Office thereof for LIBOR Advances.

"EVENT OF DEFAULT" has the meaning specified in Paragraph 19.1 and the other Loan Documents.

"EXISTING DEEDS OF TRUST" means the deeds of trust executed by Borrower securing payment of the Existing Loans.

"EXISTING LOANS" means those loans to Borrower in a principal amount not to exceed \$80,000,000.00 pursuant to that Credit Agreement dated December 20, 1996, as amended, by and among Borrower, Administrative Agent, as agent, and the lenders named therein.

"FACILITY FEE": See Section 8.1 hereof.

"FEES" shall mean the Facility Fee, the Agency Fee, the Letter of Credit Fee and all other fees and charges, if any (other than interest), payable hereunder or otherwise payable in connection with the Loan.

"FINANCIAL COVENANTS" means the financial covenants described in Section 19.3.

"FINISHED LOT(S)" means any Lot in an Approved Subdivision for which substantially all Improvements for such Subdivision have been completed and that has satisfied the requirements in Section 14 for inclusion in the Borrowing Base.

"GAAP" means generally accepted accounting principles consistently applied.

"GOVERNMENTAL AUTHORITY" means any government, any court, and any agency, authority, body, bureau, department, or instrumentality of any government.

"GUARANTEE" means each Continuing Guarantee substantially in the form attached hereto as EXHIBIT "D".

"GUARANTOR" or "GUARANTORS" means Meritage and all of its direct or indirect wholly owned Subsidiaries now or hereinafter existing that are not Borrower, including, without limitation, MTH - TEXAS GP, INC., an Arizona corporation, MTH - TEXAS LP, INC., an Arizona corporation, LEGACY/MONTEREY HOMES L.P., an Arizona limited partnership and TEXAS HOME MORTGAGE CORPORATION, a Texas corporation.

"HILTON" means Steven J. Hilton.

"IMPROVEMENT CONSTRUCTION COSTS" means the aggregate "hard" and "soft" costs to plan, design, and construct the applicable Improvements as set forth in the applicable Budget; PROVIDED, HOWEVER, that with respect to Finished Lots, the Improvement Construction Costs shall be the lesser of (a) the amount of "hard" costs and "soft" costs to plan, design, and construct the Improvements as set forth in the applicable Budget or (b) the amount of such costs actually incurred by Borrower to plan, design, and construct such Improvements.

"IMPROVEMENTS" means offsite improvements which may exist or which are to be constructed (including, without limitation, curbs, grading, landscape, sprinklers, storm and sanitary sewers, paving, sidewalks, and utilities) necessary to make the land suitable for the construction of single family homes and any common area improvements which may exist or which are to be constructed, together with the associated fixtures and other tangible personal property located or used in or on land on which such improvements are constructed.

"INDEBTEDNESS" of a Person means such Person's (i) secured and unsecured obligations for borrowed money, (ii) obligations representing the deferred purchase price of property or services, (iii) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from property now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, acceptances, or other instruments, (v) Capitalized Lease Obligations, (vi) guarantees, and (vii) reimbursement obligations for letters of credit. With respect to Borrower, Indebtedness includes, without limitation, all obligations under the Loan.

"INTEREST PERIOD" shall mean as to any LIBOR Advance, the period commencing on the date of such Advance and ending the day preceding the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2 or 3 months thereafter, as the Borrower may elect, or, if earlier, on the Termination Date; PROVIDED, HOWEVER, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and include the first day of an Interest Period and include the last day of such Interest Period.

"ISSUANCE DATE" means the date on which a Letter of Credit is delivered to the beneficiary thereof.

"ISSUANCE REQUEST" means a request for a Letter of Credit duly executed by Borrower in a form satisfactory to the Issuing Bank.

"ISSUE" means, with respect to any Letter of Credit, to issue or, by amendment or otherwise, to extend the expiry of, or to renew or increase or decrease the amount of, such Letter of Credit; and the terms "ISSUED," "ISSUING" and "ISSUANCE" have corresponding meanings.

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"ISSUING BANK" means Administrative Agent in its capacity as issuer of one or more Letters of Credit hereunder, together with any successor or replacement Letter of Credit issuer arising under this Agreement.

"LC BORROWING" means an extension of credit resulting from a drawing under any Letter of Credit which shall not have been reimbursed on the day after the date when made nor converted into a Variable Rate Advance.

"LC OBLIGATIONS" means at any time the sum of (a) the Outstanding LC Balance under the Loan, plus (b) the amount of all unreimbursed drawings under all Letters of Credit, including all outstanding LC Borrowings.

"LAND ALLOCATION" means, with respect to each Lot Under Development, the Maximum Allowed Advance for the Lot, if such Lot was a Finished Lot, less the hard and soft costs of construction of the Improvements on such Lot as set forth in the applicable Budget.

"LANDON" means John R. Landon.

"LENDING OFFICE," with respect to any Bank or any transferee of the Loan or the Administrative Agent, shall mean such office or branch as such Bank or such transferee or the Agent has designated to the Borrower herein as the office or branch of that Bank or such transferee or the Administrative Agent from which Loan is to be made.

"LETTER OF CREDIT" means a letter of credit, either as a standby financial or a performance letter of credit, issued by the Issuing Bank for the account of Borrower pursuant to Section 6 hereof.

"LETTER OF CREDIT FEE": See Section 6.3(a) hereof.

"LIABILITIES" of a Person means all items included in the liability section of a balance sheet of that person prepared in accordance with GAAP applied as of the date of calculation LESS accounts payable less than 60 days old arising in the ordinary course of such Person's business payable on terms customary in the trade, accrued liabilities and buyer deposits. Without limiting the generality

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of the foregoing, the term "Liabilities" shall include: (i) all Indebtedness secured by any mortgage, lien, pledge, security interest, charge or encumbrance upon or in property owned by that Person, to the extent attributable to that Person's interest in the property, even though that Person has not assumed or become liable for the payment of the Indebtedness; and (ii) the aggregate amount of the reserves established on the books of that Person in respect of contingent Liabilities and other contingencies (except reserves which are properly treated as deductions from assets) and in any event shall include with respect to the Borrower the outstanding amount of the Loan.

"LIBOR RATE" shall mean, with respect to any LIBOR Advance for any Interest Period, an interest rate per annum (rounded upwards, if necessary, at the third decimal place) equal to the offered rate for U.S. Dollar deposits of not less than \$1,000,000.00 for a period of time equal to each Interest Period as of 11:00 A.M. City of London, England time two London Business Days prior to the first date of each Interest Period as shown on the display designated as "British Bankers Assoc. Interest Settlement Rates" on the Telerate System ("Telerate"), Page 3750 or Page 3740, or such other page or pages as may replace such pages on Telerate for the purpose of displaying such rate; provided, however, that if such rate is not available on Telerate then such offered rate shall be otherwise independently determined by the Administrative Agent from an alternate, substantially similar independent source available to the Administrative Agent or shall be calculated by the Administrative Agent by a

substantially similar methodology as that theretofore used to determine such offered rate in Telerate. "London Business Day" means any day other than a Saturday, Sunday or a day on which banking institutions are generally authorized or obligated by law or executive order to close in the City of London, England.

"LIBOR ADVANCE" shall mean an Advance bearing interest at a rate determined by reference to the LIBOR Rate.

"LIBOR MARGIN" shall mean one and three-quarters percent (1.75%) per annum.

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"LIEN" means any lien (statutory or other), mortgage (including, without limitation, purchase money mortgages), pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever [including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement and contractual obligations for payment of marketing, advertising and promotion (in excess of 10% of the estimated sales price of the applicable Unit) and deferred lot premiums (in excess of 25% of the estimated sales price of the applicable Unit)], but specifically excluding ad valorem real estate taxes, assessments, community facilities district and other similar improvement lien assessments not yet delinquent.

"LIQUIDITY" means available unrestricted cash and cash equivalents, unrestricted investments with federally insured institutions and available undrawn funds under the Loan.

"LOAN" has the meaning specified in Section 1.1.

"LOAN BALANCE" means the sum of (i) with respect to the Loan on any date, the aggregate outstanding principal amount thereof, after giving effect to any borrowings and prepayments or repayments of Advances occurring on such date; plus (ii) with respect to any outstanding LC Obligations on any date, the aggregate amount of such LC Obligations on such date, after giving effect to any Issuances of Letters of Credit occurring on such date and any other changes in the aggregate amount of the LC Obligations as of such date, including changes occurring as a result of any reimbursements of outstanding unpaid drawings under any Letters of Credit or any reductions in the maximum amount available for drawing under Letters of Credit taking effect on such date.

"LOAN DOCUMENTS" means this Agreement, the Note, the Deeds of Trust, the Environmental Agreements, the Guarantees, and any other agreements, documents, or instruments evidencing, guarantying, securing, or otherwise relating to the Note, as such agreements, documents, and instruments may be amended, modified, extended, renewed, or supplemented from time to time.

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"LOAN PARTY" means Borrower and each Guarantor that from time to time is or becomes obligated under any Loan Document.

"LOT" means an individual lot designated on the final subdivision plat or filing for each Subdivision.

"LOTS UNDER DEVELOPMENT" means Entitled Land with respect to which Borrower has commenced construction of the Improvements and has satisfied the conditions precedent in Section 13 but which does not yet constitute Finished Lots.

"MARGIN STOCK" shall have the meaning given such term under Regulation U.

"MATERIAL ADVERSE CHANGE" means any change in the assets, business, financial condition, operations, prospects, or results of operations of any party or any other event or condition that in the reasonable opinion of Administrative Agent (i) could affect the likelihood of performance by Borrower or Guarantors of any of the Obligations, (ii) could affect the ability of Borrower or Guarantors to perform any of the Obligations, (iii) could affect the legality, validity, or binding nature of any of the Obligations or any lien or encumbrance securing any of the Obligations, or (iv) could affect the priority of any lien or encumbrance securing any of the Obligations.

"MAXIMUM ALLOWED ADVANCE" has the meaning set forth in Section 5.4.

"MERITAGE" means MERITAGE CORPORATION, a Maryland corporation.

"MERITAGE GROUP" means Meritage and all parties reporting on a consolidated basis with Meritage in accordance with GAAP.

"MINIMUM AMOUNT" as to a LIBOR Advance shall mean \$5,000,000.00, with increments of \$1,000,000.00 thereafter.

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"MODEL UNIT" means a Unit constructed and furnished initially for inspection by prospective purchasers that is not intended to be sold until all or substantially all of the other Units in the Subdivision are sold.

"MODIFICATION OF EXISTING DEEDS OF TRUST" means one or more Modifications of Existing Deeds of Trust executed by Borrower, modifying the Existing Deeds of Trust to secure repayment of the Loan, all in form and substance satisfactory to Administrative Agent.

"MULTIEMPLOYER PLAN" shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA to which the Borrower or any ERISA Affiliate (other than one considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code) is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"NET SALES PROCEEDS" means the gross sales price of a Unit set forth in the Purchase Contract therefor, less (i) customary tax prorrations, (ii) ordinary and customary real estate brokerage commissions paid to outside brokers, (iii) reasonable and customary escrow fees, closing costs and title insurance, (iv) any landscape or pool holdbacks, and (v) any lot premium revenue sharing to be disbursed to the lot developer.

"NET BOOK VALUE" means, with respect to an asset owned by a member of the Meritage Group, the gross investment of that member of the Meritage Group in the asset, less all reserves (including loss reserves and reserves for depreciation) attributable to that asset, all determined in accordance with GAAP.

"NET INCOME" means, for any period, after-tax consolidated net income from continuing operations, less any extraordinary income, non-operating income (except interest income) or non-cash income recorded by such Person as determined in accordance with GAAP and less any income in the aggregate in excess of 20% of Net Income from mortgage Subsidiaries or title company, escrow agent or title underwriter Subsidiaries.

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"1934 ACT" shall mean the United States Securities Exchange Act of 1934, as amended.

"NON-RECOURSE DEBT" means Indebtedness of Borrower or any Guarantor incurred to acquire property for use in the ordinary course of business of Borrower or such Guarantor for which Borrower and/or such Guarantor is not personally liable and recourse is limited to specific collateral.

"NOTE" and "NOTES" shall mean, severally and collectively, promissory notes of the Borrower executed and delivered as provided in Section 3.3(a) as such notes might be amended, modified, extended and restated from time to time.

"OBLIGATIONS" means the obligations of Borrower and Guarantors under the Loan Documents.

"OUTSTANDING LC BALANCE" in effect at any time means the maximum aggregate amount available to be drawn at such time under all outstanding Letters of Credit, the determination of such maximum amount to assume compliance with all conditions for a Disbursement.

"OWNER'S EQUITY" means such Person's total assets minus total Liabilities, each as determined in accordance with GAAP.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"PERMITTED EXCEPTIONS" has the meaning specified in the Deed of Trust.

"PERSON" means a natural person, a partnership, a joint venture, an unincorporated association, a corporation, a limited liability company, a trust, any other legal entity, or any Governmental Authority.

"PLAN" shall mean any pension plan (other than a Multiemployer Plan) that is (i) a qualified plan under Section 401(a) of the Code, (ii) subject to the provisions of Title IV of ERISA or Section 412 of the Code, and (iii) maintained for employees of the Borrower or any ERISA Affiliate.

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"PLANS AND SPECIFICATIONS" means (A) with respect to Lots Under Development and Finished Lots, the plans and specifications for construction of the applicable Improvements that have been prepared by an architect or engineer, together with any amendments or modifications to those plans and specifications, and (B) with respect to Units, the plans and specifications for construction of a particular type of Unit that have been prepared by an architect.

"PRIME RATE" shall mean the interest rate per annum designated by Norwest Bank Arizona, National Association, a national banking association, or its successors, as its "Prime Rate," as publicly announced by that bank from time to time as a means of pricing credit extensions to some customers and is neither tied to any external interest rate or index nor necessarily the lowest rate of interest charged by that bank at any given time for any particular class of customer or credit extension.

"PRESOLD UNIT" means a Unit that is subject to a Purchase Contract.

"PRODUCT LINE" means a group of Units which, in the ordinary course of Borrower's business, are marketed together under a common plan based upon the type of Unit constructed and the price of such Units.

"PROJECT" means all of the Entitled Land, Lots Under Development, Finished Lots and Units that are owned by Borrower and are encumbered by a Deed of Trust from time to time.

"PRO RATA SHARE" with respect to any individual Bank, or Pro Rata Shares with respect to all of the Banks, as the case may be, means the applicable percentage or percentages of the Commitment assigned to each of the Banks as set forth on Schedule 3.1 hereto or in the Co-Lender Agreement, as applicable.

"PURCHASE CONTRACT" means a bona fide written agreement between Borrower and a third Person purchaser for sale in the ordinary course of Borrower's business of any Unit and the related Lot, contingent solely on the sale of the

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purchaser's existing residence, and such agreement is accompanied by a non-refundable cash earnest money deposit or down payment in an amount not less than two percent (2%) of the purchase price and such purchaser has been pre-qualified for permanent mortgage financing by a financial institution in the business of making residential mortgage loans (or in lieu of such pre-qualification, a non-refundable cash earnest money deposit or down payment in an amount not less than twenty percent (20%) of the purchase price).

"RECLASSIFICATION ADJUSTMENT" means, for any Unit reclassified as to type pursuant to any provision of this Agreement, a change in the Maximum Allowed Advance for such Unit to that applicable to the type of Unit as so reclassified.

"REDEPLOYMENT LOSS" shall have the meaning assigned to such term in Section 3.12.

"REGULATION D" shall mean Regulation D of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"REGULATION G" shall mean Regulation G of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"REGULATION T" shall mean Regulation T of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"REGULATION U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"REGULATION X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"REPORTABLE EVENT" shall mean any reportable event as defined in Section 4043(b) of ERISA or the regulations issued thereunder with respect to a Plan (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code).

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"REQUIREMENTS" means any and all obligations, other terms and conditions, requirements, and restrictions in effect now or in the future by which Borrower or any or all of the Project is bound or which are otherwise applicable to any or all of the Project, construction of any Improvements or Units, or occupancy, operation, ownership, or use of the Project (including, without limitation, such obligations, other terms and conditions, restrictions, and requirements imposed by: (i) any law, ordinance, regulation, or rule (federal, state, or local); (ii) any Approvals and Permits; (iii) any Permitted Exceptions; (iv) any condition, covenant, restriction, easement, right-of-way, or reservation applicable to the Project; (iv) any insurance policies; (v) any other agreement, document, or instrument to which Borrower is a party or by which Borrower or any or all of the Project or the business or operations of Borrower is bound; or (vi) any judgment, order, or decree of any arbitrator, other private adjudicator, or Governmental Authority to which Borrower is a party or by which Borrower or any of the Project is bound.

"SEC" shall mean the United States Securities and Exchange Commission.

"SIGNIFICANT DEBT AGREEMENT" means all documents, instruments and agreements executed by any member of the Meritage Group, evidencing, securing or ensuring any Indebtedness of any member of the Meritage Group or any guaranty, in each case in excess of \$5,000,000 in outstanding principal (or principal equivalent) amount, including, without limitation, that \$80,000,000.00 line of credit from Guaranty Federal FSB to Legacy/Monterey Homes L.P. and any refinancings thereof, but excluding any Indebtedness that is Non-Recourse Debt.

"SPEC UNIT" means a Unit constructed for the purpose of addition to Borrower's inventory of Units and not subject to a Purchase Contract. A Unit that is not a Presold Unit or a Model Unit shall be deemed a Spec Unit.

"STATED AMOUNT" of a Letter of Credit means the stated amount as stated in the Letter of Credit.

"STATED EXPIRY DATE" of a Letter of Credit means the Stated Expiry Date as stated in the Letter of Credit.

"SUBORDINATED DEBT" of a Person means any Indebtedness of that Person which by its terms is subordinated, in form and substance and in a manner satisfactory to Administrative Agent in lien and right of payment to the prior payment in full of the Loan.

"SUBDIVISION" means each single family residential project (or with respect to commercial Entitled Land, a commercial project) owned by Borrower differentiated by location and/or product type and Lot size, located in the metropolitan areas of Phoenix, Tucson, Sacramento and San Francisco and other Northern California metropolitan areas, which have been approved by Administrative Agent or for which Borrower is requesting approval. A Subdivision may include one or more portions or phases of such a project.

"SUBSIDIARIES" of a Person means (i) any corporation of which more than 50% of the outstanding securities having ordinary voting power shall at the time be owned or controlled, directly or indirectly, by such Person, by one or more of such Person's Subsidiaries, or by such Person and one or more of its Subsidiaries, or (ii) any partnership, association, limited liability company, joint venture or similar business organization of which more than 50% of the ownership interests having ordinary voting power shall at the time be owned or controlled, directly or indirectly, by such Person, by one or more of such Person's Subsidiaries, or by such Person and one or more of its Subsidiaries.

"TERMINATION" shall mean the payment in full of the principal amount of all Loans, all accrued interest thereon and all Fees with respect thereto, coupled with termination of all obligations (if any) of all of the Banks to advance funds or extend credit to or for the benefit of Borrower pursuant to this Agreement.

"TERMINATION DATE" means the date that is twenty-four (24) Calendar Months after the Conversion Date.

"TITLE COMPANY" means one or more title insurance companies and any reinsurers or co-insurers required by Administrative Agent issuing the Title Policies required herein, which companies, reinsurers, and co-insurers shall be satisfactory to Administrative Agent in its reasonable discretion.

"TITLE POLICY" and "TITLE POLICIES" mean, respectively, each and all title insurance policies and endorsements thereto and reinsurance or co-insurance agreements and endorsements described in this Agreement insuring the Deeds of Trust.

"TOTAL COST" means the sum of the Acquisition Cost and the Improvement Construction Costs.

"TYPE," when used in respect of any Advance, shall refer to the rate by reference to which interest on such Advance is determined. For purposes hereof, "rate" shall mean the LIBOR Rate or the Variable Rate.

"UNIT" means a detached single-family residential dwelling constructed or to be constructed on a Finished Lot.

"UNIT COST" for a particular Unit means the typical hard costs for material and labor and typical soft costs to construct the base Unit (including options and upgrades up to a maximum of 30% of the base hard and soft costs of such Unit), plus the Acquisition Cost of the applicable Lot.

"UNMATURED EVENT OF DEFAULT" means any condition or event that with notice, passage of time, or both would be an Event of Default.

"VARIABLE RATE" shall mean the Prime Rate in effect from time to time. The Variable Rate shall change from time to time on the effective date of, and in conformity with, changes in the Prime Rate.

"VARIABLE RATE ADVANCE" shall mean an Advance bearing interest at a rate determined by reference to the Variable Rate.

2.2 TERMS GENERALLY.

(a) The definitions in Section 2.1 shall apply equally to both the singular and plural forms of the terms defined.

(b) Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms.

(c) All references herein to Articles, Sections, Paragraphs, Exhibits and Schedules shall be deemed references to Articles, Sections and Paragraphs of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require.

(d) Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time.

SECTION 3. LOAN COMMITMENT

3.1 COMMITMENT. Each Bank agrees, severally but not jointly, to loan to or for the benefit of Borrower, and Borrower shall be entitled to draw upon and borrow, in the manner and upon the terms and conditions contained in this Agreement, an amount that shall not exceed that Bank's Pro Rata Share of the Available Commitment. Subject to the terms and conditions set forth in this Agreement, each Bank is providing to Borrower its Commitment, against which a Bank shall fund its Pro Rata Share of each Advance to be made to Borrower, repaid by Borrower, and readvanced to Borrower, as Borrower may request, and the Issuing Bank shall issue such Letters of Credit as Borrower shall request, which may be terminated or repaid by Borrower and reissued, provided that (i) there is no Event of Default under any provision of this Agreement, (ii) no Advance shall be made or Letter of Credit issued that would exceed the Available Commitment,

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(iii) the Loan Balance shall not exceed the Available Commitment, (iv) no Bank shall be obligated under any circumstances to fund an Advance in excess of that Bank's Pro Rata Share of the requested Advance, (v) the aggregate amount of a Bank's funding of the Loan Balance and participations in Letters of Credit at any one time outstanding shall not exceed its Pro Rata Share of the Available Commitment, and (vi) no Letter of Credit shall be issued with a Stated Expiry Date later than the Termination Date. The Banks shall not be obligated to fund their Pro Rata Share of any Advance if, after giving effect thereto, any of the foregoing limitations would be exceeded.

3.2 ADVANCES.

(a) Each Advance shall be a single LIBOR Advance or a single Variable Rate Advance, as Borrower may request. Advances of more than one Type may be outstanding at the same time; PROVIDED, HOWEVER, that (i) Borrower shall not be entitled to request a LIBOR Advance which, if made, would result in an aggregate of more than three (3) separate LIBOR Advances being outstanding collectively under the Loan at any one time, (ii) Borrower shall not be entitled to request a LIBOR Advance which, if made, would result in an aggregate of more than seventy-five percent (75%) of the outstanding principal balance of the Loan consisting of LIBOR Advances at the time such LIBOR Advance is made, and (iii) each LIBOR Advance shall be in a principal amount which is not less than the Minimum Amount. For purposes of the foregoing, LIBOR Advances having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate LIBOR Advances.

(b) Each Advance shall be made by the Banks ratably in accordance with their Pro Rata Share of the Available Commitment; PROVIDED, HOWEVER, that the failure of any Bank to make any Advance shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood,

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however, that no Bank shall be responsible for the failure of any other Bank to make any Advance required to be made by such other Bank) and any Event of Default that occurs as a result of such failure shall be deemed to have been irrevocably waived by the Banks.

3.3 NOTES; REPAYMENT OF LOAN.

(a) The Loan made by each Bank shall be evidenced by a Note, duly completed and executed on behalf of Borrower, dated the date of said Bank's Commitment, in substantially the form of EXHIBIT "A" hereto, payable to the order of such Bank in a principal amount equal to said Bank's Commitment. Each Note shall bear interest from the date thereof on the outstanding principal balance thereof as set forth in Section 3.4. Each Bank may (and is hereby authorized by Borrower, at said Bank's discretion, to) endorse on a schedule attached to the Note held by such Bank (or on a continuation of such schedule attached to each such Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of each Advance of such Bank, each payment or prepayment of principal of any such Advance and the other information provided for on such schedule; PROVIDED, HOWEVER, that the failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of Borrower to repay the Loan in accordance with the terms of the relevant Note.

(b) All unpaid and accrued interest shall be due and payable on the first day of each and every month commencing with the first month after the date hereof.

(c) The entire unpaid principal balance, all accrued and unpaid interest and all other amounts due and payable under the Notes shall be due and payable in full on the Termination Date.

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3.4 INTEREST ON LOAN.

(a) Subject to the provisions of Sections 3.6 and 3.7, each LIBOR Advance shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to, the LIBOR Rate for the Interest Period in effect for such LIBOR Advance plus the LIBOR Margin. The LIBOR Rate for each Interest Period shall be determined by Administrative Agent in accordance with the provisions of this Agreement, and such determination shall be conclusive absent manifest error. Administrative Agent shall promptly advise Borrower and each Bank of such LIBOR Rate.

(b) Subject to the provisions of Sections 3.6 and 3.7, each Variable Rate Advance shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days, as the case may be) at a rate per annum equal to the Variable Rate. The Variable Rate shall be determined by Administrative Agent in accordance with the provisions of this Agreement, and such determination shall be conclusive absent manifest error. Administrative Agent shall promptly advise Borrower and each Bank of such Variable Rate.

3.5 NOTICE OF ADVANCES. In order to request an Advance, Borrower shall, in addition to any other requirements contained herein, give to Administrative Agent written or teletype notice (or telephone notice promptly confirmed in writing or by teletype) (an "Advance Notice"), (a) in the case of a LIBOR Advance, not later than 9:00 a.m., Arizona time, three Business Days before a proposed Advance and (b) in the case of a Variable Rate Advance, not later than 9:00 a.m., Arizona time, on the same Business Day of a proposed Advance. Each Advance Notice shall be irrevocable, shall in each case specify (i) whether the Advance then being requested is to be a LIBOR Advance or a Variable Rate Advance; (ii) the date of such Advance (which shall be a Business Day) and the amount thereof; (iii) if such Advance is to be a LIBOR Advance, the Interest Period with respect thereto; and (iv) if such Advance is to refinance all or any

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part of any outstanding Advance, the identity and amount of such Advance that Borrower requests to be refinanced; and shall be accompanied by a Disbursement Request. If no election as to the Type of Advance, or if no Interest Period with respect to any LIBOR Advance, is specified in any Advance Notice, then the requested Advance shall be a Variable Rate Advance. Subject to Section 3.7, if Borrower shall not have given notice in accordance with this Section of its election to refinance a LIBOR Advance prior to the end of the Interest Period in effect for such Advance, then Borrower (unless such Advance is repaid at the end of such Interest Period) shall be deemed to have given notice of an election to refinance such Advance with a Variable Rate Advance.

3.6 DEFAULT INTEREST. If Borrower shall default in the payment of the principal of or interest on the Loan or any other amount becoming due hereunder, whether by scheduled maturity, notice of prepayment, acceleration or otherwise, Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to but not including the date of actual payment (after as well as before judgment) at the Default Rate.

3.7 CONVERSION AND CONTINUATION OF ADVANCES. Borrower shall have the right at any time upon prior irrevocable notice to Administrative Agent (i) not later than 9:00 a.m., Arizona time, two Business Days prior to conversion, to convert any LIBOR Advance into a Variable Rate Advance, (ii) not later than 9:00 a.m., Arizona time, three (3) Business Days prior to conversion or continuation, to convert any Variable Rate Advance into a LIBOR Advance or to continue any LIBOR Advance as a LIBOR Advance for an additional Interest Period, and (iii) not later than 9:00 a.m., Arizona time, three (3) Business Days prior to conversion, to convert the Interest Period with respect to any LIBOR Advance to another permissible Interest Period, subject in each case to the following:

(a) If less than all the outstanding principal amount of any Advance shall be converted or continued as a LIBOR Advance, the aggregate principal amount of such Advance converted or continued shall be not less than the Minimum Amount;

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(b) Any LIBOR Advance may be converted only at the end of the Interest Period applicable thereto;

(c) Any portion of an Advance maturing or required to be repaid in less than one month may not be converted into or continued as a LIBOR Advance;

(d) Any portion of a LIBOR Advance which cannot be continued as a LIBOR Advance by reason of clauses (b) and (c) above shall be automatically

converted at the end of the Interest Period in effect for such Advance into a Variable Rate Advance; and

(e) Each conversion or continuation shall be made pro rata among the Banks in accordance with the respective principal amounts of the converted or continued Advances.

Each notice pursuant to this Section shall be irrevocable and shall refer to this Agreement and specify (i) the identity and amount of the Advance that Borrower requests be converted or continued, (ii) whether such Advance is to be converted to or continued as a LIBOR Advance or a Variable Rate Advance, (iii) if such notice requests a conversion, the date of such conversion (which shall be a Business Day) and (iv) if such Advance is to be converted to or continued as a LIBOR Advance, the Interest Period with respect thereto. If no Interest Period is specified in any such notice with respect to any conversion to or continuation as a LIBOR Advance, Borrower shall be deemed to have selected an Interest Period of one month's duration. Administrative Agent shall advise the other Banks of any notice given pursuant to this Section and of each Bank's portion of any converted or continued Advance. If Borrower shall not have given notice in accordance with this Section to continue any LIBOR Advance into a subsequent Interest Period (and shall not otherwise have given notice in accordance with this Section to convert such Advance), such Advance shall, at

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the end of the Interest Period applicable thereto (unless repaid pursuant to the terms hereof), automatically be continued as a Variable Rate Advance.

3.8 PREPAYMENT.

(a) Borrower shall have the right at any time and from time to time to prepay any Variable Rate Advance without prior notice.

(b) Borrower shall have the right at any time and from time to time to prepay any LIBOR Advance, in whole or in part, upon written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to Administrative Agent three (3) Business Days in advance; PROVIDED, HOWEVER, that each partial prepayment shall be in an amount which is not less than the Minimum Amount.

(c) Each notice of prepayment of a LIBOR Advance shall specify the prepayment date and the principal amount of each LIBOR Advance (or portion thereof) to be prepaid, shall be irrevocable and shall commit Borrower to prepay such LIBOR Advance (or portion thereof) by the amount stated therein on the date stated therein. All prepayments of LIBOR Advances under this Section shall be subject to Section 3.12 but otherwise without premium or penalty.

3.9 PAYMENTS.

(a) Borrower shall make each payment (including without limitation principal of or interest on any Advance or any Fees or other amounts) hereunder and under any other Loan Document no later than 11:00 a.m., Arizona time, on the date when due in Dollars to Administrative Agent at its offices at 100 West Washington, 11th Floor, Phoenix, Arizona 85003, Attention: Regional Real Estate Group, MAC S4101-110, in immediately available funds or at such other

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location as Administrative Agent may notify Borrower in writing at least three (3) Business Days prior to such payment. Borrower agrees that Administrative Agent may electronically debit an account designated by Borrower in a separate written agreement with Administrative Agent, for each such payment. Any payment received by Administrative Agent after 11:00 a.m., Arizona time, other than a payment made by electronic debit, shall be deemed to have been received by Administrative Agent on the next Business Day.

(b) Whenever any payment (including without limitation principal of or interest on any Advance or any Fees or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

3.10 RESERVE REQUIREMENTS; CHANGE IN CIRCUMSTANCES.

(a) If any Bank shall have determined that the adoption after the date hereof of any law, rule, regulation or guideline regarding capital adequacy, or any change after the date hereof in any of the foregoing or in the interpretation or administration of any of the foregoing by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any Lending Office of such Bank) or any Bank's holding company with any request or directive promulgated after

the date hereof regarding capital adequacy (whether or not having the force of law) of any such Governmental Authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement or the

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Loan made by such Bank to a level below that which such Bank or such Bank's holding company could have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy and any change to the Variable Rate or the LIBOR Rate as a result of any such adoption change or compliance) by an amount deemed by such Bank in good faith to be material, then from time to time Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered.

(b) Notwithstanding any other provision herein, if after the date of this Agreement any change in applicable law or regulation (either by way of changes in existing laws or regulations or the adoption of new laws or regulations) or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to any Bank of the principal of or interest on any LIBOR Advance made by such Bank, Fees or other amounts payable hereunder (other than changes in respect of taxes imposed on the net income of such Bank), or shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by such Bank, including without limitation any reserve requirement that may be applicable to "eurocurrency liabilities" under and as defined in Regulation D, or shall impose on such Bank or the London interbank market any other condition affecting this Agreement or any LIBOR Advance made by such Bank, and the result of any of the foregoing shall be to increase the cost to such Bank of making or maintaining any LIBOR Advance or to reduce the amount of any sum received or receivable by such Bank hereunder or under the Notes (in

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respect of LIBOR Advance only), whether of principal, interest or otherwise, by an amount deemed by such Bank in good faith to be material, then, Borrower will pay to such Bank such additional amount or amounts as will compensate such Bank for such additional costs incurred or reduction suffered.

(c) A certificate of a Bank, setting forth such amount or amounts as shall be necessary to compensate such Bank or its holding company as specified in paragraph (a) or (b) above, as the case may be, and setting forth in reasonable detail the manner in which such amount or amounts have been determined, shall be delivered to Borrower and shall be conclusive absent manifest error. Borrower shall pay each Bank the amount shown as due on any such certificate delivered by it within thirty (30) days after its receipt of the same.

(d) Except as otherwise provided herein, failure on the part of any Bank to demand compensation for any increased costs or reduction in amounts received or receivable with respect to any period shall not constitute a waiver of said Bank's right to demand compensation with respect to such period or any other period. The protection of this Section shall be available to any Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed, provided that if such Bank is compensated for such increased costs or reduction by any Governmental Authority or third party in the event such invalidity or inapplicability is finally determined, then such Bank shall return to Borrower the respective compensation paid by Borrower, up to the lesser of such amount as is received by such Bank or such amount as was paid by Borrower.

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(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section shall survive Termination, provided that Borrower shall have no further obligation to the Banks under this Section unless a certificate setting forth the amount of such obligation shall have been delivered by the Banks pursuant to paragraph (c) above within ninety (90) calendar days after the last event required for Termination to occur.

(f) Each Bank or Administrative Agent on behalf of the Banks shall give notification to Borrower of any event or prospective event which will give rise to the operation of paragraphs (a), (b) or (d) of this Section, such notification to be sent within thirty (30) days of the date of the public promulgation of the effective date of any such

law, rule, regulation, guidelines or change therein.

3.11 CHANGE IN LEGALITY.

(a) Notwithstanding any other provision herein, if after the date of this Agreement any change in any law or regulation or in the interpretation thereof by any Governmental Authority charged with the administration or interpretation thereof shall make it unlawful for any Bank to make or maintain any LIBOR Advance or to give effect to its obligations as contemplated hereby with respect to any LIBOR Advance, then by written notice to Borrower setting forth in reasonable detail the relevant circumstances and the effect thereof, such Bank may:

(i) declare that LIBOR Advances will not thereafter be made by such Bank hereunder, whereupon any request by Borrower for a LIBOR Advance shall be deemed a request to such Bank for a Variable Rate Advance unless such declaration shall be subsequently withdrawn (but such request shall be for a LIBOR Advance as to the other Banks); and

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(ii) require that all outstanding LIBOR Advances made by it be converted to Variable Rate Advances, in which event all such LIBOR Advances shall be automatically converted to Variable Rate Advances as of the effective date of such notice as provided in paragraph (b) below.

In the event any Bank shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal which would otherwise have been applied to repay the LIBOR Advances that would have been made by such Bank or the converted LIBOR Advances of such Bank shall instead be applied to repay the Variable Rate Advances made by such Bank in lieu of, or resulting from the conversion of, such LIBOR Advances.

(b) For purposes of this Section, a notice to Borrower by any Bank shall be effective as to each LIBOR Advance, if lawful, on the last day of the Interest Period currently applicable to such LIBOR Advance; in all other cases such notice shall be effective on the date of receipt by Borrower.

(c) Each Bank shall use its best efforts to give prompt notification to Borrower of any event or prospective event which will give rise to the operation of paragraph (a) of this Section.

3.12 REDEPLOYMENT LOSS. Borrower may prepay all or any portion of the principal amount of the Loans bearing interest at a LIBOR Rate, provided that if Borrower makes any such prepayment other than on the last day of an Interest Period (except pursuant to Section 3.14(a)(ii)), Borrower (a) with such prepayment, shall pay all accrued interest on the principal amount prepaid (unless less than all of the principal amount of the Loan is being prepaid, in which case such interest shall be due and payable on the next scheduled interest payment date), (b) with such prepayment, shall pay an administrative fee of \$250.00 to each Bank, and (c) on demand, shall reimburse the Banks and hold the

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Banks harmless from all losses and expenses incurred by the Banks as a result of such prepayment (the "Redeployment Loss"), including, without limitation, any losses and expenses arising from the liquidation or reemployment of deposits acquired to fund or maintain the principal amount prepaid. Such reimbursement shall be calculated as though each Bank funded the principal amount prepaid through the purchase of U.S. Dollar deposits in the London, England interbank market having a maturity corresponding to such Interest Period and bearing an interest rate equal to the LIBOR Rate for such Interest Period, whether in fact that is the case or not. Each Bank's determination of the amount of such reimbursement shall be conclusive in the absence of manifest error.

3.13 TAXES.

(a) All payments by Borrower under this Agreement shall be made without setoff or counterclaim and in such amounts as may be necessary in order that all such payments after deduction or withholding for or on account of any present or future taxes, levies, imposts, duties, withholdings or other charges of whatsoever nature and all liabilities with respect thereto, other than any taxes on or measured by the gross or net income of a Bank pursuant to (i) the income and/or franchise tax laws of the jurisdictions in which such Bank is incorporated or organized or in which the principal office of such Bank or the branch that is a party to this Agreement of that Bank is located, and (ii) the income and/or franchise tax laws of the jurisdictions in which the Lending Office or the Eurodollar Lending Office of that Bank are then located (all such nonexcluded taxes, levies, imposts, duties, withholdings and liabilities being hereinafter referred to as "Taxes"), shall not be less than the amounts otherwise specified to be paid by Borrower to or for the account of Administrative Agent or Bank (or any transferee or assignee (each, a

"Transferee")) under this Agreement. Upon request of Borrower in writing,

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each Bank shall designate a different Lending Office or Eurodollar Lending Office, as the case may be, if such designation will avoid the imposition of Taxes and if such designation will not, in the sole judgment of such Bank, be otherwise disadvantageous to such Bank. With respect to each deduction or withholding for or on account of any Taxes of Administrative Agent or any Bank (or Transferee), Borrower shall promptly (and in any event not later than 45 days thereafter) furnish to such Agent or Bank (or Transferee) a receipt evidencing payment thereof.

(b) In addition, Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Stamp Taxes"). Each Bank that is organized outside the United States represents and warrants that as of the closing date, it is not aware of any Stamp Tax imposed by the jurisdiction in which it is incorporated that applies to this Agreement or any payment made to such Bank hereunder.

(c) Borrower will indemnify each Bank (or Transferee) and Administrative Agent for the full amount of Taxes and Stamp Taxes (including without limitation any Taxes or Stamp Taxes imposed by any jurisdiction on amounts payable under this Section) paid by such Bank (or Transferee) or Administrative Agent, as the case may be, and any liability (including without limitation penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Stamp Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank (or Transferee) or Administrative Agent, as

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the case may be, makes written demand therefor. If a Bank, as the result of any Tax with respect to which Borrower is required to make a payment pursuant to this Section shall realize a tax credit or refund in its country or other jurisdiction of incorporation or organization or in the jurisdiction in which its principal office or Lending Office or Eurodollar Lending Office is then located, which tax credit or refund would not have been realized but for Borrower's payment of such Tax, such Bank shall pay to Borrower an amount equal to such tax credit or refund (to the extent of amounts that have been paid by Borrower under this Section with respect to such credit or refund) net of all out-of-pocket expenses of such Bank; PROVIDED that Borrower, upon the request of the Bank, agrees to return such credit or refund (plus penalties, interest or other charges) to such Bank in the event such Bank is required to repay such credit or refund to the relevant taxing authority. Any amount required to be calculated pursuant to this Section shall be calculated in good faith by the Bank (or Transferee) or Administrative Agent, and such calculation shall be conclusive and binding upon the parties hereto absent manifest error. In the event Borrower is required to make any payment pursuant to this Section to a Bank, such Bank shall promptly and in a timely manner take all such actions as may be reasonably available to it to pursue any possible tax credit or refund of such payment.

(d) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section shall survive Termination, provided that Borrower shall have no further obligation to the Banks under this Section unless a certificate setting forth the amount of such obligation shall have been delivered by the Banks to Borrower within ninety (90) calendar days after the occurrence of the last event to occur required for the Termination to occur.

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(e) Each Bank (or Transferee) that is organized outside the United States (i) on or before the date it becomes a party to this Agreement and (ii) with respect to each Lending Office or Eurodollar Lending Office located outside the United States of such Bank (or Transferee), on or before the date such office or branch becomes a Lending Office or Eurodollar Lending Office, shall deliver to Borrower and Administrative Agent such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including Internal Revenue Service Form 1001 and W-8 or any successor form or Form 4224 or any successor form, properly completed and duly executed by such Bank (or Transferee) establishing that payments received hereunder are (i) not subject to withholding under the Code because such payment is effectively connected with the conduct by such Bank (or Transferee) of a trade or business in the United States in which case such Bank or Transferee shall deliver to Borrower Internal Revenue Service Form 4224 or any successor form or (ii) totally exempt from United States Federal withholding tax under a provision of an applicable tax treaty. In addition, each such Bank (or Transferee) shall, if legally able to do so, thereafter deliver such certificates, documents or other evidence from time to time establishing that payments received hereunder are not subject to such withholding upon

receipt of a written request therefor from Borrower or Administrative Agent. Unless Borrower and Administrative Agent have received forms or other documents satisfactory to them indicating that payments hereunder or under the Notes are not subject to United States Federal withholding tax, Borrower or Administrative Agent shall withhold such taxes from such payments at the applicable statutory rate.

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(f) Borrower shall not be required to pay any additional amounts to any Bank (or Transferee) or Administrative Agent in respect to United States Federal withholding tax pursuant to paragraph (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Bank (or Transferee) or Administrative Agent to deliver the certificates, documents or other evidence specified in the preceding paragraph (e) unless such failure is attributable to (i) a change in applicable law, regulation or official interpretation thereof or (ii) an amendment or modification to or a revocation of any applicable tax treaty or a change in official position regarding the application or interpretation thereof, in each case on or after the date such Bank (or Transferee) or Administrative Agent becomes a party to this Agreement (or, if applicable, on or after the date a Lending Office or Eurodollar Lending Office of such Bank (or Transferee) or Agent became a Lending Office or Eurodollar Lending Office hereunder).

(g) Nothing contained in this Section shall require any Bank (or Transferee) or Administrative Agent to make available any of its tax returns (or any other information relating to its taxes) which it deems to be confidential.

(h) Each Bank or Administrative Agent on behalf of the Banks shall give notification to Borrower of any event or prospective event which will give rise to the operation of paragraphs (a), (b) or (c) of this Section, such notification to be sent within thirty (30) days of the date of the public promulgation of the effective date of any such Taxes or Stamp Taxes.

3.14 TERMINATION OR ASSIGNMENT OF COMMITMENTS UNDER CERTAIN CIRCUMSTANCES.

(a) If any Bank (or Transferee) or Administrative Agent claims any additional amounts payable pursuant to Section 3.10 or Section 3.13 or

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exercises its rights under Section 3.11, it shall (consistent with legal and regulatory restrictions) (i) promptly notify Borrower (through Administrative Agent) of the circumstances giving rise to such additional amounts or the exercise of such rights and (ii) file any certificate or document requested by Borrower or change the jurisdiction of its applicable Lending Office or take any other action if the making of such a filing or change or the taking of such action would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the sole determination of such Bank (or Transferee), be otherwise disadvantageous to such Bank (or Transferee).

(b) In the event that any Bank shall have delivered a notice or certificate pursuant to Sections 3.10 or 3.11, or Borrower shall be required to make additional payments to any Bank under Section 3.13, Borrower shall have the right, at its option and own expense, upon notice to such Bank and Administrative Agent, (i) in the case of Sections 3.10, 3.11 or 3.13 only, to terminate the Commitments of such Bank or (ii) in all cases described in this Section, to require such Bank to transfer and assign without recourse (in accordance with and subject to the restrictions contained herein and in the Co-Lender Agreement) all its interests, rights and obligations under this Agreement to another financial institution reasonably acceptable to Administrative Agent which shall assume such obligations; PROVIDED that (i) no such termination or assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) Borrower or the assignee, as the case may be, shall pay to the affected Bank in immediately available funds on the date of such termination or assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder, including without limitation amounts payable and owed to it pursuant to Sections 3.10, 3.11 and 3.12.

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(c) Each Bank represents and warrants to Borrower that as of the date hereof it is not aware of any claims available to it under Sections 3.10, 3.11 or 3.13 or any circumstances which it has determined will enable it to make any such claims.

3.15 CONVERSION DATE. Upon each anniversary date of this Agreement, the Banks may, at the request of Borrower, in the Bank's sole and absolute discretion, extend the Conversion Date for a period of twelve (12) months, upon such terms and conditions as the Banks may require, in their sole and absolute discretion, and with such changes to this Agreement or the terms and conditions herein as the Banks may require, in their sole and absolute discretion. From and

after the Conversion Date, the Loan shall cease to be a revolving line of credit and the Commitment Amount shall be automatically reduced on the last day of the third Calendar Month in the Conversion Period and on the last day of each third Calendar Month thereafter, with the amount of each such reduction to be equal to one-eighth of the Commitment Amount in effect as of the day prior to commencement of the Conversion Period.

3.16 ADVANCES DURING CONVERSION PERIOD. Borrower may continue to request Advances during the Conversion Period. Such Advances may be made by Administrative Agent to the terms and conditions of this Agreement. During the Conversion Period, Issuing Bank shall have no obligation to issue Letters of Credit and Administrative Agent shall have no obligation to approve any additional Collateral in the Borrowing Base. During the Conversion Period, Advances shall only be available with respect to Entitled Land, Lots Under Development, Finished Lots and Units in Approved Subdivisions which constitute the Borrowing Base on such date.

3.17 MANDATORY PREPAYMENTS. If for any reason at any time the Loan Balance exceeds the Available Commitment, Borrower shall immediately upon receipt of notice from Administrative Agent, make a payment to Administrative Agent in an

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amount equal to the sum of (i) such excess principal, and (ii) accrued and unpaid interest thereon. Administrative Agent, in its sole discretion, may suspend the commitment to make any further Advances until Administrative Agent shall have received such payment.

3.18 EXISTING LOAN. The Loan is intended to amend, restate and replace the Existing Loan. Upon the satisfaction of the conditions precedent set forth herein for the inclusion in the Borrowing Base of Entitled Loan, Lots Under Development, Finished Lots and Units covered by the Existing Loan, the Banks shall make Advances to the extent available hereunder in repayment of the Existing Loan. To the extent that such Advances are not sufficient to repay the Existing Loan in full, Borrower shall repay such excess from its own funds and not the proceeds of the Loan. The Existing Deeds of Trust shall be modified by the Modification of Existing Deeds of Trust to secure payment of the Loan pursuant to the terms hereof. Upon such repayment in full, the Existing Loan shall be terminated.

SECTION 4. ADVANCES

4.1 METHOD FOR ADVANCES. Advances shall be made by Administrative Agent (upon receipt of such funds from the Banks) in minimum amounts of \$500,000.00 no more frequently than daily on the same Business Day that notice is received, if received by 9:00 a.m., Arizona time, or on the next Business Day if notice is received after 9:00 a.m. on a Business Day, at the written request of a Person or Persons listed on a signature authorization form executed by Borrower and delivered to Administrative Agent from time to time, and approved by Administrative Agent. Such Person or Persons are hereby authorized by Borrower to direct the disposition of the proceeds of Advances until written notice of the revocation of such authority is received from Borrower by Administrative Agent and Administrative Agent has had a reasonable time to act upon such notice. Administrative Agent shall have no duty to monitor for Borrower or to report to Borrower the use of proceeds of Advances.

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4.2 PURPOSE OF ADVANCES. Advances shall be used first to pay interest and fees due under the Loan Documents and to pay or reimburse Borrower for costs, expenses, and fees actually incurred by Borrower in connection with the acquisition of the Project, the construction of the Improvements, the construction of Units, and other costs incurred by Borrower in the ordinary course of Borrower's business and provided that all such amounts that are currently due in the ordinary course of business have been paid, Advances may be used for general working capital purposes of Borrower.

4.3 DETERMINATION OF AMOUNT OF ADVANCES. The Available Commitment, the Collateral Value, the Maximum Allowed Advances, and the amount of each Advance shall be determined by Administrative Agent based upon: (i) the Collateral Certificate most recently submitted by Borrower (adjusted to reflect Entitled Land, Lots Under Development, Finished Lots and Units sold, the effect of Collateral losing eligibility hereunder and limitations pursuant to Section 5), (ii) Administrative Agent's inspections made pursuant to this Agreement (as such inspections may result in any adjustments to reflect any variance between (A) the Collateral Certificate, and (B) the results of such inspections), and (iii) such other information as Administrative Agent may reasonably require in order to verify such amounts.

SECTION 5. BORROWING BASE CALCULATIONS

5.1 DETERMINATION OF AVAILABLE COMMITMENT. The Available Commitment shall be determined in accordance with this Section 5 and shall be the lesser of (i) the Commitment Amount as adjusted from time to time and (ii) the Collateral Value.

5.2 DETERMINATION OF COLLATERAL VALUE. The "COLLATERAL VALUE," from time to

time, is equal to the aggregate Collateral Values for Entitled Land, Lots Under Development, Finished Lots and Units included in the Borrowing Base as of the time that the Collateral Value is determined. The "Collateral Value" is a valuation of the Borrowing Base based on, in the case of Units, the stage of construction, determined on a cumulative basis for the Entitled Land, Lots Under

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Development, Finished Lots and Units within each Approved Subdivision as follows:

(a) ENTITLED LAND. With respect to Entitled Land, the Maximum Allowed Advance for such Entitled Land.

(b) LOTS UNDER DEVELOPMENT. With respect to each Lot Under Development: (i) the Maximum Allowed Advance for such Lot MINUS the Land Allocation for such Lot, with the end result multiplied by the Completion Percentage; PLUS (ii) the Land Allocation for such Lot.

(c) FINISHED LOTS. With respect to each Finished Lot, an amount equal to the Maximum Allowed Advance with respect to such Lot.

(d) UNITS. With respect to each Unit, (i) the Maximum Allowed Advance (taking into account any applicable Reclassification Adjustment) for the Unit MINUS the Collateral Value of the related Finished Lot, with the end result multiplied by the Completion Percentage, PLUS (i) the Collateral Value of the related Finished Lot.

5.3 LIMITATION ON ADJUSTMENTS. Once the Collateral Value and the Maximum Allowed Advance are initially established for a particular item of Collateral, the Collateral Value and the Maximum Allowed Advance are not subject to increase (except as the result of reclassification of the Collateral and changes in the Completion Percentage), notwithstanding any subsequent Appraisal of the Borrowing Base and notwithstanding any increase in a Budget.

5.4 MAXIMUM ALLOWED ADVANCE. In order to determine each Collateral Value, the Maximum Allowed Advance shall be:

(a) ENTITLED LAND. With respect to Entitled Land, the Maximum Allowed Advance shall be the lesser of (i) fifty percent (50%) of the Appraised Value, or (ii) fifty percent (50%) of the Acquisition Cost.

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(b) LOTS UNDER DEVELOPMENT. With respect to Lots Under Development, the Maximum Allowed Advance shall be the lesser of (i) sixty percent (60%) of the Appraised Value, or (ii) sixty percent (60%) of the Total Cost.

(c) FINISHED LOTS. With respect to Finished Lots, the Maximum Allowed Advance shall equal the lesser of (i) seventy percent (70%) of the Appraised Value, or (ii) seventy percent (70%) of the Total Cost.

(d) UNITS. With respect to Units, the Maximum Allowed Advance shall be determined in accordance with the following:

(i) With respect to each Presold Unit, the lesser of 90% of the Appraised Value for that Unit or 90% of the price at which the Unit is to be sold to a purchaser under the applicable Purchase Contract for that Unit; PROVIDED, HOWEVER, that in no event will the Maximum Allowed Advance for any Presold Unit exceed 90% of the Unit Cost for that Unit.

(ii) With respect to each Spec Unit, 80% of the Appraised Value for that Unit; PROVIDED, HOWEVER, that in no event will the Maximum Allowed Advance for any Spec Unit exceed 80% of the Unit Cost for that Unit.

(iii) With respect to each Model Unit, 80% of the Appraised Value for that Unit; PROVIDED, HOWEVER, that in no event will the Maximum Allowed Advance for any Model Unit exceed 80% of the Unit Cost for that Unit.

5.5 ADJUSTMENTS AND LIMITATIONS. Notwithstanding any contrary provision of this Section 5, the following adjustments and limitations shall apply to the determination of the Collateral Value of the Borrowing Base:

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(a) MAXIMUM TERM - ENTITLED LAND. No Entitled Land may be included in Borrowing Base beyond the date that is nine (9) Calendar Months after the date upon which such Entitled Land was first classified as "Entitled Land" for purposes of determining the Borrowing Base PROVIDED, HOWEVER, such Entitled Land may thereafter be included as Collateral in the Borrowing Base constituting Lots Under Development upon the satisfaction of the conditions precedent set forth in this Agreement.

(b) MAXIMUM TERM - LOTS UNDER DEVELOPMENT. No Lots Under Development may be included in the Borrowing Base beyond the date that is twelve (12)

Calendar Months after the date upon which such Lots Under Development was first classified as "Lots Under Development" for purposes of determining the Borrowing Base; PROVIDED, HOWEVER, such Lots Under Development may thereafter be included as Collateral in the Borrowing Base constituting Finished Lots upon the satisfaction of the conditions precedent set forth in this Agreement.

(c) MAXIMUM TERM - FINISHED LOTS. No Finished Lots may be included in the Borrowing Base beyond the date that is twenty-four (24) Calendar Months after the date upon which such Lots were first classified as "Finished Lots" for purposes of determining the Borrowing Base.

(d) MAXIMUM TERM - UNITS. No Presold Unit may be included in the Borrowing Base beyond the date that is twelve (12) Calendar Months after the date upon which such Unit was first classified as a "Presold Unit" for purposes of determining the Borrowing Base. No Spec Unit may be included in the Borrowing Base beyond the date that is twelve (12) Calendar Months after the date upon which such Unit was first classified as a "Spec Unit" for purposes of determining the Borrowing Base. No Model Unit may be

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included in the Borrowing Base beyond the date that is twenty-four (24) Calendar Months after the date upon which such Unit was first classified as a "Unit" for purposes of determining the Borrowing Base, provided, that if such Model Unit is used for a phased, active subdivision, and the floor plan of such Model Unit continues to be offered in such Subdivision, Administrative Agent shall consider extending the period during which such Model Unit may be included in the Borrowing Base. If Presold unit or a Spec Unit is reclassified a different type of Unit, other than a Model Unit (i.e. Presold Unit to Spec Unit or vice versa), then for the purposes of determining the maximum term that such Unit may be included in the Borrowing Base such reclassification date shall be deemed to be the that such Unit is first classified as a Presold Unit or a Spec Unit, provided, that in no event shall any such Unit be included in the Borrowing Base beyond the date that is eighteen (18) Calendar Months in the aggregate after the date upon which such Unit was first classified as a "Unit" for the purposes of determining the Borrowing Base.

(e) CONVERSION OF PRESOLD UNITS AND SPEC UNITS. If a Spec Unit is reclassified as a Presold Unit (by reason of the execution and delivery of a Purchase Contract), such Unit shall be included in the Borrowing Base as a Presold Unit and, on reclassification, such Presold Unit will be subject to a Reclassification Adjustment. If a Presold Unit is reclassified as a Spec Unit (by reason of the termination of a Purchase Contract), such Unit shall be included in the Borrowing Base as a Spec Unit and, on reclassification, such Spec Unit will be subject to a Reclassification Adjustment.

(f) UNIT INELIGIBILITY. Units that are sold, that have been included as Collateral in the Borrowing Base for the maximum term determined in accordance with the provisions of this Section 5.5, or that are otherwise not eligible to be included in the Borrowing Base pursuant to any provision

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of this Agreement will no longer be included in the Borrowing Base upon sale and release in compliance with the provisions of this Agreement, upon expiration of such term, or upon such Units becoming ineligible, as the case may be. However, a Unit (but not Entitled Land, Lots Under Development or Finished Lots) that is no longer included in the Borrowing Base because of expiration of the term during which such Unit was entitled to be included in the Borrowing Base or because of its becoming ineligible pursuant to any provision of this Agreement will nevertheless remain part of the Collateral until released as permitted by this Agreement.

5.6 OCCURRENCE OF CERTAIN EVENTS. Upon the occurrence of any of the following events, any Collateral constituting any part of the Borrowing Base may be declared by Administrative Agent to no longer be included in the Borrowing Base:

(a) FORECLOSURE, ETC. The filing or commencement of any foreclosure proceeding, forfeiture proceeding, notice of trustee's sale or other action by any Person to realize upon any such Collateral.

(b) ENVIRONMENTAL MATTERS. In the event any Collateral is subject to any environmental claim or Borrower is otherwise in breach of the Environmental Agreement.

(c) DAMAGE/DESTRUCTION. In the event any Collateral is subject to any damage or destruction (including, without limitation, fire, earthquake and flood) that Administrative Agent determines is material, unless Administrative Agent is holding, and has a first priority perfected security interest in, insurance proceeds and other sums sufficient to repair and reconstruct such Collateral.

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(d) CONDEMNATION. In the event any Collateral is subject to any material condemnation as determined by Administrative Agent.

5.7 DETERMINATIONS. Any determination by Administrative Agent in its reasonable discretion as to whether Entitled Land, Lots Under Development, Finished Lots or Units are included in the Borrowing Base will be final, conclusive, binding and effective immediately. Entitled Land, Lots Under Development, Finished Lots or Units that are sold, that have been included in the Borrowing Base for the maximum term determined in accordance with the provisions of this Section 5.7, or that are otherwise not eligible to be included in the Borrowing Base pursuant to any provision of this Agreement will no longer be included in the Borrowing Base upon sale and release in compliance with the terms of this Agreement, upon expiration of such term, or upon otherwise becoming ineligible, as the case may be.

5.8 FURTHER LIMITATIONS ON COLLATERAL VALUES. Any other provision of the Loan Documents to the contrary notwithstanding, in determining the Borrowing Base and Collateral Values, the following additional restrictions shall apply and such restrictions shall be computed and reflected in each Collateral Inventory Report and Borrowing Base Report:

(a) COLLATERAL VALUE LIMIT ON AVAILABILITY FOR ALL ENTITLED LAND, LOTS UNDER DEVELOPMENT AND FINISHED LOTS. The aggregate Collateral Value with respect to all Entitled Land, Lots Under Development and Finished Lots included in the Borrowing Base shall not at any time exceed 40% of the aggregate Collateral Value of all of the Borrowing Base.

(b) COLLATERAL VALUE LIMIT ON AVAILABILITY FOR ALL SPEC UNITS AND MODEL UNITS. The aggregate Collateral Value with respect to all Spec Units and Model Units included in the Borrowing Base shall not at any time exceed 30% of the aggregate Collateral Value of all of the Borrowing Base.

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(c) INVENTORY LIMIT FOR SPEC UNITS AND MODEL UNITS. The maximum number of Spec Units and Model Units that constitute the Borrowing Base shall not at any time exceed twenty (20) such Units per Subdivision.

(d) INVENTORY LIMIT FOR UNSOLD FINISHED LOTS AND UNSOLD LOTS UNDER DEVELOPMENT. The maximum number of unsold Finished Lots plus unsold Lots Under Development under construction in Arizona and California shall not exceed at any time 2.5 times the number of closings in Arizona and California on a rolling four-quarter basis.

(e) SUBDIVISION SIZE LIMITATION. The maximum number of Lots comprising a Subdivision shall not exceed 200 Lots, unless such Subdivision is to be developed in phases satisfactory to Administrative Agent. With respect to any Subdivision with more than 200 Lots, the Collateral Value of Entitled Land, Lots Under Development, Finished Lots and Units related to such Lots in excess of 200 shall not be included in the Borrowing Base.

(f) PURCHASE MONEY DEBT LIMITATION. The Collateral Value of any Entitled Land, Lots Under Development, Finished Lots or Units securing purchase money debt (other than the Loan) shall not be included in the Borrowing Base.

(g) COMMERCIAL ENTITLED LAND. The aggregate Collateral Value with respect to all Entitled Land constituting commercial property or intended to be used for commercial rather than residential purposes included in the Borrowing Base shall not at any time exceed \$2,000,000.00.

If any of the limitations on the Borrowing Base, Maximum Allowed Advances, Collateral Value, outstanding Advances or Loan Balance set forth in this Section 5.8 or elsewhere in this Agreement are exceeded, Administrative Agent may exclude items from the Borrowing Base as selected by Administrative Agent in its sole and absolute discretion until such requirements are met. Borrower shall

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make a remargining payment pursuant to Section 3.17 resulting from any such adjustments by Administrative Agent.

5.9 COLLATERAL INVENTORY REPORT, COLLATERAL CERTIFICATE, AND BORROWING BASE REPORT.

(a) COLLATERAL INVENTORY REPORT. On or before the dates that are four (4) Business Days prior to the tenth (10th) and twenty-fifth (25th) day of each Calendar Month, Borrower will prepare and submit to Administrative Agent a Collateral Inventory Report for all of the Collateral in substantially the form of the sample attached hereto as EXHIBIT "H", including, among other things that Administrative Agent may require from time to time, the following: (i) the total number, and a description of, Entitled Land, Lots Under Development, Presold Units, Spec Units, Model Units and Finished Lots that constitute the Borrowing Base; (ii) the name of the Approved Subdivision; (iii) the Lot number as indicated on the recorded plat of the Approved Subdivision; (iv) the Unit plan type; (v) whether the Unit is a Presold Unit, a Spec Unit, a Model Unit, or

ineligible collateral; (vi) the Unit Budget; (vii) the percentage of completion up to the date of the report and the hard construction costs to complete the Lots Under Development and Units; (viii) the Appraised Value; (ix) the listing price of the Unit or the amount of the Purchase Contract, as applicable; (x) the applicable Eligibility Date; (xi) the Collateral Value and the Maximum Allowed Advance by Lot and Subdivision; (xii) the Acquisition Cost, Improvement Construction Cost and Total Cost; (xiii) the amount of Loan proceeds that are available for Advances against each item included in the Borrowing Base based on the terms of this Agreement; and (ix) a list of all Collateral that is not included in the Borrowing Base. The Collateral Inventory Report will also set forth such information concerning construction of the Units and Improvements as Administrative Agent may require, including, without limitation, the status of

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construction of the Units, a detailed breakdown of the costs of the various phases of construction of the Units and Improvements showing the amounts expended to date for such construction, and an itemized estimate of the amount necessary to complete construction of the Units and Improvements in their entirety. Administrative Agent shall complete its review of each Collateral Inventory Report and establish the Borrowing Base Report (subject to later adjustment if necessary) on or before the tenth (10th) and twenty-fifth (25th) day of each Calendar Month (or on the next succeeding Business Day if such date is not a Business Day).

(b) COLLATERAL CERTIFICATE. Each Collateral Inventory Report will be accompanied by a Collateral Certificate, in the form attached hereto as EXHIBIT "E", signed by an executive officer of Borrower. Entitled Land, Lots Under Development, Units and Finished Lots may be added to the Borrowing Base only upon receipt of the Collateral Inventory Report and Collateral Certificate which include such Entitled Land, Lots Under Development, Units and Finished Lots and upon satisfaction of all other provisions of this Agreement. Each Collateral Certificate shall be in form and substance satisfactory to Administrative Agent, shall contain such certifications as Administrative Agent may reasonably require, and shall set forth the following:

(i) The total Collateral Value for the Borrowing Base;

(ii) The calculated amount of Collateral Value and usage for all types of Collateral in the Borrowing Base and a calculation of all applicable limitations; and

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(iii) A statement that Borrower is in compliance with the terms and conditions of the Loan Documents.

(c) FORM OF REPORT AND CERTIFICATE. The Collateral Inventory Report and the Collateral Certificate will be in written form and on computer disk formatted to Administrative Agent specifications.

(d) BORROWING BASE REPORT. Administrative Agent will prepare the Borrowing Base Report and determine the Borrowing Base and the Collateral Value of the Borrowing Base (and all other amounts and items relating thereto) based upon (i) the Collateral Inventory Report and Collateral Certificate most recently submitted by Borrower; (ii) Administrative Agent's inspections made pursuant to this Agreement (as such inspections may result in any adjustments to reflect any variance between the Borrowing Base Report and/or the Collateral Inventory Report and the results of such inspections by Administrative Agent); and (iii) such other information as Administrative Agent may reasonably require in order to verify the Borrowing Base, the Collateral Value of the Borrowing Base, and all other amounts and items relating thereto. The Borrowing Base Report will also take into account the sale of Units and all other adjustments and limitations permitted or required by this Agreement. Each determination by Administrative Agent, in its reasonable judgment, of the Borrowing Base and the Collateral Value of the Borrowing Base, and each determination by Administrative Agent, in its reasonable judgment, as to the amount of any Advance to which Borrower is entitled, based on the information in the Borrowing Base Report (and all other amounts and items entering into such determinations), will be final, conclusive and binding upon Borrower. Provided, that Borrower submits the Collateral Inventory Reports as required pursuant to Section 5.9(a) above, Administrative Agent shall

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establish the Borrowing Base Report and determine the Collateral Value of the Borrowing Base (subject to later adjustment if necessary) on or before the tenth (10th) and twenty-fifth (25th) day of each Calendar Month (or on the next succeeding Business Day if such date is not a Business Day).

SECTION 6. LETTERS OF CREDIT

6.1 ISSUANCE OF LETTERS OF CREDIT.

(a) Subject to the terms and conditions of this Agreement, (i) the

Issuing Bank agrees from time to time before the Conversion Date to issue Letters of Credit for the account of Borrower; and (ii) the Banks severally agree to participate in Letters of Credit issued for the account of Borrower, subject to the prior approval by each Bank of the provisions of each Letter of Credit. Each reference in this Agreement to the "issue" or "issuance" or other forms of such words in relation to Letters of Credit shall be deemed to include any extension or renewal of a Letter of Credit.

(b) Each Letter of Credit shall (i) by its terms be issued in a Stated Amount; (ii) have a Stated Expiry Date no later than the Termination Date; (iii) expire or be terminated by the beneficiary thereunder on or before its Stated Expiry Date; (iv) not exceed the Available Commitment; (v) shall not cause the Loan Balance to exceed the Available Commitment; and (v) not cause the Outstanding LC Balance after the issuance of said Letter of Credit to exceed \$20,000,000.00.

(c) In addition to the conditions otherwise specified in this Section, the obligation of the Issuing Bank to issue a Letter of Credit shall be subject to the further condition precedent that the following statements shall be correct, and each application for such Letter of Credit and the issuance of such Letter of Credit shall constitute a representation and warranty by Borrower that on the date of the issuance of such Letter of Credit such statements are correct:

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(i) The representations and warranties in Section 17 are correct on and as of the date of the issuance of such Letter of Credit, before and after giving effect to such issuance, as though made on and as of such date;

(ii) No Event of Default has occurred and is continuing; and

(iii) The conditions in Section 3.1 are satisfied as of the date of issuance of the Letter of Credit, before and after giving effect to such issuance.

6.2 ISSUANCE PROCEDURE FOR LETTERS OF CREDIT. By delivery to the Issuing Bank of an Issuance Request on or before 9:00 a.m. (Phoenix, Arizona time) five (5) Business Days prior to the requested Issuance Date, and the execution of such applications and agreements as the Issuing Bank may reasonably request, Borrower may request the issuance of a Letter of Credit in such form as Borrower may reasonably request. Each Issuance Request shall include the form of the Letter of Credit, the amount and other terms thereof. Subject to the terms and conditions of this Agreement, the Issuing Bank will issue such Letter of Credit on the Issuance Date specified in the Issuance Request submitted in connection therewith. The Issuing Bank and Borrower agree that all Letters of Credit issued pursuant to the terms of this Section shall be subject to the terms and conditions and entitled to the benefits of this Agreement and the other Loan Documents.

6.3 LETTER OF CREDIT FEES AND COSTS.

(a) Borrower agrees to pay to Administrative Agent, for distribution to the Banks pursuant to the Co-Lender Agreement, a non-refundable fee (the "Letter of Credit Fee") equal to one percent (1%) per annum on the Stated Amount of each Letter of Credit, computed on a daily basis, from and

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including the Issuance Date of such Letter of Credit to the Stated Expiry Date (the "Outstanding Period"). The Letter of Credit Fee shall be payable in advance upon the issuance of a Letter of Credit. Upon an Event of Default, the Letter of Credit Fee shall be equal to three hundred basis points (3.0%) above the Letter of Credit Fee.

(b) Borrower further agrees to pay to the Issuing Bank for its account a charge for all reasonable administrative expenses of the Issuing Bank in connection with the issuance, amendment or modification (if any) and administration of the Letter of Credit upon demand from time to time.

6.4 DISBURSEMENTS. The Issuing Bank will notify Borrower of the presentment for payment of a Letter of Credit by any beneficiary thereto, together with notice of the date (the "Disbursement Date") such payment shall be made. Subject to the terms and provisions of the Letter of Credit, the Issuing Bank shall make such payment (a "Disbursement") to the beneficiary of the Letter of Credit. Each such Disbursement shall be deemed to be an Advance hereunder.

6.5 REIMBURSEMENT OBLIGATIONS OF BORROWER. Borrower's obligation to reimburse the Banks with respect to each Disbursement (including interest thereon) in respect of any Letter of Credit shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim, or defense to payment which Borrower may have or have had against the Banks, the Issuing Bank, Administrative Agent or the beneficiary thereof, including any defense based upon the occurrence of any Event of Default, any draft, demand or certificate or other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient, the failure of any Disbursement to

conform to the terms of the Letter of Credit (if, in Issuing Bank's good faith opinion, such Disbursement is determined to be appropriate) or any non-application or misapplication by the beneficiary of the proceeds of such Disbursement, or the legality, validity, form, regularity or enforceability of the Letter of Credit; PROVIDED, HOWEVER, that nothing herein shall adversely

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affect the right of Borrower to commence any proceeding against Issuing Bank for any wrongful Disbursement made by Issuing Bank under the Letter of Credit as a result of acts or omissions constituting gross negligence or wilful misconduct on the part of Issuing Bank.

6.6 NATURE OF REIMBURSEMENT OBLIGATIONS. Borrower shall assume all risks of the acts, omissions or misuse of any Letter of Credit by the beneficiary thereof. Neither the Banks nor the Issuing Bank (except to the extent of its own gross negligence or wilful misconduct) shall be responsible for:

(a) The form, validity, sufficiency, accuracy, genuineness or legal effect of any Letter of Credit or any document submitted by any party in connection with the issuance of any Letter of Credit, even if such document should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged;

(b) The form, validity, sufficiency, accuracy, genuineness or legal effect of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit;

(c) Failure of any beneficiary of any Letter of Credit to comply fully with conditions required in order to demand payment under a Letter of Credit;

(d) Errors, omissions, interruption or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise; or

(e) Any loss or delay in the transmission or otherwise of any document or draft required by or from a beneficiary of a Letter of Credit in order to make a Disbursement under a Letter of Credit or of the proceeds thereof.

None of the foregoing shall affect, impair or prevent the vesting of any of the rights or powers granted the Banks or the Issuing Bank hereunder. In furtherance and extension, and not in limitation or derogation of any of the foregoing, any

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action taken or omitted to be taken by the Banks or the Issuing Bank in good faith shall be binding upon Borrower and shall not put the Banks or the Issuing Bank under any resulting liability to Borrower.

6.7 BANKS OBLIGATION. Nothing herein shall be deemed to relieve any Bank from its obligations to fulfill its Pro Rata Share of the Available Commitment hereunder or to prejudice any right which Administrative Agent or Borrower may have against any Bank as a result of any default by such Bank hereunder.

6.8 CERTAIN REQUIREMENTS AS TO LETTERS OF CREDIT. The Issuing Bank is under no obligation to Issue any Letter of Credit if:

(a) Any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the Issuing Bank from Issuing such Letter of Credit, or any requirement of law applicable to the Issuing Bank or any request or directive (with which it is customary for banks in the relevant jurisdiction to comply whether or not having the force of law) from any Governmental Authority with jurisdiction over the Issuing Bank shall prohibit, or request that the Issuing Bank refrain from, the Issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the Issuing Bank with respect to such Letter of Credit any restriction, reserve, or capital requirement (for which the Issuing Bank is not otherwise compensated hereunder) not in effect on the closing date hereof, or shall impose upon the Issuing Bank any unreimbursed loss, cost, or expense which was not applicable on the closing date and which the Issuing Bank in good faith deems material to it;

(b) The Issuing Bank has received written notice from any Bank, Administrative Agent or Borrower, on or prior to the Business Day prior to

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the requested date of Issuance of such Letter of Credit, that one or more of the applicable conditions contained herein is not then satisfied;

(c) The Stated Expiry Date of any requested Letter of Credit is not in accord with the requirements of Section 6.1(b), unless all of the Banks have approved such Stated Expiry Date;

(d) Any requested Letter of Credit does not provide for drafts, or is not otherwise in form and substance acceptable to the Issuing Bank, or the Issuance of a Letter of Credit shall violate any applicable policies of the

Issuing Bank; or

(e) Such Letter of Credit is to be used for a purpose other than as provided herein or denominated in a currency other than Dollars.

6.9 RISK PARTICIPATIONS, DRAWINGS, AND REIMBURSEMENTS.

(a) Immediately upon the Issuance of each Letter of Credit, each Bank shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Bank a participation in such Letter of Credit and each drawing thereunder in an amount equal to the product of (i) the Pro Rata Share of such Bank, times (ii) the maximum amount available to be drawn under such Letter of Credit and the amount of any drawing, respectively. For purposes of the Commitment, each Issuance of a Letter of Credit shall be deemed to utilize each Bank's Pro Rata Share of the Commitment by an amount equal to the amount of such participation.

(b) In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, the Issuing Bank will promptly notify Borrower. The Issuing Bank shall honor any Disbursement request under any Letter of Credit only if (i) such request is delivered to the Issuing Bank by the beneficiary of such Letter of Credit, and (ii) such request is accompanied by the original documents, if any, required by the

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Letter of Credit for any Disbursement. Except as otherwise provided herein, Borrower shall reimburse the Issuing Bank prior to 11:00 a.m. (Phoenix, Arizona local time) on the day after any amount is paid by the Issuing Bank under any Letter of Credit (each such date, an "Honor Date"), in an amount equal to the amount so paid by the Issuing Bank. In the event Borrower is required but fails to reimburse the Issuing Bank for the full amount of any drawing under any Letter of Credit by 11:00 a.m. (Phoenix, Arizona local time) on the day after the Honor Date, the Issuing Bank will promptly notify Administrative Agent and Administrative Agent will promptly notify each Bank thereof. Any notice given by the Issuing Bank or Administrative Agent pursuant to this Section may be oral if immediately confirmed in writing (including by facsimile); provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(c) Each Bank shall upon any notice pursuant to this Section make available to Administrative Agent for the account of the Issuing Bank an amount in Dollars and in immediately available funds equal to its Pro Rata Share of the amount of the drawing, whereupon the Banks shall (subject to paragraph (d)) each be deemed to have made a Variable Rate Advance to Borrower in that amount.

(d) With respect to any unreimbursed drawing, Borrower shall be deemed to have incurred from the Issuing Bank a Variable Rate Advance in the amount of such drawing.

6.10 ROLE OF THE ISSUING BANK. Each Bank and Borrower agree that, in paying any drawing under a Letter of Credit, the Issuing Bank shall not have any responsibility to obtain any document (other than any sight draft and

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certificates expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document.

6.11 CASH COLLATERAL UPON EVENT OF DEFAULT. Without limitation upon any of the Banks' other rights or remedies under this Agreement or the other Loan Documents, upon demand by Administrative Agent following the occurrence of an Event of Default, Borrower shall immediately deposit an amount equal to any amounts then available to be drawn under the Letters of Credit in a special interest bearing account with Administrative Agent to be held by Administrative Agent, for the benefit of the Banks, as collateral security for the obligations described in this Agreement. To the extent that Borrower fails to deliver such amount, Borrower agrees that such amount shall be includable for all purposes in the amounts owing under this Agreement. Without limitation upon the generality of the foregoing, Borrower agrees that such amounts may be included in credit bids upon foreclosure of the liens of any or all of the Loan Documents. Such account shall be pledged, pursuant to a pledge agreement in form and content satisfactory to Administrative Agent, to Administrative Agent, for the benefit of the Banks, as long as the Letter(s) of Credit are outstanding or any obligation of Borrower under the Loan Documents remains outstanding, and shall permit withdrawals only with the signature of Administrative Agent. Borrower hereby agrees to execute all documents required by Administrative Agent in connection with any such deposit in order to create, confirm, perfect, or permit Administrative Agent to realize upon its security interests therein, and hereby irrevocably grants to Administrative Agent a power of attorney, coupled with an interest, to execute all such documents.

7.1 RELEASE OF COLLATERAL REQUEST OF BORROWER. Borrower may request releases of Entitled Land, Lots Under Development, Finished Lots and Units from the lien and encumbrance of the Deed of Trust from time to time; PROVIDED, HOWEVER, Administrative Agent shall be under no obligation to release any Entitled Land, Lots Under Development, Finished Lot or Unit unless each of the following conditions precedent is satisfied:

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(a) With respect to each parcel of Entitled Land, Lots Under Development and Finished Lot (i) Borrower shall have paid to Administrative Agent an amount equal to the applicable Collateral Value, (ii) no Event of Default or Unmatured Event of Default has occurred and is continuing (other than an Event of Default under Paragraphs 8.1(b)(c) or (d) of The Deeds of Trust), and (iii) both before and after giving effect to such release and any payments to be made pursuant to this sentence, the Loan Balance does not exceed the Available Commitment and Borrower has made any payments then required pursuant to Section 3.17 hereof;

(b) With respect to each Unit (i) Borrower shall have paid to Administrative Agent an amount equal to the greater of (A) the applicable Collateral Value, or (B) the Net Sales Proceeds, (ii) unless such release is in connection with a sale to an unrelated third party purchaser, no Event of Default or Unmatured Event of Default has occurred and is continuing (other than an Event of Default under Paragraphs 8.1(b)(c) or (d) of The Deeds of Trust), and (iii) both before and after giving effect to such release and any payments to be made pursuant to this sentence, the Loan Balance does not exceed the Available Commitment and Borrower has made any payments then required pursuant to Section 3.17 hereof;

(c) If requested by Administrative Agent in connection with the release of less than all of parcel of property that is not subject to a plat, Administrative Agent shall have received such endorsements to the Title Policy as Administrative Agent may require insuring the continuing lien of the Deed of Trust as to the remaining real property encumbered by the Deed of Trust and any easements required by Administrative Agent;

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(d) All costs and expenses of Administrative Agent relating to all releases shall be paid by Borrower, including but not limited to reconveyance fees, title fees, recording fees and legal expenses; and

(e) No release shall impair or adversely affect Administrative Agent's security in any real property remaining subject to the Deed of Trust or any term or provision of the Deed of Trust as it pertains to any real property remaining subject to the Deed of Trust.

Any amounts payable to Administrative Agent under subparagraphs (a) and (b) above shall be applied to the outstanding principal balance of all Advances (first to Variable Rate Advances unless otherwise requested by Borrower). Borrower shall take all action necessary to ensure that all Net Sales Proceeds from the sale of a Unit are paid by the Title Company directly to Administrative Agent, rather than to Borrower. All such proceeds shall be deposited into an account in the name of Borrower, maintained with Administrative Agent and under the sole dominion and control of Administrative Agent (the "Bank Control Account"). Administrative Agent shall use its best efforts to apply amounts payable to Administrative Agent under subparagraphs (a) and (b) above to the outstanding principal balance of all Advances on the same Business Day received (but in any event on the next Business Day). All funds at any time in the Bank Control Account are hereby assigned to Administrative Agent as additional security for the Loan and all other indebtedness of Borrower arising hereunder.

7.2 OTHER RELEASES. Subject to the satisfaction of the conditions contained in Sections 7.1(c), (d) and (e) above, Administrative Agent shall release the lien and encumbrance of the Deed of Trust from any property that is conveyed to a homeowners' association or any property that is dedicated to governmental entities if such conveyance is made without any compensation.

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SECTION 8. FEES

As additional consideration for the Commitment, Borrower agrees to pay to Administrative Agent for distribution to Administrative Agent and the Banks in accordance with the Co-Lender Agreement the following fees, from Borrower's own funds (unless otherwise indicated), which shall be earned on the date due under the Loan Documents and shall be non-refundable to Borrower:

8.1 FACILITY FEE. A fee for the Commitment (the "Facility Fee") at the rate of one-quarter of one percent (.25%) per annum of the maximum Commitment Amount (i.e., \$70,000,000.00) shall be due and payable quarterly in advance on each January 1, April 1, July 1 and October 1, provided that the initial Facility Fee shall be payable on the date of this Agreement and shall be prorated for the period commencing on the date of this Agreement and ending on December 31, 1999 at the per annum rate set forth above.

8.2 AGENCY FEE. The Agency Fee in accordance with terms and conditions set

forth in a side letter between Borrower and Administrative Agent.

8.3 LETTER OF CREDIT FEE. See Section 6.3 hereof.

8.4 ATTORNEYS' COSTS, EXPENSES, AND FEES. Attorneys' costs, expenses, and fees for Administrative Agent's counsel and the Banks' counsel as provided in the Loan Documents, payable on or before the date hereof and during the term of the Commitment, from time to time upon the presentation by Administrative Agent of statements therefor.

8.5 APPRAISAL FEES, TITLE INSURANCE PREMIUM, AND OTHER COSTS, EXPENSES, AND FEES. Appraisal fees, appraisal review fees, title insurance premiums, and other costs, expenses, and fees that Borrower is obligated to pay pursuant to the Loan Documents, in the amounts specified by Administrative Agent, payable on or before the date hereof, and monthly thereafter during the term of the Commitment.

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SECTION 9. SECURITY

9.1 SECURITY. Borrower shall cause the Loan and Borrower's obligations under this Agreement to be secured in form and substance satisfactory to Administrative Agent by the following:

(a) One or more Deeds of Trust constituting:

(i) A first and prior lien on the Project, subject only to such matters as specifically approved by Administrative Agent therein;

(ii) A valid and effectual assignment of rents and leases covering the Project;

(iii) A valid and effectual security agreement granting Administrative Agent a first and prior security interest in all of the property described below in, to, or under which Borrower now has or hereafter acquires any right, title or interest, whether present, future, or contingent: all equipment, inventory, accounts, general intangibles, instruments, documents, and chattel paper, as those terms are defined in the Uniform Commercial Code, and all other personal property of any kind (including without limitation money and rights to the payment of money), whether now existing or hereafter created, that are now or at any time hereafter (i) in the possession or control of Administrative Agent in any capacity; (ii) erected upon, attached to, or appurtenant to, the Project; (iii) located or used on the Project or identified for use on the Project (whether stored on the Project or elsewhere); or (iv) used exclusively in connection with, arising

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exclusively from, related exclusively to, or associated exclusively with the Project or any of the personal property described herein, the construction of any improvements on the Project, the ownership, development, maintenance, leasing, management, or operation of the Project, the use or enjoyment of the Project, or the operation of any business conducted on the Project; together with all products and proceeds of all of the foregoing, in any form;

together with any UCC financing statements for filing and/or recording and any other items required by Administrative Agent to fully perfect the liens and security interests of Administrative Agent.

SECTION 10. CONDITIONS PRECEDENT FOR EFFECTIVENESS OF AGREEMENT

The obligation of the Banks to make the Loan and each and every Advance and the obligation of the Issuing Bank to issue Letters of Credit are subject to the following express conditions precedent, all of which, unless otherwise provided below, shall have been satisfied, in each case as determined by Administrative Agent in its sole and absolute discretion, prior to the effectiveness of this Agreement:

10.1 DOCUMENTS. Borrower shall have executed (or obtained the execution or issuing of) and delivered to Administrative Agent the following documents, all in form satisfactory to Administrative Agent:

(a) The Note;

(b) The Guarantee;

(c) An Environmental Indemnity Agreement covering all Subdivisions now or hereafter constituting Collateral hereunder.

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(d) If Borrower or any partner or member in Borrower or any Guarantor is other than a natural person: (i) a copy of the organizational documents for that entity; (ii) evidence of proper formation and good standing of that entity in the state of its organization; (iii) evidence of the

qualification or registration of that entity in the states in which such entity is doing business, if such states are not the state of its organization; and (iv) proper resolutions, authorizations, certificates and such other documents as Administrative Agent may require, relating to the existence and good standing of that entity and the authority of any person executing documents on behalf of that entity. No change shall be made to any organizational documents previously submitted to Administrative Agent without Administrative Agent's prior written approval, which approval shall not be unreasonably withheld.

10.2 CO-LENDER AGREEMENT. The Banks, Administrative Agent and the Documentation and Syndication Agent shall have entered into the Co-Lender Agreement.

10.3 INSURANCE POLICIES. Lender shall have received certificates evidencing the policies of insurance required under the Loan Documents.

10.4 PAYMENT OF COSTS, EXPENSES, AND FEES. All costs, expenses, and fees to be paid by Borrower under the Loan Documents on or before the effectiveness of this Agreement, the effectiveness of the Commitment, the making of any Advance or the Issuance of any Letter of Credit have been paid in full.

10.5 LEGAL OPINION. Borrower, at its expense, shall have provided Administrative Agent with a written opinion by counsel in form and substance reasonably acceptable to Administrative Agent.

10.6 REPRESENTATIONS TRUE. All representations and warranties by Borrower shall remain true and correct and all agreements that Borrower is to have performed or complied with by the date hereof shall have been performed or complied with.

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10.7 NO DEFAULTS. No Event of Default or Unmatured Event of Default exists.

SECTION 11. CONDITIONS PRECEDENT TO APPROVAL OF SUBDIVISIONS

Borrower may, from time to time, request Administrative Agent to approve Subdivisions. Approvals of each Subdivision shall be granted by Administrative Agent in its reasonable discretion, provided, that such Subdivision satisfies at all times the conditions precedent set forth in this Section 11. In any event, only Subdivisions located in the metropolitan areas of Phoenix, Tucson, Sacramento and San Francisco, and other Northern California metropolitan areas shall be approved pursuant to this Agreement. When requesting consideration of a new Subdivision, Borrower shall deliver to Administrative Agent such documentation as Administrative Agent may require, and each of the following conditions precedent shall have been satisfied, as determined by Administrative Agent in its reasonable discretion:

11.1 PLAT OR SURVEY. Borrower shall have delivered to Administrative Agent and Administrative Agent shall have approved either (a) one or more recorded plats, one of which covers the entire Subdivision; each plat must contain a legal description of the land covered by the plat, must describe and show all boundaries of and lot lines within such land, all streets and other dedications, and all easements affecting such land, and must satisfy such additional requirements as Administrative Agent may, reasonably prescribe; or (b) one or more current surveys and a tentative plat map approved by the applicable Governmental Authority. Each survey must be certified by, and stamped with the professional seal of, a surveyor or civil engineer satisfactory to Administrative Agent and licensed in the State in which the Subdivision is located. Each survey must satisfy the then current requirements for an ALTA or similar survey and such additional requirements as Administrative Agent may

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prescribe in its sole discretion. Each tentative plat map must satisfy the requirements of a plat as set forth in Section 11(a).

11.2 PRELIMINARY TITLE REPORT. Borrower shall have provided to Administrative Agent, and Administrative Agent shall have approved, in its sole and absolute discretion, one or more preliminary title reports covering the Subdivision, together with a copy of each Schedule B item.

11.3 DEED OF TRUST/MODIFICATION TO DEED OF TRUST. Borrower shall have executed, delivered, acknowledged, and recorded a Deed of Trust (or a modification to existing Deed of Trust) covering, if possible, the entire Subdivision (together with any financing statements required by Administrative Agent). To the extent possible, Borrower shall ensure that all Entitled Land, Lots Under Development, Finished Lots and Units located in a single Subdivision are covered by a single Deed of Trust.

11.4 ENVIRONMENTAL QUESTIONNAIRE. The form of environmental questionnaire requested by Administrative Agent, fully completed and duly executed by Borrower. The answers to the questions in the questionnaire must be satisfactory to Administrative Agent in its sole and absolute discretion.

11.5 ENVIRONMENTAL ASSESSMENT. A report of an environmental assessment of

the Entitled Land, Lots Under Development, Finished Lots or Units dated or updated (unless in connection with a project encumbered by the Existing Deeds of Trust) within the previous twelve (12) month period, addressed to Administrative Agent by an environmental engineer acceptable to Administrative Agent containing such information, results, and certifications as Administrative Agent may require, in its sole and absolute discretion. Depending upon the results of the environmental assessment, Borrower shall also provide such follow up testing, reports, and other actions as may be required by Administrative Agent in its sole and absolute discretion. The contents of the environmental assessment report and any follow up must be satisfactory to Administrative Agent in its sole and absolute discretion. All environmental reports shall be the sole property of Administrative Agent.

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11.6 TITLE INSURANCE. Borrower shall have provided to Administrative Agent and Administrative Agent shall have approved an American Land Title Association or similar loan policy or policies of title insurance or an endorsement to an existing title policy or policies or an irrevocable and unconditional commitment to issue such policy or policies or endorsement issued by the Title Company at Administrative Agent's request insuring the Deed of Trust encumbering each such Subdivision. Each such policy shall have a liability limit of not less than the Commitment Amount (or such lesser amount approved by Administrative Agent in its sole and absolute discretion) and shall provide coverage and otherwise be in form and substance satisfactory to Administrative Agent (including without limitation mechanic's lien coverage, comprehensive coverage, and revolving credit coverage) insuring Administrative Agent's interest under the applicable Deed of Trust as a valid first lien on the fee interest in the property encumbered by the Deed of Trust. Such policy shall be accompanied by such reinsurance and co-insurance agreements and endorsements as Administrative Agent may require in its sole and absolute discretion. Such policy must contain only such exceptions as are satisfactory to Administrative Agent in its sole and absolute discretion and must have attached such endorsements as Administrative Agent may require in its sole and absolute discretion.

11.7 FLOOD ZONE. Evidence as to whether (i) the Subdivision is located in an area designated by the United States Department of Housing and Urban Development as having special flood or mudslide hazards, and (ii) the community in which the Subdivision is located is participating in the National Flood Insurance Program.

11.8 SOILS TESTS. A soils test report addressed to Administrative Agent prepared by a licensed soils engineer acceptable to Administrative Agent showing the locations of, and containing boring logs for, all bores, together with recommendations for the design of the foundations of the Units.

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11.9 INSURANCE POLICIES. Borrower shall have provided to Administrative Agent the certificates of insurance required under the Loan Documents.

11.10 ASSESSMENTS, CHARGES, AND TAXES. For taxes and assessments on the Project that Administrative Agent has approved in writing in its sole and absolute discretion for payment in installments pursuant to the Deed of Trust, evidence that such installments are current. For all other taxes and assessments and all utility and services charges, evidence that they have been paid in full.

11.11 CONTRACTS. If required by Administrative Agent, Borrower shall have delivered to Administrative Agent all executed contracts relating to design and construction of the Improvements and Units between Borrower and any other Person (including, without limitation, each architect and each contractor or subcontractor for labor, material, or services). The contract price in each contract shall be within the budgeted amount in the applicable Budget.

11.12 PROJECTIONS. Borrower shall have delivered to Administrative Agent a project proforma with respect to such Subdivision, including projected budgets, sales and pricing in substantially the form of the sample attached hereto as EXHIBIT "J".

11.13 PAYMENT OF COSTS, EXPENSES, AND FEES. All costs, expenses, and fees to be paid by Borrower under the Loan Documents on or before the effectiveness of this Agreement, the effectiveness of the Commitment, or the request for Subdivision approval, including, without limitation recording, documentary stamp tax and intangible taxes, shall have been paid in full.

11.14 OTHER ACTIONS BY BORROWER. Borrower shall have performed such other actions as Administrative Agent may reasonably require.

11.15 REPRESENTATIONS TRUE. All representations and warranties by Borrower shall remain true and correct and all agreements that Borrower is to have performed or complied with by the date hereof shall have been performed or complied with.

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11.16 NO DEFAULTS. No Event of Default or Unmatured Event of Default exists.

SECTION 12. CONDITIONS PRECEDENT TO APPROVAL OF ENTITLED LAND

Borrower may, from time to time, request Administrative Agent to approve Entitled Land for inclusion in the Borrowing Base. Approvals of Entitled Land for inclusion in the Borrowing Base shall be granted by Administrative Agent in its reasonable discretion, provided, that as such Collateral satisfies the applicable requirements of this Agreement. Entitled Land shall be considered for inclusion in the Borrowing Base no more frequently than twice per Calendar Month. In addition to the conditions precedent for Advances herein, Borrower may include and maintain Entitled Land in the Borrowing Base only if the following conditions precedent are satisfied at all times that such Entitled Land is included in the Borrowing Base, in each case as determined by Administrative Agent in its reasonable discretion:

12.1 APPROVED SUBDIVISION. The Entitled Land shall be located in an Approved Subdivision and Borrower shall have satisfied at all times the conditions set forth in Section 11 with respect to such Entitled Land.

12.2 FEE TITLE. Fee title to the Entitled Land shall have been acquired by Borrower and Administrative Agent shall have received evidence of such acquisition satisfactory to Administrative Agent in its sole and absolute discretion.

12.3 DOCUMENTS. Administrative Agent has received the following agreements, documents, and instruments, each duly executed by the parties thereto and in form and substance satisfactory to Administrative Agent in its sole and absolute discretion:

(a) APPRAISAL. An Appraisal of the Entitled Land, with the date of valuation (unless in connection with a Project previously encumbered by the

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Existing Deeds of Trust) within 120 days of the date of the request to include the Entitled Land in the Borrowing Base. The Appraisal shall have been approved by Administrative Agent in its sole and absolute discretion.

(b) OTHER ITEMS. Such other agreements, documents, and instruments as Administrative Agent may reasonably require (including, without limitation, if required by Administrative Agent, a copy of the zoning for the Entitled Land, all related stipulations, and the zoning ordinances; a copy of all conditions, covenants, and restrictions related to the Entitled Land; a copy of any public reports or disclosures required under applicable state or federal law once prepared by Borrower and approved by the applicable Governmental Authority; evidence satisfactory to Administrative Agent that such Entitled Land satisfy the definition of Entitled Land set forth herein).

12.4 PAYMENT OF COSTS, EXPENSES, AND FEES. All costs, expenses, and fees to be paid by Borrower under the Loan Documents on or before the effectiveness of this Agreement, the effectiveness of the Commitment, or the request for approval of the Entitled Land, including, without limitation recording, documentary stamp tax and intangible taxes, shall have been paid in full.

12.5 OTHER ACTIONS BY BORROWER. Borrower shall have performed such other actions and delivered such other documents as Administrative Agent may reasonably require.

12.6 REPRESENTATIONS TRUE. All representations and warranties by Borrower shall remain true and correct and all agreements that Borrower is to have performed or complied with by the date hereof shall have been performed or complied with.

12.7 NO DEFAULTS. No Event of Default or Unmatured Event of Default exists.

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12.8 LIMITATIONS. After giving effect to the addition of such Entitled Land in the Borrowing Base, the limitations and restrictions on the Borrowing Base in Section 5 are not violated.

SECTION 13. CONDITIONS PRECEDENT TO APPROVAL OF LOTS UNDER DEVELOPMENT

Borrower may, from time to time, request Administrative Agent to approve Lots Under Development for inclusion in the Borrowing Base. Approvals of Lots Under Development for inclusion in the Borrowing Base shall be granted by Administrative Agent in its reasonable discretion, provided, that such Collateral satisfies the applicable requirements of this Agreement. Lots Under Development shall be considered for inclusion in the Borrowing Base no more frequently than twice per Calendar Month. In addition to the conditions precedent for Advances herein, Borrower may include and maintain Lots Under Development in the Borrowing Base only if the following conditions precedent are satisfied at all times that such Lots Under Development are included in the Borrowing Base, in each case as determined by Administrative Agent in its reasonable discretion:

13.1 APPROVED SUBDIVISION. The Lots Under Development shall be located in an Approved Subdivision and Borrower shall have satisfied at all times the conditions set forth in Sections 11 and 12 with respect to such Lots Under Development.

13.2 FEE TITLE. Fee title to the Lots Under Development shall have been acquired by Borrower and Administrative Agent shall have received evidence of such acquisition satisfactory to Administrative Agent in its sole and absolute discretion.

13.3 DOCUMENTS. Administrative Agent has received the following agreements, documents, and instruments, each duly executed by the parties thereto and in form and substance satisfactory to Administrative Agent in its sole and absolute discretion:

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a) APPRAISAL. An Appraisal of the Lots Under Development, with the date of valuation (unless in connection with a Project previously encumbered by the Existing Deeds of Trust) within 120 days of the date of the request to include the Lots Under Development in the Borrowing Base. The Appraisal shall have been approved by Administrative Agent in its sole and absolute discretion.

(b) BUDGET. A Budget for the respective Improvements, together with the cost of the applicable Lots Under Development as determined in accordance with GAAP.

(c) PLANS AND SPECIFICATIONS. Plans and Specifications for the respective Improvements.

(d) CONSTRUCTION. At the request of Administrative Agent, evidence that construction of the Improvements will commence within thirty (30) days or has commenced or been completed on the Lots Under Development.

(e) OTHER ITEMS. Such other agreements, documents, and instruments as Administrative Agent may reasonably require (including, without limitation, if required by Administrative Agent, a copy of the zoning for the Lots Under Development, all related stipulations, and the zoning ordinances; a copy of all conditions, covenants, and restrictions related to the Lots Under Development; a copy of any public reports or disclosures required under applicable state or federal law; a copy of the architectural committee approval and any other approvals required under the conditions, covenants, and restrictions).

13.4 PAYMENT OF COSTS, EXPENSES, AND FEES. All costs, expenses, and fees to be paid by Borrower under the Loan Documents on or before the effectiveness of this Agreement, the effectiveness of the Commitment, or the request for approval of the Lots Under Development, including, without limitation recording, documentary stamp tax and intangible taxes, shall have been paid in full.

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13.5 OTHER ACTIONS BY BORROWER. Borrower shall have performed such other actions and delivered such other documents as Administrative Agent may reasonably require.

13.6 REPRESENTATIONS TRUE. All representations and warranties by Borrower shall remain true and correct and all agreements that Borrower is to have performed or complied with by the date hereof shall have been performed or complied with.

13.7 NO DEFAULTS. No Event of Default or Unmatured Event of Default exists.

13.8 LIMITATIONS. After giving effect to the addition of such Lots Under Development in the Borrowing Base, the limitations and restrictions on the Borrowing Base in Section 5 are not violated.

SECTION 14. ADDITIONAL CONDITIONS PRECEDENT TO THE INCLUSION OF EACH FINISHED LOT IN THE BORROWING BASE

Borrower may, from time to time, request Administrative Agent to approve Finished Lots for inclusion in the Borrowing Base. Approvals of each Finished Lot for inclusion in the Borrowing Base shall be granted by Administrative Agent in its reasonable discretion, provided, that such Finished Lot satisfies the applicable requirements of this Agreement. Finished Lots shall be considered for inclusion no more frequently than twice per Calendar Month. In addition to the conditions precedent for Advances herein, Borrower may include and maintain each Finished Lot in the Borrowing Base only if the following conditions precedent are satisfied at all times that such Finished Lot is included in the Borrowing Base, in each case as determined by Administrative Agent in its reasonable discretion:

14.1 APPROVED SUBDIVISION. The Finished Lot shall be located in an Approved Subdivision and Borrower shall have satisfied at all times the conditions set forth in Sections 11, 12 and 13 with respect to such Lot.

14.2 FEE TITLE. Fee title to the applicable Finished Lot shall have been acquired by Borrower and Administrative Agent shall have received evidence of such acquisition satisfactory to Administrative Agent in its sole and absolute discretion.

14.3 PLAT. Borrower shall have delivered to Administrative Agent and Administrative Agent shall have approved a final plat and final map (with respect to California properties), and if required by Administrative Agent with respect to California properties Administrative Agent shall have received a Subdivision Map Act Endorsement to the applicable title policy, covering the applicable Finished Lots.

14.4 DOCUMENTS. Administrative Agent has received the following agreements, documents, and instruments, each duly executed by the parties thereto and in form and substance satisfactory to Administrative Agent in its sole and absolute discretion:

(a) APPRAISAL. An Appraisal for all of the Finished Lots in the respective Subdivision with the date of valuation (unless in connection with Finished Lots previously encumbered by the Existing Deeds of Trust) within 120 days of the date of the request to include the Finished Lot in the Borrowing Base. The Appraisal shall have been approved by Administrative Agent in its sole and absolute discretion.

(b) IMPROVEMENTS. Representation by Borrower that substantially all Improvements related to the Finished Lot have been installed and that construction of the Improvements complies with plans and specifications previously approved by Administrative Agent.

(c) OTHER ITEMS. Such other agreements, documents, and instruments as Administrative Agent may reasonably require.

14.5 PAYMENT OF COSTS, EXPENSES, AND FEES. All costs, expenses, and fees to be paid by Borrower under the Loan Documents on or before the effectiveness of this Agreement, the effectiveness of the Commitment, or the request for approval of the Finished Lot, including, without limitation recording, documentary stamp tax and intangible taxes, shall have been paid in full.

14.6 OTHER ACTIONS BY BORROWER. Borrower shall have performed such other actions and delivered such other documents as Administrative Agent may reasonably require.

14.7 REPRESENTATIONS TRUE. All representations and warranties by Borrower shall remain true and correct and all agreements that Borrower is to have performed or complied with by the date hereof shall have been performed or complied with.

14.8 NO DEFAULTS. No Event of Default or Unmatured Event of Default exists.

14.9 LIMITATIONS. After giving effect to the addition of such Finished Lot in the Borrowing Base, the limitations and restrictions on the Borrowing Base in Section 5 are not violated.

SECTION 15. ADDITIONAL CONDITIONS PRECEDENT TO THE INCLUSION OF EACH UNIT IN THE BORROWING BASE

Borrower may, from time to time, request Administrative Agent to approve Units for inclusion in the Borrowing Base or to reclassify existing Finished Lots or Units. Approvals of each Unit for inclusion in the Borrowing Base and reclassification of existing Finished Lots and Units shall be granted by Administrative Agent in its reasonable discretion, provided, that each such Unit satisfies the applicable requirements of this Agreement. Units shall be considered for inclusion or reclassification in the Borrowing Base no more

frequently than twice per Calendar Month. In addition to the conditions precedent for Advances herein, Borrower may include and maintain each Unit in the Borrowing Base only if the following conditions precedent are satisfied at all times that such Unit is included in the Borrowing Base, in each case as determined by Administrative Agent in its reasonable discretion:

15.1 APPROVED SUBDIVISION. The Unit shall be located in an Approved Subdivision and Borrower shall have satisfied at all times the conditions set forth in Sections 11, 12, 13 and 14 with respect to the Unit and related Lot.

15.2 FEE TITLE. Fee title to the applicable Lot shall have been acquired by Borrower and Administrative Agent shall have received evidence of such acquisition satisfactory to Administrative Agent in its sole and absolute discretion.

15.3 PLAT. Borrower shall have delivered to Administrative Agent and Administrative Agent shall have approved a final plat and final map (with

respect to California properties), and if required by Administrative Agent with respect to California properties Administrative Agent shall have received a Subdivision Map Act Endorsement to the applicable title policy, covering the applicable Lot.

15.4 DOCUMENTS. Administrative Agent has received the following agreements, documents, and instruments, each duly executed by the parties thereto and in form and substance satisfactory to Administrative Agent in its sole and absolute discretion:

(a) APPRAISAL. An Appraisal for the respective type of Unit, valid as determined by Administrative Agent in its sole and absolute discretion, and, if requested by Administrative Agent, an updated Appraisal for the respective type of Unit. The Appraisal shall have been approved by Administrative Agent in its sole and absolute discretion.

(b) BUDGET. A Budget for the respective type of Unit together with the Acquisition Cost of the applicable Lot.

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(c) PLANS AND SPECIFICATIONS. Plans and Specifications for the respective type of Unit.

(d) PURCHASE CONTRACT. At the request of Administrative Agent, if such Unit is a Presold Unit, a copy of a Purchase Contract for such Unit.

(e) PUBLIC REPORTS. If required by Administrative Agent, a copy of the public report issued to Borrower for the sale of the Units once prepared by Borrower and approved by the applicable Governmental Authority.

(f) OTHER ITEMS. Such other agreements, documents, and instruments as Administrative Agent may reasonably require.

15.5 PAYMENT OF COSTS, EXPENSES, AND FEES. All costs, expenses, and fees to be paid by Borrower under the Loan Documents on or before the effectiveness of this Agreement, the effectiveness of the Commitment, or the request for approval of the Unit, including, without limitation recording, documentary stamp tax and intangible taxes, shall have been paid in full.

15.6 OTHER ACTIONS BY BORROWER. Borrower shall have performed such other actions and delivered such other documents as Administrative Agent may reasonably require.

15.7 REPRESENTATIONS TRUE. All representations and warranties by Borrower shall remain true and correct and all agreements that Borrower is to have performed or complied with by the date hereof shall have been performed or complied with.

15.8 NO DEFAULTS. No Event of Default or Unmatured Event of Default exists.

15.9 LIMITATIONS. After giving effect to the addition of such Unit in the Borrowing Base, the limitations and restrictions on the Borrowing Base in Section 5 are not violated.

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SECTION 16. ADDITIONAL CONDITIONS PRECEDENT TO ADVANCES

The Banks shall be obligated to make an Advance only upon satisfaction by Borrower of the following additional conditions precedent, as determined by Administrative Agent in its sole and absolute discretion:

16.1 REPRESENTATIONS AND WARRANTIES ACCURATE. The representations and warranties by Borrower in the Loan Documents are correct on and as of the date of the Advance, as though made on and as of such date, and after giving effect to such Advance.

16.2 DEFAULTS. No Event of Default or Unmatured Event of Default shall have occurred and be continuing both before and after giving effect to such issuance or Advance.

16.3 DRAW REQUEST. Borrower shall have delivered or sent by facsimile to Administrative Agent a Draw Request for such Advance.

16.4 APPROVALS AND INSPECTIONS BY GOVERNMENTAL AUTHORITIES. As required by Administrative Agent, all inspections, Approvals and Permits by Governmental Authorities or other Persons required for the stage of completion of the Improvements or the Unit have been obtained and, if required by Administrative Agent, Administrative Agent has received evidence thereof satisfactory to Administrative Agent.

16.5 PAYMENT OF COSTS, EXPENSES, AND FEES. All costs, expenses, and fees to be paid by Borrower under the Loan Documents on or before the Advance have been paid in full.

Borrower hereby authorizes Administrative Agent, and Administrative Agent

reserves the right in its sole and absolute discretion, to verify any documents and information submitted to Administrative Agent in connection with this Agreement. Administrative Agent may elect, in its sole and absolute discretion, to waive any of the foregoing conditions precedent. Any such waiver shall be effective only if (i) it is in writing executed by Administrative Agent, (ii) it

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specifically identifies the condition precedent, and (iii) it states whether the condition precedent is waived as a requirement of the effectiveness of this Agreement, as a requirement of the effectiveness of the Commitment, or as a requirement for a particular Advance, or otherwise. Any such waiver shall be limited to the condition(s) precedent therein and the requirements therein. Delay or failure by Administrative Agent to insist on satisfaction of any condition precedent shall not be a waiver of such condition precedent or any other condition precedent. If Borrower is unable to satisfy any condition precedent of an Advance, the making of the Advance shall not preclude Administrative Agent from thereafter declaring the condition or event causing such inability to be an Event of Default.

SECTION 17. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Administrative Agent, Documentation and Syndication Agent and the Banks as follows:

17.1 RECITALS AND STATEMENTS. The recitals and statements of intent of Borrower appearing in this Agreement are true and correct.

17.2 ORGANIZATION; POWERS; ETC. (a) The Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation; (b) the Borrower has the power and authority to own its property and assets and to carry on its business as now conducted and is qualified to do business in every jurisdiction where such qualification is required except where the failure to so qualify would not result in a material adverse effect on the business, assets, operations or condition (financial or otherwise) of the Borrower; and (c) the Borrower has the power to execute, deliver and perform this Agreement and the other Loan Documents and to borrow hereunder.

17.3 AUTHORIZATION; ETC. The execution, delivery and performance by the Borrower of this Agreement, the Advances hereunder, and the issuance, execution and delivery of the Notes: (a) have been duly authorized by all requisite

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action; (b) will not violate (i) any provision of law, any order of any court, or any rule, regulation or order of any other agency of government, (ii) the organizational documents of Borrower, or (iii) any provision of any material indenture, agreement or other instrument to which the Borrower is a party, or by which the Borrower or any of its properties or assets are or may be bound; (c) will not be in conflict with, result in a breach of or constitute (alone, with notice, with lapse of time, or with any combination of these factors) a default under any indenture, agreement or other instrument referred to in (b)(iii) above; and (d) will not result in the creation or imposition of any Lien upon any property or assets of the Borrower (except pursuant to the Loan Documents). Except for filings which may be required under the 1934 Act, no registration with or consent or approval of, or other action by, any Governmental Authority is required in connection with the execution, delivery and performance of this Agreement, the execution and delivery of the Notes or the Advances hereunder.

17.4 ENFORCEABILITY. This Agreement constitutes, and each other Loan Document when duly executed and delivered by the Borrower and Guarantors will constitute, the legal, valid and binding obligation of the Borrower and Guarantors, respectively, enforceable in accordance with its terms, subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium and other laws of general applicability relating to or affecting creditors' rights from time to time in effect and to general principles of equity (regardless of whether such enforcement is considered in a proceeding at law or in equity).

17.5 LITIGATION. There are no actions, suits or proceedings at law or in equity or by or before any governmental instrumentality or other agency now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or Guarantors or any property or rights of the Borrower or Guarantors which would be reasonably likely in the aggregate to (i) materially impair the ability of the Borrower or Guarantors to perform their obligations

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under this Agreement, the Notes or the other Loan Documents or materially impair the ability of the Borrower or Guarantors to carry on business substantially as now being conducted or (ii) result in any material adverse change in the business, assets, operations, or condition (financial or otherwise) of the Borrower or Guarantors.

17.6 FEDERAL RESERVE REGULATIONS.

(a) The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose

of purchasing or carrying Margin Stock.

(b) No part of the proceeds of any Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, (i) to purchase or carry Margin Stock or to extend credit to others for the purpose of purchasing or carrying Margin Stock or to refund indebtedness originally incurred for such purpose, or (ii) for any purpose which entails a violation of, or which is inconsistent with, the provisions of the Regulations of the Board, including Regulation G, U or X.

17.7 INVESTMENT COMPANY ACT. The Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

17.8 PUBLIC UTILITY HOLDING COMPANY ACT. The Borrower is not a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended.

17.9 NO BREACH. The execution, delivery and performance by Borrower and Guarantors of this Agreement, the Notes, the Loan Documents and all other documents and instruments relating to the Loan will not result in any breach of the terms, conditions or provisions of, or constitute a default under, any agreement or instrument under which Borrower or Guarantors is a party or is

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obligated. Neither Borrower nor any Guarantor is in default in the performance or observance of any covenants, conditions or provisions of any such agreement or instrument.

17.10 FINANCIAL STATEMENTS TRUE. All financial statements, profit and loss statements, statements as to ownership and other statements or reports previously or hereafter given to the Administrative Agent or the Banks by or on behalf of Borrower and Guarantors are and shall be true, complete and correct as of the date thereof. There has been no material adverse change in the financial condition of Borrower or any Guarantor since the latest financial statements given to the Administrative Agent or the Banks.

17.11 SIGNIFICANT DEBT AGREEMENTS. Neither Borrower nor any Guarantor is in default in any material respect under any Significant Debt Agreement.

17.12 ERISA. (a) No Reportable Event has occurred and is continuing with respect to any Plan; (b) PBGC has not instituted proceedings to terminate any Plan; (c) neither the Borrower, any member of the Controlled Group, nor any duly-appointed administrator of a Plan (i) has incurred any liability to PBGC with respect to any Plan other than for premiums not yet due or payable or (ii) has instituted or intends to institute proceedings to terminate any Plan under Section 4041 or 4041A of ERISA; and (d) each Plan of Borrower has been maintained and funded in all material respects in accordance with its terms and in all material respects in accordance with all provisions of ERISA applicable thereto. The Borrower does not participate in, or is not required to make contributions to, any Multi-employer Plan (as that term is defined in Section 3(37) of ERISA).

17.13 SOLVENT. Borrower in the aggregate (both before and after giving effect to the Loan contemplated hereby) is solvent, has assets having a fair value in excess of the amount required to pay its probable liabilities on its existing debts as they become absolute and matured, and has, and will have, access to adequate capital for the conduct of its business and the ability to pay its debts from time to time incurred in connection therewith as such debts mature.

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17.14 LIENS. The liens, security interests and assignments created by the Loan Documents will, when granted, be valid, effective, properly perfected and enforceable liens, security interests and assignments.

17.15 LICENSES. Borrower has obtained, or will obtain when necessary or appropriate, and there remain in full force and effect all licenses, permits, consents, approvals and authorizations necessary or appropriate for the construction of the Improvements and Units.

17.16 FILING OF TAXES. Borrower has filed all federal, state and local tax returns and has paid all of its current obligations before delinquent, including all federal, state and local taxes and all other payments required under federal, state or local law.

17.17 BUDGETS AND PLANS AND SPECIFICATIONS. Each applicable Budget contains Borrower's best estimate of all costs, expenses, and fees to be incurred by Borrower in connection with the Improvements and the Units. Each Plans and Specifications and related working drawings are an accurate and complete description of the Improvements or Units related thereto.

17.18 AFFIRMATION. Each request by Borrower for an Advance shall constitute an affirmation on the part of Borrower that the representations and warranties

contained herein are true and correct in all material respects as of the time of such request and that the conditions precedent set forth in Sections 10, 11, 12, 13, 14, 15 and 16 hereof have been satisfied in all material respects. All representations and warranties made herein shall survive the execution of this Agreement, all Advances and the execution and delivery of all other documents and instruments in connection with the Loan, so long as the Banks have any commitment to lend to Borrower hereunder and until the Loan and all indebtedness hereunder have been paid in full and all of Borrower's obligations hereunder have been fully discharged.

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SECTION 18. AFFIRMATIVE COVENANTS

So long as the Banks have any commitment to lend to Borrower hereunder and until the Loan and all other indebtedness hereunder have been paid in full and all of Borrower's obligations hereunder have been fully discharged:

18.1 CORPORATE, LIMITED LIABILITY COMPANY, OR PARTNERSHIP EXISTENCE. If Borrower is a corporation, a limited liability company, or a partnership, Borrower shall continue to be validly existing, and in the case of a corporation or a limited liability company in good standing, under the law of the jurisdiction of its organization or formation.

18.2 BOOKS AND RECORDS; ACCESS BY ADMINISTRATIVE AGENT. Borrower will maintain a single, standard, modern system of accounting, on an accrual basis in accordance with GAAP, including without limitation, a single, complete, and accurate set of books and records of its assets, business, financial condition, operations, property, prospects, and results of operations in accordance with good accounting practices. Borrower will give representatives of Administrative Agent access to all assets, property, books, records, and documents of Borrower and will permit such representatives to inspect such assets and property and to audit, copy, examine, and make excerpts from such books, records, and documents.

18.3 INFORMATION AND STATEMENTS. Borrower shall furnish or cause to be furnished to Administrative Agent the following information and statements:

(a) CONSOLIDATING AND CONSOLIDATED QUARTERLY STATEMENTS OF THE MERITAGE GROUP. As soon as available, and in any event within sixty (60) days after the end of each fiscal quarter of the Meritage Group, copies of the consolidating and consolidated balance sheet of the Meritage Group as of the end of such fiscal quarter, and consolidating and consolidated statements of income and cash flows of the Meritage Group for that fiscal quarter and for the portion of the fiscal year ending with such fiscal quarter, in each case setting forth in comparative form the figures for the

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corresponding period of the preceding fiscal year, all in reasonable detail and fairly stated and prepared by the Meritage Group in accordance with GAAP. As soon as available and in any event within 60 days after the end of each quarter of the Meritage Group's fiscal year, a copy of the Meritage Group's quarterly report on Form 10-Q filed with the SEC.

(b) CONSOLIDATING AND CONSOLIDATED ANNUAL STATEMENTS OF THE MERITAGE GROUP. As soon as available and in any event within one hundred twenty (120) days after the close of each fiscal year of the Meritage Group, audited consolidated financial statements of the Meritage Group, including its consolidated balance sheet as of the close of such fiscal year and consolidated statements of income and cash flows of the Meritage Group for such fiscal year, in each case setting forth in comparative form the figures for the preceding fiscal year, all in reasonable detail and accompanied by an unqualified opinion thereon of independent public accountants of recognized national standing selected by the Meritage Group and acceptable to Administrative Agent, to the effect that such financial statements have been prepared in accordance with GAAP (except for changes in which such accountants concur) and that the examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, includes such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances. As soon as available and in any event within one hundred twenty (120) days after the close of each fiscal year of the Meritage Group, company prepared consolidating financial statements of the Meritage Group, including its consolidating balance sheet as of the close of such fiscal year and consolidating statements of income and cash flows of the Meritage Group for such fiscal year, in each case

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setting forth in comparative form the figures for the preceding fiscal year, all in reasonable detail and prepared in accordance with GAAP. Within 60 days prior to each fiscal year of the Meritage Group, a projection, in reasonable detail and in form and substance satisfactory to Administrative Agent, on a quarterly basis of the cash flow and of the earnings of the Meritage Group for the next one (1) fiscal year, together with gross and net margin analysis of each project by quarter. As soon as available and in any event within 120 days after the end of the Meritage Group's fiscal year, a copy of the Meritage Group's annual report on Form 10-K filed with

the SEC.

(c) CLOSING REPORT. As soon as available and in any event within fifteen (15) Business Days after the end of each Calendar Month, a monthly report of all Unit and other sales closed on the previous rolling month, in form and substance satisfactory to Administrative Agent, together with a reconciliation of the most recently submitted Borrowing Base Report and recalculation of the Borrowing Base after giving effect to such closings. For purposes of this paragraph, a sale will be deemed to have closed when Title Company has received all funds necessary to close the sale and to pay Administrative Agent all sums owed to Administrative Agent pursuant to Section 3.17 hereof.

(d) SALES REPORTS AND INVENTORY REPORTS. As soon as the same are available, and in any event within fifteen (15) Business Days after the end of each Calendar Month, a monthly sales, closings and backlog report showing sales of Units during the preceding month. Within sixty (60) days after the end of each calendar quarter, a report showing (A) the status of Units under construction and Lots as of the end of the preceding calendar quarter, and (B) an inventory report of Entitled Land, Lots Under Development and Finished Lots as of the end of the preceding calendar quarter. Such reports shall be in substantially the form of the samples attached hereto as EXHIBIT "I" and shall contain such detailed information as Administrative Agent may reasonably require.

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(e) COLLATERAL INVENTORY REPORT AND COLLATERAL CERTIFICATE. On or before the dates that are four (4) Business Days prior to the tenth (10th) and the twenty-fifth (25th) day of each Calendar Month, the Collateral Inventory Report, accompanied by the Collateral Certificate.

(f) CERTIFICATE OF COMPLIANCE. A certificate in form and substance satisfactory to Administrative Agent that the Meritage Group is in compliance with all covenants, terms, and conditions applicable thereto under or pursuant to all agreements with Administrative Agent and the Banks and under the Loan Documents, including, without limitation, the Financial Covenants. Such certificate shall be provided by Borrower within one hundred twenty (120) days after the end of each fiscal year of Borrower and within sixty (60) days after the end of each interim quarterly accounting period of Borrower.

(g) OTHER ITEMS AND INFORMATION. Such other information concerning Borrower, the Project, and the assets, business, financial condition, operations, property, prospects, and results of operations of Borrower as Administrative Agent reasonably requests from time to time. In this regard, upon request of Administrative Agent, Borrower shall deliver to Administrative Agent counterparts and/or conditional assignments as security of any and all construction contracts, receipted invoices, bills of sale, statements, conveyances, and other agreements, documents, and instruments of any nature relating to the Project or under which Borrower claims title to any materials or supplies used or to be used in the Project. Also, in this regard, upon request of Administrative Agent, Borrower shall deliver to Administrative Agent a complete list of all contractors, subcontractors, material suppliers, other vendors, artisans, and laborers performing work or services or providing materials or supplies for the Project.

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18.4 LAW; JUDGMENTS; MATERIAL AGREEMENTS; APPROVALS AND PERMITS. Borrower shall comply with all laws, ordinances, regulations, and rules (federal, state, and local) and all judgments, orders, and decrees of any arbitrator, other private adjudicator, or Governmental Authority relating to Borrower, the Project, or the assets, business, operations, or property of Borrower. Borrower shall comply in all material respects with all material agreements, documents, and instruments to which Borrower is a party or by which Borrower, the Project, or any of the other assets or property of Borrower is bound or affected. Borrower shall comply with all Requirements (including, without limitation, as applicable, requirements of the Federal Housing Administration and the Veterans Administration) and all conditions and requirements of all Approvals and Permits. Borrower shall obtain and maintain in effect from time to time all Approvals and Permits required for the business activities and operations then being conducted by Borrower in the Project.

18.5 TAXES AND OTHER INDEBTEDNESS. Except for taxes and assessments being contested in accordance with the Deed of Trust and except for taxes and assessments that Administrative Agent has agreed in its sole and absolute discretion may be paid in installments as provided in the Deed of Trust, Borrower shall pay and discharge (i) before delinquency all taxes, assessments, and governmental charges or levies imposed upon it, upon its income or profits, or upon any property belonging to it, or upon the Note, any Deed of Trust, or the indebtedness evidenced or secured thereby, (ii) when due all lawful claims (including, without limitation, claims for labor, materials, and supplies), which, if unpaid, might become a Lien or Encumbrance upon any of its assets or property, and (iii) all its other material trade credit. Upon the request of Administrative Agent, Borrower shall deliver to Administrative Agent receipts or

other evidence satisfactory to Administrative Agent showing payment of all taxes and assessments on the Collateral. Borrower shall pay when due all dues and charges for water and water delivery, electricity, gas, sewers, waste removal, bills for repairs, and any and all other claims, encumbrances and expenses incident to the ownership of the Collateral.

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18.6 ASSETS AND PROPERTY. Borrower will maintain, keep, and preserve all of its assets and property (tangible and intangible) (including, without limitation, the Project) necessary or useful in the proper conduct of its business and operations in good working order and condition, ordinary wear and tear excepted.

18.7 INSURANCE. The following insurance shall be obtained and maintained and all related premiums shall be paid as they become due:

(a) PROPERTY. Insurance of the Project against damage or loss by fire, lightning, and other perils, on an all-risks basis, such coverage to be in an amount not less than the full replacement cost. During the period of construction of the Project, such policy shall be written in the so-called "BUILDER'S RISK COMPLETED VALUE NON-REPORTING FORM," on an all-risks basis, with no coinsurance requirement except as approved by Administrative Agent, and shall contain a provision granting the insured permission to complete and/or occupy the Project.

(b) LIABILITY. Commercial general liability insurance protecting Borrower and Administrative Agent against loss or losses from liability imposed by law or assumed in any agreement, document, or instrument and arising from bodily injury, death, or property damage with a limit of liability of not less than \$2,000,000.00 per occurrence and \$2,000,000.00 general aggregate. Also, "UMBRELLA" excess liability insurance in an amount not less than \$5,000,000.00. Such policies must be written on an occurrence basis so as to provide blanket contractual liability, broad form property damage coverage, and coverage for products and completed operations. In addition, there shall be obtained and maintained business motor vehicle liability insurance protecting Borrower and Administrative Agent against loss or losses from liability relating to motor vehicles owned, non-owned,

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or hired used by Borrower, any contractor, any subcontractor, or any other Person in any manner related to the Project with a limit of liability of not less than \$2,000,000.00 (combined single limit for personal injury including bodily injury and death and property damage).

(c) FLOOD. A policy or policies of flood insurance in the maximum amount of flood insurance available with respect to the Project under the Flood Disaster Protection Act of 1973, as amended. This requirement will be waived upon presentation of evidence satisfactory to the Administrative Agent that no portion of the Project is located within an area identified by the U.S. Department of Housing and Urban Development as having special flood hazards.

(d) WORKMAN'S COMPENSATION. Workman's compensation insurance, disability benefits insurance, and such other forms of insurance as required by law covering loss resulting from injury, sickness, disability, or death of employees of Borrower, any contractor, and any subcontractor located on or assigned to the Project. Borrower shall cause each contractor and each subcontractor having employees located on or assigned to the Project to obtain and maintain this same coverage for all eligible employees.

(e) ADDITIONAL INSURANCE. Borrower shall obtain and maintain such other policies of insurance as Administrative Agent may reasonably request in writing.

(f) OTHER. All required insurance shall be procured and maintained in financially sound and generally recognized responsible insurance companies selected by Borrower. Such companies must be authorized to write such insurance in the States of Arizona and California. Each company shall be rated "A" or better by A.M. Best Co., in Best's Key Guide, or such other rating acceptable to Administrative Agent in Administrative Agent's sole

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and absolute discretion. All property policies evidencing required insurance shall name Administrative Agent as first mortgagee and loss payee. All liability policies evidencing required insurance shall name Administrative Agent as additional insured. The policies shall not be cancelable as to the interests of the Administrative Agent due to the acts of Borrower. The policies shall provide for at least thirty (30) days prior written notice of the cancellation or modification thereof to Administrative Agent.

(g) EVIDENCE. Certificates of insurance evidencing that such insurance is in full force and effect, shall be delivered to Administrative Agent, together with proof of the payment of the premiums thereof. At least

fifteen (15) days prior to the expiration of such policies, Borrower shall furnish Administrative Agent evidence that such policy has been renewed or replaced in the form of a certificate reciting that there is in full force and effect, with a term covering at least the next succeeding calendar year, insurance of the types and in the amounts required in this Section 18.7. If required by Administrative Agent, Borrower shall provide to Administrative Agent the original or certified copies of the insurance policies required herein.

18.8 ERISA. Borrower will fund each Defined Benefit Plan and Defined Contribution Plan (as such terms are defined in ERISA) established or maintained by Borrower so that there is never an Accumulated Funding Deficiency (as defined in SECTION 412 of the Internal Revenue Code of 1986, as amended).

18.9 APPRAISALS. Administrative Agent shall have the right to order Appraisals from time to time. Each Appraisal is subject to review and approval by Administrative Agent. Borrower agrees upon demand by Administrative Agent to pay to Administrative Agent the cost and expense for such Appraisals and a fee determined by Administrative Agent for review of each such Appraisal by

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Administrative Agent. However, Borrower's obligation to pay costs and expenses associated with a reappraisal of existing Collateral shall be limited to once per year for each such reappraisal, unless such reappraisal is ordered after the occurrence of an Event of Default or as a result of federal regulatory requirements. All FNMA appraisals or other appraisals of Units accepted by Administrative Agent that do not have a specific expiration date shall be updated at Administrative Agent's request. Based on the updated, respective Appraised Value approved or determined by Administrative Agent in its sole and absolute discretion, Administrative Agent shall have the right to revise the Collateral Values and/or the Maximum Allowed Advances applicable to any Collateral at any time. If the outstanding principal amount of Advances exceeds the Available Commitment as a result of such revision, then Borrower shall be required to make a mandatory prepayment to Administrative Agent pursuant to Section 3.17 hereof.

18.10 COMMENCEMENT AND COMPLETION. As requested by Administrative Agent, Borrower shall cause construction of the Improvements and the Units to be prosecuted and completed in good faith, with due diligence, and without delay. Upon completion of each Unit, Borrower shall obtain the issuance of a permanent certificate of occupancy or other equivalent permit required by the applicable Governmental Authority and, if requested by Administrative Agent, make a copy thereof available to Administrative Agent for inspection. Borrower shall cause the Improvements and the Units to be constructed (i) in a good and workmanlike manner, (ii) in compliance with all applicable Requirements, and (iii), unless otherwise consented to by Administrative Agent in advance in writing in the sole and absolute discretion of Administrative Agent, in accordance with the Plans and Specifications. Upon demand by Administrative Agent, Borrower shall correct any defect in the Units or any departure from any applicable Requirements or, to the extent not theretofore approved in writing by Administrative Agent, the respective Plans and Specifications. Borrower understands and agrees that inspection of the Improvements and the Units by or on behalf of Administrative Agent, the review by Administrative Agent of Draw Requests and related documents and information, the making of Advances by the Banks, any actions by Administrative Agent under Section 18.12 hereof, and any other actions by Administrative Agent shall not be a waiver of Administrative Agent's right to require compliance with this Section 18.10.

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18.11 TITLE INSURANCE. If Title Company pays any claims under any Title Policy, Borrower will take any and all actions necessary to cause the total liability under the Title Policy to remain at or to be increased to the Commitment Amount notwithstanding the payment of such claim or claims, including without limitation, providing any supplemental Title Policies or endorsements or reinsurance agreements if requested by Administrative Agent, the cost of which shall be paid by Borrower. Upon payment of any such claims, Borrower will obtain and provide to Administrative Agent any and all documentation reasonably requested by Administrative Agent to ensure that the maximum coverage provided for hereunder shall not have been diminished as a result of the payment of such claims.

18.12 RIGHTS OF INSPECTION; CORRECTION OF DEFECTS; AGENCY. Administrative Agent and its agents, employees, and representatives shall have the right at any time and from time to time to enter upon the Project in order to inspect the Project. If Administrative Agent, in its judgment, determines that any materials or work do not conform with the respective Plans and Specifications or with any applicable Requirements or are otherwise not in conformity with sound building practice, and such defect is not corrected within twenty (20) days after notice thereof to Borrower, Administrative Agent shall have the right to stop the work and to order replacement or correction of any such materials or work regardless of whether or not such materials or work have theretofore been incorporated in the Units, regardless of whether Administrative Agent's representatives have previously inspected such work or materials, and regardless of whether

Administrative Agent has previously made Advances to pay for such work or materials. Borrower shall promptly make such replacement or correction. Inspection by Administrative Agent or by Administrative Agent's inspectors of the Project is for the sole purpose of protecting the security of Administrative Agent and is not to be construed as a representation by Administrative Agent that there has been compliance with the Plans and Specifications or the applicable Requirements or that the Units are free of defects in materials or

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workmanship. Borrower may make or cause to be made such other independent inspections as Borrower may desire for its own protection. Borrower hereby appoints and authorizes Administrative Agent, as Borrower's agent and attorney-in-fact, to record any notices of completion, cessation of labor, and other notices that Administrative Agent determines to be necessary to record to protect any interest of Administrative Agent under the Loan Documents. This agency and power of attorney is coupled with an interest and is irrevocable. Based on any such inspections, Administrative Agent shall have the right in its sole and absolute discretion to approve or disapprove Total Costs and Unit Costs submitted by Borrower, make revisions to the applicable Completion Percentage of Lots Under Development and Units, determine whether the conditions set forth in Sections 11, 12, 13, 14, 15 and 16 have been satisfied, and make revisions to the Collateral Values and Maximum Allowed Advances applicable to any Entitled Land, Lots Under Development, Finished Lot or Unit at any time. If the outstanding principal amount of advances exceeds the Available Commitment as a result of such revision, then Borrower shall be required to make a mandatory prepayment to Administrative Agent pursuant to Section 3.17 hereof.

18.13 MISCELLANEOUS. Any inspections or determinations made by Administrative Agent or lien waivers, receipts, or other agreements, documents, and instruments obtained by Administrative Agent are made or obtained solely for Administrative Agent's own benefit and not in any way for the benefit or protection of Borrower. Administrative Agent may accept and rely on any information from Architect, any other Person providing labor, materials, or services for Improvements or Units, Borrower, or any other Person as to labor or materials furnished or incorporated in the Improvements or Units and the cost and payment therefor and as to all other matters relating to construction of Improvements or the Units and the Project without the necessity of verifying such information. Administrative Agent has no obligation to Borrower to ensure compliance by Architect or any other Person in carrying out construction of the Improvements or Units.

18.14 VERIFICATION OF COSTS. Administrative Agent shall have the right at any time and from time to time to review and verify all costs, expenses, and

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fees in each Budget. Based on its review and verification of costs, expenses, and fees in each Budget, Administrative Agent shall have the right to adjust any and all such budgeted amounts.

18.15 CROSS-COLLATERALIZATION. At Administrative Agent's request at any time and from time to time, Borrower agrees to execute and deliver such additional agreements, documents, and instruments as Administrative Agent determines to be necessary or appropriate so that all Collateral shall also secure any or all (as determined by Administrative Agent) other obligations of Borrower to the Banks and/or so that any or all property, interests in property, and rights to property selected by Administrative Agent securing other obligations of Borrower to the Banks also secure the Obligations. Borrower agrees to pay all costs, expenses, and fees incurred by Administrative Agent in connection with any and all such cross-collateralization requests by Administrative Agent (including, without limitation, taxes, costs, expenses, and fees of Administrative Agent's attorneys).

18.16 ADMINISTRATIVE AGENT'S INSPECTOR(S). Borrower agrees that during construction of Improvements and Units, Administrative Agent shall have the right to employ an outside inspector or inspectors who shall review as agent for Administrative Agent all construction activities undertaken in regard to Improvements and Units and who shall prepare reports of such reviews. Alternatively, Administrative Agent may elect to have employees of Administrative Agent perform such reviews and prepare such reports. In addition, the employees of Administrative Agent will review the inspection reports of any outside inspector(s), will review Draw Requests, will perform other activities related to Draw Requests, and will perform other activities in administering and monitoring the Advances. Prior to the occurrence of an Event of Default or an Unmatured Event of Default, Administrative Agent shall limit such inspections to no more frequently than once per calendar quarter.

18.17 FURTHER ASSURANCES. Borrower shall promptly execute, acknowledge, and deliver such additional agreements, documents, and instruments and do or cause

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to be done such other acts as Administrative Agent may reasonably request from time to time to better assure, preserve, protect, and perfect the interest of Administrative Agent in the Collateral and the rights and remedies of Administrative Agent, Documentation and Syndication Agent and the Banks under the Loan Documents.

18.18 COSTS AND EXPENSES OF BORROWER'S PERFORMANCE OF COVENANTS AND SATISFACTION OF CONDITIONS. Borrower will perform all of its obligations and satisfy all conditions under the Loan Documents at its sole cost and expense.

18.19 PAYMENT OF RELEASE PRICE. Borrower shall, upon the closing of a sale of any Entitled Land, Lots Under Development, Finished Lot or Unit pay to Administrative Agent for application to the outstanding unpaid aggregate amount of Advances hereunder, an amount equal to the amount required under Section 7.1 for the release of such Collateral.

18.20 CONSTRUCTION AND SALES RECORDS. Borrower shall, at all times, maintain complete and accurate records of Borrower's construction and sales activities and shall, upon prior notice thereof by Administrative Agent, permit Administrative Agent to review such records upon request by Administrative Agent at any time and from time to time during regular business hours. Such records shall include, without limitation, (i) any and all documents, instruments, contracts and agreements relating to the construction or sale of Units or Lots entered into by Borrower with or for the benefit of purchasers, contracts, subcontractors, or other Persons, as applicable, (ii) lien waivers and releases with respect to all construction in place, (iii) requests for disbursement and voucher submitted by contracts, subcontractors, or other Persons, and (iv) all permits, licenses and approvals necessary for the continuation and completion of construction.

18.21 GUARANTEES. Borrower shall cause each wholly owned (direct or indirect) Subsidiary of Meritage now existing or hereinafter created to execute the Guarantee and satisfy the conditions set forth in Section 10.1(c), unless Administrative Agent agrees in writing that such Subsidiary need not execute the Guarantee.

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18.22 SERVICES. To the extent requested by Administrative Agent, Borrower shall provide to Administrative Agent satisfactory evidence, which may be in the form of letters from local utility and other service companies or local Governmental Authorities, that (i) telephone service, electric power, garbage removal, storm sewer, sanitary sewer, water, and any other services or utilities required by Administrative Agent exist at the boundary of and parcel containing the Lots Under Development and are available thereto, (ii) such services and utilities are adequate to serve such property, and (iii) no conditions exist to affect Borrower's or any subsequent owner's right to connect to, to obtain, and to have unlimited use of such services and utilities, except for the payment of a normal connection charge and except for payment of subsequent charges for such services and utilities to the service or utility supplier. By requesting inclusion of such Lots Under Development into the Borrowing Base, Borrower represents to Administrative Agent that the foregoing conditions have been satisfied.

18.23 CC&RS. When available, Borrower shall deliver to Administrative Agent the CC&Rs for each Subdivision for review and approval by Administrative Agent in its reasonable discretion.

SECTION 19. NEGATIVE COVENANTS

Until the Commitment terminates in full and the Obligations are paid and performed in full, Borrower agrees that:

19.1 CHANGE IN CONTROL OR MANAGEMENT. Should there be a Change in Control as to the Meritage Group, the Loan shall be immediately due and payable. In addition, should there be a material change in management as to the Meritage Group, the Loan shall be immediately due and payable unless the Administrative Agent should consent to the substitute management team. The termination of both Landon and Hilton as co-chief executive officers of Meritage shall be deemed a material change in management.

19.2 AMENDMENTS TO ORGANIZATIONAL DOCUMENTS. No member of the Meritage Group shall amend its organizational documents if the result thereof could result in the occurrence directly or indirectly of a Material Adverse Change.

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19.3 FINANCIAL COVENANTS. Borrower shall not permit:

(a) MINIMUM LIQUIDITY. The Meritage Group's Liquidity at any time to be less than \$7,000,000.00.

(b) MAXIMUM LEVERAGE. The ratio of (a) the Meritage Group's consolidated Liabilities, minus Subordinated Debt to (b) Adjusted Tangible Net Worth, to be greater than 2.5 to 1.0 as of the end of the first three fiscal quarters of each fiscal year of the Meritage Group and to be greater than 2.25 to 1.0 as of the end of the fourth fiscal quarter of each fiscal year of the Meritage Group, determined as of the end of each fiscal quarter of the Meritage Group's fiscal year. For the purposes of calculating the foregoing ratio, Subordinated Debt may not exceed twenty percent (20%) of Adjusted Tangible Net Worth.

(c) MINIMUM FIXED CHARGE COVERAGE. The ratio of the Meritage Group's consolidated EBITDA to total interest incurred, to be less than 2.0 to 1.0, determined as of the end of each fiscal quarter of the Meritage Group's fiscal year for the immediately preceding four fiscal quarters.

(d) MINIMUM ADJUSTED TANGIBLE NET WORTH. The consolidated Adjusted Tangible Net Worth of the Meritage Group determined as of the end of each quarter of the Meritage Group's fiscal year to be less than the sum of (a) \$50,000,000, (b) fifty percent (50%) of Consolidated Net Income for each fiscal quarter of the Meritage Group in which Consolidated Net Income is positive (without offset for any fiscal quarter in which the Meritage Group's Consolidated Net Income is negative), and (c) seventy-five percent (75%) of any new stated capital or paid in capital acquired by the Meritage Group commencing January 1, 2000.

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(e) GUARANTIES. The Meritage Group to make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary or joint venture that is not a Loan Party) or otherwise assume, guarantee or in any way become contingently liable or responsible for obligations of any other Person, whether by agreement to purchase those obligations of any other Person, or by agreement for the furnishing of funds through the purchase of goods, supplies or services (whether by way of stock purchase, capital contribution, advance or loan) for the purpose of paying or discharging the obligations of any other Person that, in the aggregate, exceeds twenty percent (20%) of the consolidated Adjustable Tangible Net Worth of the Meritage Group.

Any failure to comply with the foregoing financial covenants shall constitute an Event of Default.

19.4 MERGERS, CONSOLIDATIONS, SALES OF ASSETS. The Meritage Group shall not merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or substantially all of its assets, whether now owned or hereafter acquired.

19.5 BUSINESS OF BORROWER. Borrower shall not substantially change the nature of the business conducted by the Borrower.

19.6 ERISA LIABILITIES. Borrower shall not create or suffer to exist ERISA Liabilities in an aggregate amount in excess of \$50,000.00 for all Plans, if any, maintained by Borrower.

19.7 DISSOLUTION OR LIQUIDATION. Borrower shall not dissolve or liquidate, or merge or consolidate with or into any other entity, or turn over the management or operation of its property, assets or business to any other person, firm or corporation.

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19.8 JOINT VENTURES. The Meritage Group shall not invest in any non-consolidated joint ventures that would result in the aggregate of such joint venture investments, whether in the form of debt or equity, exceeding twenty percent (20%) of the Meritage Group's Tangible Net Worth.

SECTION 20. INSPECTION BY ADMINISTRATIVE AGENT

20.1 ENTER PROPERTY. Administrative Agent shall have the right, but not the obligation, to enter at any reasonable times upon the Project to determine if the construction of the Improvements or the Unit is in conformity with the Plans and Specifications and all other requirements hereof and to examine and make copies and extracts of any books, records, accounting data and other documents, including without limitation all permits, licenses, consents and approvals of Governmental Authorities having jurisdiction over Borrower, the Improvements and the contractor and all subcontractors supplying labor and/or materials in connection with the Improvements.

20.2 NO DUTY TO INSPECT. Administrative Agent shall have no duty to supervise or inspect any construction or to inspect any books and records; any inspection by Administrative Agent shall be for the sole purpose of protecting Administrative Agent's security and preserving the rights of Administrative Agent, Documentation and Syndication Agent and the Banks hereunder. Failure by Administrative Agent to inspect any work shall not constitute a waiver of any of Administrative Agent's rights hereunder. Inspection not followed by notice of an Event of Default shall not constitute a waiver of any Event of Default then existing. Any inspection by Administrative Agent shall not be a representation by Administrative Agent that there has been or will be compliance with the Plans and Specifications or that the construction is free from defective materials or workmanship, nor shall any inspection by Administrative Agent constitute approval of any certification given to Administrative Agent or relieve any person making such certification of responsibility therefor.

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SECTION 21. WAIVER

21.1 WAIVER. Borrower waives presentment, demand, protest and notices of protest, nonpayment, partial payment and all other notices and formalities except as expressly called for in this Agreement. Borrower consents to and waives notice of: (i) the granting of indulgences or extensions of time of payment, (ii) the taking or releasing of security, and (iii) the addition or release of persons who may be or become primarily or secondarily liable for the Loan or any other indebtedness arising in connection with the Loan, or any part thereof, and all in such manner and at such time as the Banks may deem advisable.

21.2 DELAY. No delay or omission by Administrative Agent or the Banks in exercising any right, power or remedy hereunder, and no indulgence given to Borrower, with respect to any term, condition or provision set forth herein, shall impair any right, power or remedy of Administrative Agent or the Banks under this Agreement, or be construed as a waiver by Administrative Agent or the Banks of, or acquiescence in, any Event of Default. Likewise, no such delay, omission or indulgence by Administrative Agent or the Banks shall be construed as a variation or waiver of any of the terms, conditions or provisions of this Agreement. Any actual waiver by the Banks of any Event of Default shall not be a waiver of any other prior or subsequent Event of Default or of the same Event of Default after notice to Borrower demanding strict performance.

SECTION 22. DEFAULT

22.1 EVENT OF DEFAULT. The occurrence of any of the following events or conditions shall constitute an Event of Default under this Agreement:

(a) Any failure to pay any principal or interest under the Notes when the same shall become due and payable and such failure continues for ten (10) days after notice thereof to Borrower, or the failure to pay any other sum due under the Notes, this Agreement or any other Loan Document when the same shall become due and payable and such failure continues for ten (10) days after notice thereof to Borrower. No notice, however, shall be required after maturity of any portion of the Notes.

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(b) Any failure or neglect to perform or observe any of the covenants, conditions or provisions of this Agreement, the Notes or any other Loan Document (other than a failure or neglect described in one or more of the other provisions of this Paragraph 22.1) and such failure or neglect either cannot be remedied or, if it can be remedied, it continues unremedied for a period of thirty (30) days after notice thereof to Borrower.

(c) Any warranty, representation or statement contained in this Agreement, in the Notes or in any other Loan Document, or made or furnished to Administrative Agent or the Banks by or on behalf of Borrower, that shall be or shall prove to have been false when made or furnished.

(d) The filing by Borrower, any endorser of the Notes, or any guarantor of the Loan (or against Borrower or such endorser or guarantor to which Borrower or such endorser or guarantor acquiesces or that is not dismissed within sixty (60) days after the filing thereof) of any proceeding under the federal bankruptcy laws now or hereafter existing or any other similar statute now or hereafter in effect; the entry of an order for relief under such laws with respect to Borrower or such endorser or guarantor; or the appointment of a receiver, trustee, custodian or conservator of all or any part of the assets of Borrower or such endorser or guarantor.

(e) The insolvency of Borrower, any endorser of the Notes or any guarantor of the Loan; or the execution by Borrower or such endorser or guarantor of an assignment for the benefit of creditors; or the convening by Borrower or such endorser or guarantor of a meeting of its creditors, or any class thereof, for purposes of effecting a moratorium upon or extension or composition of its debts; or the failure of Borrower or such endorser or

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guarantor to pay its debts as they mature; or if Borrower or such endorser or guarantor is generally not paying its debts as they mature.

(f) The admission in writing by Borrower, any endorser of the Notes or any guarantor of the Loan that it is unable to pay its debts as they mature or that it is generally not paying its debts as they mature.

(g) The liquidation, termination or dissolution of Borrower or any guarantor of the Loan.

(h) Any levy or execution upon, or judicial seizure of, any portion of any collateral or security for the Loan.

(i) Any attachment or garnishment of, or the existence or filing of any lien or encumbrance, other than any lien or encumbrance permitted by the Deed of Trust, against any portion of any collateral or security for the Loan, that is not removed or released within thirty (30) days after its

creation.

(j) The institution of any legal action or proceedings to enforce any lien or encumbrance upon any portion of any collateral or security for the Loan, that is not dismissed within thirty (30) days after its institution.

(k) The occurrence of any event of default and the expiration of any applicable notice and cure period under the Notes, any of the Loan Documents or any other document or instrument executed or delivered in connection with the Loan.

(l) The occurrence of any event of default and the expiration of any applicable notice and cure period under any document or instrument given by Borrower, by any entity owned by Borrower or, if Borrower is a corporation,

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partnership or trust, by any entity owned by the same persons or entities that own Borrower, in connection with any other indebtedness of Borrower or such entity to the Banks.

(m) The occurrence of any adverse change in the financial condition of Borrower or Guarantor that Agent, in its reasonable discretion, deems material, or if Agent in good faith shall believe that the prospect of payment or performance of the Loan is impaired.

(n) Either of (A) the occurrence of any one or more Reportable Events or (B) a failure to make a "required payment" under the provisions of Section 412(n)(1) of the Code shall have occurred with respect to any Plan or Plans and the occurrence of either (A) or (B) above shall have resulted in any of (1) liability of the Borrower to the PBGC or to one or more Plans in an aggregate amount exceeding \$50,000.00, (2) the termination of the respective Plan or Plans by the PBGC, (3) the appointment by the appropriate United States District Court of a trustee to administer such Plan or Plans or (4) for the imposition of a Lien in favor of such Plan or Plans.

(o) The occurrence of any default or event of default, and the expiration of any applicable notice and cure period, under any Significant Debt Agreement.

(p) Any failure to comply with the Financial Covenants.

22.2 REMEDIES. Upon the occurrence of any Event of Default and at any time while such Event of Default is continuing, Administrative Agent and/or the Banks may do one or more of the following:

(a) Cease making Advances and declare the Loan and all other indebtedness of Borrower hereunder immediately due and payable, without notice or demand;

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(b) Proceed to protect and enforce its rights and remedies under this Agreement, the Note, and all Loan Documents;

(c) Take over and complete construction of the Improvements or the Units by or through any agent, contractor or subcontractor of its selection, and make Advances in payment of the costs, expenses, fees, attorneys' fees and other charges incurred in connection with such taking over and completion, together with reasonable allowances for supervision; and

(d) Avail itself of any other relief to which Administrative Agent or the Banks may be legally or equitably entitled.

22.3 ENFORCEMENT COSTS. Borrower shall pay all costs and expenses, including without limitation costs of title searches and title policy commitments, Uniform Commercial Code searches, court costs and reasonable outside attorneys' fees, incurred by Administrative Agent and the Banks in enforcing payment and performance of the Loan and the other indebtedness and obligations of Borrower hereunder or in exercising the rights and remedies of Administrative Agent and the Banks hereunder. All such costs and expenses shall be secured by all Loan Documents. In the event of any court proceedings, court costs and attorneys' fees shall be set by the court and not by jury and shall be included in any judgment obtained by Administrative Agent and the Banks.

SECTION 23. ACTION UPON AGREEMENT

23.1 NO THIRD PARTY BENEFICIARIES. This Agreement is made for the sole protection and benefit of the parties hereto and no other person or organization shall have any right of action hereon.

23.2 INTEGRATION. This Agreement and the other Loan Documents embody the entire Agreement of the parties with regard to the subject matter hereof. There are no representations, promises, warranties, understandings or agreements expressed or implied, oral or otherwise, in relation thereto, except those

expressly referred to or set forth herein. Borrower acknowledges that the execution and delivery of this Agreement is its free and voluntary act and deed, and that said execution and delivery have not been induced by, nor done in reliance upon, any representations, promises, warranties, understandings or agreements made by Administrative Agent, the Banks, their agents, officers, employees or representatives.

23.3 MODIFICATIONS. No promise, representation, warranty or agreement made subsequent to the execution and delivery of this Agreement by either party hereto, and no revocation, partial or otherwise, or change, amendment or addition to, or alteration or modification of, this Agreement shall be valid unless the same shall be in writing signed by all parties hereto.

23.4 NO JOINT VENTURE. Administrative Agent, the Banks and Borrower each have separate and independent rights and obligations under this Agreement. Nothing contained herein shall be construed as creating, forming or constituting any partnership, joint venture, merger or consolidation of Borrower and Administrative Agent or the Banks for any purpose or in any respect.

SECTION 24. GENERAL

24.1 WAIVER OF GUARANTY AND SURETYSHIP DEFENSES. Each Borrower hereby waives to the fullest extent permissible by law the right to plead any statute of limitations as a defense to any demand secured hereby. Except as set forth herein, each Borrower waives any requirements of presentment, demands for payment, notices of nonpayment or late payment, protest, notices of protest, notices of dishonor, and all other formalities. No offset or claim that any Borrower now or may in the future have against Administrative Agent or the Banks shall relieve any Borrower from paying installments or performing any other obligation herein or secured hereby. Each Borrower waives all rights or privileges it might otherwise have to require Administrative Agent or the Banks

to proceed against or exhaust any collateral securing any promissory note or to proceed against any guarantor of such indebtedness, or to pursue any other remedy available to Administrative Agent or the Banks in any particular manner or order under the legal or equitable doctrine or principle of marshalling or suretyship, and each Borrower further agrees that Administrative Agent or the Banks may proceed against any or all of the collateral in such order and manner as Administrative Agent or the Banks in their sole discretion may determine. To the extent that any court of competent jurisdiction determines that any Borrower is a guarantor, surety or accommodation party with respect to any portion of the Obligations (the "Guaranteed Obligations"), or has subjected its property to secure the indebtedness of another, such Borrower hereby expressly waives the benefits of the provisions of A.R.S. ss.12-1641, ET SEQ., 16 Arizona Rules of Civil Procedure, Rule 17(f), A.R.S. ss.12-1644, 33-722 and 33-814, and waives any defense arising by reason of any disability or other defense of such Borrower or by reason of the cessation from any cause whatsoever of the liability of such Borrower, and, although it is the intention of all parties to this Agreement that this Agreement and the other Loan Documents will be governed by, and construed in accordance with, the laws of the State of Arizona, without giving effect to its conflicts of laws rules, to the extent that any court of competent jurisdiction applies the laws of the State of California to all or any part of the Agreement or the Loan Documents or with respect to any Borrower, each Borrower hereby unconditionally and irrevocably waives any rights and defenses such Borrower may have because any Guaranteed Obligations is secured by real property. These rights and defenses include, without limitation, any rights or defenses based upon Sections 2899, 3433, 580a, 580b, 580d or 726 of the California Code of Civil Procedure, and any comparable provisions of the laws of any other jurisdiction and all other suretyship defenses it otherwise might or would have under California law or other applicable law. Without limiting the provisions of this Section 24.1, the "Joint Borrower Provisions" attached hereto as SCHEDULE 24.1 are incorporated herein by this reference and each Borrower agrees to be bound thereby.

24.2 SURVIVAL. This Agreement shall survive the making of the Loan and shall continue so long as any part of the Loan, or any extension or renewal thereof, remains outstanding.

24.3 DISCRETIONARY RIGHTS. All rights, powers and remedies granted Administrative Agent and the Banks herein, or otherwise available to Administrative Agent and the Banks, are for the sole benefit and protection of Administrative Agent and the Banks, and except as otherwise provided herein Administrative Agent and the Banks may exercise any such right, power or remedy at their option and in their sole and absolute discretion without any obligation to do so. In addition, if, under the terms hereof, Administrative Agent and the Banks are given two or more alternative courses of action, Administrative Agent and the Banks may elect any alternative or combination of alternatives, at its option and in its sole and absolute discretion. All monies advanced by the Banks under the terms hereof and all amounts paid, suffered or incurred by the Banks in exercising any authority granted herein, including reasonable attorneys' fees, shall be secured by the Loan Documents, shall bear interest at the highest

rate payable on the Loan until paid, and shall be due and payable by Borrower to the Banks immediately without demand.

24.4 INDEMNITY. Borrower shall defend, indemnify, and hold Administrative Agent, Documentation and Syndication Agent and each Bank and their officers, directors, employees, and agents harmless from and against all claims, costs, expenses, actions, suits, proceedings, losses, damages, and liabilities of any kind whatsoever, including, but not limited to, attorneys' fees and expenses, arising out of any matter relating, directly or indirectly, (i) to the Loan, (ii) to the ownership, development, construction or sale of the Collateral, or (iii) to any financial statements, reports, projections, and other information provided by Borrower or any other Loan Party with respect to the business and operations of the Meritage Group, in each case whether resulting from internal disputes of Borrower, disputes between Borrower and any guarantor, or whether involving other third parties or entities (including, without limitation, other Banks) or out of any matter whatsoever related to this Agreement, the loan documents, or any property encumbered thereby, but excluding any claim or liability which results as the direct result of the gross negligence or willful misconduct of Administrative Agent, Documentation and Syndication Agent and the Banks or the breach by Administration Agent and the Banks of this Agreement.

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This indemnity provision shall continue in full force and effect and shall survive not only the making of the Loan but shall also survive the repayment of the Loan and the performance of all of Borrower's other obligations hereunder.

24.5 JOINT AND SEVERAL. If Borrower consists of more than one person or entity their liability shall be joint and several. The provisions hereof shall apply to the parties according to the context thereof and without regard to the number or gender of words or expressions used.

24.6 TIME OF ESSENCE. Time is expressly made of the essence of this Agreement.

24.7 NOTICES. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service or mailed as follows:

(a) if to the Borrower:

MONTEREY HOMES CONSTRUCTION, INC.
MONTEREY HOMES ARIZONA, INC.
CHANDLER 110, LLC
MERITAGE HOMES OF NORTHERN CALIFORNIA, INC.
6613 North Scottsdale Road, Suite 200
Scottsdale, Arizona 85259
Attention: Larry W. Seay, Chief Financial Officer

(b) if to the Administrative Agent:

NORWEST BANK ARIZONA, NATIONAL ASSOCIATION
100 West Washington, 11th Floor
Phoenix, Arizona 85003
Attention: Regional Real Estate Group, MAC S4101-110

(c) if to a Bank, to it at its address (or telecopy number) set forth in Schedule 2.1 or in any assignment and acceptance pursuant to which such Bank shall have become a party hereto.

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All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service, or on the date two (2) Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section or in accordance with the latest unrevoked direction from such party given in accordance with this Section.

24.8 PAYMENT OF COSTS. Borrower shall pay all costs and expenses arising from the preparation of this Agreement, the closing of the Loan, the making of Advances, the issuing of Letters of Credit, and the monitoring and administration of the Loan, including but not limited to title insurance premiums, other title company charges, recording and filing fees, costs of Uniform Commercial Code searches, Administrative Agent and the Banks's reasonable in-house and outside attorneys' fees, Administrative Agent's reasonable processing and closing fees, Administrative Agent's reasonable inspection fees, appraisal and appraisal review fees, any intangible or recording taxes and any other charges that may be imposed on Administrative Agent or the Banks as a result of this transaction.

24.9 CHOICE OF LAW. This Agreement shall be governed by and construed according to the laws of the State of Arizona.

24.10 SUCCESSORS. Except as otherwise provided herein, this Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their

successors and assigns.

24.11 HEADINGS. The headings or captions of sections in this Agreement are for reference only, do not define or limit the provisions of such sections, and shall not affect the interpretation of this Agreement.

24.12 PARTICIPATIONS AND ASSIGNMENTS. Each Bank, at any time, shall have the right (subject to the terms of the Co-Lender Agreement) to sell, assign, transfer, negotiate or grant participation interests in the Loan and in any

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documents and instruments executed in connection herewith. In connection with any assignment by a Bank of all or a portion of its interest in the Loan (i) except in the case of an assignment to a Bank or an affiliate of any Bank, or if an Unmatured Event of Default or an Event of Default shall be continuing, Borrower must give its prior written consent to such assignment (which consent shall not be unreasonably withheld or delayed), (ii) the amount of the Commitment of the assigning Bank subject to each such assignment shall not be less than \$10,000,000.00 or such lesser amount if such amount is the entire Commitment of the assigning Bank, and (iii) any assignee shall have a net worth of at least \$350,000,000 and total assets of at least \$2.5 billion. Within five Business Days after receipt of notice of any assignment of a Bank's interest the Loan, the Borrower shall execute and deliver to Administrative Agent, in exchange for the surrendered Note or Notes (A) a new Note or Notes to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it, if any, and (B) a new Note or Notes, to the order of the assignee Bank in a principal amount equal to the applicable Commitment assigned to it. Such new Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Note or Notes; such new Notes shall be dated the date of the surrendered Notes which they replace and shall otherwise be in substantially the form of EXHIBIT "A". Canceled Notes shall be returned to the Borrower. Each Bank is authorized to furnish to any participant or prospective participant any information or document that such Bank may have or obtain regarding the Loan, Borrower or any guarantor of the Loan.

24.13 SEVERABILITY. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

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24.14 ARBITRATION PROVISIONS.

(a) ARBITRATION.

(i) Except for "Core Proceedings" under the United States Bankruptcy Code, the Administrative Agent, Banks and Borrower agree to submit to binding arbitration all claims, disputes and controversies between or among them, whether in tort, contract or otherwise (and their respective employees, officers, directors, attorneys, and other agents) arising out of or relating to in any way the Loan and related Loan Documents which are the subject of this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination. Any arbitration proceeding will (1) proceed in Phoenix, Arizona; (2) be governed by the Federal Arbitration Act (Title 9 of the United States Code); and (3) be conducted in accordance with the Commercial Arbitration rules of the American Arbitration Association ("AAA").

(ii) The arbitration requirement does not limit the right of any party to (A) foreclose against real or personal property collateral; (B) exercise self-help remedies relating to collateral or proceeds of collateral such as repossession; or (C) obtain provisional ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before, during or after the pendency or any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to

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arbitration, including those arising from the exercise of the actions detailed in sections (A), (B) and (C) of this paragraph.

(iii) Any arbitration proceeding will be before a single arbitrator selected according to the Commercial Arbitration Rules of the AAA. The arbitrator will be a neutral attorney who has practiced in the area of commercial law for a minimum of ten years. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction.

(b) MOTION PRACTICE. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for

failure to state a claim or motions for summary adjudication.

(c) DISCOVERY. In any arbitration proceeding discovery will be permitted and will be governed by the Arizona Rules of Civil Procedure. All discovery must be completed no later than 20 days before the hearing date and within 180 days of the commencement of arbitration proceedings. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

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(d) PAYMENT OF ARBITRATION COSTS AND FEES. The arbitrator shall award costs and expenses of the arbitration proceeding in accordance with the provision of this Agreement, the Note and/or other Loan Documents.

24.15 JURY WAIVER. BORROWER, ADMINISTRATIVE AGENT, CO-AGENT AND THE BANKS HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) BETWEEN OR AMONG BORROWER, ADMINISTRATIVE AGENT, CO-AGENT AND THE BANKS ARISING OUT OF OR IN ANY WAY RELATED TO THE NOTE, THIS DOCUMENT OR ANY OTHER RELATED DOCUMENT OR ANY RELATIONSHIP BETWEEN ADMINISTRATIVE AGENT, THE BANKS AND BORROWER. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANKS TO PROVIDE THE FINANCING DESCRIBED HEREIN OR IN THE OTHER RELATED DOCUMENTS.

IN WITNESS WHEREOF, these presents are executed as of the date indicated above.

MONTEREY HOMES CONSTRUCTION, INC.,
an Arizona Corporation

By: /s/ Larry W. Seay

Name: Larry W. Seay

Title: Vice President - Finance & CFO

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MONTEREY HOMES ARIZONA, INC.,
an Arizona corporation

By: /s/ Larry W. Seay

Name: Larry W. Seay

Title: Vice President - Finance & CFO

CHANDLER 110, LLC,
an Arizona limited liability company

BY: MONTEREY HOMES CONSTRUCTION, INC.,
an Arizona corporation, Member

By: /s/ Larry W. Seay

Name: Larry W. Seay

Title: Vice President - Finance & CFO

MERITAGE HOMES OF NORTHERN CALIFORNIA,
INC., a California corporation

By: /s/ Larry W. Seay

Name: Larry W. Seay

Title: Vice President - Finance & CFO

BORROWER

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NORWEST BANK ARIZONA, NATIONAL
ASSOCIATION, a national banking
association

By: /s/ Kevin Kosan

Name: Kevin Kosan

Title: Vice President

ADMINISTRATIVE AGENT AND BANK

CALIFORNIA BANK & TRUST, a California
banking corporation

By: /s/ Eileen E. Porter

Name: Eileen E. Porter

Title: Vice President

DOCUMENTATION AND SYNDICATION
AGENT AND BANK

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SCHEDULE 3.1

COMMITMENTS OF THE BANKS
as to the Loan
as of _____, 1999

INITIALLY, THE COMMITMENTS OF THE BANKS SHALL BE AS FOLLOWS:

BANK	%	COMMITMENT
1. Norwest Bank Arizona, National Association	54.6875%	\$35,000,000
2. California Bank & Trust	45.3125%	\$29,000,000
Maximum Commitment	100%	\$64,000,000

On February 17, 2000, the commitment of the Banks shall be as set forth below if both of the following is satisfied: (i) the CB&T Facility has been fully paid and all further commitments to provide credit thereunder have terminated and (ii) no Unmatured Event of Default or Event of Default has occurred and is continuing. If such events have not occurred, the commitment of California Bank & Trust shall be increased only in the sole and absolute discretion of California Bank & Trust.

BANK	%	COMMITMENT
1. Norwest Bank Arizona, National Association	50.0%	\$35,000,000
2. California Bank & Trust	50.0%	\$35,000,000
Maximum Commitment	100%	\$70,000,000

ADDRESSES

- NORWEST BANK ARIZONA, NATIONAL ASSOCIATION
100 West Washington, 11th Floor
Phoenix, Arizona 85003
Attention: Regional Real Estate Group, MAC S4101-110
- CALIFORNIA BANK & TRUST
11622 El Camino Real, Suite 200
San Diego, California 92130
Attention: Peggy Standefer, Esq.

with a copy to:

CB&T REAL ESTATE FINANCE
3101 North Central Avenue, Suite 520
Phoenix, Arizona 85012
Attention: Mark Young

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SCHEDULE 24.1

JOINT BORROWER PROVISIONS

1. Administrative Agent and the Banks are entitled to rely, and shall be exonerated from any liability for relying upon, any Draw Request, request for Letter of Credit or similar request made by any Borrower without the need for any consent or other authorization of any other Borrower and upon any information or certificate provided on behalf of any Borrower by an officer, partner, manager or other representative of such Borrower.

2. As further described in the Agreement, the parties hereto intend that all of the Obligations shall constitute one indebtedness, and that each Borrower shall constitute a borrower (and not a guarantor, surety or accommodation

party), with respect to all of the Obligations. In the event that (and only to the extent that), notwithstanding the contrary intent of the parties, any court of competent jurisdiction determines that any Borrower is a guarantor, surety or accommodation party with respect to any portion of the Obligations, or has granted a lien or security interest on its property to secure the debt of another, the waivers and other provisions of 24.1 of the Agreement and this Schedule 24.1 shall apply to such Borrower in connection with the Guaranteed Obligations.

2.1 Each Borrower consents and agrees that Administrative Agent, for the benefit of Banks, may, at any time and from time to time, agree with any one Borrower, without notice or demand to the other Borrowers, and without affecting the enforceability of or security for the Guaranteed Obligations under any Loan Document, to:

(a) supplement, modify, amend, extend, renew, or otherwise change the time for payment or the terms of the Guaranteed Obligations or any part thereof, including any increase or decrease of the rate(s) of interest thereon;

(b) supplement, modify, amend or waive, or enter into or give any agreement, approval or consent with respect to, the Guaranteed Obligations or any part thereof or any of the Loan Documents or any additional security or guaranties, or any condition, covenant, default, remedy, right, representation or term thereof or thereunder;

(c) accept new or additional instruments, documents or agreements relative to any of the Loan Documents or the Guaranteed Obligations or any part thereof;

(d) accept partial payments on the Guaranteed Obligations;

(e) receive and hold additional security or guaranties for the Guaranteed Obligations or any part thereof;

(f) release, reconvey, terminate, waive, abandon, subordinate, exchange, substitute, transfer and enforce any security or guaranties for the Guaranteed Obligations, and apply any security and direct the order or manner of sale thereof as Administrative Agent, on behalf of Banks, in its sole and absolute discretion may determine;

(g) release any Person or any guarantor from any personal liability with respect to the Guaranteed Obligations or any part thereof,

(h) settle, release on terms satisfactory to Administrative Agent and Banks or by operation of applicable laws or otherwise liquidate or enforce any Guaranteed Obligations and any security or guaranty therefor in any manner, consent to the transfer of any security and bid and purchase at any sale; and

(i) consent to the merger, change or any other restructuring or termination of the corporate existence of any Borrower or any other Person, and correspondingly restructure the Guaranteed Obligations, and any such merger, change, restructuring or termination shall not affect the liability

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of the other Borrowers or the continuing existence of any Lien securing the Guaranteed Obligations under any Loan Document to which such Borrowers are a party or the enforceability hereof or thereof with respect to all or any part of the Guaranteed Obligations.

2.2 Upon the occurrence of and during the continuance of any Event of Default, Administrative Agent and Banks may enforce each Loan Document independently as to each Borrower and independently of any other remedy or security Administrative Agent and Banks at any time may have or hold in connection with the Guaranteed Obligations, and it shall not be necessary for Administrative Agent and Banks to marshal assets in favor of any of the Borrowers or any other Person or to proceed upon or against and/or exhaust any other security or remedy before proceeding to enforce such Loan Document. Each of the Borrowers expressly waives any right to require Administrative Agent or any Bank to marshal assets in favor of any Borrower or any other Person or to proceed against any other Person or any Collateral provided by any other Person, and agrees that Administrative Agent and Banks may proceed against any Persons and/or Collateral in such order as they shall determine in their sole and absolute discretion. The Administrative Agent and Banks may file a separate action or actions against any Borrower, whether action is brought or prosecuted with respect to any other security or against any other Person, or whether any other Person is joined in any such action or actions. Each Borrower expressly waives the benefit of any statute(s) of limitations affecting its liability under the Loan Documents or the enforcement of the Guaranteed Obligations or created or granted by any Loan Document. The rights of Administrative Agent and Banks hereunder and under the Agreement shall be reinstated and revived, and the enforceability of the Agreement shall continue, with respect to any amount at any time paid on account of the Obligations which thereafter shall be required

to be restored or returned by Administrative Agent or Bank upon the bankruptcy, insolvency or reorganization of any Borrower or any other Person, or otherwise, all as though such amount had not been paid. The enforceability of the Loan Documents at all times shall remain effective as to each Borrower as to the

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Guaranteed Obligations of such Borrower even though such Guaranteed Obligations, including any part thereof may be or hereafter may become invalid or otherwise unenforceable as against any other Borrower or any other Person and whether or not any other Borrower or any other Person shall have any personal liability with respect thereto.

2.3 Each Borrower expressly waives in respect of the Guaranteed Obligations any and all defenses now or hereafter arising or asserted by reason of (a) any disability or other defense of any other Borrower or any other Person with respect to the Guaranteed Obligations, (b) the unenforceability or invalidity of any security or guaranty for the Guaranteed Obligations or the lack of perfection or continuing perfection or failure of priority of any security for the Guaranteed Obligations, (c) the cessation for any cause whatsoever of the ability of any other Borrower or any other Person (other than by reason of the full payment and performance of all Obligations), (d) any failure of Administrative Agent or any Bank to marshal assets in favor of any of the other Borrowers or any other Person, (e) except as otherwise required by law or as provided in any Loan Document, any failure of Administrative Agent or any Bank to give notice of sale or other disposition of Collateral to any other Borrower or any other Person or any defect in any notice that may be given in connection with any sale or disposition of Collateral, (f) except as otherwise required by law or as provided in any Loan Document, any failure of Administrative Agent or any Bank to comply with applicable laws in connection with the sale or other disposition of any Collateral or other security for any Obligation, including, without limitation, any failure of Administrative Agent or any Bank to conduct a commercially reasonable sale or other disposition of any Collateral or other security for any Guaranteed Obligation, (g) any act or omission of Administrative Agent or any Bank or others that directly or indirectly results in or aids the discharge or release of any other Borrower or any other Person or any other security or guaranty for the Guaranteed Obligations by operation of law or otherwise, (h) any law which provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation,

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(i) any failure of Administrative Agent or any Bank to file or enforce a claim in any bankruptcy or other proceeding with respect to any Person, (j) the election by Administrative Agent or any Bank, in any bankruptcy proceeding of any Person, of the application or non-application of Section 1111(b)(2) of the United States Bankruptcy Code, (k) any extension of credit or the grant of any Lien under Section 364 of the United States Bankruptcy Code, (l) any use of cash collateral under Section 363 of the United States Bankruptcy Code, (m) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any Person, (n) the avoidance of any Lien in favor of Administrative Agent or Banks for any reason, (o) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against any Person, including any discharge of, or bar or stay against collecting, all or any of the Guaranteed Obligations (or any interest thereon) in or as a result of any such proceeding, or (p) to the extent permitted, the benefits of any form of one-action rule.

2.4 Each Borrower waives all rights and defenses that such Borrower may have because any Guaranteed Obligation is secured by real property. This means, among other things:

(1) Administrative Agent and Banks may collect from such Borrower and/or foreclose on any Collateral pledged by such Borrower without first foreclosing on any real or personal property collateral pledged by any other Borrower (or by any other Person) with respect to any such Guaranteed Obligation.

(2) If Administrative Agent and/or Banks foreclose on any real property collateral pledged by such Borrower or any other Borrower (or by any other Person) with respect to any such Guaranteed Obligation:

(A) The amount of such Guaranteed Obligation may be reduced only by the price for which that Collateral is sold at the foreclosure sale, even if the Collateral is worth more than the sale price.

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(B) Administrative Agent and Banks may collect from such Borrower and/or foreclose on any Collateral pledged by such Borrower even if Administrative Agent and/or any Bank, by foreclosing on the real property Collateral, has destroyed any right such Borrower may have to collect from any other Borrower (or from any other Person who pledged such Collateral).

This is an unconditional and irrevocable waiver of any rights and defenses such

Borrower may have because any Guaranteed Obligation is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d or 726 of the California Code of Civil Procedure, and any comparable provisions of the laws of any other jurisdiction and all other suretyship defenses it otherwise might or would have under California law or other applicable law.

2.5 Each Borrower waives all rights and defenses arising out of an election of remedies by Administrative Agent and/or Banks, even though that election of remedies, such as a non-judicial foreclosure with respect to security for a Guaranteed Obligation, has destroyed such Borrower's rights of subrogation and reimbursement against the principal by the operation of Section 580d of the California Code of Civil Procedure or otherwise.

2.6 Without limiting the generality of the foregoing, in the event that all or any part of the Guaranteed Obligations at any time are secured by one or more Deeds of Trust, each Borrower authorizes Administrative Agent and Banks, upon the occurrence of and during the continuance of any Event of Default, at their sole option, without notice or demand and without affecting any Obligations, the enforceability of the Guaranteed Obligations under the Agreement, or the validity or enforceability of any Liens of Administrative Agent and Banks on any Collateral securing the Guaranteed Obligations, to foreclose any or all of such Deeds of Trust by judicial or non-judicial sale.

2.7 Notwithstanding anything to the contrary elsewhere contained herein or in any other Loan Document to which any Borrower is a party, each

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Borrower hereby waives with respect to each other Borrower and its respective successors and assigns (including any surety) and any other party any and all rights at law or in equity, to subrogation, to reimbursement, to exoneration, to contribution, to setoff or to any other rights that could accrue to a surety against a principal, to a guarantor against a maker or obligor, to an accommodation party against the party accommodated, or to a holder or transferee against a maker and which each Borrower may have or hereafter acquire against any other Borrower or any other party in connection with or as a result of any Borrower's execution, delivery and/or performance of the Agreement or any other Loan Document to which any such Borrower is a party until payment in full of all Guaranteed Obligations. Each Borrower agrees that it shall not have or assert any such rights against any other Borrower or any such Borrower's successors and assigns or any other Person (including any surety), either directly or as an attempted setoff to any action commenced against such Borrower by such other Borrower (as borrower or in any other capacity) or any other Person. Each Borrower hereby acknowledges and agrees that this waiver is intended to benefit Administrative Agent and Banks and shall not limit or otherwise affect any of the Borrowers' liability hereunder under any other Loan Document to which any Borrower is a party, or the enforceability hereof or thereof.

2.8 Without limiting the generality of the foregoing and to the extent otherwise applicable, each Borrower hereby waives discharge by waiving all defenses based on suretyship or impairment of collateral securing the Guaranteed Obligations.

3. Each Borrower warrants and agrees that each of the waivers and consents set forth herein is made with full knowledge of its significance and consequences, with the understanding that events giving rise to any defense waived may diminish, destroy or otherwise adversely affect rights which each Borrower otherwise may have against the other Borrowers, Administrative Agent, Banks, or others, or against any Collateral securing the Guaranteed Obligations. If any of the waivers or consents herein are determined to be contrary to any applicable law or public policy, such waivers and consents shall be effective to the maximum extent permitted by law.

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4. Each Borrower represents and warrants to Administrative Agent and Banks that such Borrower has established adequate means of obtaining from each other Borrower, on a continuing basis, financial and other information pertaining to the businesses, operations and condition (financial and otherwise) of each other Borrower and their respective properties, and each Borrower now is and hereafter will be completely familiar with the businesses, operations and condition (financial and otherwise) of each other Borrower and its respective properties. Each Borrower hereby expressly waives and relinquishes any duty on the part of Administrative Agent and Banks to disclose to such Borrower any matter, fact or thing related to the businesses, operations or condition (financial or otherwise) of any other Borrower or such other Borrower's properties, whether now known or hereafter known by Administrative Agent and Banks during the term of the Agreement.

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EXHIBIT "A"

PROMISSORY NOTE
EXHIBIT "B-1"

DEED OF TRUST, ASSIGNMENT OF RENTS,
SECURITY AGREEMENT AND FIXTURE FILING (ARIZONA)
EXHIBIT "B-2"

DEED OF TRUST, ASSIGNMENT OF RENTS,
SECURITY AGREEMENT AND FIXTURE FILING (CALIFORNIA)
EXHIBIT "C-1"

MODIFICATION OF DEED OF TRUST (ARIZONA)
EXHIBIT "C-2"

MODIFICATION OF DEED OF TRUST (CALIFORNIA)
EXHIBIT "D"

GUARANTEE
EXHIBIT "E"

COLLATERAL CERTIFICATE
EXHIBIT "F"

PROPOSED INITIAL APPROVED SUBDIVISIONS
EXHIBIT "G"

CONSTRUCTION SCHEDULE
EXHIBIT "H"

SAMPLE COLLATERAL INVENTORY REPORT
EXHIBIT "I"

SAMPLE SALES AND INVENTORY REPORTS
EXHIBIT "J"

SAMPLE PROJECT PROFORMA

As of July 31, 1999

Guaranty Federal Bank, F.S.B.
8333 Douglas Avenue
Dallas, Texas 75225

Re: Modification of an existing \$70,000,000.00 guidance line from Guaranty Federal Bank, F.S.B. ("Lender") to Legacy/Monterey Homes L.P., an Arizona corporation ("Borrower"); such loan and other indebtedness being guaranteed by Meritage Corporation, a Maryland corporation, MTH-Texas GP, Inc., an Arizona corporation and MTH-Texas LP, Inc., an Arizona corporation (collectively referred to as "Guarantor")

Gentlemen:

Reference is made to that certain Master Loan Agreement dated as of January 31, 1993 (and all amendments thereto, if any) (the "Loan Agreement") between Lender and Borrower governing a \$70,000,000.00 loan (as increased) (the "Loan") for the acquisition and/or refinancing of residential lots located in certain counties in the State of Texas as described therein, and the construction of single-family residences thereon. Unless otherwise expressly defined herein, each term used herein with its initial letter capitalized shall have the meaning given to such term in the Loan Agreement. As used in this letter agreement, the term "Loan Instruments" shall mean and include (i) the "Loan instruments" as defined in the Loan Agreement, (ii) the Fourth Modification Agreement dated as of even date herewith, executed by and between the parties hereto, and (iii) this letter agreement and all other documents executed in conjunction herewith (and all amendments thereto, if any).

Borrower and Lender desire to increase the Loan Amount to the stated principal amount of \$80,000,000.00 and to amend and modify certain terms and provisions of the Loan and the Loan Instruments as follows:

1. The Loan Amount is hereby increased from \$70,000,000.00 to \$80,000,000.00. All references in the Loan Instruments to the amount of \$70,000,000.00 are hereby increased to \$80,000,000.00.

2. The stated maturity date of the Note is hereby extended to and including July 31, 2000, when the entire unpaid principal balance of the Note, together with all accrued and unpaid interest shall be due and payable; provided, however, such date may be extended as set forth in Paragraph 9 of the Loan Agreement (as amended hereby).

Guaranty Federal Bank, F.S.B.

As of July 31, 1999

Page 2

3. Exhibit A to the Loan Agreement is hereby modified by deleting such exhibit in its entirety and replacing it with Exhibit A attached hereto.

4. All Loan Instruments hereby are amended and modified in a manner consistent with the modifications, terms and/or provisions contained herein. Except as modified hereby, all the terms, provisions and conditions of the Loan Instruments shall remain in full force and effect.

5. This letter agreement constitutes the "Letter Agreement" referred to in the Fourth Modification Agreement of even date herewith executed by and between the parties hereto.

6. The terms and provisions of this letter agreement may not be modified, amended, altered or otherwise affected except by instrument in writing executed by Lender and Borrower.

7. Each Guarantor by its execution hereof agree to the amendments and modifications to the Loan Instruments set forth herein and in the prior amendments and modifications to the Loan Instruments and agree that all of such modifications do not and will not waive, release or in any manner modify either Guarantor's obligations and liabilities under and pursuant to the Guaranty.

(The balance of this page is intentionally left blank.)

Guaranty Federal Bank, F.S.B.

As of July 31, 1999

Page 3

If this letter agreement correctly sets forth our understanding of the subject matter contained herein, please indicate this by executing this letter agreement in the space furnished below and then return a fully-executed copy to the undersigned.

Very truly yours,

BORROWER:

LEGACY/MONTEREY HOMES L.P.,
an Arizona limited partnership

BY: MTH-TEXAS GP, INC.,
an Arizona corporation,
General Partner

By: /s/ Rick Morgan

Name: Rick Morgan
Title: Vice President

Guaranty Federal Bank, F.S.B.
As of July 31, 1999
Page 4

GUARANTOR:

MERITAGE CORPORATION,
a Maryland corporation

By: /s/ John London

Name: John London
Title: Co-CEO

MTH-TEXAS GP, INC.,
an Arizona corporation,

By: /s/ Rick Morgan

Name: Rick Morgan
Title: Vice President

MTH-TEXAS LP, INC.,
an Arizona corporation

By: /s/ Rick Morgan

Name: Rick Morgan
Title: Vice President

Guaranty Federal Bank, F.S.B.
As of July 31, 1999
Page 5

ACCEPTED AND AGREED TO:

LENDER:

GUARANTY FEDERAL BANK, F.S.B.,
a federal savings bank

By: /s/ Sam A. Meade

Name: Sam A. Meade
Title: Senior Vice President

EXHIBIT A

TO LOAN AGREEMENT

1. Introductory Paragraph. RESIDENCE AND INVENTORY LOT LIMITATIONS. At any given time, Residences and Inventory Lots financed under the Loan shall be limited to the following numbers, unless modified by Lender in writing:

Total Residences:	Seven Hundred Seventy-five (775).
Specs:	One Hundred Twelve (112).
Models:	Sixty-three (63).
Inventory Lots:	Six Hundred Twenty-Five (625).

Borrower may increase the number of Specs allowed above by the same number by which Borrower is short of Models allowed above. Borrower covenants and agrees not to allow, and is prohibited from allowing, any more than ten (10) Specs, three (3) Models or one hundred fifty (150) Inventory Lots to exist in any Approved Subdivision (as hereinafter defined).

The outstanding aggregate amount of the Loan Allocations for all Specs and Models at any time shall never exceed \$16,800,000.00.

The outstanding aggregate amount of the Loan Allocations for all Inventory Lots at any time shall never exceed \$10,000,000.00.

The term "SPECS" means a Residence which is not a Model and is not Under Contract. The term "MODEL" means a Residence specifically utilized for the purposes of marketing other residential products. The term "UNDER CONTRACT" shall mean Residences under written contract to sell to bona fide third parties unrelated to Borrower, having no contingency or any other conditions not reasonably susceptible to being satisfied, providing for earnest money deposits of at least \$2,000.00, and for which Lender has received preliminary loan approval from a bona fide residential permanent lender.

The term "INVENTORY RESIDENCE" means any Residence which is not a Model.

2. Introductory Paragraph. APPROVED SUBDIVISIONS. The following subdivisions and any additional subdivisions approved in writing by Lender (the "APPROVED SUBDIVISIONS") are approved by Lender for the Residences and Inventory Lots:

Subdivision	County
-----	-----
Stone Canyon (Fern Bluff)	Williamson
Oakmont Forest	Williamson
Settlers Ridge/Creekside	Travis
Round Rock Ranch	Williamson
The Meadows (Thunderbird Est.)	Collin
Brighton Estates - Arlington	Tarrant
Bristol Park (Fountain Creek)	Collin
Chase-Oaks	Collin
Cottonwood Bend	Collin
Country Club Park	Dallas
Creekwood Estates	Denton
Crestwood	Collin
Cross Creek West	Collin
Eden Road Estates	Tarrant
El Dorado Heights	Collin
Heritage Park - Allen	Collin
Highland Parkway	Collin
Hillcrest Estates	Collin

EXHIBIT A, - Page 1

Hunters Glen	Collin
Independence Hill	Collin
Meadow Glen PH IIB	Denton
Oakwood Glen	Collin
Orchard Valley Estates	Denton
Parkdale - Plano	Collin
Shadow Lakes	Collin
Shadow Lakes North	Collin
Lakes of Valley Ranch	Dallas
Vista Ridge Estates	Denton
Windhaven Farms (Carelle Custom)	Collin
Ravenglass Estates	Collin
Frankford Meadows	Dallas
Hunter Trail	Tarrant
Fossil Beach	Tarrant

3. Introductory Paragraph. APPROVED PRICE RANGE. The Residences shall be in the \$70,000.00 to \$350,000.00 price range.
4. Paragraph 1(c). GUARANTOR. Guarantor of the Loan shall be: Meritage Corporation, a Maryland corporation (formerly known as "Monterey Homes Corporation"); MTH-Texas G.P., Inc., an Arizona corporation; and MTH-Texas L.P., Inc., an Arizona corporation.
5. Paragraph 2(h). LOAN FINANCE CHARGE. None.
6. Paragraph 2(k) and 6(g). INSPECTION FEE. An inspection fee of \$30.00 per Residence shall be paid to Lender on the day the Mortgage pertaining to such Residence is recorded in the Real Property Records.
7. Paragraph 4(c). LOAN RATIOS. The Loan Allocation shall not exceed the lesser of (1) one hundred percent (100%) of the direct costs of a Property, as determined by Lender or, (2) seventy percent (70%) of the lowest of the values as provided in Paragraph 4(c)(i),(ii) and (iii) of this Loan Agreement.
8. Paragraph 6(q). OTHER ENTITIES. The Mortgages shall additionally secure all other indebtedness now or hereafter owed by the following entities to Lender: None.

9. Paragraph 6(s). REQUIRED RELEASES. Borrower shall cause: (a) Inventory Residences to be released from a Mortgage nine (9) months from the day such Mortgage is recorded in the Real Property Records, (b) Models to be released from a Mortgage twenty-four (24) months from the day such Mortgage is recorded in the Real Property Records, and (c) Inventory Lots to be released from a Mortgage twelve (12) months from the day such Mortgage is recorded in the Real Property Records; provided, however, if no default then exists under any Loan Instruments, Lender may, at its option, extend the Required Release Date for periods of three (3) months (the "EXTENDED RELEASE DATE"); provided, such Extended Release Date shall in no event go beyond the Stated Maturity Date (as hereinafter defined) or the Extended Maturity Date (as hereinafter defined), if applicable.

10. Paragraph 7. REQUIRED PRINCIPAL REDUCTIONS. Prior to the date that Lender gives Borrower the notice described in Paragraph 4(f) above, the following shall apply: in the event a Property has been granted an Extended Release Date (as provided in Paragraph 9 of this Exhibit A) and a Mortgage remains covering such Property beyond the following periods from the date such Mortgage is recorded, then Borrower shall make a principal payment of the Note in an amount equal to ten percent (10%) of the Loan Allocation with respect to such Property (and the Loan Allocation for such Property shall be reduced by the same amount), as determined by Lender:

Inventory Residences:	Fifteen (15) months.
Models:	Twenty-four (24) months.
Inventory Lots:	Twelve (12) months.

EXHIBIT A, - Page 2

From and after the date that Lender gives Borrower the notice described in Paragraph 4(f) of the Loan Agreement, the following shall apply: in the event a Property has been granted an Extended Release Date, as provided in Paragraph 9 of this Exhibit A, Borrower shall make a principal payment on the Note of ten percent (10%) of that portion of the Loan advanced by Lender for such Property, within the following periods from the date a Mortgage covering such Property is recorded in the Real Property Records:

Inventory Residences:	Fifteen (15) months.
Models:	Twenty-four (24) months.
Inventory Lots:	Twelve (12) months.

11. Paragraph 9. MATURITY AND EXTENSION. The maturity date of the Note shall be the later of the maturity date as provided in the Note (July 31, 2000) (the "STATED MATURITY DATE"), or nine (9) months after the recording in the Real Property Records of the last Mortgage (the "EXTENDED MATURITY DATE") approved by Lender and recorded prior to the expiration of the Stated Maturity Date. After the Stated Maturity Date, no additional Mortgage shall be recorded.

12. Paragraph 10. ADDITIONAL DEFAULTS. In addition to the events of default stipulated in the Loan Instruments, it shall be a default under this Loan Agreement if Borrower fails to comply with any of the following: None.

13. Paragraph 11. ADDITIONAL LOAN COVENANTS. Borrower shall fully perform and satisfy the following "ADDITIONAL LOAN COVENANTS":

- (a) The aggregate net worth of Borrower (determined in accordance with generally accepted accounting principles, consistently applied) shall not fall below \$15,000,000.00.
- (b) The ratio of total liabilities to equity (as determined by Lender) shall not exceed 4.0 to 1.0.
- (c) John Landon shall at all times retain management control of Borrower.
- (d) In no event shall Monterey Homes Corporation, a Maryland corporation, be in default under any secured indebtedness.

If Borrower or Guarantor (if applicable to Guarantor) breaches any of the Additional Loan Covenants then, at Lender's election, no additional Mortgages shall be recorded in the Real Property Records; provided, however, that a breach of any Additional Loan Covenants shall not be considered a default under the Loan Instruments.

14. Paragraph 16(d). RELEASE PRICE. The partial release price shall be a cash amount equal to the Loan Allocation for the Property multiplied by the Stage (expressed as a percentage) of the Property, all as determined by Lender; provided, however, if Lender shall have given Borrower the notice described in Paragraph 4(f) of the Loan Agreement, then the partial release price shall be an amount in cash equal to one hundred and one hundred percent (100%) of the outstanding balance of the Loan advanced by Lender for the Property.

15. Paragraph 16(e). EXTENSION FEE. If Lender extends the Required Release

Date, as provided in Paragraph 9 of this Exhibit A, Borrower shall pay to Lender an extension fee of one percent (1%) of that portion of the Loan advanced by Lender for each such Property times a fraction, the numerator of which is the number of days the Required Release Date is extended and the denominator of which is 365.

EXHIBIT A, - Page 3

FOURTH MODIFICATION AGREEMENT

This FOURTH MODIFICATION AGREEMENT (this "AGREEMENT") is made and entered into as of July 31, 1999, by and between LEGACY/MONTEREY HOMES L.P., an Arizona limited partnership ("BORROWER"), and GUARANTY FEDERAL BANK, F.S.B., a federal savings bank organized and existing under the laws of the United States ("LENDER").

WITNESSETH:

WHEREAS, pursuant to a certain Master Loan Agreement (the "LOAN AGREEMENT") dated as of January 31, 1993, between Lender and Borrower, Lender made a loan (the "LOAN") to Borrower, evidenced by a certain Revolving Promissory Note (the "NOTE") dated as of January 31, 1993, payable to Lender in the stated principal amount of FIFTY MILLION AND NO/100 DOLLARS (\$50,000,000.00) (as increased), with interest and principal payable as set forth therein; and

WHEREAS, to secure the Note and Loan, Master Form Deed(s) of Trust (With Security Agreement and Assignment of Rents and Leases) (hereinafter collectively referred to as the "MASTER DEEDS OF TRUST," whether one or more), which Master Deeds of Trust have been recorded in certain counties in the State of Texas as more particularly described on Exhibit A attached hereto; and which Master Deeds of Trust are incorporated by reference pursuant to the terms and provisions of certain Deeds of Trust Incorporating by Reference a Master Form Deed of Trust (With Security Agreement and Assignment of Rents and Leases) (hereafter collectively referred to as the "SUPPLEMENTAL DEEDS OF TRUST," whether one or more) recorded in such counties and encumbering certain real and other property (the "PROPERTY") described in such Supplemental Deeds of Trust (such Master Deeds of Trust and Supplemental Deeds of Trust hereafter collectively referred to as the "DEEDS OF TRUST," whether one or more); and

WHEREAS, the Deeds of Trust were modified pursuant to a Modification Agreement (the "FIRST MODIFICATION") dated _____, 1997, and recorded in various counties in Texas, which First Modification modified certain terms and provisions of the Loan as set forth therein; and

WHEREAS, the Deeds of Trust were further pursuant to a Second Modification Agreement (the "SECOND MODIFICATION") dated as of May 19, 1998, and recorded in various counties in Texas, which Second Modification modified certain terms and provisions of the Loan as set forth therein; and

WHEREAS, the Deeds of Trust were further pursuant to a Third Modification Agreement (the "THIRD MODIFICATION") dated as of March _____, 1999, and recorded in various counties in Texas, which Third Modification modified certain terms and provisions of the Loan as set forth therein; and

WHEREAS, the Note and the Loan are guaranteed pursuant to that certain Guaranty Agreement dated as of June 30, 1997 (the "GUARANTY"), executed by MTH-Texas GP, Inc., an Arizona corporation, MTH-Texas LP, Inc., an Arizona corporation, and Meritage Corporation, a Maryland corporation (formerly known as "MONTEREY HOMES CORPORATION") ("GUARANTOR," whether one or more); and

WHEREAS, the Loan Agreement, the Note, the First Modification, the Second Modification, the Third Modification Agreement, the Deeds of Trust and all other documents evidencing and/or securing the Loan are hereinafter collectively called the "LOAN INSTRUMENTS"; and

FOURTH MODIFICATION AGREEMENT - Page 1

WHEREAS, Lender, the owner and holder of the Note and the Deeds of Trust and all rights and titles evidenced thereby, and Borrower, the record owner of the Property and being liable for the payment of the Note and Loan, desire to modify the Loan Instruments as herein provided.

NOW, THEREFORE, in consideration of Ten and No/100 Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. The stated maturity date of the Note is hereby extended to and including July 31, 2000, when the entire unpaid principal balance of the Note, together with all accrued and unpaid interest shall be due and payable; provided, however, such date may be extended as set forth in the Loan Agreement.

2. The Loan is hereby increased from \$70,000,000.00 to \$80,000,000.00. All references in the Loan Instruments to the amount of \$70,000,000.00 are hereby increased to \$80,000,000.00.

3. Borrower shall execute and deliver to Lender a letter agreement (in form and substance satisfactory to Lender in its sole discretion) (the "LETTER AGREEMENT") dated as of the date hereof amending certain other terms and provisions of the Loan Instruments. (Hereafter, this Agreement and the Letter Agreement shall be included in the defined term "LOAN INSTRUMENTS.")

4. Borrower acknowledges and agrees, that as an accommodation to Borrower, Exhibit A hereto (which exhibit describes the recording information of the Master Deeds of Trust) shall be attached to this Agreement (and to any and all other documents which may require the attachment of a description of the recording information of the Master Deeds of Trust) after Borrower's execution of same. Accordingly, Borrower hereby authorizes and directs Lender to attach such Exhibit A to this Agreement.

5. Notwithstanding anything to the contrary contained in the Deeds of Trust or other Loan Instruments, with respect to any amendment to the Master Deeds of Trust, the following terms and provisions shall apply:

With respect to any amendment or modification of the Master Deeds of Trust now or hereafter executed by Borrower (or any future owner of the Property if different from Borrower) and duly recorded in the appropriate official public records, Borrower acknowledges and agrees that such amendment or modification of the Master Deeds of Trust shall constitute an amendment or modification to the terms and provisions of any such Supplemental Deeds of Trust (and shall be incorporated into any such Supplemental Deeds of Trust and made a part thereof for all purposes, as though such amendment or modification of the Master Deeds of Trust specifically referred to such Supplemental Deeds of Trust) without the necessity of any specific reference in such amendment or modification to any such Supplemental Deeds of Trust; and no such amendment or modification of the Master Deeds of Trust shall impair the obligations of Borrower under any such Supplemental Deeds of Trust or any other of the Loan Instruments.

6. Borrower hereby expressly promises to pay to the order of Lender, the principal amount of the Note (as modified and increased) and all accrued and unpaid interest now or hereafter to become due and payable under the Note, and Borrower hereby expressly promises to perform all of the obligations of Borrower under the Loan Instruments (as modified and increased).

7. The liens of the Deeds of Trust are hereby acknowledged by Borrower to be good, valid and subsisting liens, and such liens are hereby renewed and extended so as to secure the payment of the Note and Loan (as modified and increased).

8. Borrower hereby represents and warrants to Lender that (a) Borrower is the sole legal and beneficial owner of the Property; (b) Borrower has the full power and authority to make the agreements contained in this Agreement without joinder or consent of any other party; (c) the

FOURTH MODIFICATION AGREEMENT - Page 2

execution, delivery and performance of this Agreement will not contravene or constitute an event which itself or which with the passing of time or giving of notice or both would constitute a default under any deed of trust, loan agreement, indenture or other agreement to which Borrower or Guarantor is a party or by which Borrower or any of its property is bound; and (d) there exists no default under the Loan Instruments (as modified). BORROWER HEREBY AGREES TO INDEMNIFY AND HOLD LENDER HARMLESS AGAINST ANY LOSS, CLAIM, DAMAGE, LIABILITY OR EXPENSE (INCLUDING WITHOUT LIMITATION, ATTORNEYS' FEES) INCURRED AS A RESULT OF ANY REPRESENTATION OR WARRANTY MADE BY BORROWER HEREIN PROVING TO BE UNTRUE IN ANY MATERIAL RESPECT.

9. The terms and conditions hereof may not be modified, amended, altered or otherwise affected except by instrument in writing executed by Lender and Borrower.

10. All Loan Instruments are hereby amended and modified in a manner consistent with the modifications, terms and/or provisions contained herein. Except as expressly modified hereby, the terms and conditions of the Loan Instruments are and shall remain in full force and effect.

11. Borrower agrees to pay to Lender, contemporaneously with the execution and delivery hereof, all costs and expenses incurred in connection with this transaction, title insurance endorsement premiums, reasonable fees of Lender's counsel and recording fees.

12. Borrower hereby agrees to execute and deliver to Lender such further documents and instruments evidencing or pertaining to the Loan, as modified and increased hereby, as may be reasonably requested by Lender from time to time so as to evidence the terms and conditions hereof.

[The balance of this page is intentionally left blank.]

EXECUTED on the date(s) set forth in the acknowledgment(s) below to be EFFECTIVE as of the date first above written.

BORROWER:

LEGACY/MONTEREY HOMES L.P.,
an Arizona limited partnership

BY: MTH-TEXAS GP, INC., an
Arizona corporation,
General Partner

By: /s/ Rick Morgan

Name: Rick Morgan
Title: Vice President

LENDER:

GUARANTY FEDERAL BANK, F.S.B.,
a federal savings bank

By: /s/ Sam A. Meade

Name: Sam A. Meade
Title: Senior Vice President

STATE OF TEXAS ss.
ss.
COUNTY OF COLLIN ss.

This instrument was ACKNOWLEDGED before me on July 26, 1999, by Rick Morgan, Vice President of MTH-TEXAS GP, INC., an Arizona corporation, as General Partner of LEGACY/MONTEREY HOMES L.P., an Arizona limited partnership, on behalf of said limited partnership.

[SEAL] /s/ Ana Patterson

Notary Public

My Commission Expires:

Printed Name of Notary Public

FOURTH MODIFICATION AGREEMENT - Page 4

STATE OF TEXAS ss.
ss.
COUNTY OF DALLAS ss.

This instrument was acknowledged before me on the 29th day of July, 1999, by Sam A. Meade, Senior Vice President of GUARANTY FEDERAL BANK, F.S.B., a federal savings bank, on behalf of said federal savings bank.

/s/ Leslie Ruth Reynolds

Notary Public in and for the
Above country and state

[SEAL]

My Commission Expires:

02/04/2001

Leslie Ruth Reynolds

Printed Name of Notary

FOURTH MODIFICATION AGREEMENT -Page 5
CONSENT OF GUARANTOR

Each of the undersigned, as a guarantor ("Guarantor," whether one or more) of the loan (the "Loan"), evidenced by the Note and secured by the Deeds of Trust described in the foregoing Fourth Modification Agreement (the "Agreement") to which this Consent is attached, hereby acknowledge and consent (jointly and severally) to the terms of the Agreement and agree (jointly and severally) that the execution and delivery of the Agreement will in no way change or modify Guarantor's respective obligations under their respective Guaranty (as defined in the Agreement); and each Guarantor acknowledges and agrees (jointly and severally) that the Indebtedness (as defined in the respective instruments comprising the Guaranty) includes the Loan (as increased and set forth in the Agreement), together with any and all other Indebtedness now or at any time hereafter owing by Guarantor to Lender; and each Guarantor (jointly and severally) hereby unconditionally and absolutely guarantees to Lender the

payment when due of such Indebtedness, and hereby acknowledge and agree that their respective Guaranty is in full force and effect, and that there are no claims, counterclaims, offsets or defenses to their respective Guaranty; and each Guarantor acknowledges and consents (jointly and severally) to the terms of any and all prior modifications to the terms of the Loan (including, without limitation, any and all extensions of the term thereof and increases in the principal thereof prior to the date hereof, if any).

EXECUTED on the date(s) set forth in the acknowledgment(s) below to be EFFECTIVE as, of the 31st day of July, 1999.

GUARANTOR:

MERITAGE CORPORATION,
a Maryland corporation

By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

MTH-TEXAS GP, INC.,
an Arizona corporation

By: /s/ Rick Morgan

Name: Rick Morgan
Title: Vice President

MTH-TEXAS LP, INC.,
an Arizona corporation

By: /s/ Rick Morgan

Name: Rick Morgan
Title: Vice President

FOURTH MODIFICATION AGREEMENT -Page 6

STATE OF TEXAS ss.
ss.
COUNTY OF COLLIN ss.

This instrument was ACKNOWLEDGED before me on July 27, 1999, by John R Landon, Co-CEO of MERITAGE CORPORATION, a Maryland corporation, on behalf of said corporation.

[SEAL] /s/ Ana Patterson

Notary Public

My Commission Expires:

Printed Name of Notary Public

STATE OF TEXAS ss.
ss.
COUNTY OF COLLIN ss.

This instrument was ACKNOWLEDGED before me on July 26, 1999, by Rick Morgan, Vice President of MTH-TEXAS GP, INC., an Arizona corporation, on behalf of said corporation.

[SEAL] /s/ Ana Patterson

Notary Public

My Commission Expires:

Printed Name of Notary Public

STATE OF TEXAS ss.
ss.
COUNTY OF COLLIN ss.

This instrument was ACKNOWLEDGED before me on July 26, 1999, by Rick Morgan, Vice President of MTH-TEXAS LP, IN , an Arizona corporation, on behalf of said corporation.

[SEAL]

/s/ Ana Patterson

Notary Public

My Commission Expires:

Printed Name of Notary Public

FOURTH MODIFICATION AGREEMENT - Page 7

EXHIBIT A

Description of the Deed(s) of Trust

LEGACY/MONTEREY, L.P.

- COLLIN COUNTY Recorded September 4, 1996, Clerk File 96-0075977
- DALLAS Recorded September 5, 1996, Volume 96175 Page 00192
- DENTON Recorded September 5, 1996, Clerk File 96-80061921
- HARRIS Recorded August 6, 1997, Clerk File No. S579911
- ROCKWALL Recorded August 19, 1997, Clerk File No. 176219
- TARRANT Recorded September 5, 1996, Clerk File D196175179
- TRAVIS Recorded September 6, 1996, Volume 12766, Page 1157
- WILLIAMSON Recorded September 9, 1996, Clerk File 9648096

Fort Bend sent to Legacy for sig. Today (1-26-99)

EXHIBIT A, Description of the Deeds of Trust - Page 1

CERTIFICATE OF RESOLUTIONS
OF
MERITAGE CORPORATION

I, Rick Morgan, Assistant Secretary of MERITAGE CORPORATION, a Maryland corporation (the "Company"), do hereby certify as follows:

- (i) that I am the duly elected and qualified Assistant Secretary of the Company and the custodian of the Company's records;
- (ii) that a meeting of the Board of Directors of the Company was duly called and held on July 27, 1999, and at such meeting a quorum of the Directors was present and acting throughout;
- (iii) that set forth below is a true and correct restatement of certain resolutions adopted by the Directors of the Company at such meeting held on July 27, 1999;

RESOLVED, that the President or any Vice President of the Company be and is hereby authorized and directed to do any and all things deemed necessary or advisable and in the best interest of the Company, at his sole discretion, in connection with the obtainment by LEGACY/MONTEREY HOMES L.P., an Arizona limited partnership (the "Partnership") of a loan in the amount of \$80,000,000.00 (the "Loan"), to be obtained from GUARANTY FEDERAL BANK, F.S.B. ("Lender") for the purpose of the Partnership acquiring, developing and/or constructing various residential subdivisions (herein collectively and singularly called the "Project"), to be located in certain counties in Texas; to execute and deliver appropriate loan instruments in the name of and on behalf of the Company, and all documents, certificates and agreements in this connection required by Lender including, without limitation, guaranties which guarantee the Loan, the Loan being reasonably expected to benefit, directly or indirectly, the Company;

FURTHER RESOLVED, that the seal of the Company and the attestation of the signature of the President or any Vice President by the Secretary or an Assistant Secretary of the Company will not be necessary, but if the seal or such attestation is required by any party in connection with the transaction contemplated by these resolutions, the Secretary or an Assistant Secretary of the Company is hereby authorized to attest, for and on behalf of the Company, the signature of the President or any Vice President upon any instrument, document or other writing executed on behalf of the Company by the President or any Vice President thereof and to affix the seal of the Company thereto;

FURTHER RESOLVED, that the officers of the Company are hereby severally authorized to (a) sign, execute, certify to, verify, acknowledge, deliver,

accept, file and record any and all instruments and documents, and (b) take, or cause to be taken, any and all such action in the name and on behalf of the Company or otherwise, as in any such officer's judgment is necessary, desirable

CERTIFICATE OF RESOLUTIONS, Page 1

or appropriate in order to consummate the transactions contemplated by or otherwise to effect the purposes of the foregoing resolutions;

FURTHER RESOLVED, that all actions heretofore taken by the incorporators or the directors or the officers of the Company, and all things done by their authority, with respect to the organization of the Company and in connection with the acquisition of lands for and the financing and construction of the Project as aforesaid, be and the same are hereby ratified, approved and adopted as the acts of the Company;

FURTHER RESOLVED, that said officers are authorized and empowered to perform all acts and execute and deliver all instruments, documents and agreements required by Lender to carry out the purposes of this resolution.

- (i) that none of the resolutions set forth above have been amended, modified, revoked or rescinded; and each such resolution is in full force and effect on the date hereof; and
- (ii) that the following are the duly elected, qualified and serving officers of the Company, that their addresses are as stated in connection with each, and that the signature set out opposite the name of each officer is the genuine signature of such person, to wit:

NAME AND ADDRESS	SIGNATURE
- - - - -	- - - - -

President:

/s/ John R. Landon
- - - - -

Vice President:

/s/ Rick Morgan
- - - - -

Secretary:

- - - - -

CERTIFICATE OF RESOLUTIONS, Page 2

Assistant Secretary:

/s/ Rick Morgan
- - - - -

- (iii) that (a) all franchise and other taxes required to maintain the Company's corporate existence have been paid when due and that no such taxes are delinquent; (b) no proceedings are pending for the forfeiture of the Company's Certificate of Incorporation or the Company's dissolution, voluntary or involuntary; (c) the Company is duly qualified to do business in the State of Texas and any other states in which it is doing business, and is in good standing in such states; (d) there is no provision of the Articles of Incorporation or Bylaws of the Company limiting the power of the Board of Directors to pass the Resolutions set out above, and that such Resolutions are in conformity with the provisions of said Articles of Incorporation and Bylaws.

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CERTIFICATE OF RESOLUTIONS, Page 3

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Company this 27th day of July 1999.

/s/ Rick Morgan

Rick Morgan, Assistant Secretary

(Corporate Seal)

ss.
COUNTY OF COLLIN ss.

SWORN TO AND SUBSCRIBED BEFORE ME, this 26 day of July, 1999, to certify which witness my hand and seal of office.

/s/ Ana Patterson

Notary Public in and for
_____ County, _____

My Commission Expires:

(Printed Name of Notary)

CERTIFICATE OF RESOLUTIONS, Page 4
CERTIFICATE OF RESOLUTIONS
OF
MTH-TEXAS LP, INC.

I, Rick Morgan, Assistant Secretary of MTH-TEXAS LP, INC., an Arizona corporation (the "Company"), do hereby certify as follows:

- (i) that I am the duly elected and qualified Assistant Secretary of the Company and the custodian of the Company's records;
- (ii) that a meeting of the Board of Directors of the Company was duly called and held on July 27, 1999, and at such meeting a quorum of the Directors was present d acting throughout;
- (iii) that set forth below is a true and correct restatement of certain resolutions adopted by he Directors of the Company at such meeting held on July 27, 1999;

RESOLVED, that the President or any Vice President of the Company be and is hereby authorized and directed to do any and all things deemed necessary or advisable and in the best interest of the Company, at his sole discretion, in connection with the obtainment by LEGACY/MONTEREY HOMES, L.P., an Arizona limited partnership (the "Partnership") of a loan in the amount of \$80,000,000.00 (the "Loan"), to be obtained from GUARANTY FEDERAL BANK, F.S.B. ("Lender") for the purpose of the Partnership acquiring, developing and/or constructing various residential subdivisions (herein collectively and singularly called the "Proiect"), to be located in certain counties in Texas; to execute and deliver appropriate loan instruments in the name of and on behalf of the Company, and all documents, certificates and agreements in this connection required by Lender including, without limitation, guaranties which guarantee the Loan, the Loan being reasonably expected to benefit, directly or indirectly, the Company;

FURTHER RESOLVED, that the seal of the Company and the attestation of the signature of the President or any Vice President by the Secretary or an Assistant Secretary of the Company will not be necessary, but if the seal or such attestation is required by any party in connection with the transaction contemplated by these resolutions, the Secretary or an Assistant Secretary of the Company is hereby authorized to attest, for and on behalf of the Company, the signature of the President or any Vice President upon any instrument, document or other writing executed on behalf of the Company by the President or any Vice President thereof and to affix the seal of the Company thereto;

FURTHER RESOLVED, that the officers of the Company are hereby severally authorized to (a) sign, execute, certify to, verify, acknowledge, deliver, accept, file and record any and all instruments and documents, and (b) take, or cause to be taken, any and all such action in the name

CERTIFICATE OF RESOLUTIONS, Page 1
and on behalf of the Company or otherwise, as in any such officer's judgment is necessary, desirable or appropriate in order to consummate the transactions contemplated by or otherwise to effect the purposes of the foregoing resolutions;

FURTHER RESOLVED, that all actions heretofore taken by the incorporators or the directors or the officers of the Company, and all things done by their authority, with respect to the organization of the Company and in connection with the acquisition of lands for and the financing and construction of the Project as aforesaid, be and the same are hereby ratified, approved and adopted as the acts of the Company;

FURTHER RESOLVED, that said officers are authorized and empowered to perform all acts and execute and deliver all instruments, documents and agreements required by Lender to carry out the purposes of this resolution.

- (i) that none of the resolutions set forth above have been amended, modified, revoked or rescinded; and each such resolution is in full force and effect on the date hereof; and
- (ii) that the following are the duly elected, qualified and serving officers of the Company, that their addresses are as stated in connection with each, and that the signature set out opposite the name of each officer is the genuine signature of such person, to wit:

NAME AND ADDRESS	SIGNATURE
- - - - -	-----
President	
/s/ John R. Landon	
- - - - -	

Vice President:

/s/ RICK MORGAN	
- - - - -	

Secretary:

- - - - -

CERTIFICATE OF RESOLUTIONS, Page 2
 Assistant Secretary:

/s/ Rick Morgan

- - - - -

(iii) that (a) all franchise and other taxes required to maintain the Company's corporate existence have been paid when due and that no such taxes are delinquent; (b) no proceedings are pending for the forfeiture of the Company's Certificate of Incorporation or the Company's dissolution, voluntary or involuntary; (c) the Company is duly qualified to do business in the State of Texas and any other states in which it is doing business, and is in good standing in such states; (d) there is no provision of the Articles of Incorporation or Bylaws of the Company limiting the power of the Board of Directors to pass the Resolutions set out above, and that such Resolutions are in conformity with the provisions of said Articles of Incorporation and Bylaws.

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CERTIFICATE OF RESOLUTIONS, Page 3
 IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Company this 27th day of July 1999.

/s/ Rick Morgan

 Rick Morgan, Assistant Secretary

(Corporate Seal)

STATE OF TEXAS ss.
 ss.
 COUNTY OF COLLIN ss.

SWORN TO AND SUBSCRIBED BEFORE ME, this 26th day of July, 1999, to certify which witness my hand and seal of office.

/s/ Ana Patterson

 Notary Public in and for
 Collin County, Texas

My Commission Expires:
 8-28-99

 (Printed Name of Notary)

I, Rick Morgan, Assistant Secretary of MTH-TEXAS GP, INC., an Arizona corporation (the "Company"), do hereby certify as follows:

- (i) that I am the duly elected and qualified Assistant Secretary of the Company and the custodian of the Company's records;
- (ii) that a meeting of the Board of Directors of the Company was duly called and held on July 27, 1999, and at such meeting a quorum of the Directors was present and acting throughout;
- (iii) that set forth below is a true and correct restatement of certain resolutions adopted by the Directors of the Company at such meeting held on July 27, 1999;

RESOLVED, that the President or any Vice President of the Company be and is hereby authorized and directed to do any and all things deemed necessary or advisable and in the best interest of the Company, at his sole discretion, in connection with (a) the formation of LEGACY/MONTEREY HOMES L.P., an Arizona limited partnership (the "Partnership"); (b) the acquisition by the Company of a general partnership interest in the Partnership; and (c) the obtainment by the Partnership of a loan in the amount of \$80,000,000.00 (the "Loan"), to be obtained from GUARANTY FEDERAL BANK, F.S.B. ("Lender") for the purpose of the Partnership acquiring, developing and/or constructing various single family lots and/or residential subdivisions (herein collectively and singularly called the "Project"), to be located in certain counties in Texas; to execute and deliver appropriate loan instruments in the name of and on behalf of the Company, and all documents, certificates and agreements in this connection required by Lender including, without limitation, guaranties which guarantee the Loan, the Loan being reasonably expected to benefit, directly or indirectly, the Company;

FURTHER RESOLVED, that the seal of the Company and the attestation of the signature of the President or any Vice President by the Secretary or an Assistant Secretary of the Company will not be necessary, but if the seal or such attestation is required by any party in connection with the transaction contemplated by these resolutions, the Secretary or an Assistant Secretary of the Company is hereby authorized to attest, for and on behalf of the Company, the signature of the President or any Vice President upon any instrument, document or other writing executed on behalf of the Company by the President or any Vice President thereof and to affix the seal of the Company thereto;

FURTHER RESOLVED, that the officers of the Company are hereby severally authorized to (a) sign, execute, certify to, verify, acknowledge, deliver, accept, file and record any and all instruments and documents, and (b) take, or cause to be taken, any and all such action in the name and on behalf of the

CERTIFICATE OF RESOLUTIONS, Page 1

Company or otherwise, as in any such officer's judgment is necessary, desirable or appropriate in order to consummate the transactions contemplated by or otherwise to effect the purposes of the foregoing resolutions;

FURTHER RESOLVED, that all actions heretofore taken by the incorporators or the directors or the officers of the Company, and all things done by their authority, with respect to the organization of the Company and in connection with the acquisition of lands for and the financing and construction of the Project as aforesaid, be and the same are hereby ratified, approved and adopted as the acts of the Company;

FURTHER RESOLVED, that said officers are authorized and empowered to perform all acts and execute and deliver all instruments, documents and agreements required by Lender to carry out the purposes of this resolution.

- (i) that none of the resolutions set forth above have been amended, modified, revoked or rescinded; and each such resolution is in full force and effect on the date hereof; and
- (ii) that the following are the duly elected, qualified and serving officers of the Company, that their addresses are as stated in connection with each, and that the signature set out opposite the name of each officer is the genuine signature of such person, to wit:

NAME AND ADDRESS	SIGNATURE
- - - - -	- - - - -

President

/s/ John R. Landon
- - - - -

Vice President:

/s/ Rick Morgan
- - - - -

Secretary:

CERTIFICATE OF RESOLUTIONS, Page 2

Assistant Secretary:

/s/ Rick Morgan

(iii) that (a) all franchise and other taxes required to maintain the Company's corporate existence have been paid when due and that no such taxes are delinquent; (b) no proceedings are pending for the forfeiture of the Company's Certificate of Incorporation or the Company's dissolution, voluntary or involuntary; (c) the Company is duly qualified to do business in the State of Texas and any other states in which it is doing business, and is in good standing in such states; (d) there is no provision of the Articles of Incorporation or Bylaws of the Company limiting the power of the Board of Directors to pass the Resolutions set out above, and that such Resolutions are in conformity with the provisions of said Articles of Incorporation and Bylaws.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Company this 27th day of July, 1999.

/s/ Rick Morgan

Rick Morgan, Assistant Secretary

(Corporate Seal)

STATE OF TEXAS ss.
COUNTY OF COLLINS ss.

SWORN TO AND SUBSCRIBED BEFORE ME, this 26 day of July, 1999, to certify which witness my hand and seal of office.

/s/ Ana Patterson

Notary Public in and for

County,

My Commission Expires:

(Printed Name of Notary)

CERTIFICATE OF RESOLUTIONS, Page 3

CONSENT OF PARTNERS

The undersigned, being all the general and limited partners of MONTEREY/LEGACY HOMES L.P., an Arizona limited partnership (the "Partnership"), to induce GUARANTY FEDERAL BANK, F.S.B., a federal savings bank ("Lender"), to make a loan or loans to the Partner ship in the original principal amount of \$80,000,000.00 (the "Loan"), do hereby, jointly and severally, certify to and agree with Lender as follows:

(i) That the undersigned constitute all of the general and limited partners of the Partnership;

(ii) That the undersigned are the custodians of the Partnership records and have full and complete knowledge of the matters set forth herein;

(iii) That the Partnership is evidenced and constituted by that certain Limited Partnership Agreement, dated as of June - 1997, a photocopy of which is attached hereto as Exhibit A, and that such document (the "Partnership Agreement") is the only document constituting the Partnership Agreement;

(iv) That the President, Vice President or CFO of MTH-TEXAS GP, INC., an Arizona cdrporation is authorized and directed to do any and all things deemed necessary or advisable and in the best interest of the Partnership, in his sole discretion, in connection with the Loan, to execute and deliver in the name of the Partnership instruments of mortgage and deed of trust

and all instruments, documents, certificates and

agreements required by Lender in connection with the Loan; and to do and perform all acts and things that may be deemed necessary or proper, in the sole discretion of the President, Vice President or CFO of MTH-TEXAS GP, INC., an Arizona corporation, regarding the negotiation and consummation of the Loan;

(v) That the provisions of the Partnership Agreement have not been amended, modified or rescinded; the Partnership has been neither terminated nor dissolved; both the Partnership and the Partnership Agreement are in full force and effect and in existence on the date hereof; there exist no restrictions or limitations on the authority of any one or more of the undersigned partners of the Partnership to consummate the financing contemplated by this Consent; and that such financing will be in conformity with the terms, provisions and requirements of the Partnership Agreement; and

(vi) Further, to induce Lender to extend the financing contemplated by this Consent, the undersigned agree that in the event any dispute whatsoever arises among any or all of the undersigned, the undersigned jointly and severally will indemnify Lender and any corporation controlling, controlled by or under common control with Lender and any officer, director or employee of Lender of any such corporation, and will hold Lender and such corporation and any such officer, director or employee harmless from and against all expenses, including (but not limited to) legal fees, damages and other liabilities of any type whatsoever (including, but not limited to, any liabilities arising out of demands by any of the undersigned for undisbursed loan funds) suffered or incurred as a result of or in connection with any such dispute. The foregoing indemnity agreement shall be governed by and construed according to the laws of the State of Texas unless any such indemnity obligation shall be invalid or unenforceable under such laws, in which event the laws of that state whose laws can apply to and validate the obligation hereunder shall apply.

(vii) This Consent may be executed in a number of identical counterparts, each of which for all purposes is deemed an original, and all of which constitute collectively one (1) Consent; but, in making proof of this Consent, it shall not be necessary to produce or account for more than one (1) such counterpart.

IN WITNESS WHEREOF, the undersigned general and limited partners of the Partnership executed this Consent as of the 27th day of July, 1999.

GENERAL PARTNER:

MTH-TEXAS GP, INC.,
an Arizona corporation

By: /s/ Rick Morgan

Name: Rick Morgan
Title: Vice President

LIMITED PARTNER:

MTH-TEXAS LP, INC.,
an Arizona corporation

By: /s/ Rick Morgan

Name: Rick Morgan
Title: Vice President

EXHIBIT A

(A copy of the Partnership Agreement follows this cover page.)
LIMITED PARTNERSHIP AGREEMENT OF
LEGACY/MONTEREY HOMES L.P.

This Agreement is effective as of June 13, 1997, is entered into by and among MTH-TEXAS GP, Inc., an Arizona corporation, as the General Partner, and MTH-TEXAS LP, Inc., an Arizona corporation as the Limited Partner.

In consideration of the mutual covenants hereinafter set forth, the parties hereto hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 As used in this Agreement, the following terms shall have the meanings set forth below:

"ACQUISITION AGREEMENT" means as defined in Section 2.3.

"ACT" means Chapter 3 of Title 29 of the Arizona Revised Statutes, as amended.

"ADJUSTED CAPITAL ACCOUNT BALANCE" means as defined in Section A.1 of Appendix A.

"AGREEMENT" means this Agreement of Limited Partnership of Legacy/Monterey Homes L.P., as amended from time to time, if applicable.

"AVAILABLE CASH FLOW" means, for any period, the Partnership's gross cash receipts derived from any source whatsoever (excluding the receipts associated with a sale or other disposition of all or substantially all of the Partnership's assets) less the portion thereof used to pay or establish reasonable reserves for all Partnership expenses, debt, payments, asset acquisitions, capital improvements, expansions, repairs, replacements, contingencies, and any other proper cash expenditure of the Partnership, whether contingent or absolute, as determined from time to time by the General Partner.

"CAPITAL ACCOUNT" means as defined in Section A. I of Appendix A.

"CAPITAL CONTRIBUTIONS" means the contributions required pursuant to Section 3.1.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time (or any corresponding provisions of succeeding law).

"FISCAL YEAR" means the Partnership's fiscal year, which shall be a calendar year except as otherwise required by law.

"GENERAL PARTNER" means MTH-TEXAS GP, Inc., an Arizona corporation, or any other Person that becomes a General Partner in accordance with the terms of this Agreement, until such time as such Person ceases to be a General Partner pursuant to the terms of this Agreement.

"LIMITED PARTNER" means MTH-TEXAS LP, Inc., an Arizona corporation.

"LOSSES" means as defined in Section A.1 of Appendix A.

"PARTNER" means any Person who is a General Partner or Limited Partner.

"PARTNERSHIP" means Legacy/Monterey Homes L.P.

"PERCENTAGE INTERESTS" means the percentage interests of the Partners from time to time and shall be determined with respect to a particular Partner at any particular time by dividing the number of Units owned by such Partner by the aggregate number of outstanding Units.

"PERSON" means any individual, trust, partnership, corporation, association, or other legal entity.

"REGULATIONS" means the regulations issued by the Treasury Department under the Code.

"TRANSFER" means when used as a noun, any voluntary or involuntary sale, assignment, gift, transfer, or other disposition and when used as a verb, voluntarily or involuntarily to sell, assign, gift, transfer, or otherwise dispose of.

"UNIT" means an interest in the capital, Profits, and Losses of the Partnership originally issued to the Partners in exchange for Capital Contributions.

"WITHDRAWAL EVENT" means, with respect to the General Partner, the occurrence of any of those events and circumstances listed in Section 29-323 of the Act, including, without limitation, the General Partner's withdrawal from the Partnership, dissolution, or bankruptcy.

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ARTICLE 2
FORMATION, PURPOSES AND TERM

2.1 FORMATION. The parties hereto hereby form the Partnership as a limited partnership pursuant to the Act and in accordance with the provisions of this Agreement.

2.2 NAME AND OFFICE. The name of the Partnership shall be Legacy/Monterey Homes L.P. The principal office of the Partnership (and the office required to be maintained for keeping Partnership records under Arizona law) shall be located at 6613 North Scottsdale Road, Suite 200, Scottsdale, Arizona, 85250, or

such other place in the State of Arizona as the General Partner may from time to time determine with written notice to the other Partners.

2.3. PURPOSES. The purposes of the Partnership shall be (a) to acquire certain home building and related assets currently owned by Legacy Homes, Ltd., a Texas limited partnership, pursuant to the terms of that certain Agreement of Purchase and Sale of Assets dated May 29, 1997, by and among Monterey Homes Corporation, a Maryland corporation, Legacy Homes, Ltd., Legacy Enterprises, Inc., a Texas corporation, and John Landon and Eleanor Landon (the "Acquisition Agreement"), (b) to own a home building business in the State of Texas, (c) to engage in such other businesses (related to the home building business specified in clause (b) or otherwise) and purposes in such place or places, if any, as the General Partner shall determine, and (d) to engage in any and all activities necessary, convenient, or incidental, in the sole discretion of the General Partner, to accomplish any of the foregoing purposes.

2.4 TERM. The term of the Partnership shall begin upon the filing of a certificate of limited partnership for the Partnership in accordance with the Act, and shall continue, unless earlier dissolved in accordance with Article IX until December 31, 2099.

2.5 AGENT FOR SERVICE OF PROCESS. The initial statutory agent for the Partnership and the address of such agent shall be CT Corporation System, 3225 N. Central Ave., Phoenix, Arizona 85012. The General Partner may change the Partnership's statutory agent from time to time in accordance with Arizona law.

ARTICLE 3 CAPITAL CONTRIBUTIONS

3.1 CAPITAL CONTRIBUTIONS OF THE PARTNERS. Not later than June 30, 1997, the Limited Partner shall contribute to the capital of the Partnership all of the assets acquired by the Limited Partner pursuant to the terms of the Acquisition Agreement and the General Partner shall contribute to the capital of the Partnership cash and/or in kind assets the aggregate value of which shall equal 1.01 % of the aggregate value of the assets contributed by the Limited Partner pursuant to the preceding provisions of this sentence. In exchange therefor, the General Partner shall be issued 10 Units and the Limited Partner shall be issued 990 Units. Except as set forth in this Section 3.1, the Partners shall be under no obligation to make contributions to the capital of the Partnership.

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3.2 RETURN OF CAPITAL. Except as otherwise provided in this Agreement, no Partner shall be entitled to the return of the Partner's Capital Contributions to the Partnership. Further, it is expressly provided that the General Partner shall have no personal liability for the repayment of the Capital Contributions made by any Partner, it being agreed that any return of capital or Profits made pursuant to this Agreement shall be made solely from the assets of the Partnership.

ARTICLE 4 MANAGEMENT

4.1 GENERAL PARTNER. The General Partner shall have the sole and exclusive right to manage the business of the Partnership and to accomplish the purposes of the Partnership set forth in Section 2.3 with all powers necessary, incidental, or convenient to the exercise of such management rights, including all of the rights and powers that may be possessed by general partners under the Act. The General Partner shall be authorized to delegate all or a portion of its management authority to any Person.

4.2 RELIANCE UPON ACTIONS BY GENERAL PARTNER. Any Person dealing with the Partnership may rely upon any action taken by the General Partner on behalf of the Partnership and, accordingly, any and all contracts or instruments executed by the General Partner on behalf of the Partnership shall be binding upon the Partnership. All of the Partners agree that a copy of this Agreement may be shown to the appropriate parties in order to confirm the same. Without limiting the generality of the foregoing, any person dealing with the Partnership may rely upon a certificate or written statement signed by the General Partner as to:

(a) The identity of the General Partner or any Limited Partner;

(b) The existence or nonexistence of any fact or facts that constitute a condition precedent to acts by the General Partner or that are in any other manner germane to the affairs of the Partnership;

(c) The Persons who are authorized to execute and deliver any instrument or documents of the Partnership; or

(d) Any act or failure to act by the Partnership on any other matter whatsoever involving the Partnership, to the extent applicable.

4.3 DEVOTION OF TIME TO PARTNERSHIP ACTIVITIES. The General Partner shall devote so much of its time to activities on behalf of the Partnership as the

General Partner determines to be necessary for the business and affairs of the Partnership.

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4.4 REIMBURSEMENT OF EXPENSES OF GENERAL PARTNER. The Partnership shall pay or reimburse the General Partner (or any Person providing services on behalf of the General Partner) for all expenses reasonably incurred in connection with the business and purposes of the Partnership.

ARTICLE 5
PRE-LIQUIDATION DISTRIBUTIONS

5.1 INTERIM DISTRIBUTIONS OF AVAILABLE CASH FLOW. The General Partner shall have the sole discretion to determine the time, amount, and manner of distributions of Available Cash Flow to the Partners prior to the liquidation of the Partnership; provided, however, that any distributions of Available Cash Flow to the Partners shall be made pro rata to all Partners of record on the date of distribution in accordance with the Partners' Percentage Interests.

5.2 DISTRIBUTIONS OF CASH FLOW DURING LIQUIDATION. Following the dissolution of the Partnership and the commencement of the winding up of its business and affairs, the Available Cash Flow and remaining assets of the Partnership shall be distributed in accordance with Section 9.2 hereof.

5.3 AMOUNTS WITHHELD. All amounts withheld pursuant to the Code or any provision of any state or local tax law with respect to any distribution by the Partnership to the Partners or any allocation of income shall be treated as amounts distributed to the Partners pursuant to this Article V for all purposes under this Agreement.

ARTICLE 6
ALLOCATION OF PROFITS AND LOSSES

6.1 PROFIT ALLOCATIONS. After making any special allocations required under Appendix A, Profits for each Fiscal Year (and each item of income, gain, loss and deduction entering into the computation thereof) shall be allocated among the Partners (and credited to their respective Capital Accounts) in the following order and priority:

(a) First, to the General Partner until the cumulative Profits allocated pursuant to this Section 6.1(a) are equal to the cumulative Losses, if any, previously allocated to the General Partner pursuant to Section 6.2(c) for all prior periods;

(b) Second, to the Partners until the cumulative Profits allocated pursuant to this Section 6.1 (b) are equal to the cumulative Losses, if any, previously allocated to the Partners pursuant to Section 6.2(b) for all prior periods in proportion to the Partners' respective shares of the Losses being offset; and

(c) Third, to the Partners in accordance with their Percentage Interests.

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6.2 LOSS ALLOCATIONS. After making any special allocations required under Appendix A, Losses for each Fiscal Year (and each item of income, gain, loss and deduction entering into the computation thereof) shall be allocated among the Partners (and charged to their respective Capital Accounts) in the following order and priority:

(a) First, to the extent that Profits have previously been allocated to the Partners for prior, periods pursuant to Section 6.1 (c) hereof, Losses shall be allocated to the Partners to offset such Profits in proportion to the Partners' respective shares of the Profits being offset; provided, however, that in no event shall any allocation pursuant to this Section 6.2(a) create or increase a Partner's deficit in such Partner's Capital Account.

(b) Second, to the Partners in proportion to their respective Capital Account balances until the Adjusted Capital Account balance of each Partner has been reduced to zero; and

(c) Third, the balance, if any, to the General Partner.

6.3 TAX ALLOCATIONS.

(a) Except as otherwise provided in Section A.2(a) of Appendix A, for income tax purposes, all items of income, gain, loss, deduction and credit of the Partnership for any tax period shall be allocated among the Partners in accordance with the allocations of Profit and Loss prescribed in this Article VI and in Appendix A.

(b) The Partners are aware of the income tax consequences of the allocations made by this Article VI and Appendix A and hereby agree to be bound by the provisions of this Article VI and Appendix A in reporting their distributive shares of Partnership taxable income and loss for income tax

purposes.

6.4 MODIFICATION IN ALLOCATIONS. The General Partner shall be authorized to modify the method of allocating Profits and Losses to the Partner upon receipt of advice from counsel that such change is required by applicable law.

ARTICLE 7
RESTRICTIONS ON TRANSFERS
OF PARTNERSHIP INTERESTS

7.1 GENERAL. No Partner shall be authorized to Transfer all or a portion of such Person's Units. Any purported Transfer of Units shall be null and void and of no force and effect whatsoever.

7.2 LEGENDS. Each Partner agrees that the restrictions on Transfer set forth in Section 7.1 may be placed upon any counterpart of this Agreement or any other instrument or document evidencing ownership of Units.

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ARTICLE 8
BOOKS AND RECORDS
TAX MATTERS

8.1 BOOKS AND RECORDS. The General Partner, at the expense of the Partnership, shall maintain the records of the Partnership required to be maintained pursuant to A.R.S. 29-305. Any Partner or its designated representative shall have the right, at any reasonable time, to have access to and may inspect and copy the contents of such books or records.

8.2 TAX INFORMATION. The General Partner shall instruct the Partnership's accountants to prepare and deliver all necessary tax returns and information to each Partner within a reasonable period following the end of each Fiscal Year. The General Partner shall have sole authority relating to matters pertaining to the preparation of tax returns and the administration of the tax affairs relating to the Partnership and, in connection therewith, shall be authorized:

(a) To make any and all elections for federal, state and local tax purposes, including, without limitation, any election, if permitted by applicable law, to adjust the basis of Partnership property pursuant to Code Sections 754, 734(b) and 743(b), or comparable provisions of state or local law, in connection with the transfers or liquidations of Partnership interests;

(b) To act as the "tax matters partner" of the Partnership (within the meaning of Section 6231 of the Code) and in any similar capacity with respect to the Partnership under state or local law;

(c) To extend the statute of limitations for assessment of tax deficiencies against Partners with respect to adjustments to the Partnership's federal, state or local tax returns;

(d) To represent the Partnership and the Partners before taxing authorities or courts of competent jurisdiction in tax matters affecting the Partnership and the Partners in their capacity as Partners, and to execute any agreements or other documents relating to or affecting such tax matters, including agreements or other documents that bind the Partners with respect to such tax matters.

ARTICLE 9
DISSOLUTION AND WINDING UP

9.1 DISSOLUTION. The Partnership shall dissolve upon the first to occur of any of the following events:

(a) The unanimous written agreement of all of the Partners;

(b) The expiration of the term set forth in Section 2.4;

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(c) The entry of a decree of dissolution under Section 8.02 of the Act;

(d) The sale or other disposition of all or substantially all of the assets of the Partnership; or

(e) The failure of the Limited Partner, within ninety (90) days after a Withdrawal Event with respect to the sole remaining General Partner, to unanimously elect a new General Partner and to continue the Partnership without dissolution pursuant to Section 10.3.

9.2 WINDING UP. Upon a dissolution of the Partnership, the General Partner (or, if there is no General Partner, the Limited Partner or a Person designated by the Limited Partner) shall take full account of the Partnership's liabilities and assets, and the Partnership's assets shall be liquidated as promptly as is consistent with obtaining the fair value thereof. The proceeds of liquidation, to the extent sufficient therefor, shall be applied and distributed in the

following order:

(a) First, to the payment and discharge of all of the Partnership's debts and liabilities owed or owing to creditors other than the Partners, including the establishment of any necessary reserves;

(b) Second, to the payment and discharge of all of the Partnership's debts and liabilities owed to the Partners;

(c) Third, to the Partners in accordance with the positive balance of each Partner's Capital Account as determined after taking into account all Capital Account adjustments for the Partnership's taxable year during which the liquidation occurs. Any such distributions to the Partners in respect of their Capital Accounts shall be made within the time requirements of Section 1.704-1(b)(3)(ii)(b)(2) of the Regulations.

9.3. COMPLIANCE WITH REGULATIONS.

(a) Distributions required by Section 9.2 may be distributed to a trust established for the benefit of the Partners for the purposes of liquidating Partnership property, collecting amounts owed to the Partnership, and paying any contingent or unforeseen liabilities or obligations of the Partnership or of the General Partner arising out of or in connection with the Partnership. The assets of any such trust shall be distributed to the Partners from time to time, in the discretion of the General Partner, in the same proportions as the amount distributed to such trust by the Partnership would otherwise have been distributed to the Partners pursuant to this Agreement.

(b) If any General Partner whose interest in the Partnership is liquidated within the meaning of Treasury Regulation Section 1.704-1(b)(2)(ii)(g) has a negative balance in the General Partner's Capital Account after such liquidation, such General Partner shall pay to the

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Partnership an amount equal to such negative Capital Account balance no later than the end of the Partnership taxable year in which such liquidation occurs (or, if later, within ninety (90) days after the date of such liquidation); provided, however, that if such Person is and remains obligated after the liquidation to contribute additional funds to the Partnership in the manner described in Regulation Section 1.704-1(b)(2)(ii)(c), such Partner shall be required to pay to the Partnership, within the time period set forth above, only the amount, if any, by which the Partner's negative Capital Account balance exceeds the amount of funds the Partner is so obligated to contribute. If any Limited Partner has a negative balance in such Partner's Capital Account after such liquidation, such Limited Partner shall have no obligation to make any contribution to the capital of the Partnership with respect to such deficit, and such deficit shall not be considered a debt owed to the Partnership or to any other Person for any purpose whatsoever.

9.4 CERTIFICATE OF CANCELLATION. When all of the remaining property and assets have been applied and distributed in accordance with Section 9.2, the General Partner (or, if there is no General Partner, the Limited Partners or a Person designated by the Limited Partners) shall cause to be executed and filed a certificate of cancellation in accordance with the Act.

9.5 In Kind Distributions. A Partner shall have no right to demand and receive any distribution from the Partnership in any form other than cash. However, a Partner may be compelled to accept a distribution of an asset in kind if the Partnership is unable to dispose of all of its assets for cash.

ARTICLE 10 EVENTS AFFECTING GENERAL PARTNER

10.1 CESSATION. A Person shall cease to be a General Partner upon the occurrence of a Withdrawal Event affecting such Person. Except as otherwise provided herein, upon the occurrence of any Withdrawal Event affecting the General Partner, such Person or its transferee shall maintain the right to receive distributions and allocations with respect to Units held by the General Partner prior to the occurrence of the Withdrawal but shall not be authorized to exercise any additional management rights.

10.2 RIGHT OF REMAINING GENERAL PARTNER. Following any Withdrawal Event affecting a General Partner under Section 10.1 hereof, a remaining General Partner (if any) may elect to continue the Partnership's business without dissolution in conformity with the provisions of this Agreement.

10.3 ELECTION OF NEW GENERAL PARTNER. If no General Partner remains following a Withdrawal Event affecting a General Partner under Section 10.1 hereof or the Act, any Limited Partner may nominate one or more Persons for election as General Partner(s) to continue the Partnership business without dissolution. No Person so nominated shall become a General Partner unless elected by all of the Limited Partners within ninety (90) days after the Withdrawal Event affecting the sole General Partner.

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ARTICLE 11
MISCELLANEOUS

11.1 BINDING EFFECT. Except as otherwise provided in this Agreement and by applicable law, every covenant, term, and provision of this Agreement shall be binding upon and inure to the benefit of the Partners and their respective heirs, legatees, legal representatives, successors, transferees, and assigns.

11.2 CREDITORS AND OTHER THIRD PARTIES. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Partnership or by other third parties.

11.3 SECTION AND OTHER REFERENCES. Except as otherwise provided, any reference herein to the term "Section," "Article," or "Appendix" shall refer to the corresponding section, article, or appendix of this Agreement.

11.4 HEADINGS. Section and other headings contained in this Agreement are for reference purposes only and are not intended to describe, interpret, define, or limit the scope, extent or interest of this Agreement or any provision hereof.

11.5 SEVERABILITY. Every provision of this Agreement is intended to be severable. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity or legality of the remainder of this Agreement.

11.6 ADDITIONAL DOCUMENTS. Each Partner, upon the request of the General Partner, agrees to perform all further acts and to execute, acknowledge, and deliver any documents that may be reasonably necessary, appropriate, or desirable to carry out the provisions of this Agreement.

11.7 GOVERNING LAW. The laws of the State of Texas shall govern the validity of this Agreement, the construction of its terms, and the interpretation of the rights and duties of the Partners.

11.8 WAIVER OF ACTION FOR PARTITION. Each of the Partners irrevocably waives any right that it may have to maintain any action for partition with respect to any of the Partnership's assets and properties.

11.9 SOLE AND ABSOLUTE DISCRETION. Except as otherwise provided in this Agreement, all actions that the General Partner may take and all determinations that the General Partner may make pursuant to this Agreement may be taken and made at the sole and absolute discretion of the General Partner.

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11.10 INVESTMENT REPRESENTATIONS. By execution of this Agreement below, each Limited Partner represents and covenants as follows:

(a) The Partner has full legal right, power, and authority to enter into this Agreement and to perform the obligations under this Agreement, including the obligation to make the Capital Contributions set forth in Article III;

(b) The Agreement constitutes the legal, valid, and binding obligation of the Partner enforceable in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy and other laws of general application relating to creditors' rights or general principles of equity;

(c) The Agreement does not violate, conflict with, result in a breach of the terms, conditions or provisions of, or constitute a default or an event of default under any other agreement of which the Partner is a party; and

(d) The acquisition of Units in the Partnership is made for the Partner's own account for investment purposes only and not with a view to the resale or distribution of such Units.

11.11 NOTICES. All notices under this Agreement shall be in writing and shall be effective upon personal delivery, or, if sent by registered or certified mail, postage repaid, addressed to the party at the address set forth with respect to such party as reflected in the records of the Partnership and the deposit of such notice in the United States mail.

11.12 COUNTERPART EXECUTION. This Agreement may be executed in any number of counterparts with the same effect as if all of the Partners had signed the same document. All counterparts shall be construed together and shall constitute one agreement.

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APPENDIX A

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IN WITNESS WHEREOF, the parties have entered into this Agreement as of the day first above set forth.

MTH-TEXAS GP, Inc.,
an Arizona corporation

By: /s/ William W. Cleverly

Name: William W. Cleverly
Its: Chairman and Co-Chief Executive
Officer

and

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Its: President and Co-Chief
Executive Officer

MTH-TEXAS LP, Inc.,
an Arizona corporation

By: /s/ William W. Cleverly

Name: William W. Cleverly
Its: Chairman and Co-Chief Executive
Officer

and

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Its: President and Co-Chief
Executive Officer

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Appendix A

SPECIAL TAX AND ACCOUNTING PROVISIONS

A.1 ACCOUNTING DEFINITIONS. The following terms, which are used predominantly in this Appendix A, shall have the meanings set forth below for all purposes under this Agreement:

"ADJUSTED CAPITAL ACCOUNT BALANCE" means, with respect to any Partner, the balance of such Partner's Capital Account as of the end of the relevant Fiscal Year, after giving effect to the following adjustments:

(a) Credit to such Capital Account any amounts which such Partner is obligated to restore pursuant to this Agreement or as determined pursuant to Regulations Section 1.704-1(b)(2)(ii)(Q), or is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5); and

(b) Debit to such Capital Account the items described in clauses (4), (5) and (6) of Section 1.704-1(b)(2)(ii)(d) of the Regulations.

The foregoing definition of Adjusted Capital Account Balance is intended to comply with the provisions of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

"BOOK VALUE" means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Book Value for any asset (other than money) contributed by a Partner to the Partnership shall be the value as set forth in this Agreement or, if not set forth in this Agreement, as reasonably determined by the General Partner;

(b) The Book Value of all Partnership assets shall be adjusted to equal their respective gross fair market values, as reasonably determined by the General Partner as of the following times: (i) the acquisition of additional Units in the Partnership by any new or existing Partner in exchange for more than a de minimis Capital Contribution; (ii) the distribution by the Partnership to a Partner of more than a de minimis amount of cash or property as consideration for Units in the Partnership, if (in any such event) such adjustment is necessary or appropriate, in the reasonable judgment of the General Partner, to reflect the relative economic interests of the Partners in the Partnership; or (iii) the liquidation of the Partnership for federal income tax purposes pursuant to Regulations Section 1.704-1(b)(2)(ii)(g);

(c) The Book Value of any Partnership asset distributed to any Partner shall be adjusted to equal its gross fair market value on the date of

distribution, as reasonably determined by the General Partner;

(d) The Book Values of the Partnership's assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or Code Section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulation Section 1.704-1(b)(2)(iv)(m) and Section A.2(g) hereof; provided, however, that Book Values shall not be adjusted pursuant to this subsection (d) to the extent that an adjustment pursuant to subsection (b) of this definition is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subsection (d); and

(e) If the Book Value of an asset has been determined or adjusted pursuant to subsection (a), (b) or (d) above, such Book Value shall thereafter be adjusted by the Depreciation taken into account from time to time with respect to such asset for purposes of computing Profits and Losses.

"CAPITAL ACCOUNT" means, with respect to any Partner or other owner of Units in the Partnership, the Capital Account maintained for such Person in accordance with the following provisions:

(a) To each such Person's Capital Account, there shall be credited the amount of cash contributed to the capital of the Partnership and the initial Book Value of any noncash assets contributed to the capital of the Partnership by such Person, such Person's distributive share of Profits and any items in the nature of income or gain that are specially allocated pursuant to Sections A.2 and A.3 hereof, and the amount of any Partnership liabilities assumed by such person (excluding assumed liabilities that have been taken into account in computing the Book Value of any Partnership property distributed to such Person);

(b) To each such Person's Capital Account there shall be debited the amount of cash and the Book Value of any Partnership property distributed to such Person pursuant to any provision of this Agreement, such person's distributive share of Losses, and any items in the nature of expenses or losses that are specially allocated pursuant to Sections A.2 and A.3 hereof, and the amount of any liabilities of such Person assumed by the Partnership;

(c) In the event any Units in the Partnership are transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest;

(d) Section 752(c) of the Code shall be applied in determining the amount of any liabilities taken into account for purposes of this definition of "Capital Account"; and

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(e) The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to COMPLY with Sections 1.704-1(b) and 1.704-2 of the Regulations and shall be interpreted and applied in a manner consistent with such Regulations. The General Partner may modify the manner of computing the Capital Accounts or any debits or credits thereto (including debits or credits relating to liabilities that are secured by contributed or distributed property or that are assumed by the Partnership or any Partner) in order to comply with such Regulations, provided that any such modification is not likely to have a material effect on the amounts distributable to any Partner upon the dissolution of the Partnership. Without limiting the generality of the preceding sentence, the General Partner shall make any adjustments that are necessary or appropriate to maintain equality between the aggregate sum of the Capital Accounts and the amount of capital reflected on the balance sheet of the Partnership, as determined for book purposes in accordance with Section 1.704-1(b)(2)(iv)(g) of the Regulations. The General Partner shall also make any appropriate modifications if unanticipated events (for example, the availability of investment tax credits) might otherwise cause this Agreement not to comply with Regulations Section 1.704-1(b).

"PARTNERSHIP MINIMUM GAIN" has the same meaning as the term "partnership minimum gain" under Regulations Section 1.704-2(d) of the Regulations.

"DEPRECIATION" means, for each Fiscal Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Book Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year or other period, Depreciation shall be an amount that bears the same ratio to such beginning Book Value as the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period bears to such beginning adjusted tax basis; provided, however, that if such depreciation, amortization or other cost recovery deductions with respect to any such asset for federal income tax purposes is zero for any Fiscal Year, Depreciation shall be determined with reference to the asset's BOOK Value at the beginning of such year using any reasonable method selected by the General Partner.

"PARTNER NONRECOURSE DEBT" has the same meaning as the term "partner nonrecourse debt" under Section 1.704-2(b) (4) of the Regulations.

"PARTNER NONRECOURSE DEBT MINIMUM GAIN" has the same meaning as the term "partner nonrecourse debt minimum gain" under Section 1.704-2(i) (2) of the Regulations and shall be determined in accordance with Section 1.704-2(i) (3) of the Regulations.

"PARTNER NONRECOURSE DEDUCTIONS" has the same meaning as the term "partner nonrecourse deductions" under Regulations Section 1.704-2(i) (1). The amount of Partner Nonrecourse Deductions with respect to a Partner Nonrecourse Debt for each Fiscal Year of the Partnership equals the excess (if any) of the net increase (if any) in the amount of Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt during such Fiscal Year over the aggregate amount of any distributions during such Fiscal Year to the Partner

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that bears the economic risk of loss for such Partner Nonrecourse Debt to the extent that such distributions are from the proceeds of such Partner Nonrecourse Debt which are allocable to an increase in Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Section 1.704-2(i) (2) of the Regulations.

"NONRECOURSE DEBT" or "NONRECOURSE LIABILITY" has the same meaning as the term "nonrecourse liability" under Section 1.704-2(b) (3) of the Regulations.

"NONRECOURSE DEDUCTIONS" has the meaning set forth in Section 1.704-2(b) (1) of the Regulations. The amount of Nonrecourse Deductions for a Partnership Fiscal Year equals the excess (if any) of the net increase (if any) in the amount of Partnership Minimum Gain during that Fiscal Year over the aggregate amount of any distributions during that Fiscal Year of proceeds of a Nonrecourse Debt that are allocable to an increase in Partnership Minimum Gain, determined according to the provisions of Section 1.704-2(c) of the Regulations.

"PROFITS" or "LOSSES" means, for each Fiscal Year or other period, the taxable income or taxable loss of the Partnership as determined under Code Section 703(x) (including in such taxable income or taxable loss all items of income, gain, loss or deduction required to be stated separately pursuant to Section 703(a) (1) of the Code) with the following adjustments:

(a) All items of gain or loss resulting from any disposition of the Partnership's property shall be determined upon the basis of the Book Value of such property rather than the adjusted tax basis thereof;

(b) Any income of the Partnership that is exempt from federal income tax shall be added to such taxable income or loss;

(c) Any expenditures of the Partnership that are described in Code Section 705(a) (2) (B), or treated as such pursuant to Regulations Section 1.704-1(b) (2) (iv) (j), and that are not otherwise taken into account in the computation of taxable income or loss of the Partnership, shall be deducted in the determination of Profits or Losses;

(d) If the Book Value of any Partnership asset is adjusted pursuant to subsection (b) or (c) of the definition of "Book Value"- set forth in this Appendix A, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits or Losses unless such gain or loss is specially allocated pursuant to Section A.2 hereof;

(e) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in determining such taxable income or loss, there shall be deducted Depreciation, computed in accordance with the definition of such term in this Appendix A; and

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(f) Notwithstanding any of the foregoing provisions, any items that are specially allocated pursuant to Section A.2 or A.3 hereof shall not be taken into account in computing Profits or Losses.

A.2 SPECIAL ALLOCATIONS. The allocation of Profits and Losses for each Fiscal Year shall be subject to the following special allocations in the order set forth below:

(a) Section 704(c) In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss and deduction with respect to any in-kind property contributed to the capital of the Partnership, shall, solely for tax purposes, be allocated among the Partners so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its initial Book Value. In the event the Book Value of any Partnership asset is adjusted pursuant to subsection (b) of the definition of "Book Value" in Section A.1 of Appendix A to this Agreement, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such

asset for federal income tax purposes and its Book Value in the same manner as under Code Section 704(c) and the Regulations thereunder. Any elections or other decisions relating to such allocations shall be made by the General Partner. in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section are solely for purposes of federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any person's Capital Account or share of Profits, Losses or other items or distributions pursuant to any provision of this Agreement.

(b) Partner Minimum Gain Chargeback. If there is a net decrease in Partnership Minimum Gain for any Fiscal Year, each Partner shall be specially allocated items of income and gain for such year (and, if necessary, for subsequent years) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain during such year, determined in accordance with Regulations Section 1.704-2(g)(2). Allocations pursuant to the preceding sentence shall be made among the Partners in proportion to the respective amounts required to be allocated to each of them pursuant to such Regulation. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(f)(6). Any special allocation of items of Partnership income and gain pursuant to this Section A.2(a) shall be made before any other allocation of items under this Appendix A. This Section A.2(a) is intended to comply with the "minimum gain chargeback" requirement in Regulations Section 1.704-2(f) and shall be interpreted consistently therewith.

(c) Partner Nonrecourse Debt. Minimum Gain Chargeback. If there is a net decrease during a Fiscal Year in the Partner Nonrecourse Debt Minimum Gain attributable to a Partner Nonrecourse Debt, then each Partner with a share of the Partner Nonrecourse Debt Minimum Gain attributable to such debt, determined in accordance with Regulations Section 1.704-2(i)(5), shall be specially allocated items of income and gain for such year (and, if necessary, subsequent years) an amount equal to such Partner's share of the net decrease in the Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(4).

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Allocations pursuant to the preceding sentence shall be made among the Partners in proportion to the respective amounts to be allocated to each of them pursuant to such Regulation. Any special allocation of items of income and gain pursuant to this Section A.2(b) for a Fiscal Year shall be made before any other allocation of Partnership items under this Appendix A, except only for special allocations required under Section A.2(a) hereof. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(i)(4). This Section A.2(b) is intended to comply with the provisions of Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(d) QUALIFIED INCOME OFFSET. If any Partner other than the General Partner receives any adjustments, allocations, or distributions described in clauses (4), (5) or (6) of Regulations Section 1.704-1(b)(2)(ii)(d), items of income and gain shall be specially allocated to each such Partner in an amount and manner sufficient to eliminate as quickly as possible, to the extent required by such Regulation, any deficit in such Partner's Adjusted Capital Account Balance, such balance to be determined after all other allocations provided for under this Appendix A have been tentatively made as if this Section A.2(d) were not in this Agreement.

(e) GROSS INCOME ALLOCATION. In the event any Partner other than a General Partner has a deficit Capital Account at the end of any Fiscal Year which is in excess of the sum of (i) the amount (if any) such Partner is obligated to restore pursuant to any provision of this Agreement, and (ii) the amount such Partner is deemed to be obligated to restore pursuant to the penultimate sentences of Sections 1.704-2(g)(1) and 1.704-2(i)(5) of the Regulations, each such Partner shall be specially allocated items of income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section A.2(e) shall be made only if and to the extent that such Partner would have a deficit Capital Account in excess of such sum after all other allocations provided for in this Appendix A have been made as if Section A.2(d) hereof and this Section A.2(e) were not in this Agreement.

(t) NONRECOURSE DEDUCTIONS. Nonrecourse Deductions for any Fiscal Year or other period shall be specially allocated to the Partners in proportion to their Percentage Units.

(g) PARTNER NONRECOURSE DEDUCTIONS. Partner Nonrecourse Deductions for any Fiscal Year or other period shall be specially allocated, in accordance with Regulations Section 1.704-2(i)(1), to the Partner or Partners who bear the economic risk of loss for the Partner Nonrecourse Debt to which such deductions are attributable.

(h) CODE SECTION 754 ADJUSTMENTS. To the extent an adjustment to the adjusted tax basis of any Partnership asset under Code Section 734(b) or 743(b) is required to be taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m), the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such gain or loss shall be specially allocated to the Partners in a

manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such section of the Regulations.

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A.3 CURATIVE ALLOCATIONS. The allocations set forth in subsections (b) through (h) of Section A.2 hereof ("Regulatory Allocations") are intended to comply with certain requirements of Regulations Sections 1.704-1(b) and 1.704-2. Notwithstanding any other provisions of this Appendix A (other than the Regulatory Allocations and the next two following sentences), the Regulatory Allocations shall be taken into account in allocating other Profits, Losses and items of income, gain, loss and deduction among the Partners so that, to the extent possible, the net amount of such allocations of other Profits, Losses and other items and the Regulatory Allocations to each Partner shall be equal to the net amount that would have been allocated to each such Partner if the Regulatory Allocations had not occurred. For purposes of applying the preceding sentence, Regulatory Allocations of Nonrecourse Deductions and Partner Nonrecourse Deductions shall be offset by subsequent allocations of items of income and gain pursuant to this Section A.3 only if (and to the extent) that: (a) the General Partner reasonably determines that such Regulatory Allocations are not likely to be offset by subsequent allocations under Section A.2(a) or Section A.2(b) hereof, and (b) there has been a net decrease in Partnership Minimum Gain (in the case of allocations to offset prior Nonrecourse Deductions) or a net decrease in Partner Nonrecourse Debt Minimum Gain attributable to a Partner Nonrecourse Debt (in the case of allocations to offset prior Partner Nonrecourse Deductions). The General Partner shall apply the provisions of this Section A.3, and shall divide the allocations hereunder among the Partners, in such manner as will minimize the economic distortions upon the distributions to the Partners that might otherwise result from the Regulatory Allocations.

A.4 GENERAL ALLOCATION RULES.

(a) Generally, all Profits and Losses allocated to the Partners shall be allocated among them in proportion to their Percentage Interests, except as otherwise specifically provided under the terms of this Agreement. In the event Partners are admitted to the Partnership on different dates during any Fiscal Year, additional Units are issued during a Fiscal Year, or Units are re-allocated during a Fiscal Year, the Profits (or Losses) allocated to the Partners for each such Fiscal Year shall be allocated among the Partners in proportion to the Percentage Interests that each Partner holds from time to time during such Fiscal Year in accordance with Code Section 706, using any convention permitted by law and selected by the General Partner.

(b) For purposes of determining the Profits, Losses or any other items allocable to any period, Profits, Losses and any such other items shall be determined on a daily, monthly or other basis, as determined by the General Partner using any method permissible under Code Section 706 and the Regulations thereunder.

(c) For purposes of determining the Partners' proportionate shares of the "excess nonrecourse liabilities" of the Partnership within the meaning of Regulations Section 1.752-3(a)(3), their respective interests in Partner profits shall be in the same proportions as their Percentage Interests.

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EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "AGREEMENT") is made as of this 1st day of July, 1998, by and between MONTEREY HOMES CORPORATION, a Maryland corporation (the "Company") and Steven Hafener, an individual ("EXECUTIVE"). If Executive is presently or subsequently becomes employed by a subsidiary of Company, the term "Company" shall be deemed to refer collectively to Monterey Homes Corporation and the subsidiary or subsidiaries which employs Executive, provided that Monterey Homes Corporation shall remain responsible for performance hereof as provided in Article 26, below.

RECITALS

A. COMPANY BUSINESS. The Company's principal business is homebuilding.

B. AGREEMENT PURPOSE. The Company desires to employ Executive, and Executive desires to be employed by Company, on the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the mutual covenants, agreements, representations, and warranties contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. DEFINITIONS. As used herein:

(a) CAPITALIZED TERMS. Capitalized terms used herein and not otherwise defined shall have the same meanings as set forth in the Agreement of Purchase and Sale of Assets by and among Company, Executive, Sterling Communities, S.H. Capital, Inc. and others dated June 15, 1998 ("Acquisition Agreement").

(b) "CAUSE" shall mean the following:

i) Employee's misappropriation of any money or other assets or properties of the Company resulting or intended to result directly or indirectly in personal gain or enrichment to Executive;

ii) Executive engages in conduct involving fraud, dishonesty, embezzlement, theft, or similar matters that are detrimental to Company;

iii) Executive's willful disregard of his primary duties (as described in Section 3) to the Company.

(c) "COMPANY CONFIDENTIAL INFORMATION" shall mean confidential, proprietary information or trade secrets of Company and its subsidiaries, including, without limitation, the following: (1) customer and vendor information as compiled by Company and its subsidiaries, including pricing, sale and contract terms and conditions, contract expirations, and other compiled customer and vendor information; (2) Company's and its subsidiaries' internal practices and procedures; (3) Company's and its subsidiaries' financial condition and financial results of operation; (4) information relating to Company's and its subsidiaries' real estate holding or commitments, lot positions, strategic planning, sales, financing, insurance, purchasing, marketing, promotion, distribution, and selling activities, whether now existing, or acquired, developed, or made available anytime in the future to or by Company or its subsidiaries; (5) all information which Executive has a reasonable basis to consider confidential or which is treated by Company or its subsidiaries as confidential; and (6) any and all information having independent economic value to Company or its subsidiaries that is not generally known to, and not readily ascertainable by proper means by, persons who can obtain economic value from its disclosure or use. Executive acknowledges that such information is Company Confidential Information whether disclosed to or learned by Executive or originated by Executive during his employment by Company or any of its subsidiaries.

(d) "TERMINATION" shall mean termination of Executive's employment with Company pursuant to Sections 16 through 19 hereof.

2. TERM OF AGREEMENT. This Agreement will commence as of July 1, 1998 and shall terminate four (4) years from such date, unless earlier terminated in accordance with, and subject to, the other provisions hereof (the "TERM"). For the purposes of this Agreement a "year" shall mean the twelve month period commencing on the date of this Agreement.

3. POSITION WITH COMPANY. During the Term, Executive shall serve as [President or General Manager] of the NC Company, shall devote his full time and efforts to the affairs of Company, and shall faithfully and diligently perform all duties commensurate with such position, including, without limitation, those duties reasonably requested by Company's Board of Directors. Executive's primary duties shall include the day to day management of the NC Company, including the supervision of employees, the identification of new development projects,

advance planning and development of land acquired by NC Company, sales, marketing and construction of new homes, warranty and customer service and accounting for operations of the NC Company to the Company. As more particularly provided in the Acquisition Agreement, it is contemplated that NC Company will conduct all residential development activities and hold all residential real estate of the Company and its affiliates in Northern California.

4. SALARY. Executive shall be entitled to receive a base salary from Company in the amount of \$150,000 per year, payable in equal installments in accordance with Company's general salary payment policies in effect during the Term hereof (the "MINIMUM BASE SALARY"). For each year thereafter during the term hereof, the Minimum Base Salary shall be equal to 105% of the previous Minimum Base Salary. All of Executive's compensation under this Agreement will be subject to deduction and withholding authorized or required by applicable law.

5. BONUS AND STOCK OPTION. The Company shall pay performance bonuses to Executive or his assigns to the extent allowable by law, which shall be the three percent (3%) of the Pre-Tax Net Income (determined prior to the deduction

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for any Earn-Out Payment) of the NC Company, up to his Minimum Base Salary (the "Bonus"). The amount of Pre-Tax Income of NC Company shall be subject to increase in the same manner as provided in the Acquisition Agreement (with respect to the Earn-Out Payment) with respect to any residential real estate holdings or operations of the Company and its affiliates in Northern California which are not maintained and held in NC Company. The Bonus will be paid annually in cash within sixty (60) days of the end of each Earn-Out Period. Executive acknowledges that the Bonus, regardless of to whom payable, will be subject to deduction and withholding authorized or required by applicable law. In addition, the Company hereby grant Executive options to acquire 15,000 shares of common stock pursuant to the Stock Option Agreement in the form of EXHIBIT A attached hereto under the Company's stock option plan. The exercise price of such options shall be the closing price of a share of Company stock on the Closing of the transactions contemplated in the Acquisition Agreement.

6. VACATION AND SICK LEAVE. Executive shall be entitled to take reasonable vacation, holiday and sick leave, subject to the Company's reasonable limits and policies.

7. BENEFIT PLANS. Executive shall be eligible to participate in all benefit plans made available to Company employees from time to time subject to any applicable vesting periods. These benefits currently include a health plan and a 401(k) Plan. Nothing herein shall restrict Company's ability to terminate or modify any benefit plan or arrangement.

8. EXPENSES. Company shall pay for or reimburse Executive for all ordinary and necessary business expenses incurred or paid by Executive in furtherance of Company's business, subject to and in accordance with Company's policies and procedures of general application.

9. STAFF MANUAL. All other terms of Executives employment shall be governed by the Company employee manual (the "Employee Manual"). The Company reserves the right to amend the Employee Manual, from time to time, and Executive shall be subject to changes made so long as such changes are applied to all Company employees.

10. COVENANTS OF EXECUTIVE. In consideration of the agreement of the Company (which shall include joint ventures (50% or more owned by Company), subsidiaries and parent companies for purposes of Sections 10 and 11, whether in corporate, partnership or other form) to employ Executive, until June 30, 2002, and for the consideration provided to Executive pursuant to the Acquisition Agreement, Executive hereby agrees that Executive will not, except in connection with the performance of his duties hereunder, directly or indirectly, either as an employee, partner, owner, director, adviser or consultant or in any other capacity:

(a) Engage in the homebuilding or residential lot development business (a "Competing Business") PROVIDED, HOWEVER, that the foregoing shall not restrict (i) the ownership of less than 1% of a publicly-traded homebuilding company, (ii) engaging in the homebuilding or residential lot development business, in each case outside of Arizona, Texas, California, and any other state which the Company develops operations in during the term of this Agreement, or (iii) for a reasonable time period, the winding up, settling, and closing of Sterling's business, including defending any outstanding actions or proceedings involving Sterling, the Partners,

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Executive, or any entity in which the Executive, directly or indirectly, have previously engaged in the homebuilding or residential lot development business.

(b) Recruit, hire or discuss employment with any person who is, or within the six month period preceding the date of such activity was, an employee of the Company (other than as a result of a general solicitation

for employment);

(c) Solicit any customer or supplier of the Company for a Competing Business or otherwise attempt to induce any such customer or supplier to discontinue its relationship with the Company; or

(d) Executive represents to the Company that he is willing and able to engage in businesses that are not Competing Businesses hereunder and that enforcement of the restrictions set forth in this SECTION 10 would not be unduly burdensome to Executive. Employee hereby agrees that the period of time provided for in this SECTION 10 and the territorial restrictions and other provisions and restrictions set forth herein are reasonable and necessary to protect Company and its successors and assigns in the use and employment of the goodwill of the business conducted by Executive prior to the Closing Date and sold to Company pursuant to the Acquisition Agreement. Executive further agrees that damages cannot compensate Company in the event of a violation of this SECTION 10 and that, if such violation should occur, injunctive relief shall be essential for the protection of Company and its successors and assigns. Accordingly, Executive hereby covenants and agrees that, in the event any of the provisions of this SECTION 10 shall be violated or breached, Company shall be entitled to obtain injunctive relief against the party or parties violating such covenants, without bond but upon due notice, in addition to such further or other relief as may be available at equity or law. Obtainment of such an injunction by Company shall not be considered an election of remedies or a waiver of any right to assert any other remedies which Company has at law or in equity. No waiver of any breach or violation hereof shall be implied from forbearance or failure by Company to take action thereof. Executive agrees to pay any and all reasonable costs and expenses, including attorneys' fees, incurred by Company in enforcing this provision if it is determined that Executive breached this provision.

(e) Executive hereby agrees that upon the commencement by Executive of employment with any third party during the period in which the terms of this SECTION 10 are in effect, Executive shall promptly disclose to each such new company the terms of this SECTION 10, and shall cause such company to maintain such information in confidence. Executive further agrees and authorizes Company to notify others, including customers of Company and any such future employers of Executive, of the terms of this SECTION 10 and of Executive's obligations hereunder.

11. CONFIDENTIALITY AND NONDISCLOSURE. It is understood that in the course of Executive's employment with Company, Executive will become acquainted with Company Confidential Information. Executive recognizes that Company Confidential Information has been developed or acquired at great expense, is proprietary to Company or its subsidiaries, and is and shall remain the exclusive property of Company. Accordingly, Executive hereby covenants and agrees that he will not, without the express written consent of Company, during Executive's employment with Company or its subsidiaries and thereafter or until such time as Company Confidential Information becomes generally known, or readily ascertainable by

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proper means, by persons unrelated to Company or its subsidiaries, disclose to others, copy, make any use of, or remove from Company's or its subsidiaries' premises any Company Confidential Information, except as Executive's duties for Company or its subsidiaries may specifically require. In the event of dispute or litigation, Executive shall have the burden of proof that the Company Confidential Information has become generally known, or readily ascertainable by proper means, by persons unrelated to Company or its subsidiaries.

12. ACKNOWLEDGMENT; RELIEF FOR VIOLATION. Executive hereby agrees that the period of time provided for in Section 10 and the territorial restrictions and other provisions and restrictions set forth in Section 11 therein are reasonable and necessary to protect Company, its subsidiaries and its and their successors and assigns in the use and employment of the good will of the business conducted by Company and its subsidiaries. Executive further agrees that damages cannot compensate Company in the event of a violation of Section 10 or 11, and that, if such violation should occur, injunctive relief shall be essential for the protection of Company, its subsidiaries, and its and their successors and assigns. Accordingly, Executive hereby covenants and agrees that, in the event any of the provisions of Sections 10 and 11 shall be violated or breached, Company shall be entitled to obtain injunctive relief against Executive, without bond but upon due notice, in addition to such further or other relief as may appertain at equity or law. Obtainment of such an injunction by Company shall not be considered an election of remedies or a waiver of any right to assert any other remedies which Company has at law or in equity. No waiver of any breach or violation hereof shall be implied from forbearance or failure by Company to take action thereon. Executive hereby agrees that he has such skills and abilities that the provisions of Sections 10 and 11 will not prevent him from earning a living. Each party agrees to pay its own costs and expenses in enforcing any provision of this Agreement.

13. EXTENSION DURING BREACH. Executive agrees that the time period described in Section 10 shall be extended for a period equal to the duration of any breach of such provisions by Executive.

14. RETURN OF COMPANY MATERIALS AND COMPANY CONFIDENTIAL INFORMATION. Upon Termination, Executive shall promptly deliver to Company the originals and all copies of any and all materials, documents, notes, manuals, or lists containing or embodying Company Confidential Information or relating directly or indirectly to the business of Company in the possession or control of Executive.

15. NO AGREEMENT WITH OTHERS. Executive represents, warrants, and agrees that Executive is not a party to any agreement with any other person or business entity, including former employers, that in any way affects Executive's employment by Company or relates to the same subject matter of this Agreement or conflicts with his obligations under this Agreement, or restricts Executive's services to Company.

16. TERMINATION FOR CAUSE. The Company may terminate this Agreement for Cause by giving written notice of Termination and, with respect to a purported violation of Section 1(b)(iii) of this Agreement that is curable in such time period, shall afford Executive an opportunity to cure or disprove the purported

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violation for the thirty-day period following such notice. The Company may immediately terminate this Agreement for Cause with respect to a violation of Section 1(b)(i) or (ii). Upon Termination of Executive for Cause, Executive shall be entitled to receive only the Minimum Base Salary, the amount of any unpaid performance bonus earned in any complete fiscal year of the Company preceding the date of termination, and any benefits as are due Executive through the effective date of such Termination. No prorated Bonus shall be paid to Executive upon a Termination for Cause. If this Agreement is terminated for a violation of Section 1(b)(i) or (ii) Executive shall not receive any portion of its Earn-Out pursuant to the Acquisition Agreement.

17. TERMINATION BY COMPANY WITHOUT CAUSE. If Executive is terminated without Cause, Executive shall be entitled to receive Executive's Minimum Base Salary for the remainder of the terms of this Agreement, payable pursuant to normal payroll practices, the amount of any unpaid Bonus earned in any complete fiscal year of the Company preceding the date of Termination, the prorated portion of any current year Bonus, and any benefits including any disability benefits provided to Executive under Company's standard policies as in effect as are due through July 1, 2002. In addition, the vesting of Executive's stock options, if any, shall be accelerated, as if the Executive had served through the end of the fiscal year of his Termination.

18. TERMINATION UPON DEATH OF EXECUTIVE. If during the term of this Agreement Executive dies, then this Agreement shall terminate and Company shall pay to the estate of Executive only the Minimum Base Salary, the amount of any unpaid Bonus earned in any complete fiscal year of the Company preceding the date of Termination, the prorated portion of any objectively determined current year bonus, and any benefits (including any life insurance benefits provided to Executive's estate under Company's standard policies as in effect) as are due through the date of his death. In addition, the vesting of Executive's stock options, if any, shall be accelerated, as if the Executive had served through the end of the fiscal year of his Termination.

19. TERMINATION UPON DISABILITY OF EXECUTIVE. If during the term of the Agreement Executive is unable to perform the services required of Executive pursuant to this Agreement, with or without reasonable accommodation, for a continuous period of ninety (90) days due to disability or incapacity by reason of any physical or mental illness (as reasonably determined by Company by its Board of Directors), then Company shall have the right to terminate this Agreement at the end of such ninety-day period by giving written notice to Executive. Executive shall be entitled to receive only the Minimum Base Salary the amount of any unpaid Bonus earned in any complete fiscal year of the Company preceding the date of Termination, the prorated portion of any current year Bonus, and any benefits (including any disability benefits provided to Executive under Company's standard policies as in effect) as are due through the date of his disability. In addition, the vesting of Executive's stock options shall be accelerated, as if the Executive had served through the end of the fiscal year of his Termination.

20. INDEMNITY. The Company shall indemnify Executive (a) to the extent set forth in the Company's Bylaws (provided such Bylaws do not treat Executive differently from any other executive officer of the Company or its affiliates), and (b) without restriction by the Company's Bylaws, as provided in the Indemnification Agreement. Such indemnification shall survive the termination of this Agreement.

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21. ARBITRATION. Any dispute, controversy, or claim, whether contractual or non-contractual, between the parties hereto arising directly or indirectly out of or connected with this Agreement, relating to the breach or alleged breach of any representation, warranty, agreement, or covenant under this Agreement, unless mutually settled by the parties hereto, shall be resolved by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "AAA"). Any arbitration shall be conducted by arbitrators approved by the AAA and mutually acceptable to Company and

Executive. All such disputes, controversies, or claims shall be conducted by a single arbitrator, unless the dispute involves more than \$50,000 in the aggregate in which case the arbitration shall be conducted by a panel of three arbitrators. If the parties hereto are unable to agree on the arbitrator(s), then the AAA shall select the arbitrator(s). The resolution of the dispute by the arbitrator(s) shall be final, binding, nonappealable, and fully enforceable by a court of competent jurisdiction under the Federal Arbitration Act. The arbitrator(s) shall award compensatory damages to the prevailing party. The arbitrator(s) shall have no authority to award consequential or punitive or statutory damages, and the parties hereby waive any claim to those damages to the fullest extent allowed by law. The arbitration award shall be in writing and shall include a statement of the reasons for the award. The arbitration shall be held in San Francisco, California. The arbitrator(s) shall award reasonable attorneys' fees and costs to the prevailing party.

22. SEVERABILITY; REFORMATION. In the event any court or arbiter determines that any of the restrictive covenants in this Agreement, or any part thereof, is or are invalid or unenforceable, the remainder of the restrictive covenants shall not thereby be affected and shall be given full effect, without regard to invalid portions. If any of the provisions of this Agreement should ever be deemed to exceed the temporal, geographic, or occupational limitations permitted by applicable laws, those provisions shall be and are hereby reformed to the maximum temporal, geographic, or occupational limitations permitted by law. In the event any court or arbiter refuses to reform this Agreement as provided above, the parties hereto agree to modify the provisions held to be unenforceable to preserve each party's anticipated benefits thereunder.

23. NOTICES. All notices and other communications hereunder shall be in writing and shall be sufficiently given if made by hand delivery, by telecopier, or by registered or certified mail (postage prepaid and return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by it by like notice):

If to Company : Monterey Homes Corporation
6613 N. Scottsdale Road
Suite 200
Scottsdale, Arizona 85250
Phone: (602) 998-8700
Fax: (602) 998-9162
Attn: President

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With a copy to: Snell & Wilmer L.L.P.
One Arizona Center
Phoenix, Arizona 85004-0001
Phone: (602) 382-6252
FAX: (602) 382-6070
Attn: Steven D. Pidgeon, Esq.

If to Executive: Steve Hafener
1655 N. Main Street, Suite 240
Walnut Creek, California 94596

With a copy to: Miller Starr & Regalia
1331 N. California Blvd., Suite 500
Walnut Creek, California 94596
Phone: (925) 935-9400
Fax: (925) 933-4126
Attn: Karl Geier, Esq.

All such notices and other communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; three business days after being deposited in the mail, postage prepaid, if delivered by mail; and when receipt is acknowledged, if telecopied.

24. COUNTERPARTS. This Agreement may be executed in any number of counterparts, and each counterpart shall constitute an original instrument, but all such separate counterparts shall constitute one and the same agreement.

25. GOVERNING LAW. The validity, construction, and enforceability of this Agreement shall be governed in all respects by the laws of the State of California, without regard to its conflict of laws rules.

26. ASSIGNMENT. This Agreement shall not be assigned by operation of law or otherwise, except that Company may assign all or any portion of its rights under this Agreement to any Company entity, but no such assignment shall relieve Monterey Homes Corporation, a Maryland corporation, or its Corporate Successor (herein defined) of its primary liability of all obligations of the Company hereunder, and except that this Agreement may be assigned to any corporation or entity (a "Corporate Successor") with or into which Company may be merged or consolidated or to which Company transfers all or substantially all of its assets, and such corporation or entity assumes this Agreement and all obligations and undertakings of Company hereunder.

27. FURTHER ASSURANCES. At any time on or after the date hereof, the

parties hereto shall each perform such acts, execute and deliver such instruments, assignments, endorsements and other documents and do all such other things consistent with the terms of this Agreement as may be reasonably necessary to accomplish the transaction contemplated in this Agreement or otherwise carry out the purpose of this Agreement.

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28. GENDER, NUMBER AND HEADINGS. The masculine, feminine, or neuter pronouns used herein shall be interpreted without regard to gender, and the use of the singular or plural shall be deemed to include the other whenever the context so requires.

29. WAIVER OF PROVISIONS. The terms, covenants, representations, warranties, and conditions of this Agreement may be waived only by a written instrument executed by the party waiving compliance. The failure of any party at any time to require performance of any provisions hereof shall, in no manner, affect the right at a later date to enforce the same. No waiver by any party of any condition, or breach of any provision, term, covenant, representation, or warranty contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such condition or of the breach of any other provision, term, covenant, representation, or warranty of this Agreement.

30. ATTORNEYS' FEES AND COSTS. If any legal action or any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default, or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party or parties shall be entitled to recover reasonable attorneys' fees, accounting fees, and other costs incurred in that action or proceeding, in addition to any other relief to which it or they may be entitled.

31. SECTION AND PARAGRAPH HEADINGS. The Article and Section headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

32. AMENDMENT. This Agreement may be amended only by an instrument in writing executed by all parties hereto.

33. EXPENSES. Except as otherwise expressly provided herein, each party shall bear its own expenses incident to this Agreement and the transactions contemplated hereby, including without limitation, all fees of counsel, consultants, and accountants.

34. ENTIRE AGREEMENT. This Agreement constitutes and embodies the full and complete understanding and agreement of the parties hereto with respect to the subject matter hereof, and supersedes all prior understandings or agreements, whether oral or in writing.

35. WITHHOLDING. Executive acknowledges and agrees that payments made to Executive by Company pursuant to the terms of this Agreement may be subject to tax withholding and that Company may withhold against payments due Executive any such amounts as well as any other amounts payable by Executive to Company.

36. RELEASE. Receipt by Executive of any of the severance benefits noted in paragraphs 16, 17, 18 and 19 hereof following termination of Executive's employment hereunder shall be subject to Executive's compliance with any reasonable and lawful policies or procedures of Company relating to employee severance including the execution and delivery by Executive of a release reasonably satisfactory to Company and Executive of any and all claims that Executive may have against Company or any related person, except for the

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continuing obligations provided herein, and except for any claims arising out of Company's fraudulent or criminal conduct, and an agreement that Executive shall not disparage Company or any of its directors, officers, employees or agents. Concurrent with the termination of Executive's employment hereunder pursuant to paragraphs 16, 17, 18 or 19 hereof, and receipt of a release reasonably satisfactory to the Company and Executive, the Company shall execute and deliver to Executive a release, reasonably satisfactory to Company and Executive, of any and all claims that Company may have against Executive, except for any claims arising out of Executive's fraudulent or criminal conduct, and an agreement that Company shall not disparage Executive.

[The Remainder of this Page Left Intentionally Blank]

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IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement or caused this Agreement to be duly executed on their respective behalf, by their respective officers thereunto duly authorized, all as of the day and year first above written.

Maryland corporation

By: /s/ Larry W. Seay

Name: Larry W. Seay

Its: Vice President Finance & CFO

/s/ Steve Hafener

Steve Hafener

SH CAPITAL, INC., a
California corporation
for the limited purpose of acknowledging
and agreeing to the provisions of
Section 16

By: /s/ Steve Hafener

Its: President

AMENDMENT TO EMPLOYMENT AGREEMENT

The Employment Agreement (the "Agreement") dated July 7, 1998 by and between Meritage Corporation (formerly Monterey Homes Corporation) and Steven Hafener, is hereby modified as follows:

The performance bonus contained in paragraph 5 of the Agreement shall be calculated and paid on a calendar year basis. The first bonus due shall be for the period from July 1, 1998 to December 31, 1998 and shall be payable prior to June 30, 1999. Thereafter, each bonus shall be calculated on a calendar year basis, payable within 60 days of the calendar year end.

All other terms of the Employment Agreement remain in full force and affect.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment to the Agreement or caused this Amendment to the Agreement to be duly executed on their respective behalf, by their respective officers thereto duly authorized, all as of June 10, 1999.

MERITAGE CORPORATION, a
Maryland corporation

By: /s/ LARRY W. SEAY

Name: Larry W. Seay

Its: Vice President Finance & CFO

/s/ STEVE HAFENER

Steve Hafener

SH CAPITAL, INC., a
California corporation
for the limited purpose of acknowledging
and agreeing to the provisions of
Section 16

By: /s/ STEVE HAFENER

Name: Steve Hafener

Its: President

CONSENT OF KPMG LLP

The Board of Directors
Meritage Corporation:

We consent to incorporation by reference in Registration Statement No. 333-58793 on Form S-3 and Registration Statements Nos. 33-38230 and 333-37859 and 333-75629 on Forms S-8 of Meritage Corporation of our report dated February 4, 2000, relating to the consolidated balance sheets of Meritage Corporation and subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999 which appears in the December 31, 1999 annual report on Form 10-K of Meritage Corporation.

/s/ KPMG LLP

Phoenix, Arizona
March 23, 2000

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