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, 1995 Commission file number: 1-9977

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Maryland (State or other jurisdiction of incorporation or organization)	86-0611231 (I.R.S. Employer Identification No.)
5333 North Seventh Street, Suite 219, Phoenix, Arizona (Address of principal executive offices)	85014 (Zip Code)

(602) 265-8541
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $.01 per share	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 X 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. [X]

As of March 25, 1996, 9,716,517 shares of Homeplex Mortgage Investments Corporation common stock were outstanding, and the aggregate market value of the 8,244,817 shares held by non-affiliates (based upon the closing price of the shares on the New York Stock Exchange on March 25, 1996) was approximately $13,397,000. Shares of Common Stock held by each officer and director of the Company and by each person who owns more than 5% of the outstanding Common Stock of the Company have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS

Introduction

Homeplex Mortgage Investments Corporation (the "Company") makes short-term and intermediate- term mortgage loans on improved and unimproved real property ("Real Estate Loans") and owns Mortgage Assets as described herein. In 1993, the Company decided to shift its focus to making Real Estate Loans from the ownership of Mortgage Assets consisting of Mortgage Interests (commonly known as residual interests) and Mortgage Instruments. Mortgage Instruments include residential mortgage loans ("Mortgage Loans") and mortgage certificates representing interest in pools of residential mortgage loans ("Mortgage Certificates"). Mortgage Interests represent the right to receive the net cash flows ("Net Cash Flows") on Mortgage Instruments. Substantially all of the Company's Mortgage Instruments and the Mortgage Instruments underlying the Company's Mortgage Interests currently secure or underlie mortgage-collateralized bonds ("CMOs" or "Bonds"), mortgage pass-through certificates ("MPCs" or "Pass-Through Certificates") or other mortgage securities (collectively "Mortgage Securities") issued by various Mortgage Securities issuers ("Issuers").

The Company does not currently plan to acquire any additional Mortgage Assets. Instead, the Company plans in the short-term to utilize its available funds to make or acquire additional Real Estate Loans and to implement its acquisition strategy as described herein. At December 31, 1995 the Company had outstanding three Real Estate Loans aggregating $4,048,000, each with a loan term of one year and an interest rate of 16.00% per annum. The Company plans to emphasize land acquisition and development loans, residential land development loans, single family residential construction loans, commercial land development loans, and interim construction and bridge loans. The Real Estate Loans have been concentrated in Arizona.

The Company's strategy is to utilize available funds and equity to acquire one or more operating companies, which may include one or more entries engaged in the home-building business. The Company's management is currently reviewing a number of operating companies for potential acquisition.

The Company was incorporated in the State of Maryland in May 1988 and commenced operations on July 27, 1988. The Company changed its name from Emerald Mortgage Investments Corporation to Homeplex Mortgage Investments Corporation in April 1990.

The Company has elected to be taxed as a real estate investment trust ("REIT") pursuant to Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). The Company generally will not be subject to tax on its income to the extent that it distributes its earnings to stockholders and maintains its qualification as a REIT. See "Business -- Federal Income Tax Considerations." The Company may consider electing to discontinue its qualification as a REIT for tax purposes as a result of its substantial tax-loss carryforward and its acquisition strategy. If such a determination were made, the Company would be taxed as a regular domestic corporation and, among other consequences, any distributions to the Company's stockholders will not be deductible by the Company in computing its taxable income.

The Company's Common Stock is listed on the New York Stock Exchange. Unless the context otherwise requires, the term the Company means Homeplex Mortgage Investments Corporation and its subsidiaries.

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for certain recent information with respect to the the Company.

Real Estate Loans
General

The Company makes or acquires short-term and intermediate-term Real Estate Loans. A short-term loan generally has a maturity of one year or less and an intermediate-term loan generally has a maturity of not more than three years. Such loans are expected to consist primarily of first mortgage loans, development loans, interim construction loans, bridge loans, and to a much lesser extent, junior mortgage loans and wrap-around mortgage loans.

The Company may make or acquire development or interim construction loans on unimproved real properties which are either expected to be developed within a reasonable period of time, generally less than one year, into income-producing properties, are being subdivided into lots for resale, or are being held for resale by the borrowers. Certain of the other loans to be made by the Company may be made on a first mortgage basis on the security of apartment complexes, shopping centers, warehouses, office buildings and other commercial and industrial properties, and as bridge loans on completed income- producing projects during leasing activities. The Company also may make or acquire junior mortgage loans and wrap-around mortgage loans, although such Real Estate Loans are not expected to represent a significant portion of the Company's Real Estate Loan portfolio.

The Company's Real Estate Loans may be made on both large and small properties and in various combinations and may incorporate a variety of financing techniques. There are no limitations on the types of properties on which the Company may make or acquire loans. The Company's Real Estate Loans will provide for regular debt service payments, normally consisting of interest only with repayment of principal on maturity or earlier as the result of contractual provisions requiring balloon payments of principal. The Company also may make or acquire loans on the security of apartments or office buildings with repayment to be derived from the conversion of the properties to condominiums and the sale of units.

In general, the amount of each Real Estate Loan made by the Company will not exceed at the date the loan is funded, when added to the amount of any existing senior indebtedness, (i) 95% of the Company's assessment of the value of the property in the case of improved income-producing property or unimproved real property and (ii) 90% of the Company's assessment of the value of the property on the assumption that construction or development, as the case may be, is completed substantially in accordance with the plans and specifications as of the date the loan commitment is provided, in the case of construction or development loans. Such loan-to-value ratio may be increased in the case of a specific Real Estate Loan if, in the judgment of the Company, the Real Estate Loan is supported by credit or collateral adequate to justify a higher ratio. The Company may make Real Estate Loans to borrowers that acquire properties for prices below their appraised values. Thus, the loan-to-cost ratios of certain of the Company's Real Estate Loans may exceed the loan-to-value ratios described above. As a result, loans by the Company may not be limited to the purchase price of a property.

The Company's Real Estate Loans generally provide for fixed interest rates although it may make or acquire loans which float with changes in the prime rate or other benchmark interest rates. Interest rates on Real Estate Loans will be determined by taking into account a variety of factors including the prevailing interest rate in the area for the type of loan being considered, the proposed term of the loan, the loan-to-value ratio, and the creditworthiness of the borrower and any guarantors. See "Special Considerations -- Real Estate Loans" for additional information respecting Real Estate Loans.

Current Real Estate Loans

The following table sets forth information relating to the Company's outstanding Real Estate Loans at December 31, 1995.

<TABLE>
<CAPTION>

Description	Interest Rate	Payment Terms	Principal and Carrying Amount
<S>	<C>	<C>	<C>
First Deed of Trust on 41 acres of land in Gilbert, Arizona.	16%	Interest only monthly, principal due October 18, 1996; may be extended for one year under certain terms and conditions.	$1,278,000
First Deed of Trust on 33 acres of land in Tempe, Arizona.	16%	Interest only monthly, principal due November 21, 1995; extended for one year on November 21, 1995 under the same terms and conditions.	$2,272,000
First Deed of Trust on 21.4 acres of land in Tempe, Arizona.	16%	Interest only monthly, principal due January 6, 1996; extended for six months on January 6, 1996 under the same terms and	$ 498,000

conditions.
</TABLE>

In the latter half of 1995 in anticipation of a potential acquisition transaction, the Company slowed its origination of Real Estate Loans.

Types of Real Estate Loans

In furtherance of its objectives, the Company may make and acquire a wide variety of Real Estate Loans. In connection with certain of the Company's Real Estate Loans, a portion of the Company's return could be in the form of deferred interest payments, accruing in each year of the loan but payable only on repayment of the loan. Such deferred interest may accrue at a fixed rate over the term of a loan or may accrue at a faster rate in the later period of a loan. In either case, the present value of deferred interest is less than it would be if received currently.

The types of Real Estate Loans which the Company may make or acquire include the following.

First Mortgage Loans. First mortgage loans will be secured by first mortgages on the fee or a leasehold interest in improved income-producing real property and generally will provide for repayment in full prior to the end of the amortization period. Such loans will be in an amount which generally will not exceed 95% of the Company's assessment of value of the property.

Land Loans. Land loans are first or junior mortgage loans on unimproved real property normally providing only for interest payments prior to maturity. Such loans are made on properties held by borrowers for inventory, investment or development purposes and generally are expected to be repaid from the proceeds of the resale of the properties. As a result and due in addition to the absence of cash flow, such loans normally are considered more risky than loans on improved property. The maximum loan-to-value ratio will generally not exceed 90% of the Company's assessment of the value of the property.

Development Loans. Development loans are mortgage loans made to finance or refinance the acquisition of unimproved land and the costs of developing such land into finished sites, including the installation of utilities, drainage, sewerage and road systems. Such loans are expected to be repaid from the proceeds of construction loans or the sale of the developed sites. The Company will not normally require the borrower to have a commitment for a construction or long-term mortgage loan on the developed property. In some instances, the Company may receive an equity participation or other interest in connection with the property being developed. The original term of any development loan made by the Company generally will not exceed three years, and the maximum loan-to-value ratio generally will not exceed 90% of the Company's assessment of the value of the property on the assumption that development is completed substantially in accordance with the plans and specifications as of the date the loan commitment is provided.

Construction Loans. Construction loans are mortgage loans made to finance the acquisition of land and the erection of improvements thereon, such as residential subdivisions, apartment complexes, shopping centers, office buildings, and commercial and industrial buildings. Such loans generally have maturities of less than three years and usually provide for higher yields than those prevailing on long-term mortgage loans on comparable properties. Disbursements by the Company under construction loan commitments will be related to actual construction progress. Before a construction loan is made or acquired, the Company, in most cases, will either require that the borrower have a commitment from a responsible financial institution for financing upon completion or will itself have made the determination that such a loan is readily available or unnecessary. In some cases, the Company may receive an equity participation or other interest in connection with the property being constructed. Construction loans will be in amount which generally will not exceed 90% of the Company's assessment of value of the property on the assumption that construction is completed substantially in accordance with the plans and specifications as of the date the loan commitment is provided. Construction loans made to finance single family tract developments or condominiums generally will be repaid from proceeds of the sale of completed residential units.

Junior Mortgage Loans. Junior mortgage loans will be secured by mortgages which are subordinate to one or more prior liens on the fee or a leasehold interest in real property and generally, but not in all cases, will provide for repayment in full prior to the end of the amortization period. Such loans will be in an amount which, when added to the amount of prior liens, generally will not exceed 90% of the Company's assessment of the value of the property.

Wrap-Around Mortgage Loans. Wrap-around mortgage loans are expected to be made or acquired by the Company on real property which is already subject to prior mortgage indebtedness in an amount which, when added to the amount of prior indebtedness, generally will not exceed 90% of the Company's assessment of the value of the property. A wrap-around loan is a junior mortgage loan having a principal amount equal to the sum of the outstanding balance under the existing mortgage loans plus the amount actually advanced under the wrap-around mortgage

loan. Under a wrap-around mortgage loan, the Company would make principal and interest payments to the holders of the prior mortgage loans but ordinarily only to the extent that payments are received from the borrower. The Company expects to negotiate all wrap-around mortgage loans so that the borrowers' payments to be made to the Company will equal or exceed the amount of the Company's principal and interest payments on the underlying loans.

The Company also is permitted to invest in agreements for sale, which for the most part are governed by contract law but generally provide a statutory method for foreclosure. In addition, the Company is permitted to acquire Real Estate Loans secured by other comparable security devices as permitted by applicable state law.

In those types of loans described above, the Company generally receives as security for its loan a deed of trust or mortgage on the property financed. Loans generally will be made on a nonrecourse basis by which recourse will be limited to the real properties on which the loans have been made so that in the event of default the Company would be required to rely on the value of such real property to protect its interests. In other instances, the Company's Real Estate Loans will be made on a full recourse basis so that the borrower will be liable for any deficiency in the event that proceeds of a foreclosure or trustee's sale were insufficient to repay the loan. In connection with any loans to a corporation or other non- individual borrower, the Company may require that the loan be personally guaranteed by the borrower's principal individual owners. In addition, the Company may purchase or otherwise acquire participations or fractional interests in Real Estate Loans which are originated by parties that are not affiliated with the Company or may retain participations or fractional interests in such loans which the Company has originated and a portion of which have been acquired by parties that are not affiliated with the Company. In such cases, the Company may not have control over the loan or the unrestricted right to institute foreclosure proceedings. Except for the personal guarantees of a borrower's owners, it is not intended that any loan will be guaranteed or insured.

Standards for Real Estate Loans

In making or acquiring a Real Estate Loan, the Company considers various relevant real property and financial factors including the value of the property underlying the loan as security, the location and other aspects of the property, the potential for development of the property within one to three years, the income-producing capacity and quality of the property, the rate and terms of the loan (including the discount from the face amount of the note that can be obtained giving consideration to current interest rates and the Company's overall portfolio) and the quality, experience and creditworthiness of the borrower. The Company will calculate internal rates of return in reviewing the terms and purchase discount that can be obtained.

Although the Company generally receives a deed of trust or mortgage on the financed property as security for each Real Estate Loan, it may use other security devices from time to time. In most cases, recourse for a Real Estate Loan will be limited to the real property securing the loan.

The Company will not make or acquire a Real Estate Loan on any one property if the aggregate amount of all senior mortgage loans outstanding on the property plus the loan of the Company would exceed an amount equal to 95% of the value of the property as determined by the Company. The Company may lend additional funds to the borrower if the outstanding principal amount plus any outstanding senior indebtedness encumbering the property and additional advances does not exceed 95% of the value of the underlying property at the time the Real Estate Loan is made or at the time of any new appraisal.

In general, the Company will make or acquire Real Estate Loans in amounts ranging from a minimum of $300,000 to a maximum of $5,000,000.

The Company may obtain a current independent appraisal for a property on which it plans to make or acquire a Real Estate Loan, the cost of which usually will be paid by the borrower. The Company also may require, among other things, a survey and an aerial photograph of the property underlying each Real Estate Loan. The Company, however, generally relies on its own analysis and not on appraisals and other documents in determining whether to make or acquire a particular loan. It should be noted that appraisals are estimates of value and should not be relied upon as measures of true worth or realizable value. The Company will require that the borrower obtain a mortgagee's or owner's title insurance policy or commitment as to the priority of a mortgage or the condition of title be obtained in connection with each Real Estate Loan. The Company also will require public liability insurance naming the Company as an additional insured for claims arising on or about each underlying property when making a Real Estate Loan and, to the extent permitted by the existing loan documents, when acquiring a Real Estate Loan. Such liability insurance will be for suitable amounts as determined by the Company, but to the extent that a borrower incurs uninsured liabilities or liabilities in excess of the applicable coverage, such liabilities may adversely affect the borrower's ability to repay the Real Estate Loan.

In some cases, the Company may attempt to obtain equity participations in connection with making Real Estate Loans. Participations are designed to provide the potential for a higher return when such equity participations are deemed by management to be in the best interests of the Company. Such a participation is expected to be in the form of additional interest based upon items such as gross receipts from the property securing the loan in excess of certain levels or appreciation in the value of the property on whose security the Company has made the Real Estate Loan based upon either sales price or increases in value. There can be no assurance, however, that any Real Estate Loans will be structured in this manner or that any such loans will provide enhanced yields.

In determining whether to make or acquire a Real Estate Loan, the Company also will review the borrower's ability to repay the loan. Despite such review, the ability of a borrower to repay the principal amount of a loan will depend primarily upon the borrower's ability to obtain sufficient funds to pay the outstanding principal balance of the Real Estate Loan by refinancing, sale or other disposition of the property underlying the Real Estate Loan. See "Real Estate Loan Considerations -- Balloon Payments -- Sufficiency of Collateral."

The Company will invest in agreements for sale or real estate contracts of sale only if such contracts are in recordable form and are appropriately recorded in the chain of title.

Maturity of Loans

The Company expects that its Real Estate Loans generally will provide for payment of interest only during their term and for repayment of principal in full at maturity, generally within one to two years after funding. The Company plans to reinvest the proceeds which are received by it upon loan repayments.

The Company believes its policy of making and acquiring short-term and intermediate-term Real Estate Loans will enable it to reinvest loan repayment proceeds in new loans and thus to vary its portfolio more quickly in response to changing economic, financial and investment conditions than would be the case if the Company were to make long-term Real Estate Loans.

Borrowing Policies

The Company has a line of credit from a financial institution primarily to increase the amount of the Real Estate Loans that it is able to make or acquire and to increase its potential returns. Under a revolving line of credit agreement with a bank, the Company may borrow up to $5,000,000, upon payment of a 1/2 % commitment fee with interest payable monthly at prime plus 1/2 %. Such advances are to be secured by certain of the Company's Real Estate Loans with the amount advanced equal to between 40% to 60% of the principal amount of the Real Estate Loans pledged. Only Real Estate Loans approved by the bank are eligible for advances. The agreement contains certain financial covenants and expires on May 5, 1996. Through December 31, 1995, the Company has not drawn upon the line of credit. No assurance can be given that such line of credit will be renewed. In the event that any portion of an outstanding line of credit is not renewed, the Company will be required to reevaluate its reserve requirements and review its portfolio for possible disposition of Real Estate Loans.

The Company also may incur indebtedness in order to meet expenses of holding any property on which the Company has theretofore made a Real Estate Loan and has subsequently taken over the operation of the underlying property as a result of default or to protect a Real Estate Loan. In addition, the Company may incur indebtedness in order to complete development of a property on which the Company has theretofore made a development or land loan and has subsequently taken over the operation of the underlying property as a result of default. The Company also may utilize a line of credit in order to prevent default under senior loans or to discharge them entirely if this becomes necessary to protect the Company's Real Estate Loans. Such borrowing may be required if foreclosure proceedings are instituted by the holder of a mortgage loan that is senior to that held by the Company.

The amount and terms and conditions of any line of credit will affect the profitability of the Company and the funds that will be available to satisfy its obligations. Interest will be payable on a line of credit regardless of the profitability of the Company. The Company's ability to increase its return through borrowings will depend in part upon the Company's ability to generate income from its borrowed funds based upon the difference between the Company's return on investment from such borrowed funds and the interest rate charged by its lender for the funds. Adverse economic conditions could increase defaults by borrowers on the Real Estate Loans and could impact the Company's ability to make its loan payments to its lenders. Adverse economic conditions could also increase the Company's borrowing costs and cause the terms on which funds become available to be unfavorable. In such circumstances, the Company could be required to liquidate some of its loans at a significant loss.

The Company may pledge Real Estate Loans as security for any borrowing. In addition, any property acquired by the Company upon default and foreclosure of any Real Estate Loan may be pledged as collateral for a line of credit.

Remedies Upon Default by Borrower

Real Estate Loans are subject to the risk of default, in which event the Company would have the added responsibility of foreclosing and protecting its loans. In the state of Arizona, where all of the Company's Real Estate Loans have been made, the Company will have a choice of two alternative and mutually exclusive remedies in the event of default by a borrower with respect to a Real Estate Loan

secured by a deed of trust. In such case, the Company either can proceed to cause the trustee under the deed of trust to exercise its power of sale under the deed of trust and sell the collateral at a non-judicial sale or it can choose to have the deed of trust judicially foreclosed as if it were a mortgage. In the event of default by a borrower with respect to a Real Estate Loan secured by a mortgage, the Company will have no election of remedies and will be required to foreclose the mortgage judicially. Remedies in other states in which the Company may acquire or make Real Estate Loans could vary significantly from those available in Arizona.

In Arizona, mortgages must be foreclosed judicially. A judicial foreclosure is usually a time consuming and potentially expensive undertaking. Under judicial foreclosure proceedings, the borrower does not have a right to reinstate the loan and can only cure its default by either paying the entire accelerated sum owing under the note before the judicial sale or by redeeming the property within six months after the date of the judicial sale.

The major advantage of a deed of trust is that Arizona law permits the beneficiary of a deed of trust to foreclose the deed of trust as a mortgage through judicial proceedings or by a non-judicial trustee's sale. A non-judicial trustee's sale conducted under the power of sale provided to the trustee usually is more expedient and less expensive than a judicial foreclosure and may be held any time after 90 days from the date of recording of the trustee's notice of sale. Furthermore, unlike a judicial foreclosure, there is no redemption period following a non-judicial sale. The major disadvantage of a deed of trust is the significantly greater reinstatement rights granted to a borrower. Before a trustee's sale, the borrower under a deed of trust has a right to reinstate the contract and deed of trust as if no breach or default had occurred by payment of the entire amount then due, plus costs and expenses, reasonable attorney's fees actually incurred, the recording fee for a cancellation of notice of sale and the trustee's fee. The accelerated portion of the loan balance need not be paid in order to reinstate. As a result, a borrower could repeatedly be in default under a deed of trust and use its right to reinstate the loan under successive non-judicial sale proceedings. Nonetheless, the borrower's right to reinstate a deed of trust without payment of the accelerated portion of the loan balance can be cut off upon the filing of an action to judicially foreclose the deed of trust as a mortgage.

In the case of both judicial and non-judicial foreclosure, if a proceeding under the Bankruptcy Code is commenced by or against a person or other entity having an interest in the real property that secures payment of the loan, then the foreclosure will be prevented from going forward until authorization to foreclose is obtained from the Bankruptcy Court. During the period when the foreclosure is stayed by the Bankruptcy Court, it is possible that payments, including payments from any interest reserve account, may not be made on the loan if so ordered by the Bankruptcy Court. The length of time during which the foreclosure is delayed as a result of the bankruptcy, and during which the payments may not be made, is indefinite. In addition, under the Bankruptcy Code, the Bankruptcy Court may render a portion of the loan unsecured if it determines that the value of the real property that secures payment of the loan is less than the balance of the loan and, under other circumstances, may modify or otherwise impair the lien of the lender in connection with the defaulted mortgage or deed of trust.

The Company will have the right to bid on and purchase the property underlying a Real Estate Loan at a foreclosure or trustee's sale following a default by the borrower. If the Company is the successful bidder and purchases a property underlying a Real Estate Loan, the Company's return on such Real Estate Loan will depend upon the amount of cash or other funds that can be realized by selling or otherwise disposing of the property. There can be no assurance that the Company will be able to sell such a property on terms favorable to the Company particularly as the result of real estate market conditions. Recent conditions in real estate loan markets have affected the availability and cost of real estate loans, thereby making real estate financing difficult and costly to obtain and impeding the ability of real estate owners to sell their properties at favorable prices. Such conditions may adversely affect the ability of the Company to sell the property securing a Real Estate Loan in the event that the Company deems it in the best interests of the Company to foreclose upon and purchase the property. To the extent that the funds

generated by such actions are less than the amounts advanced by the Company for such Real Estate Loan, the Company may realize a loss of all or part of the principal and interest on the loan. Thus, there can be no assurance that the Company will not experience financial loss upon a default by a borrower.

Transactions with Affiliates and Joint Venture Investments

The Company does not intend to make Real Estate Loans to affiliates.

The Company may enter into joint ventures, general partnerships and loan participations with third parties for the purpose of acquiring or making Real Estate Loans in accordance with the Company's investment policies. Any such investments will be made consistently with the then existing Securities and Exchange Commission interpretations and case law respecting the applicability of the Investment Company Act.

Ownership of Underlying Real Estate

The Company will make or acquire Real Estate Loans for investment or make or acquire Real Estate Loans primarily for sale or other disposition in the ordinary course of business. The Company may be required to engage in real estate operations if, among other things, the Company forecloses on a property on which it has made or acquired a Real Estate Loan and takes over management of the property. Since the ownership of equity interests in real estate underlying a Real Estate Loan is not an objective of the Company, such operations would only be conducted for a limited period pending sale of the properties so acquired.

Ownership of Mortgage Assets

The Company owns Mortgage Assets as described herein consisting of Mortgage Interests (commonly known as "residuals") and Mortgage Instruments. Mortgage Instruments consist of mortgage certificates representing interests in pools of residential mortgage loans ("Mortgage Certificates").

Mortgage Interests entitle the Company to receive Net Cash Flows (as described below) on Mortgage Instruments securing or underlying Mortgage Securities and are treated for federal income tax purposes as interests in real estate mortgage investments conduits ("REMICs") under the Code. Substantially all of the Company's Mortgage Instruments and the Mortgage Instruments underlying the Company's Mortgage Interests currently secure or underlie mortgage-collateralized bonds ("CMOs" or "Bonds"), mortgage pass-through certificates ("MPCs" or "Pass-Through Certificates") or other mortgage securities (collectively "Mortgage Securities").

The Company's Mortgage Assets generate net cash flows ("Net Cash Flows") which result primarily from the difference between (i) the cash flows on Mortgage Instruments (including those securing or underlying various series of Mortgage Securities as described herein) together with reinvestment income thereon and (ii) the amount required for debt service payments on such Mortgage Securities, the costs of issuance and administration of such Mortgage Securities and other borrowing and financing costs of the Company. The revenues received by the Company are derived from the Net Cash Flows received directly by the Company as well as any Net Cash Flows received by subsidiaries of the Company and paid to the Company as dividends and any Net Cash Flows received by trusts in which the Company has a beneficial interest to the extent of distributions to the Company as the owner of such beneficial interest. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Mortgage Certificates consist of fully-modified pass-through mortgage-backed certificates guaranteed by GNMA ("GNMA Certificates"), mortgage participation certificates issued by FHLMC ("FHLMC Certificates"), guaranteed mortgage pass-through certificates issued by FNMA ("FNMA Certificates") and certain other types of mortgage certificates and mortgage-collateralized obligations ("Other Mortgage Certificates").

Mortgage Securities consisting of CMOs and MPCs typically are issued in series. Each such series generally consists of several serially maturing classes secured by or representing interests in Mortgage Instruments. Generally, payments of principal and interest received on the Mortgage Instruments (including prepayments on such Mortgage Instruments) are applied to principal and interest payments on

one or more classes of the CMOs or MPCs. Scheduled payments of principal and interest on the Mortgage Instruments and other collateral are intended to be sufficient to make timely payments of interest on such CMOs or MPCs and to retire each class of such CMOs or MPCs by its stated maturity or final payment date. The Company also finances its Mortgage Assets in long-term structured obligations involving borrowings or other credit arrangements secured by Mortgage Instruments or Mortgage Interests owned by the Company.

Current Mortgage Assets

As of December 31, 1995, the Company owned approximately $52,310,000 in principal amount of Mortgage Instruments which have been pledged in a long-term financing transaction. As of December 31, 1995, the Company also owned Mortgage Interests with respect to seven separate series of Mortgage Securities with a net amortized cost balance of approximately $5,445,000 (representing the

aggregate purchase price paid for such Mortgage Interests less the amount of distributions on such Mortgage Interests received by the Company representing a return of investment).

The Company owns Mortgage Interests which entitle it to receive the Net Cash Flows on the Mortgage Instruments pledged to secure the following four series of Bonds: (i) the Series 1 Mortgage- Collateralized Bonds issued by Westam Mortgage Financial Corporation ("Westam") (the "Series 1 Bonds" or "Westam 1"), (ii) the Series 3 Mortgage-Collateralized Bonds issued by Westam (the "Series 3 Bonds" or "Westam 3"), (iii) the Series 65 Mortgage-Collateralized Bonds issued by American Southwest Financial Corporation ("ASW") (the "Series 65 Bonds" or "ASW 65") and (iv) the Series 5 Mortgage-Collateralized Bonds issued by Westam (the "Series 5 Bonds" or "Westam 5"). Each of these series of Bonds are CMOs, and an election has been made to treat the Mortgage Instruments and other collateral securing such series of Bonds as REMICs.

The Company also owns the residual interest in the REMIC with respect to the Series 17 Multi-Class Mortgage Participation Certificates (Guaranteed) ("FHLMC 17") issued by the Federal Home Loan Mortgage Corporation ("FHLMC") and 20.20% and 45.07%, respectively, of the residual interests in the REMICs with respect to the FNMA REMIC Trust 1988-24 Guaranteed REMIC Pass-Through Certificates ("FNMA 24") and the FNMA REMIC Trust 1988-25 Guaranteed REMIC Pass-Through Certificates ("FNMA 25") issued by the Federal National Mortgage Association ("FNMA"). An election has been made to treat the Mortgage Instruments and other collateral underlying each of the above series of Mortgage Securities as REMICs. The Company has not purchased any Mortgage Interests since October 26, 1988.

All of the series described above collectively are referred to herein as the "Outstanding Mortgage Securities." For purposes of the remainder of this section only, "Bonds," "Pass-Through Certificates," "Mortgage Securities," "Net Cash Flows" and "Mortgage Instruments" refer to the Bonds issued by ASW and Westam, the Pass-Through Certificates issued by FHLMC and FNMA, the Outstanding Mortgage Securities, the Net Cash Flows generated by the Mortgage Instruments securing or underlying the Specified Mortgage Securities, and the Mortgage Instruments securing or underlying the Outstanding Mortgage Securities, respectively. Unless otherwise specified, information as to the Outstanding Mortgage Securities is as of their respective closing dates.

The Outstanding Mortgage Securities were issued during the period from April 29, 1988 through October 26, 1988 in an aggregate original principal amount of $2,700,200,000, and all are collateralized by or represent interests in Mortgage Instruments.

The Mortgage Instruments Securing or Underlying the Outstanding Mortgage Securities

The Mortgage Instruments pledged as collateral for the Bonds are beneficially owned by the Issuers of such Bonds, and the Company owns the residual interests in the REMICs with respect to the Bonds. The Mortgage Instruments contained in the pools underlying the Pass-Through Certificates are beneficially owned by the holders of the Pass-Through Certificates (including the holders of the residual interests relating thereto), and the Company owns 100%, 20.20% and 45.07% of the residual interest in the REMICs with respect to FHLMC 17, FNMA 24 and FNMA 25, respectively. The Mortgage Instruments securing or underlying the Mortgage Securities consist of mortgage-backed certificates guaranteed by

GNMA ("GNMA Certificates"), mortgage participation certificates issued by FHLMC ("FHLMC Certificates") and guaranteed mortgage pass-through certificates issued by FNMA ("FNMA Certificates"). As of December 31, 1995, the GNMA Certificates had an aggregate principal balance of $196,990,000, the FHLMC Certificates had an aggregate principal balance of $59,874,000 and the FNMA Certificates had an aggregate principal balance of $137,665,000.

The following table sets forth the remaining principal balances, the weighted average pass-through rates, the weighted average mortgage coupon rates and the weighted average remaining terms to maturity of the Mortgage Instruments pledged as collateral for each series of Bonds or contained in the pool underlying each series of Pass-Through Certificates. The information presented in the table was provided to the Company by the respective Issuer of each series of Mortgage Securities. The Company did not issue such Mortgage Securities and is relying on the respective Issuers regarding the accuracy of the information provided.

Summary Of Mortgage Instrument Characteristics

Series Of Mortgage Securities	Type Of Mortgage Instrument	Remaining Principal Balance(1)	Weighted Average Pass-through Rate	Weighted Average Mortgage Coupon Rate	Weighted Average Remaining Term To Maturity (Years)(1)
		(In Thousands)			
Westam 1	GNMA	$ 37,942	10.50%	11.00%	20.8
Westam 3	GNMA	44,717	9.50	10.00	21.7

ASW 65	GNMA	45,315	10.00	10.50	21.6
Westam 5	GNMA	69,016	9.00	9.50	21.2
FHLMC 17	FHLMC	59,874	10.00	10.57	21.5
FNMA 24	FNMA	56,824(2)	10.00	10.65	22.2
FNMA 25	FNMA	80,840(3)	9.50	10.14	22.2

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(1) As of December 31, 1995.

(2) The Company owns a 20.2% interest in the residual interest in the REMIC with respect to FNMA 24.

(3) The Company owns a 45.07% interest in the residual interest in the REMIC with respect to FNMA 25.

The prepayment experience on the Mortgage Instruments securing or underlying the Mortgage Securities will significantly affect the average life of such Mortgage Securities because all or a portion of such prepayments will be paid to the holders of the related Mortgage Securities as principal payments on such Mortgage Securities. Prepayments on mortgage loans commonly are measured by a prepayment standard or model. The model used herein (the "Prepayment Assumption Model") is based on an assumed rate of prepayment each month of the unpaid principal amount of a pool of new mortgage loans expressed on an annual basis. 100% of the Prepayment Assumption Model assumes that each mortgage loan underlying a Mortgage Certificate (regardless of interest rate, principal amount, original term to maturity or geographic location) prepays at an annual compounded rate of 0.2% per annum of its outstanding principal balance in the first month after origination, that this rate increases by an additional 0.2% per annum in each month thereafter until the thirtieth month after origination and in the thirtieth month and in each month thereafter prepays at a constant prepayment rate of 6% per annum.

The Prepayment Assumption Model does not purport to be either a historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the mortgage loans underlying the Mortgage Certificates, and there is no assurance that the prepayment of the mortgage loans underlying the Mortgage Certificates will conform to any of the assumed prepayment rates. The rate of principal payments on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors. In general, however, Mortgage Instruments are likely to be subject to higher prepayment rates if prevailing interest rates fall significantly below the interest rates on the mortgage loans underlying the Mortgage Certificates. Conversely, the rate of prepayment would be expected to decrease if interest rates rise above the interest

rate on the mortgage loans underlying the Mortgage Certificates. Other factors affecting prepayment of mortgage loans include changes in mortgagors' housing needs, job transfers, unemployment, mortgagors' net equity in the mortgaged properties, assumability of mortgage loans and servicing decisions.

Description of the Outstanding Mortgage Securities

Each series of Bonds constitutes a nonrecourse obligation of the Issuer of such series of Bonds payable solely from the Mortgage Instruments and any other collateral pledged to secure such series of Bonds. All of the Bonds are rated "AAA" by Standard & Poor's Corporation. All of the Bonds have been issued in series pursuant to indentures (the "Indenture") between the Issuer and a bank trustee (the "Trustee") which holds the underlying Mortgage Instruments and other collateral pledged to secure the related series of Bonds.

Each series of the Bonds is structured so that the monthly payments on the Mortgage Instruments pledged as collateral for such series of Bonds, together (in certain cases) with reinvestment income on such monthly payments at the rates required to be assumed by the rating agencies rating such Bonds or at the rates provided pursuant to a guaranteed investment contract, will be sufficient to make timely payments of interest on each class of Bonds of such series (each a "Bond Class"), to begin payment of principal on each Bond Class not later than its "first mandatory principal payment date" or "first mandatory redemption date" (as defined in the related Indenture) and to retire each Bond Class no later than its "stated maturity" (as defined in the related Indenture).

Each series of Pass-Through Certificates represents beneficial ownership interests in a pool ("Mortgage Pool") of Mortgage Instruments formed by the Issuer thereof and evidences the right of the holders of such Pass-Through Certificates to receive payments of principal and interest at the pass-through rate with respect to the related Mortgage Pool. Pass-Through Certificates issued by FHLMC or FNMA generally are not rated by any rating agency. The Pass-Through Certificates issued by FHLMC have been issued pursuant to an agreement ("Pooling Agreement") which generally provides for the formation of the Mortgage Pool and the performance of administrative and servicing functions. The Pass-Through Certificates issued by FNMA have been issued pursuant to a trust agreement ("Trust Agreement") between FNMA in its corporate capacity and in its capacity as trustee which generally provides for the formation of the Mortgage Pool and the performance of administrative and servicing functions. The Pass-Through Certificates are not obligations of the Issuers thereof.

Each series of Pass-Through Certificates is structured so that the monthly payments of principal and interest on the Mortgage Instruments in the Mortgage Pool underlying such series of Pass-Through Certificates are passed through on monthly payment dates to the holders of each class of Pass-Through Certificates of such series (each a "Pass-Through Class") as payments of principal and interest, respectively, and each Pass-Through Class is retired no later than its "final payment date" or "final distribution date" (as defined in the related Pooling Agreement or Trust Agreement, respectively).

With respect to FHLMC 17, FHLMC guarantees to each holder of a Pass-Through Certificate that bears interest the timely payment of interest at the applicable interest rate on such Pass-Through Certificates. FHLMC also guarantees to each holder of a Pass-Through Certificate the payment of the principal amount of such holder's Pass-Through Certificates as payments are made on the underlying FHLMC Certificates. Such guarantees, however, do not assure the Company any particular return on its Mortgage Interests with respect to these Mortgage Securities. The FHLMC 17 Pass-Through Certificates have been issued pursuant to agreements between the holders of the Pass-Through Certificates and FHLMC, which holds and administers, or supervises the administration of, the pool of Mortgage Instruments underlying the Pass-Through Certificates.

With respect to FNMA 24 and FNMA 25, FNMA is obligated to distribute on a timely basis to the holders of the Pass-Through Certificates required installments of principal and interest and to distribute the principal balance of each Class of Pass-Through Certificate in full no later than its applicable "final distribution date," whether or not sufficient funds are available in the "certificate account" (as defined in the offering circular). The guarantee of FNMA is not backed by the full faith and credit of the United States. The FNMA 24 and FNMA 25 Pass-Through Certificates represent beneficial ownership interests

in trusts created pursuant to a Trust Agreement. FNMA is responsible for the administration and servicing of the mortgage loans underlying the FNMA Certificates, including the supervision of the servicing activities of lenders, if appropriate, the collection and receipt of payments from lenders, and the remittance of distributions and certain reports to holders of the Pass-Through Certificates.

Interest payments on the Bond Classes and the Pass-Through Classes (together "Classes") are due and payable on specified payment dates, except with respect to principal only or zero coupon Classes ("Principal Only Classes") which do not bear interest and with respect to compound interest Classes ("Compound Interest Classes") as to which interest accrues but generally is not paid until other designated Classes in the same series of Mortgage Securities are paid in full. The payment dates for the Mortgage Securities are monthly. Each Class of Mortgage Securities, except the Principal Only Classes, provides for the payment of interest either at a fixed rate, or at an interest rate which resets periodically based on a specified spread from (i) the arithmetic mean of quotations of the London interbank offered rates ("LIBOR") for one-month Eurodollar deposits, subject to a specified maximum interest rate, (ii) the Monthly Weighted Average Cost of Funds Index for Eleventh District Savings Institutions (the "COF Index"), as published by the Federal Home Loan Bank of San Francisco (the "FHLB/SF"), subject to a specified maximum interest rate or (iii) other indices specified in the prospectus supplement or offering circular for a series of Mortgage Securities.

According to information furnished by the FHLB/SF, the COF Index is based on financial reports submitted monthly to the FHLB/SF by Eleventh District savings institutions and is computed by the FHLB/SF for each month by dividing the cost of funds (interest paid during the month by Eleventh District savings institutions on savings, advances and other borrowings) by the average of the total amount of those funds outstanding at the end of that month and at the end of the prior month, subject to certain adjustments. According to such FHLB/SF information, the COF Index reflects the interest cost paid on all types of funds held by Eleventh District savings institutions, and is weighted to reflect the relative amount of each type of funds held at the end of the particular month. The COF Index has been reported each month since August 1981.

Unlike most other interest rate measures, the COF Index does not necessarily reflect current market rates. A number of factors affect the performance of the COF Index which may cause the COF Index to move in a manner different from indices tied to specific interest rates, such as United States Treasury Bills or LIBOR. Because of the various maturities of the liabilities upon which the COF Index is based (which may be more or less sensitive to market interest rates), the COF Index may not necessarily reflect the average prevailing market interest rates on new liabilities of similar maturities. Additionally, the COF Index may not necessarily move in the same direction as market interest rates, because as longer term deposits or borrowings mature and are renewed at prevailing market interest rates, the COF Index is influenced by the differential between the prior rates on such deposits or borrowings and the cost of new deposits or borrowings. Moreover, the COF Index represents the weighted average cost of funds for Eleventh District savings institutions for the month prior to the month in which the COF Index is customarily published, and therefore lags current rates. Movement of the COF Index, as compared to other indices tied to

specific interest rates, also may be affected by changes instituted by the FHLB/SF in the method used to calculate the COF Index.

Principal payments on each Class of the Mortgage Securities are made on monthly payment dates. Payments of principal generally are allocated to the earlier maturing Classes until such Classes are paid in full. However, in certain series of Mortgage Securities, principal payments on certain Classes are made concurrently with principal payments on other Classes of such series of Mortgage Securities in certain specified percentages (as described in the prospectus supplement or offering circular for such series of Mortgage Securities). In addition, payments of principal on certain Classes (referred to as "SAY," "PAC," "SMRT" or "SPPR" Classes) occur pursuant to a specified repayment schedule to the extent funds are available therefor, regardless of which other Classes of the same series of Mortgage Securities remain outstanding. Each of the Principal Only Classes has been issued at a substantial discount from par value and receives only principal payments. Certain Classes of the Mortgage Securities will be subject to redemption at the option of the Issuer of such series (in the case of FHLMC 17) or upon the instruction of the Company (as the holder of the residual interest in the REMICs with respect to the other Mortgage

Securities Classes subject to redemption) on the dates specified herein in accordance with the specific terms of the related Indenture, Pooling Agreement or Trust Agreement, as applicable. Certain Classes which represent the residual interest in the REMIC with respect to a series of Mortgage Securities (referred to as "Residual Interest Classes") generally also are entitled to additional amounts, such as the remaining assets in the REMIC after the payment in full of the other Classes of the same series of Mortgage Securities and any amount remaining on each payment date in the account in which distributions on the Mortgage Instruments securing or underlying the Mortgage Securities are invested after the payment of principal and interest on the related Mortgage Securities and the payment of expenses.

The table below sets forth certain information regarding the Mortgage Securities with respect to which the Company owns all or a part of the Mortgage Interest.

Summary Of The Mortgage Securities

<TABLE>
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Series(1)	Remaining Principal Balance of the Mortgage Instruments Collateralizing or Underlying the Mortgage Securities(2)	Weighted Average Pass-Through Rate of the Mortgate Instruments Collateralizing or Underlying the Mortgage Securities	Class	Issue Date	Initial Principal Balance	Remaining Principal Balance(2)	Coupon	Stated Maturity or Final Payment Date	First Optional Redemption or Termination Date
	(In Thousands)								
<S> <C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Westam 1	$37,942	10.50%	1-A	4/29/88	$109,228	$ 6,794	Variable Rate(3)	9/1/12	6/1/98
			1-B	4/29/88	85,142	0	8.55	1/1/09	6/1/98
			1-C	4/29/88	44,380	8,056	8.55	9/1/12	6/1/98
			1-Z(4)	4/29/88	11,250	23,774	9.90	5/1/18	6/1/98
Westam 3	$44,717	9.50%	3-A	6/30/88	$ 80,960	$ 0	Variable Rate(5)	6/1/07	8/1/98
			3-B	6/30/88	54,000	0	6.00	10/1/02	8/1/98
			3-C	6/30/88	16,000	0	6.00	10/1/04	8/1/98

			3-D	6/30/88	25,040	0	6.00	6/1/07	8/1/98
			3-E(4)	6/30/88	24,000	45,551	9.45	7/1/18	8/1/98
ASW 65	$45,315	10.00%	65-A	6/29/88	$ 41,181	$ 0	9.00%	5/1/14	8/1/98
			65-B	6/29/88	7,746	0	Variable Rate(6)	9/1/14	8/1/98
			65-C(7)	6/29/88	11,872	0	8.25	10/1/18	8/1/98
			65-D(7)	6/29/88	21,169	0	7.25	10/1/18	8/1/98
			65-E(7)	6/29/88	6,965	0	7.50	10/1/18	8/1/98
			65-F(7)	6/29/88	19,977	11,042	7.50	10/1/18	8/1/98
			65-G(7)	6/29/88	12,540	12,540	7.50	10/1/18	8/1/98
			65-H(7)	6/29/88	60,344	22,656	Variable Rate(6)	10/1/18	8/1/98
			65-I(7)	6/29/88	32,230	0	7.00	10/1/18	8/1/98
			65-J(7)	6/29/88	23,476	0	Variable Rate(6)	10/1/18	8/1/98
			65-Z(4)	6/29/88	12,500	0	7.75	10/1/18	8/1/98
Westam 5	$69,016	9.00%	5-A	7/28/88	$ 70,488	$ 844	Variable Rate(8)	8/1/18	(9)
			5-B (10)	7/28/88	39,784	477	Zero Coupon	8/1/18	(9)
			5-Y (7)	7/28/88	139,728	68,861	8.95	8/1/18	(9)
FHLMC 17	$59,874	10.00%	17-A (7)	9/30/88	$ 26,000	$ 0	9.35%	5/15/02	(14)
			17-B (7)	9/30/88	98,850	0	9.00	9/15/19	(14)
			17-C	9/30/88	92,400	0	Variable Rate(12)	10/15/19	(14)
			17-D(10)	9/30/88	27,750	0	Zero Coupon	10/15/19	(14)
			17-E(7)	9/30/88	$ 75,400	0	9.30	2/15/12	(14)
			17-F(7)	9/30/88	26,700	0	9.35	12/15/13	(14)
			17-G(7)	9/30/88	67,400	0	9.55	3/15/17	(14)

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Remaining Principal Balance of the Mortgage Instruments Collateralizing or Underlying the Mortgage | Weighted Average Pass-Through Rate of the Mortgate Instruments Collateralizing or Underlying the Mortgage | Issue | Initial Principal | Remaining Principal | Stated Maturity or Final | First Optional Redemption or

(In Thousands)

Series(1)	Securities(2)	Securities	Class		Date	Balance	Balance(2)	Coupon	Payment Date	Termination Date
<S>			<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C> <C>
			17-H	(7)	9/30/88	34,700	16,166	9.70	6/15/18	(14)
			17-I	(7)	9/30/88	43,696	43,696	9.90	10/15/19	(14)
			17-J	(7)	9/30/88	7,104	0	9.00	10/15/19	(14)
			17-R	(11)	9/30/88	100	12	Residual(13)	10/15/19	(14)
FNMA 24(15)	$56,824	10.00%	24-A	(7)	10/26/88	$ 13,300	$ 0	7.00%	3/25/02	(19)
			24-B	(7)	10/26/88	33,400	0	7.00	3/25/11	(19)
			24-C	(7)	10/26/88	13,200	0	7.00	2/25/13	(19)
			24-D	(7)	10/26/88	29,100	0	7.00	3/25/16	(19)
			24-E	(7)	10/26/88	16,600	6,944	7.00	7/25/17	(19)
			24-F	(16)	10/26/88	217,350	30,970	Variable Rate(17)	10/25/18	(19)
			24-G	(7)	10/26/88	18,899	18,899	7.00	10/25/18	(19)
			24-H	(7)	10/26/88	36,100	0	9.50	7/25/16	(19)
			24-J	(7)	10/26/88	32,850	0	9.50	4/25/17	(19)
			24-K	(7)	10/26/88	72,151	0	9.50	10/25/18	(19)
			24-L		10/26/88	17,050	0	Zero Coupon	10/25/18	(19)
			24-R	(11)	10/26/88	100	11	Residual(18)	10/25/18	(19)
FNMA 25(20)	$80,840	9.50%	25-A	(7)(21)	10/25/88	$165,000	$ 0	9.00%	6/25/08	(19)
			25-B	(7)	10/25/88	270,823	70,942	9.25	10/25/18	(19)
			25-C	(16)	10/25/88	37,500	9,823	Variable Rate (22)	10/25/18	(19)
			25-D		10/25/88	70,912	0	Variable Rate (23)	10/25/18	(19)
			25-E		10/25/88	139,575	0	Variable Rate (24)	10/25/18	(19)
			25-G	(25)	10/25/88	66,115	0	Zero Coupon	10/25/18	(19)
			25-R	(11)	10/25/88	75	75	Residual(26)	10/25/18	(19)

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(1) Unless otherwise specified, the Company owns 100% of the residual interest with respect to each series of Mortgage Securities.
(2) As of December 31, 1995.
(3) Determined monthly, and generally equal to 0.65% above the arithmetic mean of LIBOR, subject to a maximum rate of 12.75%.
(4) Compound Interest Class.
(5) Determined monthly, and generally equal to 0.70% above the arithmetic mean of LIBOR, subject to a maximum rate of 13.00%.
(6) Determined monthly, and generally equal to 0.80%, 0.70% and 0.95%, respectively, above the arithmetic mean of LIBOR, subject to a maximum rate of 13.50%, 12.50% and 14.00%, respectively.
(7) SAY, PAC, SMRT, SPPR or other Class which receives a preferential allocation of principal payments during a designated period.
(8) Determined monthly, and generally equal to 0.85% above the arithmetic mean of LIBOR, subject to a maximum rate of 14.00%.
(9) The Westam 5 Bonds may be redeemed at any time after the aggregate principal amount of such Bonds then outstanding is less than 10% of their original aggregate principal amount.
(10) Principal Only Class.
(11) Residual Interest Class. This class represents the "residual interest" in the REMIC with respect to such Series.

(12) Determined monthly, and generally equal to 0.90% above the arithmetic mean of LIBOR, subject to a maximum rate of 13.00%.
(13) The Class of Pass-Through Certificates will bear interest on each payment date in an amount equal to the amounts received as interest payments on the FHLMC Certificates in the Mortgage Pool on such payment date, less the aggregate amount of interest payable on the FHLMC 17 Pass-Through Certificates (other than the Residual Interest Class) on such payment date.
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</TABLE>

(14) The FHLMC 17 Pass-Through Certificates may be redeemed in whole, but not in part, on any payment date if the aggregate principal amount of such Pass-Through Certificates outstanding is less than 1% of the initial principal amount of such Pass-Through Certificates.
(15) The Company owns a 20.20% interest in the residual interest in the REMIC with respect to FNMA 24.
(16) Paid principal in the manner of a SAY, PAC, SMRT or SPPR Class with respect to a portion of its principal balance.
(17) Determined monthly, and generally equal to 2.10% below the product of 1.15 and the arithmetic mean of LIBOR, subject to a maximum rate of 12.50%.
(18) On each payment date, the Class of Pass-Through Certificates will receive the excess of the sum of all distributions payable on the FNMA Certificates underlying the Pass-Through Certificates on such payment date over all amounts distributable on such payment date as principal and interest on each Class of the Pass-Through Certificates (including amounts distributable as principal on this Class of Pass-Through Certificates).
(19) Not subject to optional redemption.
(20) The Company owns a 45.07% interest in the residual interest in the REMIC with respect to FNMA 25.
(21) On any payment date on which the principal distributions from the FNMA Certificates underlying the FNMA 25 Pass-Through Certificates are not sufficient to reduce the principal balance of this Class of such Pass-Through Certificates to a designated amount, the amount of interest distributed from the FNMA Certificates underlying such Pass-Through Certificates not required to be paid out as interest on such Pass-Through Certificates on such payment date ("Excess Interest") will be applied to reduce the principal balance of this Class to the designated amount for that payment date.
(22) Determined monthly, and generally equal to .7586% above the product of .9632 and the COF Index, subject to a maximum rate of 11.3054%.
(23) Determined monthly, and generally equal to 1.5229% below the product of .9247 and the COF Index, subject to a maximum rate of 9.50%.
(24) Determined monthly, and generally equal to 1.25% above the COF Index, subject to a maximum rate of 14.00%.
(25) On any payment date on which this Class of Pass-Through Certificates receives principal payments, 30% of the Excess Interest will be applied to reduce the principal balance of this Class.
(26) When Excess Interest is used to pay principal on Classes 25-A and 25-G, the amount of Excess Interest so applied will be added to the principal balance of this Class of Pass-Through Certificates. In addition, on each Payment Date, this Class of Pass- Through Certificates will receive the excess of the sum of all distributions payable on the FNMA Certificates underlying the FNMA 25 Pass-Through Certificates on such payment date over all amounts distributable on such payment date as principal and interest (including amounts distributable as principal on this Class of Pass-Through Certificates).

Net Cash Flows

The Net Cash Flows available from the Company's Mortgage Assets are derived principally from three sources: (i) the favorable spread between the interest or pass-through rates on the Mortgage Instruments securing or underlying the Mortgage Securities and the interest or pass-through rates of the Mortgage Securities Classes, (ii) reinvestment income in excess of the amount thereof required to be applied to pay the principal of and interest on the Mortgage Securities, and (iii) any amounts available from prepayments on the Mortgage Instruments securing or underlying the Mortgage Securities that are not necessary for the payments on the Mortgage Securities. The amount of Net Cash Flows generally decreases over time as the Classes are retired. Distributions of Net Cash Flows represent both the return on and the return of the investment on the Mortgage Assets purchased. In addition, the Company may exercise its rights in accordance with the terms of a series of Mortgage Securities to redeem all or a part of such series prior to maturity and sell the related Mortgage Instruments, in which case the net payment (after payment of the Mortgage Securities and related costs) will be remitted to the Company.

The principal factors which influence Net Cash Flows are as follows:

(1) Other factors being equal, Net Cash Flows in each payment period tend to decline over the life of a series of Mortgage Securities, because (a) as normal amortization of principal and principal prepayments occur on the Mortgage Instruments securing or underlying such Mortgage Securities, the principal balances of earlier, lower-yielding Classes of such Mortgage Securities are reduced, thereby

resulting in a reduction of the favorable spread between the weighted average interest or pass-through rate on outstanding Classes and the interest or pass-through rates on the Mortgage Instruments securing or underlying such Mortgage Securities and (b) the higher coupon Mortgage Instruments are likely to be prepaid faster, reinforcing the same effect.

(2) The rate of prepayments on the Mortgage Instruments securing or underlying a series of Mortgage Securities significantly affects the Net Cash Flows. Because prepayments shorten the life

of the mortgage loans underlying the Mortgage Instruments securing or underlying a series of Mortgage Securities, a higher rate of prepayments normally reduces overall Net Cash Flows. The rate of prepayments may be expected to vary over the life of a series of Mortgage Securities, and the timing of prepayments will further affect their significance. The rate of prepayments is affected by mortgage interest rates and other factors. Generally, increases in mortgage interest rates reduce prepayment rates, while decreases in mortgage interest rates increase prepayment rates. Because an important component of Net Cash Flows derives from the spread between the weighted average interest or pass-through rate on the Mortgage Instruments securing or underlying a series of Mortgage Securities and the weighted average interest or pass-through rate on the outstanding classes of such Mortgage Securities Classes, a higher than expected level of prepayments concentrated during the early life of such Mortgage Securities (thereby reducing the weighted average life of the earlier, lower-yielding Classes) has a more negative effect on Net Cash Flows than the same volume of prepayments have at a constant rate over the life of such Mortgage Securities or at a later date.

(3) With respect to Variable Rate Classes of Mortgage Securities, increases in the level of the index on which the interest rate for such Variable Rate Classes are based increase the interest or pass-through rate payable on Variable Rate Classes and thus reduce or, in some instances, eliminate Net Cash Flows, while decreases in the level of the relevant index decrease the interest or pass- through rate payable on Variable Rate Classes and thus increase Net Cash Flows.

(4) The interest rate at which the monthly cash flow from the Mortgage Instruments securing or underlying a series of Mortgage Securities may be reinvested until payment dates for such Mortgage Securities influences the amount of reinvestment income contributing to the Net Cash Flows unless such reinvestment income is not paid to the owner of the related Mortgage Asset.

(5) The administrative expenses of a series of Mortgage Securities (if any) may increase as a percentage of Net Cash Flows as the outstanding balances of the Mortgage Instruments securing or underlying such Mortgage Securities decline, if some of such administrative expenses are fixed. In later years, it can be expected that fixed expenses will exceed the available cash flow. Although reserve funds generally are established to cover such shortfalls, there can be no assurance that such reserves will be sufficient to cover such shortfalls. In addition, although each series of Mortgage Securities (other than FNMA 24 or FNMA 25) generally has an optional redemption provision that allows the Issuer thereof (in the case of FHLMC 17) or the Company (as the holder of the residual interest in the REMICs with respect to the other series of Mortgage Securities) to retire the remaining Classes that are subject to redemption or retirement after a certain date, there can be no assurance that the Issuer or the Company will exercise such options and, in any event, in a high interest rate environment the market value of the remaining Mortgage Instruments securing or underlying the Mortgage Securities may be less than the amount required to retire the remaining outstanding Classes. The Company may be liable for, or its return subject to, administrative expenses relating to a series of Mortgage Securities if reserves prove to be insufficient. Moreover, any unanticipated liability or expenses with respect to the Mortgage Securities could adversely affect Net Cash Flows.

Other Policies

Investment Company Act

The Company intends to operate in such a manner as not to be within the definition of investment company under the Investment Company Act of 1940. The Company may not invest in public entities similar to the Company and may not invest in securities of other issuers for the purpose of exercising control.

Hedging

The Company from time to time hedges its Mortgage Assets and indebtedness in whole or in part so as to provide protection from interest rate fluctuations or other market movements. With respect to assets, hedging can be used either to

increase the liquidity or decrease the risk of holding an asset by guaranteeing, in whole or in part, the price at which such asset may be disposed of prior to its maturity. With

respect to indebtedness, hedging can be used to limit, fix or cap the interest rate on variable interest rate indebtedness. The Company's hedging activities may include the purchase of interest rate cap agreements, the consummation of interest rate swaps, the purchase of Stripped Mortgage Securities, the maintenance of short positions in financial futures contracts, the purchase of put options on such contracts and the trading of forward contracts. For a description of the Company's current hedging activities and the costs associated therewith, see "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain of the federal income tax requirements that the Company has been required to satisfy to qualify as a REIT have limited its ability to hedge. See "Business -- Federal Income Tax Considerations -- Qualification of the Company as a REIT."

Capital Resources

Subject to the terms of the Company's Bylaws, the availability and cost of borrowings, various market conditions and restrictions that may be contained in the Company's financing arrangements from time to time and other factors as described herein, the Company may increase the amount of funds available for its activities with the proceeds of borrowings including borrowings under lines of credit, loan agreements, repurchase agreements and other credit facilities.

Subject to the foregoing, the Company's borrowings may bear fixed or variable interest rates, may require additional collateral in the event that the value of existing collateral declines on a market value basis and may be due on demand or upon the occurrence of certain events. Repurchase agreements are agreements pursuant to which the Company sells assets for cash and simultaneously agrees to repurchase such assets on a specified date for the same amount of cash plus an interest component. The Company also may increase the amount of funds available for investment through the issuance of debt securities (including Mortgage Securities). In general, the Company may make use of short-term borrowings to provide additional funds when it is able to borrow at interest rates lower than the yields expected to be earned on such funds. If borrowing costs are higher than the yields generated by such funds, the Company's ability to utilize borrowed funds may be substantially reduced and it may experience losses.

A substantial portion of the assets of the Company are pledged to secure indebtedness incurred by the Company. Accordingly, such assets will not be available for distribution to the stockholders of the Company in the event of the Company's liquidation except to the extent that the value of such assets exceeds the amount of such indebtedness.

On December 17, 1992, a wholly owned, limited-purpose subsidiary of the Company issued $31,000,000 of Secured Notes under an Indenture to several institutional investors. The Secured Notes bear interest at 7.81% per annum which is payable quarterly. Scheduled principal repayments were $1,532,000 per quarter during the first four quarters, $991,000 per quarter for the next 12 quarters, $901,000 per quarter for the next eight quarters and $721,000 per quarter thereafter through February 15, 2001.

The Secured Notes are secured by the Company's Mortgage Assets with respect to Westam 1, Westam 3, Westam 5, ASW 65, FNMA 1988-24 and FNMA 1988-25 and by a reserve fund in an initial amount of $3,100,000 with a specified maximum amount of $7,750,000. The reserve fund will be used to make the scheduled principal and interest payments on the Secured Notes if the cash flow available from the pledged Mortgage Assets is not sufficient to make the scheduled payments.

Under the Indenture, the cash flow from the Mortgage Assets pledged to secure the Secured Notes is used to make payments of interest and scheduled principal on the Secured Notes and to pay expenses in connection therewith. Any excess cash flow will be applied to prepay the Secured Notes at par or to increase the reserve fund up to its $7,750,000 maximum amount or will be remitted to the Company, in each case depending on the level of certain specified financial ratios set forth in the Indenture.

The Company used the proceeds from the issuance of the Secured Notes to repay a term loan, to repay its short-term borrowings under a repurchase agreement, to establish the reserve fund and for working capital.

Under a revolving line of credit agreement with a bank, the Company may borrow up to $5,000,000, upon payment of a 1/2 % commitment fee with interest payable monthly at prime plus 1/2 %. Such advances

are to be secured by certain of the Company's Real Estate Loans with the amount advanced equal to between 40% to 60% of the principal amount of the Real Estate Loans pledged. Only Real Estate Loans approved by the bank are eligible for advances. The agreement contains certain financial covenants and expires on May 5, 1996. Through December 31, 1995, the Company has not drawn upon the line of credit.

The Company in the future may increase its capital resources by making additional offerings of its Common Stock or securities convertible into Common Stock. The effect of such offerings may be the dilution of the equity of stockholders of the Company or the reduction of the market price of shares of the Company's Common Stock, or both. The Company is unable to estimate the amount, timing or nature of future sales of its Common Stock as such sales will depend upon the Company's need for additional funds, market conditions and other factors.

Employees

The Company currently has three full time salaried employees.

The Subcontract Agreement

The Company is a party to an amended Subcontract Agreement pursuant to which American Southwest Financial Group, L.L.C. ("ASFG"), as assignee of American Southwest Financial Services, Inc. ("ASFS") performs certain services for the Company in connection with the structuring, issuance and administration of Mortgage Securities issued by the Company or by any Issuer affiliated with ASFS with respect to which the Company acquires Mortgage Interests. Under the Subcontract Agreement, the Company will be charged for any series of CMOs an issuance fee of .1% of the principal amount for such series, generally subject to a minimum fee of $10,000 and a maximum fee of $100,000, and for any series of Pass-Through Certificates an issuance fee not to exceed .125% of the principal amount of such series. In addition, the Company will be charged an administration fee for each series of CMOs equal to a maximum of $20,000 per year and for any series of Pass-Through Certificates an administration fee equal to up to .025% of the amount of the series outstanding at the beginning of each year; provided that commencing February 1, 1996 the administrative fee with respect to ASW 65, Westam 1, Westam 3, Westam 5 and Westam 6, has been reduced from $20,000 per year to $16,250 per year.

The Subcontract Agreement had an initial term expiring on December 31, 1989 and continuing from year to year thereafter. The Company has the right to terminate the Subcontract Agreement upon the happening of certain specified events, including a breach by ASFG of any provision contained in the Subcontract Agreement. ASFG is a privately held Arizona limited liability company and indirectly owns up to 25% of the capital interest of the preferred members of ASFG. Alan D. Hamberlin directly or indirectly owns up to 25% of the Capital Interest held by the common members of ASFG.

Based on reports received by the Company from ASFG, ASFS received administration fees of $235,000 for the year ended December 31, 1991, $227,000 for the year ended December 31, 1992, $201,000 for the year ended December 31, 1993, $165,000 for the year ended December 31, 1994 and $144,000 for the year ended December 31, 1995.

Pursuant to the Subcontract Agreement, ASFS will not assume any responsibility other than to render the services called for therein. ASFS and its directors, officers, stockholders and employees will not be liable to the Company or any of its directors or stockholders for any acts or omissions by ASFS, its directors, officers, stockholders or employees under or in connection with the Subcontract Agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the Subcontract Agreement.

Special Considerations

Real Estate Loan Considerations

New Business Activity

The Company has been involved in making and acquiring Real Estate Loans since December 1993. Although officers of the Company have substantial real estate investment and real estate loan experience,

they have no prior experience in the management or operation of a company engaged primarily in making and acquiring such loans. The Company competes for acceptable Real Estate Loans with numerous other companies, many of which have greater resources and experience than the Company and its officers.

Real Estate Market Conditions

The Company's Real Estate Loan activities subject the Company to the risks generally incident to the ownership of and investment in real estate because of the impact of such risks on the ability of its borrowers' to repay their Real Estate Loans and the ability of the Company to resell, refinance or dispose of property following a foreclosure for an amount at least equal to its loan. These risks include general and local economic conditions; the investment climate for real estate investments; the demand for and supply of competing properties; local market conditions and neighborhood characteristics; unanticipated holding costs; the availability and cost of necessary utilities and services; real

estate tax rates and other operating expenses; governmental rules and fiscal policies, including rent, wage and price controls; zoning and other land use regulations; environmental controls; acts of God (which may result in uninsured losses); the treatment for federal and state income tax purposes of income derived from real estate; the levels of interest rates; the availability and cost of financing in connection with the purchase, sale or refinancing of properties; and other factors beyond the control of the Company. In recent years, the presence of hazardous substances or toxic waste has adversely affected real estate values in various areas of the country and resulted in the imposition of costs and damages to real estate owners and lenders. In addition, certain expenses related to properties, such as property taxes and insurance, tend to increase over time. These and other factors could result in an increase in the Company's cost of holding any real estate it acquires as a result of a foreclosure or adversely affect the terms and conditions upon which the Company may sell or refinance any properties held by it. In addition, all Real Estate Loans, including the Company's Real Estate Loans, are subject to loss resulting from the priority of real estate tax liens, mechanic's liens and materialman's liens. Therefore, the success of the Company will depend in part upon events beyond its control.

Lack of Geographic Diversification

Through December 31, 1995, the Company has made Real Estate Loans on real estate located only in Arizona. As a result of this geographic concentration, unfavorable economic conditions in Arizona could increase the likelihood of defaults on the Company's Real Estate Loans and affect the Company's ability to protect the principal of and interest on such loans following foreclosures upon the real properties securing such loans. The Company intends to continue to assess real estate lending opportunity in Arizona and other parts of the Southwest.

Concentration of Loan Amounts

The Company can be expected to make Real Estate Loans to a relatively small number of borrowers as a result of the amount of its funds available for lending activities. Therefore, the Company may be subject to increased risk to the extent that a single borrower defaults with respect to a loan constituting significant percentage of the Company's total Real Estate Loan portfolio.

Loans Secured by Unimproved Properties

The Company's Real Estate Loans generally are secured by deeds of trust, mortgages or other similar instruments on unimproved real property. A Real Estate Loan secured by unimproved real property involves a particularly high degree of risk since such property generally does not generate income other than as the result of a sale or refinancing, and the borrower's loan payments generally will be the Company's only source of cash flow on the property until a sale or refinancing. Accordingly, the Company will be subject to a greater risk of loss in the event of delinquency or default by a borrower on a Real Estate Loan secured by a deed of trust, mortgage or similar instrument on unimproved real property than if such Real Estate Loan were secured by a deed of trust, mortgage or similar instrument on improved real property.

Balloon Payments

The Company makes or acquires a significant number of Real Estate Loans that do not provide for the payment of all or any part of principal prior to maturity including all of its currently outstanding Real Estate Loans. The ability of a borrower to repay the outstanding principal amount of such a Real Estate Loan at maturity will depend primarily upon the borrower's ability to obtain, by refinancing, sale or other disposition of the property or otherwise, sufficient funds to pay the outstanding principal balance at a time when such funds may be difficult to obtain, with the result that the borrower may default on its obligation to repay the amount of the Real Estate Loan in accordance with the terms of the deed of trust, mortgage or other security instrument. In addition, a substantial reduction in the value of the property securing a Real Estate Loan could precipitate or otherwise result in the borrower's default. Any such default could result in a loss to the Company of all or part of the principal of or interest on such a Real Estate Loan.

Development and Construction Loans

The development and interim construction loans which the Company may make generally are expected to generate higher rates of return than other types of Real Estate Loans, but generally will entail greater risks. Such a loan will be subject to substantial risk because the ability of the borrower to complete or dispose of the project being developed or constructed on the underlying real estate and repay the loan may be affected by various factors including adverse changes in general economic conditions, interest rates, the availability of permanent mortgage funds, local conditions, such as excessive building resulting in an excess supply of real estate, a decrease in employment reducing the demand for real estate in the area, and the borrower's ability to control costs and to conform to plans, specifications and time schedules, which will depend upon the borrower's management and financial capabilities and which may also be affected

by strikes, adverse weather and other conditions beyond the borrower's control. Such contingencies and adverse factors could deplete the borrower's borrowed funds and working capital and could result in substantial deficiencies precluding compliance with specified conditions of commitments for permanent mortgage funds relied on as a primary source of repayment of the loan. In addition, in some jurisdictions, construction and development lenders, such as the Company, in certain circumstances, may be liable for defective construction. The possibility of such liability may be increased if, in addition to its loan, the Company is deemed to have an equity position in the developer or contractor or in the property being developed or improved. This, however, is not likely to be the case since the Company does not plan to make construction and development loans to affiliates.

Risk of Joint Ventures

The Company may enter into joint ventures, general partnerships and loan participations with third parties for the purpose of making or acquiring Real Estate Loans. Any such investments will be made consistently with the then existing Securities and Exchange Commission interpretations and case law respecting the applicability of the Investment Company Act of 1940, as amended (the "Investment Company Act"). Any such Real Estate Loans also will be subject to certain additional restrictions. See "Business -- Real Estate Loans -- Transactions with Affiliates and Joint Venture Investments." Joint ventures, general partnerships and loan participations involve the potential risk of impass on decision making in situations in which no single party fully controls the Real Estate Loan with the result that neither the Company nor any other party will be able to exercise full authority with respect to the

protection of the investment in the loan. In addition, although the Company or another party to the transaction often will have the right to purchase the interest of any other party in the Real Estate Loan, the party seeking to acquire the interest of another party may not have sufficient funds to do so.

Junior Loans

Although not currently contemplated, the Company in the future may make or acquire junior mortgage loans or wrap-around mortgage loans. A junior mortgage loan or a wrap-around mortgage loan generally entails greater risks than a first mortgage loan on the same property. In the event of default under a senior loan, the holder of a junior loan may be forced to cure the default on the senior loan in order to prevent the sale of the underlying property or to discharge the senior loan entirely by paying the entire amount of principal and interest then outstanding in the event of the acceleration of the senior loan. There can be no assurance that the Company will have sufficient funds to pay amounts owing on the related first loan to prevent default or to discharge the first loan entirely. If the Company decides to cure a default under a senior mortgage loan or purchases an underlying property at a foreclosure or trustee's sale, the Company will be subject to the risks of ownership of real property.

Sufficiency of Collateral

Many of the Company's Real Estate Loans are made on a nonrecourse basis. In such a case, the Company relies for its security solely on the value of the underlying real property and does not have any right to make any claims for repayment personally against the borrower. Other Real Estate Loans may be full recourse loans, may be secured by personal guarantees or may be secured by one or more items of real or personal property in addition to the property constituting the primary security for the Real Estate Loan. Nevertheless, the property constituting the primary security for a Real Estate Loan in most cases will be the primary source for repayment of the loan upon maturity or in the event of a default. The ability of the borrower to pay the outstanding balance of a Real Estate Loan (particularly a non- amortizing Real Estate Loan) on maturity will depend primarily upon the borrower's ability to obtain sufficient funds by refinancing, sale or other disposition of the property.

The risk of a Real Estate Loan will increase as the ratio of the amount of the loan to the value of the property securing such loan increases because the real property will possess less protective equity in the event of a default by the borrower. The principal amount of each Real Estate Loan, when added to the aggregate amount of any senior indebtedness outstanding on the property, generally will not exceed 95% of the Company's assessment of the value of the property at the time the loan is made or acquired. The Company will make an assessment of the loan-to-value ratio prior to making a Real Estate Loan. In making its assessment of the value of the real estate to secure a Real Estate Loan, the Company will review any available appraisals of the property by qualified appraisers, the purchase price of the property, recent sales of comparable properties, and other factors. The Company generally will rely on its own assessment of the value of a property rather than requiring a current appraisal. Although appraisals are estimates of value which should not be relied upon as measures of true worth or realizable value, neither the Company nor any of its officers are qualified real estate appraisers and the absence of an independent appraisal removes an independent estimate of value. There can be no assurance that the Company's estimated values will be comparable or bear any relation to the actual market value of a property or the amount that could be

realized upon the refinancing, sale or other disposition of the property. As a result, the amount realized in connection with the refinancing, sale or other disposition of the property by the buyer in the ordinary course of business by the Company or at or following a foreclosure sale may not equal the then outstanding balance of the related Real Estate Loan.

Remedies Upon Default by Borrower

Real Estate Loans are subject to the risk of default, in which event the Company would have the added responsibility of foreclosing and protecting its loans. See "Business -- Real Estate Loans -- Remedies Upon Default by Borrower" for a discussion of remedies in the event of default by a borrower with respect to a Real Estate Loan.

Effect of Interest Rate Fluctuations; Length of Maturity and Prepayment Provisions

The Company's Real Estate Loans generally are fixed-rate debt instruments of specified maturities, including all of the Company's currently outstanding Real Estate Loans. The economic value of an investment in the Company's shares may fluctuate to the extent that market rates of interest for similar Real Estate Loans of similar maturities exceed or fall below the Company's anticipated rate of return on investment on its Real Estate Loans.

Certain Real Estate Loans may be variable or adjustable-rate Real Estate Loans under which the interest rate will be based on the prime or other benchmark rate published by a designated institutional lender, and will be periodically adjusted as such prime or other benchmark rate is adjusted. The adjustability of the interest rate with respect to such Real Estate Loans generally will reduce the risk that the economic value of an investment in the Company's shares will decline in the event that market rates of interest for similar Real Estate Loans of similar maturities exceed the Company's initial return on investment. However, in the event of a general decline in such market rates of interest, such adjustability will result in a lowering of the the Company's return on investment, thereby lowering the economic value of an investment in the Company's shares.

The economic value of an investment in the Company's shares also may fluctuate as a result of the length of maturity and prepayment terms of its Real Estate Loans, depending in part upon whether funds to be received by the Company upon maturity of a Real Estate Loan or prepayment of all or a portion of the principal amount of a Real Estate Loan may be reinvested at interest rates higher or lower than the return on the original Real Estate Loan. A substantial number of the Real Estate Loans comprising the Company's portfolio can be expected to allow the borrower to prepay all or a portion of the principal amount at any time without penalty.

In some cases, the Company may attempt to obtain equity participations in connection with making Real Estate Loans designed to provide an increased return when such equity participations are deemed by management to be in the best interests of the Company. Such a participation can be expected to be in the form of additional interest based upon items such as gross receipts from the property securing the loan in excess of certain levels or appreciation in the value of the property on whose security the Company has made the Real Estate Loan based upon either sales price or increases in appraised value. There can be no assurance, however, that any Real Estate Loans will be structured in this manner or that any such loans will provide enhanced returns.

Interest Ceilings Under Usury Statutes

Interest on Real Estate Loans may be subject to state usury laws imposing maximum interest charges and possible penalties for violation, including restitution of excess interest and unenforceability of the debt. Uncertainty may exist in determining what constitutes interest, including, among other things, the treatment of loan commitment fees or other fees payable by the borrower under a Real Estate Loan. The Company does not intend to make Real Estate Loans with terms that may violate applicable state usury provisions. Nevertheless, uncertainties in determining the legality of rates of interest and other borrowing charges under some statutes may result in inadvertent violations.

Environmental Considerations

Real estate in general is subject to certain environmental risks arising from the location or site on which a project is built or from materials used in construction or stored on the property. Although the Company will use commercially reasonable efforts to become aware of any environmental problem with regard to any property before it makes a loan secured by that property, the occurrence of health problems or other dangerous conditions caused by work on the property may only become apparent after a lengthy period of time. Thus, there can be no assurance that environmental problems will not develop with respect to any property securing a Real Estate Loan. If hazardous substances are discovered on such properties or discovered to be emanating from any such properties, the owner of the property (including the Company) may be held strictly liable for all costs and liabilities relating to such hazardous

substances. This could negatively affect the Company's security in the Real Estate Loan.

In addition, the construction of improvements on such property may be adversely affected by regulatory, administrative or other procedures or by requirements by local, state or federal environmental agencies including matters relating to the clean up of hazardous or toxic substances. Such factors could impede the ability of the borrower to obtain permits and approvals for a project or result in the inability to develop or use the property.

Risks of Leverage

The Company may utilize a line of credit or other financing from a financial institution to increase the amount of the Real Estate Loans that it is able to make or acquire and to increase its potential returns. The Company also may incur indebtedness in order to meet expenses of holding any property on which the Company has theretofore made a Real Estate Loan and has subsequently taken over the operation of the underlying property as a result of default or to protect a Real Estate Loan. In addition, the Company may incur indebtedness in order to complete development of a property on which the Company has theretofore made a development or land loan and has subsequently taken over the operation of the underlying property as a result of default. The Company also may utilize a line of credit in order to prevent default under senior loans or to discharge them entirely if this becomes necessary to protect the Company's Real Estate Loans. Such borrowing may be required if foreclosure proceedings are instituted by the holder of a mortgage loan that is senior to that held by the Company. In addition, any such line of credit in all likelihood will require periodic renewals, and no assurance can be given that such renewals will always be approved. In the event that any portion of an outstanding line of credit is not renewed, the Company will be required to reevaluate its reserve requirements and review its portfolio for possible disposition of Real Estate Loans. See "Business -- Real Estate Loans -- Borrowing Policies" for a description of the Company's current bank line of credit.

The amount and terms and conditions of any line of credit will affect the profitability of the Company and the funds that will be available to satisfy its obligations. Interest will be payable on a line of credit regardless of the profitability of the Company. The Company's ability to increase its return through borrowings will depend in part upon the Company's ability to generate income from its borrowed funds based upon the difference between the Company's return on investment from such borrowed funds and the interest rate charged by its lender for the funds. Adverse economic conditions could increase defaults by borrowers on the Real Estate Loans and could impact the Company's ability to make its loan payments to its lenders. Adverse economic conditions also could increase the Company's borrowing costs and cause the terms on which funds become available to be unfavorable. In such circumstances, the Company could be required to liquidate some of its loans at a significant loss.

Competition for Real Estate Loans

The Company may encounter significant competition in making or acquiring Real Estate Loans from banks, insurance companies, savings and loan associations, mortgage bankers, pension funds, real estate investment trusts, investment partnerships, investment bankers and other investors that have been or may be formed with objectives similar to those of the Company. An increase in the availability of mortgage funds may increase competition for making and acquiring Real Estate Loans and may reduce the yields available thereon.

Lack of Suitable Loans

The Company will attempt to make or acquire Real Estate Loans which will produce returns sufficient to allow the Company to satisfy its objectives. However, there is no assurance that interest rates will be such that the Company will be able to make or acquire Real Estate Loans that will provide a satisfactory return on investment or that any Real Estate Loans will be available which meet all of the Company's investment criteria.

Uninsured Losses

Some, but likely not all, of the Real Estate Loans made or acquired by the Company will require that the borrower carry general public liability insurance for claims arising on or about the real property in

suitable amounts as determined by the Company. To the extent that a borrower incurs uninsured liabilities or liabilities in excess of the applicable coverage, such liabilities may adversely affect the borrower's ability to repay the Real Estate Loan.

Enforceability of Loan Documents

The Company will attempt to determine that the instruments relating to each Real Estate Loan and the underlying real property will be legal, valid, binding and enforceable. However, there can be no assurance of such enforceability in

all instances, and the unenforceability of any such instruments could result in a complete or partial loss of the principal of or interest on a Real Estate Loan. The Company will have the power to waive certain fees and penalties in connection with a default or late payments with respect to a Real Estate Loan should the Company be advised that provisions governing such fees and penalties may not be enforceable.

Mortgage Asset Considerations

General

The results of the Company's operations depend, among other things, on the level of Net Cash Flows generated by the Company's Mortgage Assets. The Company's Net Cash Flows vary primarily as a result of changes in mortgage prepayment rates, short-term interest rates, reinvestment income and borrowing costs, all of which involve various risks and uncertainties as set forth below. Prepayment rates, interest rates, reinvestment income and borrowing costs depend upon the nature and terms of the Mortgage Assets, the geographic location of the properties securing the mortgage loans included in or underlying the Mortgage Assets, conditions in financial markets, the fiscal and monetary policies of the United States Government and the Board of Governors of the Federal Reserve System, international economic and financial conditions, competition and other factors, none of which can be predicted with any certainty.

The rates of return to the Company on its Mortgage Assets will be based upon the levels of prepayments on the mortgage loans included in or underlying such Mortgage Instruments, the rates of interest or pass-through rates on such Mortgage Securities that bear variable interest or pass-through rates, and rates of reinvestment income and expenses with respect to such Mortgage Securities.

Prepayment Risks

Mortgage prepayment rates vary from time to time and may cause declines in the amount and duration of the Company's Net Cash Flows. Prepayments of fixed-rate mortgage loans included in or underlying Mortgage Instruments generally increase when then current mortgage interest rates fall below the interest rates on the fixed-rate mortgage loans included in or underlying such Mortgage Instruments. Conversely, prepayments of such mortgage loans generally decrease when then current mortgage interest rates exceed the interest rates on the mortgage loans included in or underlying such Mortgage Instruments. See "Business -- Special Considerations -- Mortgage Asset Considerations -- Interest Rate Fluctuation Risks." Prepayment experience also may be affected by the geographic location of the mortgage loans included in or underlying Mortgage Instruments, the types (whether fixed or adjustable rate) and assumability of such mortgage loans, conditions in the mortgage loan, housing and financial markets, and general economic conditions.

In general, without regard to the interest or pass-through rates payable on classes of a series of Mortgage Securities, prepayments on Mortgage Instruments bearing a net interest rate higher than or equal to the highest interest rate on the series of Mortgage Securities secured by or representing interests in such Mortgage Instruments ("Premium Mortgage Instruments") will have a negative impact on the Net Cash Flows of the Company because such principal payments eliminate or reduce the principal balance of the Premium Mortgage Instruments upon which premium interest was earned.

Net Cash Flows on Mortgage Instruments securing or underlying a series of Mortgage Securities also tend to decline over the life of such Mortgage Securities because the classes of such Mortgage Securities with earlier stated maturities or final payment dates tend to have lower interest rates. In addition, because an important component of the Net Cash Flows on Mortgage Instruments securing or underlying a series

of Mortgage Securities derives from the spread between the weighted average interest rate on such Mortgage Instruments and the weighted average interest or pass-through rate on the outstanding amount of such Mortgage Securities, a given volume of prepayments concentrated during the early life of a series of Mortgage Securities reduces the weighted average lives of the earlier maturing classes of such Mortgage Securities bearing lower interest or pass-through rates. Thus, an early concentration of prepayments generally has a greater negative impact on the Net Cash Flows of the Company than the same volume of prepayments at a later date.

Mortgage prepayments also shorten the life of the Mortgage Instruments securing or underlying Mortgage Securities, thereby generally reducing overall Net Cash Flows as described under "Business -- Special Considerations -- Mortgage Asset Considerations -- Decline in Net Cash Flows from Mortgage Assets."

No assurance can be given as to the actual prepayment rate of mortgage loans included in or underlying the Mortgage Instruments in which the Company has an interest.

Interest Rate Fluctuation Risks

Changes in interest rates affect the performance of the Company and its Mortgage Assets. A portion of the Mortgage Securities secured by the Company's Mortgage Instruments and a portion of the Mortgage Securities with respect to which the Company holds Mortgage Interests bear variable interest or pass-through rates based on short-term interest rates (primarily LIBOR). As of December 31, 1995, $40,977,000 of the $308,381,000 of the Company's proportionate share of Outstanding Mortgage Securities associated with the Company's Mortgage Assets consisted of variable interest rate Mortgage Securities. Consequently, changes in short-term interest rates significantly influence the Company's Net Cash Flows.

Increases in short-term interest rates increase the interest cost on variable rate Mortgage Securities and, thus, tend to decrease the Company's Net Cash Flows. Conversely, decreases in short-term interest rates decrease the interest cost on the variable rate Mortgage Securities and, thus, tend to increase the Company's Net Cash Flows. As stated above, increases in mortgage interest rates generally tend to increase the Company's Net Cash Flows by reducing mortgage prepayments, and decreases in mortgage interest rates generally tend to decrease the Company's Net Cash Flows by increasing mortgage prepayments. Therefore, the negative impact on the Company's Net Cash Flows of an increase in short-term interest rates generally will be offset in whole or in part by a corresponding increase in mortgage interest rates while the positive impact on the Company's Net Cash Flows of a decrease in short-term interest rates generally will be offset in whole or in part by a corresponding decrease in mortgage interest rates. See "Business -- Special Considerations -- Mortgage Asset Considerations - -- Prepayment Risks." However, although short-term interest rates and mortgage interest rates normally change in the same direction and therefore generally offset each other as described above, they may not change proportionally or may even change in opposite directions during a given period of time with the result that the adverse effect from an increase in short-term interest rates may not be offset to a significant extent by a favorable effect on prepayment experience and visa versa. Thus, the net effect of changes in short-term and mortgage interest rates may vary significantly between periods resulting in significant fluctuations in Net Cash Flows.

Changes in interest rates also affect the Company's reinvestment income. See "Business -- Special Considerations -- Mortgage Asset Considerations -- Reinvestment Income and Expense Risks." Changes in interest rates after the Company acquires Mortgage Assets can result in a reduction in the value of such Mortgage Assets and could result in losses in the event of a sale.

The Company from time to time utilizes hedging techniques to mitigate against fluctuations in market interest rates. However, no hedging strategy can completely insulate the Company from such risks, and certain of the federal income tax requirements that the Company has been required to satisfy to qualify as a REIT have severely limited the Company's ability to hedge. Even hedging strategies permitted by the federal income tax laws could result in hedging income which, if excessive, could result in the Company's disqualification as a REIT for failing to satisfy certain REIT income tests. See "Business -- Federal

Income Tax Considerations -- Qualification of the Company as a REIT." In addition, hedging involves transaction costs, and such costs increase dramatically as the period covered by the hedging protection increases. Therefore, the Company may be prevented from effectively hedging its investments. See "Business -- Hedging."

No assurances can be given as to the amount or timing of changes in interest rates or their effect on the Company's Mortgage Assets or income therefrom.

Reinvestment Income and Expense Risks

In the event that actual reinvestment rates decrease over the term of a series of Mortgage Securities, reinvestment income will be reduced, which in turn will adversely affect the Company's Net Cash Flows. The Company also may be liable for or its return may be subject to the expenses relating to such Mortgage Securities including administrative, trustee, legal and accounting costs and, in certain cases, for any liabilities under indemnifications granted to the underwriters, trustees or other Issuers. These expenses are used in projecting Net Cash Flows; however, to the extent that these expenses are greater than those assumed, such Net Cash Flows will be adversely affected. Moreover, in later years, Mortgage Instruments securing or underlying a series of Mortgage Securities may not generate sufficient cash flows to pay all of the expenses incident to such Mortgage Securities. Although reserve funds generally are established to cover such future expenses, there can be no assurance that such reserves will be sufficient.

No assurance can be given as to the actual reinvestment rates or the actual expenses incurred with respect to such Mortgage Securities.

Borrowing Risks

Subject to the terms of the Company's Bylaws, the availability and cost of

borrowings, various market conditions, restrictions that may be contained in the Company's financing arrangements from time to time and other factors, the Company may increase the amount of funds available to it with funds from borrowings including borrowings under loan agreements, repurchase agreements and other credit facilities. The Company's borrowings to date generally have been secured by Mortgage Assets owned by the Company. Any borrowings may bear fixed or variable interest rates, may require additional collateral in the event that the value of existing collateral declines on a market value basis and may be due on demand or upon the occurrence of certain events. To the extent that borrowings bear variable interest rates, changes in short-term interest rates will significantly influence the cost of such borrowings and could result in losses in certain circumstances. See "Business -- Special Considerations -- Mortgage Asset Considerations -- Interest Rate Fluctuation Risks." The Company also may increase the amount of its available funds through the issuance of debt securities.

If the Company pledges Mortgage Assets to secure borrowed funds and the cost of such borrowings increases to the extent that such cost exceeds the Net Cash Flows on such Mortgage Assets, such an increase would reduce Net Cash Flows and could result in losses in certain circumstances. No assurance can be given as to the cost or availability of any such borrowings which the Company may determine to incur. As of December 31, 1995, the Company's long-term debt represented by its Secured Notes (as described herein) totalled $7,819,000 or 42.38% of stockholders' equity.

No assurance can be given as to the actual effect of borrowings by the Company.

Inability to Predict Effects of Market Risks

Because none of the above factors including changes in prepayment rates, interest rates, reinvestment income, expenses and borrowing costs are susceptible to accurate projection, the Net Cash Flows generated by the Company's Mortgage Assets cannot be predicted.

Decline in Net Cash Flows from Mortgage Assets

The Company derives income from the Net Cash Flows received on its Mortgage Assets. The rights to receive such Net Cash Flows ("Net Cash Flow Interests") result from the Company's ownership of Mortgage Instruments and Mortgage Interests with respect to Mortgage Instruments. Because the Company's Net Cash Flows derive principally from the difference between the cash flows on the Mortgage

Instruments underlying Mortgage Securities and the required cash payments on the Mortgage Securities, Net Cash Flows are the greatest in the years immediately following the purchase of Mortgage Assets and decline over time unless the Company reinvests its Net Cash Flows in additional Mortgage Assets which it currently does not contemplate. This decline in Net Cash Flows over time occurs as (i) interest rates on Mortgage Securities classes receiving principal payments first generally are lower than those on later classes thus effectively increasing the relative interest cost of the Mortgage Securities over time and (ii) mortgage prepayments on Mortgage Instruments with higher interest rates tend to be higher than on those with lower interest rates thus effectively lowering the relative interest income on the Mortgage Instruments over time.

Pledged Assets

Substantially all of the Company's Mortgage Assets and the Net Cash Flows therefrom currently are and in the future can be expected to be pledged to secure or underlie Mortgage Securities, bank borrowings, repurchase agreements or other credit arrangements. Therefore, such Mortgage Assets and Net Cash Flows will not be available to the stockholders in the event of the liquidation of the Company except to the extent that the market value thereof exceeds the amounts due to the senior creditors. However, the market value of the Mortgage Assets is uncertain because the market for Mortgage Assets of the type owned by the Company is not well developed and fluctuates rapidly as the result of numerous market factors (including interest rates and prepayment rates) as well as the supply of and demand for such assets. In addition, the Company may pledge its Real Estate Loans in the future to secure any indebtedness that it may incur.

Market Price of Common Stock

The market price of the Company's Common Stock has been and may be expected to continue to be extremely sensitive to a wide variety of factors including the Company's operating results, dividend payments (if any), actual or perceived changes in short-term and mortgage interest rates and their relationship to each other, actual or perceived changes in mortgage prepayment rates, and any variation between the net yield on the Company's Mortgage Assets and prevailing market interest rates. Any actual or perceived unfavorable changes in the Company's operating results, or other factors resulting from the circumstances described herein or other circumstances, may adversely affect the market price of the Company's Common Stock.

Future Offerings of Common Stock

The Company in the future may increase its capital resources by making additional offerings of its Common Stock or securities convertible into its Common Stock. The actual or perceived effect of such offerings may be the dilution of the book value or earnings per share of the Company's Common Stock which may result in the reduction of the market price of the Company's Common Stock. The Company is unable to estimate the amount, timing or nature of future sales of its Common Stock as such sales will depend upon market conditions and other factors such as its need for additional equity, its ability to apply or invest the proceeds of such sales of its Common Stock, the terms upon which its Common Stock could be sold, and any restrictions on its ability to sell its Common Stock contained in any credit facility or other agreements.

Potential Conflicts of Interest

The Company's Articles of Incorporation limit the liability of its directors and officers to the Company and its stockholders to the fullest extent permitted by Maryland law, and both the Company's Articles and Bylaws provide for indemnification of the directors and officers to such extent. See "Directors and Executive Officers of Registrant." In addition, the Subcontract Agreement limits the responsibilities of ASFS and provides for the indemnification of ASFS, its affiliates and their directors and officers against various liabilities. See "Business -- The Subcontract Agreement."

Certain Consequences of REIT Status

The Company is considering making an election to not be taxed as a REIT for federal income tax purposes. See "Business -- Introduction." To the extent the Company maintains its qualification as a

REIT for federal income tax purposes, the Company must continually satisfy certain tests with respect to the sources of its income, the nature and diversification of its assets, the amount of its distributions to stockholders and the ownership of its stock. See "Business -- Federal Income Tax Considerations -- Status of the Company as a REIT" and "Qualification of the Company as a REIT." Among other things, these restrictions may limit the Company's ability to acquire certain types of assets that it otherwise would consider desirable, limit the ability of the Company to dispose of assets that it has held for less than four years if the disposition would result in gains exceeding specified amounts, limit the ability of the Company to engage in hedging transactions that could result in income exceeding specified amounts, and require the Company to make distributions to its stockholders at times that the Company may deem it more advantageous to utilize the funds available for distribution for other corporate purposes (such as the purchase of additional assets or the repayment of debt) or at times that the Company may not have funds readily available for distribution.

The Company's operations from time to time may generate taxable income in excess of its net income for financial reporting purposes. The Company also may experience a situation in which its taxable income is in excess of the actual receipt of Net Cash Flows. See "Business -- Federal Income Tax Considerations -- Activities of the Company." To the extent that the Company does not otherwise have funds available, either situation may result in the Company's inability to distribute substantially all of its taxable income as required to maintain its REIT status. See "Business -- Federal Income Tax Considerations." The Company may be required to borrow funds to make the required distributions which could have the effect of reducing the yield to its stockholders, to sell a portion of its assets at times or for amounts that are not advantageous, or to distribute amounts that represent a return of capital which would reduce the equity of the Company. Currently, the Company has net operating losses ("NOL") and is allowed to offset those losses against most current taxable income. Thus, until the NOL has been used, the Company generally will not have to make dividend distributions.

If the Company should not qualify as a REIT in any tax year, whether voluntarily or involuntarily, it would be taxed as a regular domestic corporation and, among other consequences, distributions to the Company's stockholders would not be deductible by the Company in computing its taxable income provided it had any taxable income after application of its NOL. Any such tax liability would reduce the amount of cash available for distributions to the Company's stockholders. See "Business -- Federal Income Tax Considerations." In addition, the unremedied failure of the Company to be treated as a REIT for any one year would disqualify the Company from being treated as a REIT for the four subsequent years. During any period that the Company was not a REIT, there would be no federal income tax restrictions on its activities.

Excess Inclusions

The portion of any dividends paid by the Company and characterized as "excess inclusions" constitutes unrelated business taxable income to certain otherwise tax-exempt stockholders, will constitute a floor for the taxable income of stockholders not exempt from tax, and will not be eligible for any reduction (by

treaty or otherwise) in the rate of income tax withholding in the case of nonresident alien stockholders. See "Business -- Federal Income Tax Considerations -- Tax Consequences of Common Stock Ownership -- Excess Inclusion Rule."

Marketability Of Shares Of Common Stock And Restrictions On Ownership

The Company's Articles of Incorporation prohibit ownership of its Common Stock by tax-exempt entities that are not subject to tax on unrelated business taxable income and by certain other persons (collectively "Disqualified Organizations"). Such restrictions on ownership exist so as to avoid imposition of a tax on a portion of the Company's income from excess inclusions.

Provisions of the Company's Articles of Incorporation also are designed to prevent concentrated ownership of the Company which might jeopardize its qualification as a REIT under the Code if the Company continues its REIT election as well as its tax loss carryforward. Among other things, these provisions provide (i) that any acquisition of shares that would result in the disqualification of the Company as a REIT under the Code will be void, and (ii) that in the event any person acquires, owns or

is deemed, by operation of certain attribution rules set out in the Code, to own a number of shares in excess of 9.8% of the outstanding shares of the Company's Common Stock ("Excess Shares"), the Board of Directors, at its discretion, may redeem the Excess Shares. In addition, the Company may refuse to effectuate any transfer of Excess Shares and certain stockholders, and proposed transferees of shares, may be required to file an affidavit with the Company setting forth certain information relating, generally, to their ownership of the Company's Common Stock. These provisions may inhibit market activity and the resulting opportunity for the Company's stockholders to receive a premium for their shares that might otherwise exist if any person were to attempt to assemble a block of shares of the Company's Common Stock in excess of the number of shares permitted under the Articles of Incorporation. Such provisions also may make the Company an unsuitable investment vehicle for any person seeking to obtain (either alone or with others as a group) ownership of more than 9.8% of the outstanding shares of Common Stock. Investors seeking to acquire substantial holdings in the Company should be aware that this ownership limitation may be exceeded by a stockholder without any action on such stockholder's part in the event of a reduction in the number of outstanding shares of the Company's Common Stock.

On December 13, 1993, the Board of Directors approved the adoption of a program to repurchase up to 2,000,000 shares of the Company's Common Stock in open market conditions. The decision to repurchase shares pursuant to the program, and the timing and amount of such purchases, will be based upon market conditions then in effect and other corporate considerations. Through December 31, 1995, 15,200 shares of Common Stock have been repurchased under such program.

Investment Consequences of Exemption from Investment Company Act

The Company conducts its business so as not to become regulated as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). Accordingly, the Company does not expect to be subject to the restrictive provisions of the Investment Company Act. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." Under current interpretations of the staff of the Securities and Exchange Commission, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Real Estate Loans, Mortgage Loans, certain Mortgage Certificates and certain other qualifying interests in real estate. The Company's ownership of certain Mortgage Assets therefore may be limited by the Investment Company Act. In addition, certain Mortgage Certificates may be treated as securities separate from the underlying Mortgage Loans and, thus, may not qualify as "mortgages and other liens on and interests in real estate" for purposes of the 55% requirement, unless such Mortgage Certificates represent all the certificates issued with respect to an underlying pool of mortgages. If the Company failed to qualify for exemption from registration as an investment company, its ability to use investment leverage would be substantially reduced, it would be prohibited from engaging in certain transactions with affiliates, and it would be unable to conduct its business as described herein. Such a failure to qualify could have a material adverse effect on the Company.

Federal Income Tax Considerations

Qualification of The Company as a REIT

General

The Company has made an election to be treated as a real estate investment trust ("REIT"). Thus, if the Company satisfies certain tests in each taxable year with respect to the nature of its income, assets, share ownership and the amount of its distributions, among other things, it generally should not be subject to tax at the corporate level on its income to the extent that it

distributes cash in the amount of such income to its stockholders.

Generally, the unremedied failure of the Company to be treated as a REIT for any taxable year could materially and adversely affect the stockholders as net income of the Company would be taxed at ordinary

corporate rate (currently a maximum of 34 percent), and the Company would not receive a deduction for any dividends to the stockholders and thus cause a material reduction of the cash available for distribution to the stockholders as dividends.

In order to maintain its qualification as a REIT for federal income tax purposes, the Company must continually satisfy certain tests with respect to the sources of its income, the nature and diversification of its assets, the amount of its distributions, and the ownership of the Company. The following is a summary discussion of those various tests.

Sources of Income

The Company must satisfy three separate income tests for each taxable year with respect to which it intends to qualify as a REIT: (i) the 75% income test; (ii) the 95% income test; and (iii) the 30% income test.

Under the first test, at least 75% of the Company's gross income for the taxable year must be derived from certain qualifying real estate related sources. The 95% income test requires that at least 95% of the Company's gross income for the taxable year must be derived from the items of income that either qualify under the 75% test or are from certain other types of passive investments. Finally, the 30% income test requires the Company to derive less than 30% of its gross income for the taxable year from the sale or other disposition of (1) real property, including interests in real property and interests in mortgages on real property, held for less than four years, other than foreclosure property or property involuntarily converted through destruction, condemnation or similar events, (2) stock or securities or swap agreements held for less than one year, and (3) property in "prohibited transactions." A prohibited transaction is a sale or disposition of dealer property that is not foreclosure property or, under certain circumstances, a real estate asset held for at least four years.

If the Company inadvertently fails to satisfy either the 75% income test or the 95% income test, or both, and if the Company's failure to satisfy either or both tests is due to reasonable cause and not willful neglect, the Company may avoid loss of REIT status by satisfying certain reporting requirements and paying a tax equal to 100% of any excess nonqualifying income. See "Business -- Federal Income Tax considerations -- Taxation of the Company." There is no comparable safeguard that could protect against REIT disqualification as a result of the Company's failure to satisfy the 30% income test.

For so long as the Company intends to maintain its REIT election, the Company anticipates that its gross income will continue to consist principally of the income that satisfies the 75% income test. The composition and sources of the Company income should allow the Company to satisfy the income tests during each year of its existence. Certain short-term reinvestments, however, may generate qualifying income for purposes of the 95% income test but nonqualifying income for purposes of the 75% income test, and certain hedging transactions could give rise to income that, if excessive, could result in the Company's disqualification as a REIT for failing to satisfy the 30% income test, the 75% income test, and/or the 95% income test. The company intends to monitor its reinvestments and hedging transactions closely to attempt to avoid disqualification as a REIT.

Nature and Diversification of Assets

At the end of each quarter of the Company's taxable year, at least 75% of the value of the Company's assets must be cash and cash items (including receivables), federal government securities and qualifying real estate assets. Qualifying real estate assets include interests in real property and mortgages, equity interests in other REITs, any stock or debt instrument for so long as the income therefrom is qualified temporary investment income and, subject to certain limitations, interests in REMICs. The balance of the Company's assets may be invested without restriction, except that holdings of the securities of any one non-governmental issuer may not exceed 5% of the value of the Company's assets or 10% of the outstanding voting securities of that issuer.

If the Company fails to satisfy the 75% asset test at the end of any quarter of its taxable year as a result of its acquisition of securities or other property during that quarter, the failure can be cured by a disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. The Company will take such action as may be required to cure any failure to satisfy the 75% asset test within 30 days after

the close of any quarter The Company may not be able to cure any failure to satisfy the 75% asset test, however, if assets that the Company believes are

qualifying assets for purposes of the 75% asset test are later determined to be nonqualifying assets.

Distributions

Each taxable year, the Company must distribute as dividends to its stockholders an amount at least equal to (i) 95% of its REIT taxable income (determined before the deduction of dividends paid and excluding any net capital gain) plus (ii) 95% of the excess of its net income from foreclosure property over the tax imposed on such income by the Code, less (iii) any excess noncash income (as determined under the Code).

Generally, a distribution must be made in the taxable year to which it relates. A portion of the required distribution, however, may be made in the following year if certain guidelines are followed. Further, if the Company fails to meet the 95% distribution requirement as a result of an adjustment to the Company's tax returns by the Internal Revenue Service ("IRS"), the Company may, if the deficiency is not due to fraud with intent to evade tax or a willful failure to file a timely tax return, retroactively cure the failure by paying a deficiency dividend to stockholders and certain interest and penalties to the IRS. The Company intends to make distributions to its stockholders on a basis that will allow the Company to satisfy the distribution requirement. In certain instances, however, the Company's pre-distribution taxable income may exceed its cash flow and the Company may have difficulty satisfying the distribution requirement. The Company intends to monitor closely the relationship between its pre-distribution taxable income and its cash flow. It is possible, although unlikely, that the Company may decide to terminate its REIT status as a result of any such cash shortfall. Such a termination would have adverse consequences to the stockholders. See "Business -- Federal Income Tax considerations -- Status of the Company as a REIT."

The Company has a net operating loss carryforward for income taxes (the "NOL"). Under REIT tax rules, the Company is allowed to offset taxable income (except for Excess Inclusion Income) by the available NOL and thus, under most circumstances, is not currently required to make distributions to stockholders except for Excess Inclusion Income.

Ownership of the Company

Shares of the Company's Common Stock must be held by a minimum of 100 persons for at least 335 days in each taxable year after the Company's first taxable year. Further, at no time during the second half of any taxable year after the Company's first taxable year may more than 50% of the Company's shares be owned, actually or constructively, by five or fewer individuals. To evidence compliance with these requirements, the Company is required to maintain records that disclose the actual ownership of its outstanding shares. Each year, in order to satisfy that requirement, the Company will demand written statements from record holders owning designated percentages of Common Stock disclosing, among other things, the identities of the actual owners of such shares. The Company's Articles of Incorporation contain repurchase provisions and transfer restrictions designed to prevent violation of the latter requirement. Therefore, the Company believes that its shares of Common Stock currently are owned by a sufficient number of unrelated persons to allow the Company to satisfy the ownership requirements for REIT qualification.

Taxation of the Company

For any taxable year in which the Company qualifies and elects to be treated as a REIT under the Code, it generally will not be subject to federal income tax on that portion of its taxable income that is distributed to its stockholders in or with respect to that year. Regardless of distributions to stockholders, however, the Company may become subject to a tax on certain types of income.

The Company uses the calendar year both for tax purposes and for financial reporting purposes. Due to the differences between tax accounting rules and generally accepted accounting principles, the Company's REIT Taxable Income will vary from its net income for financial reporting purposes.

Tax Consequences of Common Stock Ownership

The federal income tax consequences of ownership in the Company's common is a complex matter and may vary depending on the income tax status of the stockholder. Accordingly, the following discussion is intended to be general in nature. Stockholders should consult their own tax advisors regarding the income tax considerations with respect to their investments in the Company.

Dividend Income

Distributions to stockholders out of the Company's current or accumulated earnings and profits will be taxable as "portfolio income" in October, November or December of any calendar year and payable to stockholders of record as of a specified date prior to the end of the year, however, that dividend will be deemed to have been received by the stockholder on December 31 if the dividend is actually paid in January of the following calendar year.

The Company's dividends will not be eligible for the dividends-received deduction for corporations. If the Company's total distributions for a taxable year exceed its current and accumulated earnings and profits, a portion of each distribution will be treated first as a return of capital, reducing a stockholder's basis in his shares (but not below zero), and then as capital gain in the event such distributions are in excess of a stockholder's adjusted basis in his shares.

Distributions properly designated by the Company as "capital gain dividends" will be taxable to the stockholders as long-term capital gain, to the extent those dividends do not exceed the Company's actual net capital gain for the taxable year, without regard to the stockholder's holding period for his shares. The Company will notify stockholders after the close of its taxable year regarding the portions of the distributions that constitute ordinary income, return of capital and capital gain. The Company also will notify shareholders regarding their reported share of excess inclusion income. See "Excess Inclusion Rule" below.

Excess Inclusion Rule

Ownership by the Company of residual interests in REMICs may adversely affect the federal income taxation of the Company and of certain stockholders to the extent those residual interests generate "excess inclusion income." The Company's excess inclusion income during a calendar quarter generally will equal the excess of its taxable income from residual interests in REMICs over its "daily accruals" with respect to those residual interests for the calendar quarter. The daily accruals are calculated by multiplying the adjusted issue price of the residual interest by 120 percent of the long-term federal interest rate in effect on the REMICs startup date. It is possible that the Company will have excess inclusion income without associated cash. In taxable years in which the Company has both a net operating loss and excess inclusion income it will still have to report a minimum amount of taxable income equal to its excess inclusion income. In order to maintain its REIT status, the Company will be required to distribute at least 95 percent of its taxable income, even if its taxable income is comprised exclusively of excess inclusion income and otherwise has a net operating loss.

In general, each stockholder is required to treat the stockholder's allocable share of the portion of the Company's "excess inclusions" that is not taxable to the Company as an "excess inclusion" received by such stockholder. The portion of the Company's dividends that constitute excess inclusions typically will rise as the degree of leveraging of the Company's activities increase. Therefore, all or a portion of the dividends received by the stockholders may be excess inclusion income. Excess inclusion income will constitute unrelated business taxable income for tax-exempt entities and may not be used to offset deductions or net operating losses from other sources for most other taxpayers.

Tax-Exempt Organizations as Stockholders

The Code requires a tax-exempt stockholder of the Company to treat as unrelated business taxable income its allocable share of the Company's excess inclusions. The Company is likely to receive excess inclusion income. See "Excess Inclusion Rule," above. The Company's Common Stock may not be held by tax-exempt entities which are not subject to tax on unrelated business taxable income.

Taxation of Foreign Stockholders

Distributions of cash generated by the Company in its operations that are paid to foreign persons generally will be subject to United States withholding tax rate at a rate of 30 percent or at a lower rate if a foreign person can claim the benefit of a tax treaty. Notwithstanding the foregoing, distributions made to foreign stockholders will not be subject to treaty withholding reductions to the extent of their allocable shares of the portion of the Company's excess inclusions that are not taxable to the Company for the period under review. It is expected that the company will continue to have excess inclusions. Distributions to foreign persons of cash attributable to gain on the Company's sale or exchange of real properties, if any, generally will be subject to full United States taxation and withholding. If a foreign person holds more than five percent of the shares of the Company, gain from the sale of the person's shares could be subject to full United States taxation if the Company held any real property interests and was not a domestically controlled REIT.

The federal income taxation of foreign persons is a highly complex matter that may be affected by many considerations. Accordingly, foreign investors in the Company should consult their own tax advisors regarding the income and withholding tax considerations with respect to their investments in the Company. Foreign governments and organizations, and their instrumentalities, may not invest in the Company.

Backup Withholding

The Company is required by the Code to withhold from dividends 20% of the

amount paid to stockholders, unless the stockholder (i) files a correct taxpayer identification number with the Company, (ii) certifies as to no loss of exemption from backup withholding and (iii) otherwise complies with the applicable requirements of the backup withholding rules. The Company will report to its stockholders and the IRS the amount of dividends paid during each calendar year and the amount of tax withheld, if any. Stockholders should consult their tax advisors as to the procedure for insuring that the Company dividends to them will not be subject to backup withholding.

State and Local Taxes

The discussion herein concerns only the federal income tax treatment likely to be accorded the Company and its stockholders. No discussion has been provided regarding the state or local tax treatment of the Company and its stockholders. The state and local tax treatment may not conform to the federal income tax treatment described above and each investor should discuss such issues with his state and local tax advisor.

ITEM 2. PROPERTIES

The principal executive offices of the Company are located at 5333 North Seventh Street, Suite 219, Phoenix, Arizona 85014, telephone (602) 265-8541.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

Not Applicable.

PART II

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

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "HPX." The high and low sales prices of shares of the Common Stock on the New York Stock Exchange and the dividends per share paid by the Company for the periods indicated were as follows:

	High	Low	Dividends Per Share
1995			
First quarter	$1 3/4	$1	$ 0
Second quarter ...	2 1/8	1 1/4	0
Third quarter	2 1/8	1 1/2	0
Fourth quarter ...	1 7/8	1 3/8	.03
1994			
First quarter	1 1/2	1	0
Second quarter ...	1 1/2	1	0
Third quarter	1 1/2	1	0
Fourth quarter ...	1 3/8	1	.02

On March 25, 1996, the closing sales price of the Common Stock of the Company on the New York Stock Exchange was $1 5/8 . On December 31, 1995, the Company had outstanding 9,716,517 shares of Common Stock which were held by approximately 700 stockholders of record. Based upon information available to the Company, the Company believes that there are approximately 6,000 beneficial owners of its Common Stock.

So long as the Company elects to maintain its qualification as a REIT under the Code for any taxable year, the Company, among other things, must distribute as dividends to its stockholders an amount at least equal to (i) 95% of its REIT taxable income (determined before the deduction of dividends paid and excluding any net capital gain) plus (ii) 95% of the excess of its net income from foreclosure property over the tax imposed on such income by the Code less (iii) any excess non-cash income (as determined under the Code). The Company generally intends that the cash dividends paid each year to its stockholders will equal or exceed the Company's taxable income. The actual amount and timing of dividend payments, however, will be at the discretion of the Board of Directors and will depend upon the financial condition of the Company in addition to the requirements of the Code.

The Company has accumulated a net operating loss carryforward, for income tax purposes, of approximately $57,000,000 as of December 31, 1995. This tax loss may be carried forward, with certain restrictions, for up to 14 years to offset future taxable income, if any. Until the tax loss carryforward is fully utilized, the Company will not be required to distribute dividends to its stockholders except to the extent of its "excess inclusion income." See "Business -- Federal Income Tax Considerations -- Taxation of Common Stock Ownership -- Excess Inclusion Income."

The Company may apply the principal from repayments, sales and refinancings of the Company's Mortgage Assets to reduce the unpaid principal balance of its Secured Notes. The Company also may, under certain circumstances, and subject to the distribution requirements referred to above, make distributions of principal. Such distributions of principal, if any, will be made at the discretion of the Board of Directors and only to the extent permitted by the Company's Indenture with respect to the Secured Notes.

Although a portion of the dividends may be designated by the Company as capital gain or may constitute a return of capital, it is anticipated that dividends generally will be taxable as ordinary income to taxpaying stockholders of the Company. With respect to tax-exempt organizations, it is likely that a significant portion of the dividends will be treated as unrelated business taxable income ("UBTI"). Dividends received by a corporation will not be eligible for the dividends-received deduction so long as

the Company qualifies as a REIT. The Company furnishes annually to each of its stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital or capital gains. For a discussion of the federal income tax treatment of distributions by the Company, see "Business -- Federal Income Tax Considerations -- Taxation of the Company, -- Tax Consequences of Common Stock Ownership, and -- Tax-Exempt Organizations as Stockholders."

The taxable income of the Company from its Mortgage Assets is increased by non-cash income from, among other things, the accretion of market discount on the Mortgage Instruments securing or underlying Mortgage Securities and is decreased by non-cash expenses, including, among other things, the amortization of the issuance costs of Mortgage Securities and the accretion of original issue discount on certain Classes of Mortgage Securities. The taxable income of the Company will differ from its net income for financial reporting purposes principally as a result of the different method used to determine the effect and timing of recognition of such non-cash income and expenses.

Because the Company must distribute to its stockholders an amount equal to substantially all of its net taxable income (computed after taking into account any net operating loss carryforwards that are available) so long as it elects to qualify as a REIT, the Company may be required to distribute a portion of its working capital to its stockholders, borrow funds or sell assets to make required distributions in years in which the non-cash items of taxable income exceed the Company's non-cash expenses. In the event that the Company is unable to pay dividends equal to substantially all of its taxable income, it will not continue to qualify as a REIT.

The Company's Articles of Incorporation, as amended to date (the "Articles of Incorporation"), prohibit ownership of its Common Stock by tax-exempt entities that are not subject to tax on unrelated business taxable income and by certain other persons (collectively "Disqualified Organizations"). Such restriction on ownership exists so as to avoid imposition of a tax on a portion of the Company's income from excess inclusions.

Provisions of the Company's Articles of Incorporation also are designed to prevent concentrated ownership of the Company which might jeopardize its qualification as a REIT under the Code. Among other things, these provisions provide (i) that any acquisition of shares that would result in the disqualification of the Company as a REIT under the Code will be void, and (ii) that in the event any person acquires, owns or is deemed, by operation of certain attribution rules set out in the Code, to own a number of shares in excess of 9.8% of the outstanding shares of the Company's Common Stock ("Excess Shares"), the Board of Directors, at its discretion, may redeem the Excess Shares. In addition, the Company may refuse to effectuate any transfer of Excess Shares and certain stockholders and proposed transferees of shares may be required to file an affidavit with the Company setting forth certain information relating, generally, to their ownership of the Company's Common Stock. These provisions may inhibit market activity and the resulting opportunity for the Company's stockholders to receive a premium for their shares that might otherwise exist if any person were to attempt to assemble a block of shares of the Company's Common Stock in excess of the number of shares permitted under the Articles of Incorporation. Such provisions also may make the Company an unsuitable investment vehicle for any person seeking to obtain (either alone or with others as a group) ownership of more than 9.8% of the outstanding shares of Common Stock. Investors seeking to acquire substantial holdings in the Company should be aware that this ownership limitation may be exceeded by a stockholder without any action on such stockholder's part if the number of outstanding shares of the Company's Common Stock is reduced. On December 13, 1993, the Board of Directors approved the adoption of a program to repurchase up to 2,000,000 shares of the Company's Common Stock in open market conditions. The decision to repurchase shares pursuant to the program, and the timing and amount of such purchases, will be based upon market conditions then in effect and other corporate considerations. As of December 31, 1995, 15,200 shares of common stock have been repurchased under such program.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is qualified in its entirety by, and should be read in conjunction with, the financial statements and notes thereto appearing elsewhere herein. The data has been derived from the financial statements of the Company audited by Ernst & Young LLP, independent certified public accountants, as indicated by their report thereon as specified therein which also appears elsewhere herein.

<TABLE>
<CAPTION>

	Years Ended December 31				
	1995	1994	1993	1992	1991
	(In Thousands Except Per Share Data)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME (LOSS) DATA:					
Income (Loss) From Mortgage Assets	$ 3,564	$ (1,203)	$ (21,814)	$ (14,068)	$ 15,507
Interest Expense	868	1,383	2,274	2,750	4,535
Other Expense (Hedging, Management, General and Administrative)	1,599	1,938	1,822	2,315	2,945
Income (Loss) Before Cumulative Effect of Accounting Change	1,097	(4,524)	(25,910)	(19,133)	8,027
Cumulative Effect of Accounting Change ..	--	--	(6,078)	--	--
Net Income (Loss)	$ 1,097	$ (4,524)	$ (31,988)	$ (19,133)	$ 8,027
Income (Loss) Per Share Before Cumulative Effect of Accounting Change	$ .11	$ (.47)	$ (2.66)	$ (1.93)	$ .81
Cumulative Effect of Accounting Change Per Share	--	--	(.63)	--	--
Net Income (Loss) Per Share	$ .11	$ (.47)	$ (3.29)	$ (1.93)	$ .81
Dividends Per Share	$ .03	$ .02	$ .03	$ .40	$ 1.70

</TABLE>

	At December 31,				
	1995	1994	1993	1992	1991
	(In Thousands)				
BALANCE SHEET DATA:					
Real Estate Loans	$ 4,048	$ 9,260	$ 320	$ --	$ --
Residual Interests	5,457	7,654	17,735	66,768	112,988
Total Assets	27,816	31,150	43,882	87,063	121,502
Long-Term Debt	7,819	11,783	19,926	31,000	16,450
Total Liabilities	9,368	13,508	21,505	32,357	43,462
Total Stockholders' Equity	18,448	17,642	22,377	54,706	78,040

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND INTEREST RATES AND OTHER INFORMATION

Results of Operations -- 1995 Compared to 1994

The Company had net income of $1,097,000 or $.11 per share in 1995 compared to a net loss of $4,524,000 or $.47 per share in 1994.

The Company's income from Mortgage Assets was $3,564,000 in 1995 compared to a loss of $1,203,000 in 1994. The above amounts include a net charge of $3,343,000 in 1994 to write down the Company's investments in several of its residual interests. There were no write-downs of residual interests in 1995. See "Interest Rates and Prepayments."

Interest income on real estate loans increased from $1,113,000 in 1994 to $1,618,000 in 1995 due to the expansion of the Company's real estate lending program. See "Liquidity, Capital Resources and Commitments."

The Company's interest expense declined from $1,383,000 in 1994 to $868,000 in 1995 due to a reduction of the average aggregate long-term debt.

General and administrative expenses in 1994 include $340,000 of legal and investment banking expenses related to merger negotiations with a privately held company which were subsequently terminated.

Results of Operations -- 1994 Compared to 1993

The Company incurred a net loss of $4,524,000 or $.47 per share in 1994 compared to a net loss of $31,988,000 or $3.29 per share in 1993.

The Company's loss from Mortgage Assets was $1,203,000 in 1994 compared to a loss of $21,814,000 in 1993. The above amounts include net charges of $3,343,000

in 1994 and $22,312,000 in 1993 to write down the Company's investments in several of its residual interests. Write-downs of residual interests declined in 1994 as compared to 1993 because of a decrease in the average balance of residual interests owned by the Company and a decline in projected prepayment rates. See "Interest Rates and Prepayments."

Interest income on real estate loans increased from $29,000 in 1993 to $1,113,000 in 1994 due to the expansion of the Company's real estate lending program. See "Liquidity, Capital Resources and Commitments."

The Company's interest expense declined from $2,274,000 in 1993 to $1,383,000 in 1994 due to a reduction of the average aggregate long-term debt.

General and administrative expenses in 1994 include $340,000 of legal and investment banking expenses related to merger negotiations with a privately held company which were subsequently terminated.

Liquidity, Capital Resources and Commitments

The Company raised $80,593,000 in connection with its initial public offering on July 27, 1988. The proceeds were immediately utilized to purchase residual interests. Subsequently, through October 1988, the Company purchased an additional $59,958,000 of residual interests which were initially financed using a combination of borrowings under repurchase agreements and the Company's bank line of credit. The Company has not purchased any residual interests since October 1988.

Since December 1993, the Company has originated real estate loans secured by various first deeds of trust on real properties located in Arizona. The Company's loan program seeks higher returns by targeting loan opportunities to which the Company can respond on a more timely basis than traditional real estate lenders. At December 31, 1995, all of the Company's loans are secured by properties located in Arizona. As a result of this geographic concentration, unfavorable economic conditions in Arizona could increase the likelihood of defaults on these loans and affect the Company's ability to protect the principal

and interest on such loans following foreclosures upon the real properties securing such loans. The Company may, in the future, make loans on properties located outside of Arizona. At December 31, 1995 the Company's real estate loans outstanding total $4,048,000 and bear interest at 16%, payable monthly, with all principal due within one year.

On December 17, 1992, a wholly owned limited-purpose subsidiary of the Company issued $31,000,000 of Secured Notes under an Indenture to a group of institutional investors. The Notes bear interest at 7.81% and require quarterly payments of principal and interest with the balance due on February 15, 1998. The Notes are secured by the Company's residual interests in Westam 1, Westam 3, Westam 5, Westam 6, ASW 65, FNMA 1988-24 and FNMA 1988-25 and by funds held by the Note Trustee. The Company used $3,100,000 of the proceeds to establish a reserve fund. The reserve fund has a specified maximum balance of $7,750,000, and is to be used to make the scheduled principal and interest payments on the Notes if the cash flow available from the collateral is not sufficient to make the scheduled payments. Depending on the level of certain specified financial ratios relating to the collateral, the cash flow from the collateral is required to either repay the Notes at par, increase the reserve fund up to its $7,750,000 maximum or is remitted to the Company. At December 31, 1995, $5,638,000 is held by the Note Trustee in the reserve and other funds under the Indenture.

Under a revolving line of credit agreement with a bank, the Company may borrow up to $5,000,000, upon payment of a 1/2 % commitment fee with interest payable monthly at prime plus 1/2 %. Such advances are to be secured by certain of the Company's real estate loans with the amount advanced equal to between 40% to 60% of the principal amount of the real estate loans pledged. Only real estate loans approved by the bank are eligible for advances. The agreement contains certain financial covenants and expires on May 5, 1996. Through December 31, 1995, the Company has not drawn upon the line of credit.

As a real estate investment trust (REIT), the Company is not subject to income tax at the corporate level as long as it distributes 95% of its taxable income to its stockholders. At December 31, 1995, the Company has a net operating loss carryforward, for income tax purposes, of approximately $57,000,000. This tax loss may be carried forward, with certain restrictions, for up to 14 years to offset future taxable income, if any. Until the tax loss carryforward is fully utilized or expires, the Company will not be required to distribute dividends to its stockholders except for income that is deemed to be excess inclusion income.

The Company anticipates that future cash flow from operations will be used for payment of operating expenses and debt service with the remainder, if any, available for investment in mortgage or real estate related assets. The Company is also exploring other strategic options including the possible termination of the REIT status in conjunction with the possible purchase of an operating company.

Interest Rates and Prepayments

One of the Company's major sources of income is its income from residual interests which consists of the Company's investment in eight real estate mortgage investment conduits ("REMICs") as described in Note 4 to the financial statements. The Company's cash flow and return on investment from its residual interests are highly sensitive to the prepayment rate on the related mortgage certificates and the variable interest rates on variable rate CMOs and MPCs.

At December 31, 1995, the Company's proportionate share of floating-rate CMOs and MPCs in the eight REMICs is $36,550,000 in principal amount that pays interest based on LIBOR and $4,427,000 in principal amount that pays interest based on COFI. Consequently, absent any changes in prepayment rates on the related mortgage certificates, increases in LIBOR and COFI will decrease the Company's net income, and decreases in LIBOR and COFI will increase the Company's net income. The average LIBOR and COFI rates were as follows:

	1995	1994	1993	AT DEC. 31, 1995
LIBOR	6.00%	4.33%	3.22%	6.00%
COFI	4.96%	3.83%	4.16%	5.12%

On May 12, 1992, the Company entered into a LIBOR ceiling rate agreement with a bank for a fee of $245,000. The agreement, which had a term of two years beginning July 1, 1992, required the bank to pay a monthly amount to the Company equal to the product of $175,000,000 multiplied by the percentage, if any, by which actual one-month LIBOR (measured on the first business day of each month) exceeded 9.0%. Through the expiration of the agreement on July 1, 1994, LIBOR remained under 9.0% and, accordingly, no amounts were paid under the agreement.

The Company's cash flow and return on investment from residual interests also is sensitive to prepayment rates on the mortgage certificates securing the CMOs and underlying the MPCs. In general, slower prepayment rates will tend to increase the cash flow and return on investment residual from interests. The rate of principal prepayments on mortgage certificates is influenced by a variety of economic, geographic, social and other factors. In general, prepayments of the mortgage certificates should increase when the current mortgage interest rates fall below the interest rates on the fixed rate mortgage loans underlying the mortgage certificates. Conversely, to the extent that then current mortgage interest rates exceed the interest rates on the mortgage loans underlying the mortgage certificates, prepayments of such mortgage certificates should decrease. Prepayment rates also may be affected by the geographic location of the mortgage loans underlying the mortgage certificates, conditions in mortgage loan, housing and financial markets, the assumability of the mortgage loans and general economic conditions. During 1994 and 1993 high prepayment rates resulted in the Company incurring net charges of $3,343,000 and $22,312,000, respectively, to write down its residual interests. Prepayment rates slowed in 1995 and there were no write-downs of residual interests.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the financial statements, the report thereon and the notes thereto commencing at page F-1 of this report, which financial statements, report and notes are incorporated herein by reference.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

Directors and Executive Officers

The directors and executive officers of the Company are as follows:

Name	Age	Position(s) Held
Alan D. Hamberlin	47	Chairman of the Board of Directors, Director and Chief Executive Officer
Jay R. Hoffman ...	41	Director, President, Secretary, Treasurer and Chief Financial and Accounting Officer
Larry E. Cox	47	Director
Mark A. McKinley .	49	Director
Gregory K. Norris	45	Director

Alan D. Hamberlin has been a Director and Chief Executive Officer of the Company since its organization and Chairman of the Board of Directors of the Company since January 1990. Mr. Hamberlin also served as the President of the

Company from its organization until September 1995. Mr Hamberlin served as the President and Chief Executive Officer of the managing general partner of the Company's former Manager. Mr. Hamberlin has been President of Courtland Homes, Inc. since July 1983. Mr. Hamberlin has served as a Director of American Southwest Financial Corporation and American Southwest Finance Co., Inc. since their organization in September 1982. Mr. Hamberlin also has served as a Director of American Southwest Affiliated Companies since its organization in March 1985 and of American Southwest Holdings, Inc. since August 1994.

Jay R. Hoffman has been the President and a Director of the Company since September 1995 and the Secretary, Treasurer and Chief Financial and Accounting Officer of the Company since July 1988. Mr. Hoffman also served as the Vice President of the Company from July 1988 to September 1995. Mr. Hoffman, a certified public accountant, engaged in the practice of public accounting with Kenneth Leventhal & Company from March 1987 through June 1988 and with Arthur Andersen & Co. from June 1976 through March 1987.

Larry E. Cox has been a Director of the Company since November 1995. Mr. Cox is currently the managing member of Taro Properties Arizona, L.L.C. and President of Taro Properties Arizona, Inc., land development and investment companies. Prior to that, Mr. Cox was Vice President of Forward Planning for A-M Homes, a residential homebuilder, from August 1989 to January 1992. Mr. Cox is also on the Community Relations Board of the Bank of Arizona.

Mark A. McKinley has been a Director of the Company since May 1988. Mr. McKinley is currently Senior Vice President of NationsBanc Mortgage Corporation. Prior to that, he was the Co-Founder, President and Director of Cypress Financial Corporation organized in 1983 and Managing Director of Rancho Santa Margarita Mortgage Corporation, organized in 1990. From 1968 through 1983, Mr. McKinley served as Senior Vice President of The Colwell Company, a publicly held mortgage banking corporation and was responsible for administration of secondary marketing, hedging operations and loan sales.

Gregory K. Norris has been a Director of the Company since June 1990. Mr. Norris has been the President of Norris & Benedict Associates P.C., certified public accountants, or its predecessor firms since November 1979. Mr. Norris previously was engaged in the practice of public accounting with Bolan, Vassar and Borrows, certified public accountants, from December 1978 until November 1979 and with Ernst & Whinney (now Ernst & Young) from July 1974 until December 1978.

Messrs. Cox, McKinley and Norris are members of the Company's Audit Committee.

The Board of Directors held a total of ten meetings during the fiscal year ended December 31, 1995. One director was absent for one of the ten meetings. The Audit Committee met separately at one formal meeting during the year ended December 31, 1995. One director was absent for such Audit Committee meeting.

All directors are elected at each annual meeting of the Company's stockholders for a term of one year, and hold office until their successors are elected and qualified. All officers serve at the discretion of the Board of Directors.

The Bylaws of the Company provide that, if the Company elects to be treated as a REIT, the majority of the members of the Board of Directors and of any committee of the Board of Directors will at all times be persons who are not "Affiliates" of "Advisors of the Company." An Advisor is defined in the Bylaws as a person or entity responsible for directing or performing the day to day business affairs of the Company, including a person or entity to which an Advisor subcontracts substantially all such functions. An "Affiliate" of another person is defined in the Bylaws to mean any person directly or indirectly owning, controlling or holding the power to vote 5% or more of the outstanding voting securities of such other person or of any person directly or indirectly controlling, controlled by or under common control with such other person; 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by such other person; any person directly or indirectly controlling, controlled by or under common control with such other person; and any officer, director, partner or employee of such other person. The term "person" includes a natural person, a corporation, partnership, trust company or other entity.

Vacancies occurring on the Board of Directors may be filled by the vote of a majority of the directors. If the Company seeks to remain qualified as a REIT, then any replacement of an Unaffiliated Director shall be nominated by a majority of any Unaffiliated Directors remaining on the Board of Directors. All transactions involving the Company in which an Advisor has an interest must be approved by a majority of the Unaffiliated Directors.

The Articles of Incorporation and Bylaws of the Company provide for the indemnification of the directors and officers of the Company to the fullest extent permitted by Maryland law. Maryland law generally permits indemnification of directors and officers against certain costs, liabilities and expenses which such persons may incur by reason of serving in such positions unless it is

proved that: (i) the act or omission of the director or officer was material to the cause of action adjudicated in the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the director or officer actually received an improper personal benefit in money, property or services; or (iii) in the case of criminal proceedings, the director or officer had reasonable cause to believe that the act or omission was unlawful. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

The Articles of Incorporation of the Company provide that the personal liability of any director or officer of the Company to the Company or its stockholders for money damages is limited to the fullest extent allowed by the statutory or decisional law of the State of Maryland as amended or interpreted. Maryland law authorizes the limitation of liability of directors and officers to corporations and their stockholders for money damages except (a) to the extent that it is proved that the person actually received an improper benefit in money, property, or services for the amount of the benefit or profit in money, property or services actually received; or (b) to the extent that a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated. Maryland law does not affect the potential liability of directors and officers to third parties, such as creditors of the Company.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Officers

The following table sets forth compensation received by the Company's Chief Executive Officer and its other executive officer for the Company's last three fiscal years ending December 31, 1995.

Summary Compensation Table

<TABLE>
<CAPTION>

		Annual Compensation			Long-term Compensation		
Name and Principal Position		Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options/SARS (#)	All Other Compensation
Alan D. Hamberlin,	1995	$240,000	$ --	$ --	--	820,014	$ --
Chairman and	1994	250,000	2,100	--	--	4,642	--
Chief Executive Officer	1993	250,000	4,100	--	--	5,439	--
Jay R. Hoffman, President,	1995	$183,000	$25,000	$ --	--	1,240	$ --
Secretary, Treasurer and Chief	1994	175,000	15,000	--	--	1,216	--
Accounting and Financial Officer	1993	175,000	--	--	--	1,425	--

</TABLE>

Officers and key personnel of the Company are eligible to receive stock options under the Company's stock option plan. Officers serve at the discretion of the Board of Directors.

Compensation of Directors

The Company pays an annual director's fee to each Unaffiliated Director equal to $20,000, a fee of $1,000 for each meeting of the Board of Directors attended by each Unaffiliated Director and reimbursement of costs and expenses for attending such meetings. During 1995, the Unaffiliated Directors also accrued dividend equivalent rights, in the amounts of 932 with respect to Mr. McKinley, 228 with respect to Mr. Norris, and 200 with respect to Mr. Cox. The dividend equivalent rights accrued to Messrs. Hamberlin and Hoffman during 1994 are included in the table on options granted to the Company's executive officers below. In addition, the Company's Directors are eligible to participate in the Company's stock option plan described below.

In addition, during 1995, Mr. Cox was granted 10,000 stock options at $1.50 per share under the Company's stock option plan. One-third of the options are currently exercisable, one-third become exercisable on December 13, 1996 and the remaining one-third become exercisable on December 13, 1997.

Employee Agreements

Hamberlin Employment and Stock Option Agreements

In order to more closely align Alan D. Hamberlin's compensation with the interests of the Company's shareholders, the Company entered into an Employment Agreement with Mr. Hamberlin on December 21, 1995, which superseded the previous Employment Agreement that was to expire on April 30, 1996. The term of the Employment Agreement is for the period from December 21, 1995 through December 20, 1998. The Employment Agreement provides for the employment of Mr. Hamberlin as the chief executive officer of the Company and for Mr. Hamberlin to perform such duties and services as are customary for such a position. The Employment Agreement provides for Mr. Hamberlin to receive an annual base salary of $1.00. Mr. Hamberlin will not be entitled to any bonuses except as granted by the Board of Directors in its absolute sole discretion. In lieu of the annual base salary, the Company and Mr. Hamberlin entered into a Stock Option Agreement dated December 21, 1995 pursuant to which the Company granted an option to Mr. Hamberlin to purchase 750,000 shares of the Common Stock of the Company at $1.50 per share, which was the fair market value per share of the Common Stock on December 21, 1995. A corporation owned by Mr. Hamberlin also is entitled to the payment of $15,000 annually as reimbursement for expenses incurred by such company and providing support to Mr. Hamberlin in connection with the performance of his duties.

The Employment Agreement terminates (a) upon the death or disability of Mr. Hamberlin, (b) by the Company for "Cause" (as defined in the Employment Agreement), (c) by mutual agreement following a "Change in Control" (as defined in the Employment Agreement) that is unanimously approved by a Board of Directors constituted entirely of the directors serving as of December 21, 1995 and/or new directors approved by such directors (a "Consented Termination") and (d) upon the election of Mr. Hamberlin. Prior to a Change in Control, if the Employment Agreement terminates for any reason other than "Cause," Mr. Hamberlin will be entitled to his salary and fringe benefits through the date of termination. In addition, if the Stock Option Agreement has not been approved by the Company's shareholders as of the date of termination, Mr. Hamberlin will be entitled to certain phantom stock rights. As discussed below, the type of phantom stock rights to which he will be entitled will depend on the reason for the termination. If the Employment Agreement is terminated for Cause, Mr. Hamberlin will be entitled to his salary and fringe benefits through the date of termination but will have no further rights in the Stock Option Agreement or in any phantom stock rights. The Employment Agreement also provides that if a Change in Control occurs on or before December 20, 1998 that has not been unanimously approved by the Board as described in (c) of this paragraph (a "Non-Approved Change in Control") and if Mr. Hamberlin's employment has not been previously terminated, the Company will pay $500,000 to Mr. Hamberlin within 10 days of such Change in Control as well as maintain in full force and effect until December 20, 1998 all plans, programs or benefits provided to employees, including those plans, programs or benefits in which Mr. Hamberlin was entitled to participate immediately prior to the Change in Control. The Employment Agreement also provides that in the event that the Company declares a dividend through which all or substantially all of the assets of the Company are distributed to its shareholders (a "Liquidating Dividend"), then Mr. Hamberlin will receive a bonus in the amount of $20,833 multiplied by each full or partial month of that Mr. Hamberlin was employed by the Company since December 21, 1995.

The Stock Option Agreement is subject to approval by the shareholders of the Company. Mr. Hamberlin has also been conditionally granted 750,000 phantom stock rights ("PSRs" or "SARs"). If approval of the Stock Option Agreement is not obtained (a) at the Company's shareholder meeting in which the Stock Option Agreement is the subject of a shareholder vote, (b) on or before December 20, 1998; (c) on or before a day prior to a Change in Control, or (d) on or before any date prior to the termination of the Employment Agreement (other than a termination of the Employment Agreement occurring as a result of termination of Mr. Hamberlin for cause), then on the earliest of the foregoing dates, the Stock Option Agreement will terminate and the PSRs granted to Mr. Hamberlin will become effective. PSRs vest according to the following schedule: (a) 200,000 of the PSRs vested on December 21, 1995; (b) 275,000 of the PSRs vest on December 21, 1996 provided Mr. Hamberlin is either employed by the Company on that date or has left employment pursuant to a Consented Termination; and (c) 275,000 of the PSRs vest on December 21, 1997 provided Mr. Hamberlin is either employed by the Company on that date or has left the employment of the Company pursuant to a Consented Termination. Notwithstanding the foregoing, all PSRs will vest upon a Non-Approved Change in Control or upon a termination of Mr. Hamberlin's employment (without his consent) by the Company for any reason other than death, disability or Cause. Once the PSRs have become effective, all or any portion of the vested PSRs may be exercised by Mr. Hamberlin upon written notice to the Company. In general, after a Consented Termination, the PSRs remain outstanding as if Mr. Hamberlin was still employed. Upon exercise of a PSR, the Company will immediately pay to Mr. Hamberlin for each PSR exercised cash in an amount equal to the excess of the fair market value of a share of the Common Stock of the Company on the date of exercise over $1.50, which was the fair market value of a share of the Common Stock of the Company on December 21, 1995. If Mr. Hamberlin dies or becomes disabled during his employment after the PSRs have become effective, but prior to the PSRs being exercised in full, the value of all unexercised PSRs which had vested prior to the date of death or disablement will

be immediately paid to Mr. Hamberlin or his estate. If Mr. Hamberlin dies on or after the PSRs have become effective and after the termination of this employment pursuant to a Consented Termination, the value of all unexercised PSRs that had vested prior to the date of death will be paid to Mr. Hamberlin's estate.

The Employment Agreement also provides that to the extent that the Company at any time declares and pays a dividend with respect to its Common Stock (other than a Liquidating Dividend), the Company

will make a cash payment to Mr. Hamberlin in an amount equal to the number of PSR shares which have vested multiplied by the per-share dividend actually declared and paid with respect to the Company's Common Stock. To the extent that such dividends are declared prior to the effective date of the PSRs, such bonus will be paid on the effective date of the PSRs. All PSRs to the extent not previously exercised will terminate on December 20, 2000 or as earlier provided.

On December 21, 1995, the Company and Mr. Hamberlin entered into a Stock Option Agreement pursuant to which the Company granted to Mr. Hamberlin an option to purchase 750,000 shares of the Company's Common Stock at a price of $1.50 per share, which was the fair market value of a share of the Company's Common Stock on the date of grant. The options were granted in lieu of Mr. Hamberlin receiving an annual base salary under his Employment Agreement and were not granted under the Company's Plan. Therefore, the Stock Option Agreement must be approved by the Company's shareholders before Mr. Hamberlin may exercise his options. The options vest according to the following schedule: (a) 200,000 of the options vested on December 21, 1995; (b) 275,000 of the options vest on December 21, 1996 provided Mr. Hamberlin is either employed by the Company on that date or has left employment pursuant to a "Consented Termination" as that term is defined in the Employment Agreement; and (c) 275,000 of the options vest on December 21, 1997 provided Mr. Hamberlin is either employed by the Company on that date or has left the employment of the Company pursuant to a Consented Termination. Notwithstanding the foregoing, all options will vest upon a Non-Approved Change in Control or upon a termination of Mr. Hamberlin's employment (without his consent) by the Company for any reason other than death, disability or cause. In addition, the options will vest in their entirety prior to any merger or consolidation in which the Company is not the surviving entity or any reverse merger in which the Company is the surviving entity. If Mr. Hamberlin's employment with the Company is terminated pursuant to the Employment Agreement upon the death or disablement of Mr. Hamberlin, the options that have previously vested shall be exercisable within one year or until the stated expiration date of the option, whichever occurs first. If Mr. Hamberlin dies after a Consented Termination, the options that have vested as of the date of death shall be exercisable within one year of such date of death or until the stated expiration date of the option, whichever occurs first. In all instances the options must be exercised on or before December 21, 2000. Mr. Hamberlin may pay the exercise price of an option in cash, by check, or by delivery of previously acquired shares of the Company's Common Stock. In the discretion of the Company, Mr. Hamberlin may be provided with the election to pay the exercise price by having the Company withhold, from the Common Stock otherwise issuable pursuant to the option, a portion of those shares of Common Stock with an aggregate fair market value equal to that portion of the exercise price designated by Mr. Hamberlin.

Hoffman Severance Agreement

On September 1, 1995, the Company entered into a Severance Agreement with Jay R. Hoffman pursuant to which, in the event a "Change in Control" (as defined in the Severence Agreement) occurs prior to August 30, 1996, Mr. Hoffman will be entitled to receive a severance bonus in an amount equal to Mr. Hoffman's annual salary.

Employee Benefit Plans

Stock Option Plan

In May 1988, the Company's Board of Directors adopted a stock option plan (the "Plan") which was amended on July 18, 1990 to limit the redemption price available to optionholders as described below. Under the terms of the Plan, both qualified incentive stock options ("ISOs"), which are intended to meet the requirements of Section 422 of the Code, and non-qualified stock options may be granted. ISOs may be granted to the officers and key personnel of the Company. Non-qualified stock options may be granted to the Company's directors and key personnel. The purpose of the Plan is to provide a means of performance-based compensation in order to attract and retain qualified personnel and to provide an incentive to others whose job performance affects the Company.

The maximum number of shares of the Company's Common Stock which may be covered by options granted under the Plan is limited to 437,500. An option granted under the Plan may be exercised in full

or in part at any time or from time to time during the term of the option, or provide for its exercise in stated installments at stated times during the term

of the option. The exercise price for any option granted under the Plan may not be less than 100% of the fair market value of the shares of Common Stock at the time the option is granted. The optionholder may pay the exercise price in cash, bank cashier's check, or by delivery of previously acquired shares of Common Stock of the Company. No option may be granted under the Plan to any person who, assuming exercise of all options held by such person, would own directly or indirectly more than 9.8% of the total outstanding shares of Common Stock of the Company.

An optionholder also will receive at no additional cost "dividend equivalent rights" to the extent that dividends are declared on the outstanding shares of Common Stock of the Company on the record dates during the period between the date an option is granted and the date such option is exercised. The number of dividend equivalent rights which an optionholder receives on any dividend declaration date is determined by application of a formula whereby the number of shares subject to the option is multiplied by the dividend per share and divided by the fair market value per share (as determined in accordance with the Plan) to arrive at the total number of dividend equivalent rights to which the optionholder is entitled.

The dividend equivalent rights earned will be distributed to the optionholder (or his successor in interest) in the form of shares of the Company's Common Stock when the option is exercised. Dividend equivalent rights will be computed both with respect to the number of shares under the option and with respect to the number of dividend equivalent rights previously earned by the optionholder (or his successor in interest) and not issued during the period prior to the dividend record date. Shares of the Company's Common Stock issued pursuant to the exchange of dividend equivalent rights will not qualify for the favored tax treatment afforded shares issued upon exercise of an ISO, notwithstanding the character of the underlying option with respect to which the dividend equivalent rights were earned. The number of shares issuable upon exchange of dividend equivalent rights is not subject to the limit of the number of shares which are issuable upon exercise of options granted under the Plan.

Under the Plan, an exercising optionholder has the right to require the Company to purchase some or all of the optionholder's shares of the Company's Common Stock. That redemption right is exercisable by the optionholder only with respect to shares (including the related dividend equivalent rights) that he has acquired by exercise of an option under the Plan. Furthermore, the optionholder can only exercise his redemption rights within six months from the last to expire of (i) the two year period commencing with the grant date of an option, (ii) the one year period commencing with the exercise date of an option, or (iii) any restriction period on the optionholder's transfer of the shares of Common Stock he acquires through exercise of his option. The price for any shares repurchased as a result of an optionholder's exercise of his redemption right is the lesser of the book value of those shares at the time of redemption or the fair market value of the shares on the date the options were exercised.

The Plan is administered by the Board of Directors which will determine whether such options will be granted, whether such options will be ISOs or non-qualified stock options, which directors, officers and key personnel will be granted options, and the number of options to be granted, subject to the aggregate maximum amount of shares issuable under the Plan set forth above. Each option granted must terminate no more than 10 years from the date it is granted. Under current law, ISOs cannot be granted to directors who are not also employees of the Company, or to directors or employees of entities unrelated to the Company.

The Board of Directors may amend the Plan at any time, except that approval by the Company's stockholders is required for any amendment that increases the aggregate number of shares of Common Stock that may be issued pursuant to the Plan, increases the maximum number of shares of Common Stock that may be issued to any person, changes the class of persons eligible to receive such options, modifies the period within which the options may be granted, modifies the period within which the options may be exercised or the terms upon which options may be exercised, or increases the material benefits accruing to the participants under the Plan. Unless previously terminated by the Board of Directors, the Plan will terminate in May 1998.

The following table provides information on options and SARs granted to the Company's executive officers during 1995.

Option/SAR Grants in Last Fiscal Year

<TABLE>
<CAPTION>

Number of Securities Underlying	Percentage of Total Options/SARs Granted to Employees in	Exercise Price	Expiration	Potential Realizable Value At Assumed Annual Rates Of Stock Appreciation for Option Term

----

Name	Options/SARs Granted	Fiscal Year	(Per Share)	Date	0%	5%	10%
Alan D. Hamberlin..	750,000(1)	91.3%	$ 1.50	12/21/00	$ --	$310,000	$686,000
	64,000(2)	7.8	1.50	12/13/00(4)	--	26,000	59,000
	6,014(2)	.7	(3)	(3)(4)	9,000	12,000	15,000
Jay R. Hoffman.....	1,240(2)	.1	(3)	(3)(4)	1,800	2,000	3,000

<FN>

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(1) Granted in lieu of cash compensation pursuant to the terms of Alan Hamberlin's three year Employment Agreement and the Stock Option Agreement. See "-- Employee Agreements -- Hamberlin Employment and Stock Option Agreements" for a description of Mr. Hamberlin's Employment Agreement and the Hamberlin Stock Option Agreement.
(2) All of such options are currently exercisable.
(3) Represent dividend equivalent rights earned in 1995. Such rights expire at the same time as the options on which they were earned, which expire at various dates between July 26, 1999 and February 6, 2002.
(4) Options are subject to earlier expiration upon an optionee's termination for cause or three months after any termination of employment.

</FN>
</TABLE>

The following table provides information on options and SARs exercised in 1995 by the Company's executive officers and the value of such officer's unexercised options and SARs at December 31, 1995.

Fiscal Year End Option/SAR Values

<TABLE>
<CAPTION>

Name	Shares Acquired On Exercise(#)	Value At Exercise($)	Number of Unexercised Options/SARS At December 31, 1995		Value of Unexercised In-the-money Options/SARs at December 31, 1995($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Alan D. Hamberlin	--	$ --	306,723	750,000	$159,000	$ --
Jay R. Hoffman ..	--	$ --	63,269	--	$ --	$ --

<FN>

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(1) Calculated based on the closing price at December 31, 1995 of $1.50 multiplied by the number of applicable shares in the money (including dividend equivalent rights), less the total exercise price per share.

</FN>
</TABLE>

SEP-IRA

On June 27, 1991, the Company established a simplified employee pension-individual retirement account pursuant to Section 408(k) of the Code (the "SEP-IRA"). Annual contributions may be made by the Company under the SEP-IRA to employees. Such contributions will be excluded from each employee's gross income and will not exceed the lesser of 15% of such employee's compensation or $22,500. The Company did not make any contributions to the SEP-IRA during 1995.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

At March 25, 1996, there were 9,716,517 shares of Common Stock outstanding. The table below sets forth, as of March 25, 1996, those persons known by the Company to own beneficially five percent or more of the outstanding shares of Common Stock, the number of shares of Common Stock beneficially owned by each director and executive officer of the Company and the number of shares beneficially owned by all of the Company's executive officers and directors as a group, which information as to beneficial ownership is based upon statements furnished to the Company by such persons.

<TABLE>
<CAPTION>

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent of Common Stock(2)
Alan D. Hamberlin*	344,623(3)	3.06%

Jay R. Hoffman*	78,269(4)	**
Mark A. McKinley*	47,507(5)	**
Gregory K. Norris*	11,651(5)	**
Larry E. Cox*	3,400(5)	**
All directors and executive officers as a group (five persons)	485,450(6)	4.78%
5% Stockholders:		
Ira Sochet 5701 Sunset Drive, Suite 315 South Miami, Florida 33143	559,800	5.76%
The Intergroup Corporation and Mr. John V. Winfield 2121 Avenue of the Stars, Suite 2020 Los Angeles, California 90067	859,000(7)	8.84%

<FN>

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* Each director and executive officer of the Company may be reached through the Company at 5333 North Seventh Street, Suite 219, Phoenix, Arizona 85014.

** Less than 1% of the outstanding shares of Common Stock.

(1) Includes, where applicable, shares of Common Stock owned of record by such person's minor children and spouse and by other related individuals and entities over whose shares of Common Stock such person has custody, voting control or the power of disposition.

(2) The percentages shown include the shares of Common Stock actually owned as of March 25, 1996 and the shares of Common Stock which the person or group had the right to acquire within 60 days of such date. In calculating the percentage of ownership, all shares of Common Stock which the identified person or group had the right to acquire within 60 days of March 25, 1996 upon the exercise of options are deemed to be outstanding for the purpose of computing the percentage of the shares of Common Stock owned by such person or group, but are not deemed to be outstanding for the purpose of computing the percentage of the shares of Common Stock owned by any other person.

(3) Includes 37,900 shares of Common Stock indirectly beneficially owned by Mr. Hamberlin through a partnership and 306,723 shares of Common Stock which Mr. Hamberlin had the right to acquire within 60 days of March 25, 1996 by the exercise of stock options (including dividend equivalent rights).

(4) Includes 15,000 shares of Common Stock owned by Mr. Hoffman and 63,269 shares of Common Stock which Mr. Hoffman had the right to acquire within 60 days of March 25, 1996 by the exercise of stock options (including dividend equivalent rights).

(5) All of such shares of Common Stock are shares which Mr. McKinley, Mr. Norris and Mr. Cox had the right to acquire within 60 days of March 25, 1996 by the exercise of stock options (including dividend equivalent rights).

(6) Includes 432,550 shares of Common Stock which such persons had the right to acquire within 60 days of March 25, 1996 by the exercise of stock options (including dividend equivalent rights).

</FN>
</TABLE>

(7) The nature of beneficial ownership of the 859,000 shares is 459,000 shares are owned by the InterGroup Corporation and 400,000 shares are owned by John V. Winfield. Mr. Winfield is Chairman of the Board and President of The InterGroup Corporation. As of February 7, 1995, 427,406 shares of InterGroup common stock, constituting 46% of the outstanding InterGroup shares, were owned directly or beneficially by Mr. Winfield.

Other than options and dividend equivalent rights granted under the Company's stock option plan or under the Hamberlin Employment Agreement, there are no outstanding warrants, options or rights to purchase any shares of Common Stock of the Company, and no outstanding securities convertible into Common Stock of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Potential Conflicts of Interest

The Bylaws of the Company provide that, if the Company elects to be treated as a REIT, a majority of the Board of Directors (and a majority of each committee of the Board of Directors) must not be "Affiliates" of "Advisors," as these terms are defined in the Bylaws, and that the investment policies of the Company must be reviewed annually by these directors (the "Unaffiliated Directors").

Counsel to the Company has furnished, and in the future may furnish, legal services to ASFS, ASFG and certain Issuers (including American Southwest Financial Corporation, American Southwest Finance Co., Inc. and Westam Mortgage Financial Corporation). There is a possibility that in the future the interests of certain of such parties may become adverse, and counsel may be precluded from representing one or all of such parties. If any situation arises in which the interests of the Company appear to be in conflict with those of ASFS, ASFG or any Issuer, additional counsel may be retained by one or more of the parties.

Certain Relationships

Alan D. Hamberlin, the Chairman of the Board of Directors, and Chief Executive Officer of the Company, also is a director of American Southwest Financial Corporation, American Southwest Finance Co., Inc., American Southwest Affiliated Companies and American Southwest Holdings, Inc. and a member of the management committee of ASFG.

Mr. Hamberlin directly and indirectly owns a total of 25% of the voting stock of American Southwest Holdings, Inc. American Southwest Holdings, Inc. directly or indirectly owns 100% of the voting stock of, among other entities, ASFS, American Southwest Financial Corporation and Westam Mortgage Financial Corporation. Mr. Hamberlin also directly and indirectly owns up to 25% of the capital interest held by the common members of ASFG and indirectly owns up to 25% of the capital interest of the preferred members of ASFG. See "Business -- The Subcontract Agreement."

PART IV

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

(a) Exhibits

<TABLE>
<CAPTION>

Exhibit Number	Exhibit
3(a)	Amended and Restated Articles of Incorporation of the Registrant*
3(b)	Amended and Restated Bylaws of the Registrant*****
4	Specimen Certificate representing $.01 par value Common Stock*
10(a)	Subcontract Agreement between the Registrant and American Southwest Financial Services, Inc.*
10(b)	Form of Master Servicing Agreement*
10(c)	Form of Servicing Agreement*
10(d)	Stock Option Plan*
10(e)	Amendment to Stock Option Plan**
10(g)	Amended and Restated Employment Agreement and Addendum between the Registrant and Alan D. Hamberlin
10(h)	Stock Option Agreement between the Registrant and Alan D. Hamberlin
10(i)	Severance Agreement between the Registrant and Jay R. Hoffman
10(j)	Indenture dated as of December 1, 1992 between EMIC Finance Corporation, as Note Issuer of the Secured Notes, and State Street Bank & Trust Company, as Note Trustee****
10(k)	Agreement and Certificate dated as of December 1, 1992 by Registrant for the benefit of the Note Trustee****
10(l)	Revolving Loan Agreement between the Registrant and Banc One*****
22	Subsidiaries of the Registrant***
23	Consent of Ernst & Young LLP
27	Financial Data Schedule

<FN>

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* Incorporated herein by reference to the Registrant's Registration Statement on Form S-11 (No. 33-22092) filed July 19, 1988 and declared effective on July 20, 1988.

** Incorporated herein by reference to Registrant's Form 10-K for the fiscal year ended December 31, 1990 filed March 31, 1991.

*** Incorporated herein by reference to Registrant's Form 10-K for the fiscal year ended December 31, 1991 filed March 31, 1992.

**** Incorporated herein by reference to Registrant's Form 10-K for the fiscal year ended December 31, 1992 filed March 30, 1993.

***** Incorporated herein by reference to Registrant's Form 10-Q for the quarter ended June 30, 1995 filed August 11, 1995.

</FN>
</TABLE>

(b) Financial Statements and Financial Statement Schedules filed as part of this report:

1. Financial Statements -- as listed in the "Index to Financial Statements" on page F-1 of this Annual Report on Form 10-K.
2. Financial Statement Schedules -- no schedules are required because of the absense of conditions under which they are required or because the information is given in the financial statements and notes beginning on page F-1 of this Annual Report on Form 10-K.

(c) Reports on Form 8-K:

No Current Reports on Form 8-K were filed by the Company during the fourth quarter of 1995.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOMEPLEX MORTGAGE
INVESTMENTS CORPORATION

Date: March 29, 1996

By: /s/ ALAN D. HAMBERLIN

Alan D. Hamberlin,
Chairman of the Board of
Directors and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ALAN D. HAMBERLIN Alan D. Hamberlin	Chairman of the Board of Directors, Chief Executive Officer and Director (Principal Executive Officer)	March 29, 1996
/s/ JAY R. HOFFMAN Jay R. Hoffman	Director, President, Secretary, Treasurer and Chief Financial and Accounting Officer	March 29, 1996
/s/ LARRY E. COX Larry E. Cox	Director	March 29, 1996
/s/ MARK A. MCKINLEY Mark A. McKinley	Director	March 29, 1996
/s/GREGORY K. NORRIS Gregory K. Norris	Director	March 29, 1996

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION
INDEX TO FINANCIAL STATEMENTS

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Consolidated Statements of Net Income (Loss) for the Years Ended December 31, 1995, 1994 and 1993	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1995, 1994 and 1993	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 1995, 1994 and 1993	F-6
Notes To Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Homeplex Mortgage Investments Corporation

We have audited the accompanying consolidated balance sheets of Homplex Mortgage Investments Corporation and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of net income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 also 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 consolidated financial position of Homeplex Mortgage Investments Corporation and subsidiaries as of December 31, 1995 and 1994, and the consolidated results of their operations and their cash

flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principals.

As discussed in Note 4 to the consolidated financial statements, the Company changed its method for accounting for residual interests as of December 31, 1993.

ERNST & YOUNG LLP

Phoenix, Arizona
February 13, 1996

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION
CONSOLIDATED BALANCE SHEETS
As of December 31, 1995 and December 31, 1994
(Dollars in Thousands Except Per Share Data)

<TABLE>
<CAPTION>

<S>	1995 <C>	1994 <C>
Assets		
Real estate loans (Note 3)	$ 4,048	$ 9,260
Short-term investments (Note 2)	8,969	--
Funds held by Trustee (Note 5)	5,638	6,720
Residual interests (Note 4)	5,457	7,654
Cash and cash equivalents	3,347	6,666
Other assets (Note 5)	357	850
Total Assets	$ 27,816	$ 31,150
Liabilities		
Long-term debt (Note 5)	$ 7,819	$ 11,783
Accounts payable and other liabilities (Note 8)	1,182	1,416
Dividend payable	291	194
Accrued interest payable	76	115
Total Liabilities	9,368	13,508
Stockholders' Equity		
Common stock, par value $.01 per share; 50,000,000 shares authorized; issued and outstanding -- 9,875,655 shares (Note 8)	99	99
Additional paid-in capital	84,046	84,046
Cumulative net loss	(23,757)	(24,854)
Cumulative dividends	(41,530)	(41,239)
Treasury stock -- 159,138 shares	(410)	(410)
Total Stockholders' Equity	18,448	17,642
Total Liabilities and Stockholders' Equity	$ 27,816	$ 31,150

<FN>
See notes to consolidated financial statements.
</FN>
</TABLE>

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION
CONSOLIDATED STATEMENTS OF NET INCOME (LOSS)
For the Years Ended December 31, 1995, 1994 and 1993
(Dollars in Thousands Except Per Share Data)

<TABLE>
<CAPTION>

<S>	1995 <C>	1994 <C>	1993 <C>
Income (Loss) from Mortgage Assets			
Interest income on real estate loans	$ 1,618	$ 1,113	$ 29
Income (loss) from residual interests (Note 4)	1,283	(2,664)	(22,312)
Other income	663	348	469
	3,564	(1,203)	(21,814)
Expenses			
Interest	868	1,383	2,274
General, administration and other	1,599	1,938	1,822
Total Expenses	2,467	3,321	4,096

Net Income (Loss) Before Cumulative Effect of

Accounting Change	1,097	(4,524)	(25,910)
Cumulative Effect of Accounting Change (Note 4) .	--	--	(6,078)
Net Income (Loss)	$ 1,097	$ (4,524)	$ (31,988)
Per Share Data			
Net Income (Loss) Per Share Before Cumulative			
Effect of Accounting Change	$ .11	$ (.47)	$ (2.66)
Cumulative Effect of Accounting Change Per Share	--	--	(.63)
Net Income (Loss) Per Share	$ .11	$ (.47)	$ (3.29)
Dividends Declared Per Share	$ .03	$ .02	$ .03
Weighted Average Number of Shares of Common			
Stock and Common Stock Equivalents Outstanding .	9,737,302	9,720,612	9,732,056

<FN>
See notes to consolidated financial statements.
</FN>
</TABLE>

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HOMEPLEX MORTGAGE INVESTMENTS CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 1995, 1994 and 1993
(Dollars in Thousands)

<TABLE>
<CAPTION>

	Number of Shares	Par Value	Additional Paid-in Capital	Cumulative Net Income (Loss)	Cumulative Dividends	Treasury Stock	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1992	9,875,655	$ 99	$84,046	$ 11,658	$(40,753)	$(344)	$ 54,706
Treasury stock acquired --							
20,368 shares	--	--	--	--	--	(49)	(49)
Net loss	--	--	--	(31,988)	--	--	(31,988)
Dividend declared	--	--	--	--	(292)	--	(292)
Balance at December 31, 1993	9,875,655	99	84,046	(20,330)	(41,045)	(393)	22,377
Treasury stock acquired --							
15,200 shares	--	--	--	--	--	(17)	(17)
Net loss	--	--	--	(4,524)	--	--	(4,524)
Dividend declared	--	--	--	--	(194)	--	(194)
Balance at December 31, 1994	9,875,655	99	84,046	(24,854)	(41,239)	(410)	17,642
Net income	--	--	--	1,097	--	--	1,097
Dividend declared	--	--	--	--	(291)	--	(291)
Balance at December 31, 1995	9,875,655	$ 99	$84,046	$ (23,757)	$(41,530)	$(410)	$ 18,448

<FN>
See notes to consolidated financial statements.
</FN>
</TABLE>

F-5

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1995, 1994 and 1993
Increase (Decrease) in Cash
(Dollars in Thousands)

<TABLE>
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 1,097	$ (4,524)	$ (31,988)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
(Increase) decrease in other assets	390	(343)	(169)
Increase (decrease) in accounts payable and other liabilities	(234)	323	(129)
Amortization of debt costs	103	216	230
Increase (decrease) in accrued interest payable	(39)	(79)	59
Net write-downs and non-cash losses on residual interests	--	3,343	22,312
Amortization of hedging costs	--	96	138
Cumulative effect of accounting change	--	--	6,078
Net Cash Provided by (Used in) Operating Activities .	1,317	(968)	(3,469)

CASH FLOWS FROM INVESTING ACTIVITIES			
Principal payments received on real estate loans	9,114	670	--
Increase in short-term investments	(8,969)	--	--
Real estate loans funded	(3,902)	(9,610)	(320)
Amortization of residual interests	2,197	6,738	20,643
(Increase) decrease in funds held by Trustee	1,082	2,041	(3,631)
Net Cash Provided (Used in) by Investing Activities .	(478)	(161)	16,692
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments made on long-term debt	(3,964)	(8,143)	(11,074)
Dividends paid	(194)	(292)	--
Repurchases of common stock, net of common stock issuances	--	(17)	(49)
Capitalized debt costs	--	--	(25)
Net Cash Used in Financing Activities	(4,158)	(8,452)	(11,148)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,319)	(9,581)	2,075
Cash and Cash Equivalents at Beginning of Period	6,666	16,247	14,172
Cash and Cash Equivalents at End of Period	$ 3,347	$ 6,666	$ 16,247
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 804	$ 1,246	$ 2,103

<FN>
See notes to consolidated financial statements.
</FN>
</TABLE>

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1995

NOTE 1 -- ORGANIZATION

Homeplex Mortgage Investments Corporation, a Maryland corporation, (the Company) commenced operations in July 1988. As described in Note 4 the Company has purchased interests in mortgage certificates securing collateralized mortgage obligations (CMOs) and interests relating to mortgage participation certificates (MPCs) (collectively residual interests). Since December 1993 the Company has originated various loans secured by real estate (see Note 3).

NOTE 2 -- GENERAL AND SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Homeplex Mortgage Investments Corporation and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Income Taxes

The Company has elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code. As a REIT, the Company must distribute annually at least 95% of its taxable income to its stockholders. The $.03 dividend declared in 1993 consisted of $.0276 of ordinary income and $.0024 of return of capital; the $.02 dividend declared in 1994 consisted of $.0142 of ordinary income and $.0058 of return of capital, and the $.03 dividend declared in 1995 was all ordinary income to the recipients for federal income tax purposes.

At December 31, 1995, the Company has available, for income tax purposes, a net operating loss carryforward of approximately $57,000,000. Such loss may be carried forward, with certain restrictions, for up to 14 years to offset future taxable income, if any. Until the tax loss carryforward is fully utilized or expires, the Company will not be required to pay dividends to its stockholders except for income that is deemed to be excess inclusion income.

The income (loss) reported in the accompanying financial statements is different than taxable income (loss) because some income and expense items are reported in different periods for income tax purposes. The principal differences relate to the amortization of residual interests and the treatment of stock option expense.

Residual Interests

Interests relating to mortgage participation certificates and residual interest certificates are accounted for as described in Note 4.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and certificates of deposit with maturities of less than three months.

Amortization of Hedging

The cost of the Company's LIBOR ceiling rate agreements (see Note 7) was amortized using the straight-line method over the life of the agreements. Other expense includes $96,000 and $138,000, respectively, related to amortization of hedging costs for the years ended December 31, 1994 and 1993.

Net Income (Loss) Per Share

Primary net income (loss) per share is calculated using the weighted average shares of common stock outstanding and common stock equivalents. Common stock equivalents consist of dilutive stock options. Net income (loss) per share is the same for both primary and fully diluted calculations.

Short-Term Investments

At December 31, 1995, short-term investments consist of a Treasury Bill with a face amount of $9,000,000, maturity date of January 25, 1996 and an estimated yield to maturity of 5.30%.

Reclassification

Certain balances in the prior year have been reclassified to conform to the current year's presentation.

NOTE 3 -- REAL ESTATE LOANS

The following is a summary of real estate loans at December 31, 1995:

<TABLE>
<CAPTION>

Description	Interest Rate	Payment Terms	Principal and Carrying Amount(1)
<S>	<C>	<C>	<C>
First Deed of Trust on 41 acres of land in Gilbert, Arizona.	16%	Interest only monthly, principal due October 18, 1996; may be extended for one year under certain terms and conditions.	$1,278,000
First Deed of Trust on 33 acres of land in Tempe, Arizona.	16%	Interest only monthly, principal due November 21, 1995; extended for one year on November 21, 1995 under the same terms and conditions.	2,272,000
First Deed of Trust on 21.4 acres of land in Tempe, Arizona.	16%	Interest only monthly, principal due January 6, 1996; extended for six months on January 6, 1996 under the same terms and conditions.	498,000
			$ 4,048,000

<FN>
- --------
(1) Also represents cost for federal income tax purposes.
</FN>
</TABLE>

Each of the preceding loans was current as of December 31, 1995. The following summarizes real estate loan activity for 1995 and 1994:

	1995	1994
Balance at beginning of year	$ 9,260,000	$ 320,000
Real estate loans funded	3,902,000	9,610,000
Principal repayments	(9,114,000)	(670,000)
Balance at end of year	$ 4,048,000	$ 9,260,000

At December 31, 1995, all of the Company's loans are secured by properties located in Arizona. As a result of this geographic concentration, unfavorable economic conditions in Arizona could increase the likelihood of defaults on these loans and affect the Company's ability to protect the principal and interest on such loans following foreclosures upon the real properties securing such loans.

NOTE 4 -- RESIDUAL INTERESTS

The Company owns residual interests in collateralized mortgage obligations (CMOs) and residual interests in mortgage participation certificates (MPCs) (collectively residual interests) with respect to which elections to be treated as a real estate mortgage investment conduit (REMIC) have been made.

Residual Interest Certificates

The Company owns 100% of the residual interest certificates representing the residual interests in five series of CMOs secured by mortgage certificates and cash funds held by trustee. The CMOs have been issued through Westam Mortgage Financial Corporation (Westam) or American Southwest Financial Corporation (ASW). The mortgage certificates securing the CMOs all have fixed interest rates. Certain of the classes of CMOs have fixed interest rates and certain have interest rates that are determined monthly based on the London Interbank Offered Rates (LIBOR) for one month Eurodollar deposits, subject to specified maximum interest rates.

Each series of CMOs consists of several serially maturing classes collateralized by mortgage certificates. Generally, principal payments received on the mortgage certificates, including prepayments on such mortgage certificates, are applied to principal payments on the classes of CMOs in accordance with the respective indentures. Scheduled payments of principal and interest on the mortgage certificates securing each series of CMOs and reinvestment earnings thereon are intended to be sufficient to make timely payments of interest on such series and to retire each class of such series by its stated maturity. Certain series of CMOs are subject to redemption according to specific terms of the respective indentures.

The Company's residual interest certificates entitle the Company to receive the excess, if any, of payments received from the pledged mortgage certificates together with reinvestment income thereon over amounts required to make debt service payments on the related CMOs and to pay related administrative expenses of the REMICs. The Company also has the right, under certain conditions, to cause an early redemption of the CMOs. Under the early redemption feature, the mortgage certificates are sold at the then current market price and the CMOs repaid at par value. The Company is entitled to any excess cash flow from such early redemptions. The conditions under which such early redemptions may be elected vary but generally cannot be done until the remaining outstanding CMO balance is less than 10% of the original balance.

Prior to December 31, 1993, the Company accounted for its investment in these five REMICs using the equity method of accounting. Accordingly, the Company consolidated the financial statements of the REMICs in its financial statements and included the respective REMICs income or loss in its consolidated statement of net income (loss). In the event the undiscounted estimated future net cash flows from the residual interest were less than the Company's financial reporting basis, the residual interest was considered to be impaired and the Company established a reserve for the difference. The reserves were then amortized to income as the loss actually occurred.

Effective December 31, 1993, the Company adopted the prospective net level yield method with respect to these investments. The cumulative effect of the change of $6,078,000 was recorded as of December 31, 1993. Income for the years ended December 31, 1995 and 1994 has been determined using the prospective net level yield method. The following summarizes the Company's combined loss from these five REMICs for the year ended December 31, 1993 (in thousands) prior to the cumulative effect of the change in accounting principle:

Interest income, including amortization of mortgage premium or discount, and reinvestment income from mortgage collateral	$ 57,029
CMO interest, including amortization of debt discount, and administration expense	(69,076)
Write-down of investment to estimated undiscounted cash flows, net of amortization	(2,320)
Loss from residual interest certificates	$(14,367)

Interests In Mortgage Participation Certificates

The Company owns residual interests in REMICs with respect to three separate series of Mortgage Participation Certificates (MPCs) issued by the Federal Home

Loan Mortgage Corporation (FHLMC) or by the Federal National Mortgage Association (FNMA). The Company's MPC residual interests entitle the Company to receive its proportionate share of the excess (if any) of payments received from the mortgage certificates underlying the MPCs over principal and interest required to be passed through to the holders of such MPCs. The Company is not entitled to reinvestment income earned on the underlying mortgage certificates, is not required to pay any administrative expenses related to the MPCs and does not have the right to elect early termination of any of the MPC classes. The mortgage certificates underlying the MPCs all have fixed interest rates. Certain of the classes of the MPCs have fixed interest rates and certain have interest rates that are determined monthly based on LIBOR or based on the Monthly Weighted Average Cost of Funds (COFI) for Eleventh District Savings Institutions as published by the Federal Home Loan Bank of San Francisco, subject to specified maximum interest rates.

The following summarizes the Company's investment in residual interests at December 31, 1995:

Series	Type Of Investments	Company's Amortized Cost	Company's Percentage Ownership
		(In Thousands)	
Westam 1	Residual Interest Certificate	$ 703	100.00%
Westam 3	Residual Interest Certificate	30	100.00%
Westam 5	Residual Interest Certificate	204	100.00%
Westam 6	Residual Interest Certificate	12	100.00%
ASW 65	Residual Interest Certificate	2,521	100.00%
FHLMC 17	Interest in MPCs	140	100.00%
FNMA 1988-24	Interest in MPCs	1,220	20.20%
FNMA 1988-25	Interest in MPCs	627	45.07%
		$5,457	

The following summarizes the Company's proportionate interest in the aggregate assets and liabilities of the eight residual interests at December 31, 1995 (in thousands):

Assets:	
Outstanding Principal Balance of Mortgage Certificates	$ 357,084
Funds Held By Trustee and Accrued Interest Receivable	9,913
	$ 366,997
Range of Stated Coupon of Mortgage Certificates	9.0% - 10.5%
Liabilities:	
Outstanding Principal Balance of CMOs and MPCs:	
Fixed Rate	$ 320,238
Floating Rate -- LIBOR Based	36,550
Floating Rate -- COFI Based	4,427
Total	361,215
Accrued Interest Payable	2,441
	$ 363,656
Range of Stated Interest Rates on CMOs and MPCs	0% to 9.9%

The average LIBOR and COFI rates used to determine income from residual interests were as follows:

	1995	1994	1993	AT DEC. 31, 1995
LIBOR	6.00%	4.33%	3.22%	6.00%
COFI	4.96%	3.83%	4.16%	5.12%

The Company accounts for residual interests using the prospective net level yield method. Under this method, a residual interest is recorded at cost and amortized over the life of the related CMO or MPC issuance. The total expected cash flow is allocated between principal and interest as follows:

1. An effective yield is calculated as of the date of purchase based on the purchase price and anticipated future cash flows.

2. In the initial accounting period, interest income is accrued on the investment balance using the effective yield calculated as of the date of purchase.

3. Cash received on the investment is first applied to accrued interest with

any excess reducing the recorded principal balance of the investment.

4. At each reporting date, the effective yield is recalculated based on the amortized cost of the investment and the then-current estimate of the remaining future cash flows.

5. The recalculated effective yield is then used to accrue interest income on the investment balance in the subsequent accounting period.

6. The above procedure continues until all cash flows from the investment have been received.

At the end of each period, the amortized balance of the investment should equal the present value of the estimated cash flows discounted at the newly-calculated effective yield.

In May 1993 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". SFAS No. 115 is applicable to debt securities including investments in REMIC residual interests and requires all investments to be classified into one of three categories: held to maturity, available for sale, or trading. The Company acquired its residual interests without the intention to resell the assets. The Company has both the intent and ability to hold these investments to maturity and believes these investments meet the "held to maturity" criteria of SFAS No. 115. Under SFAS No. 115, if a residual interest is determined to have other than temporary impairment, the residual interest is written down to fair value. For the years ended December 31, 1994 and 1993, the Company incurred net charges of $3,343,000 and $22,312,000, respectively, to write down its residual interests. There were no charges for the year ended December 31, 1995.

At December 31, 1995, the estimated prospective net level yield of the Company's residual interests, in the aggregate, is 23% without early redemptions or terminations being considered and 57% if early redemptions or terminations are considered. At December 31, 1995, the estimated fair value of the Company's residual interests, in the aggregate, approximates the Company's aggregate carrying value.

The projected yield and estimated fair value of the Company's residual interests are based on prepayment and interest rate assumptions at December 31, 1995. There will be differences, which may be material, between the projected yield and the actual yield and the fair value of the residual interests may change significantly over time.

NOTE 5 -- LONG-TERM DEBT

On December 17, 1992, a wholly owned, limited purpose subsidiary of the Company issued $31,000,000 of Secured Notes under an Indenture to a group of institutional investors. The Notes bear interest at 7.81% and require quarterly payments of principal and interest with the balance due on February 15, 1998. In connection with the financing, the Company paid fees of $635,000 which are included in other assets in the accompanying consolidated balance sheet and are being amortized to interest expense over the life of the financing. The Notes are secured by the Company's residual interests in Westam 1, Westam 3, Westam 5, Westam 6, ASW 65, FNMA 1988-24 and FNMA 1988-25 (see Note 4), and by Funds held by the Note Trustee. The Company used $3,100,000 of the proceeds to establish a reserve fund. The reserve fund, which has a specified maximum balance of $7,750,000, is to be used to make the scheduled principal and interest payments on the Notes if the cash flow available from the collateral is not sufficient to make the scheduled payments. Depending on the level of certain specified financial ratios relating to the collateral, the cash flow from the collateral is required to either prepay the Notes at par, increase the reserve fund up to its $7,750,000 maximum or is remitted to the Company. At December 31, 1995, Funds held by Trustee consists of $5,122,000 in the reserve fund and $516,000 of other funds pledged under the Indenture.

NOTE 6 -- SHORT-TERM BORROWINGS

Under a revolving line of credit agreement with a bank, the Company may borrow up to $5,000,000, upon payment of a 1/2 % commitment fee with interest payable monthly at prime plus 1/2 %. Such advances are to be secured by certain of the Company's real estate loans with the amount advanced equal to between 40% to 60% of the principal amount of the real estate loans pledged. Only real estate loans approved by the bank are eligible for advances. The agreement contains certain financial covenants and expires on May 5, 1996. Through December 31, 1995, the Company has not drawn upon the line of credit.

NOTE 7 -- HEDGING

On May 12, 1992, the Company entered into a LIBOR ceiling rate agreement with a bank for a fee of $245,000. The agreement, which had a term of two years beginning July 1, 1992, required the bank to pay a monthly amount to the Company equal to the product of $175,000,000 multiplied by the percentage, if any, by which actual one-month LIBOR (measured on the first business day of each month) exceeded 9.0%. Through the expiration of the agreement on July 1, 1994, LIBOR remained under 9.0% and, accordingly, no amounts were paid under the agreement.

NOTE 8 -- COMMON STOCK AND STOCK OPTIONS

The Company has a Stock Option Plan which is administered by the Board of Directors. The plan provides for qualified stock options which may be granted to key personnel of the Company and non- qualified stock options which may be granted to the Directors and key personnel of the Company. The purpose of the plan is to provide a means of performance-based compensation in order to attract and retain qualified personnel whose job performance affects the Company.

Options to acquire a maximum (excluding dividend equivalent rights) of 437,500 shares of the Company's common stock may be granted under the plan. The exercise price may not be less than the fair market value of the common stock at the date of grant. The options expire ten years after date of grant.

Optionholders also receive, at no additional cost, dividend equivalent rights which entitle them to receive, upon exercise of the options, additional shares calculated based on the dividends declared during the period from the grant date to the exercise date. At December 31, 1995 accounts payable and other liabilities in the accompanying consolidated balance sheets, include approximately $850,000 related to the Company's granting of dividend equivalent rights. This liability will remain in the accompanying consolidated balance sheets until the options to which the dividend equivalent rights relate are exercised, cancelled or expire.

Under the plan, an exercising optionholder also has the right to require the Company to purchase some or all of the optionholder's shares of the Company's common stock. That redemption right is exercisable by the optionholder only with respect to shares (including the related dividend equivalent rights) that the optionholder has acquired by exercise of an option under the Plan. Furthermore, the optionholder can only exercise his redemption rights within six months from the last to expire of (i) the two year period commencing with the grant date of an option, (ii) the one year period commencing with the exercise date of an option, or (iii) any restriction period on the optionholder's transfer of the shares of common stock he acquires through exercise of his option. The price for any shares repurchased as a result of an optionholder's exercise of his redemption right is the lesser of the book value of those shares at the time of redemption or the fair market value of the shares on the original date the options were exercised. During 1993, 20,368 shares were repurchased by the Company in connection with this provision of the plan. For the year ended December 31, 1993 approximately $66,000 related to the repurchase of the shares is included in general and administrative expenses in the accompanying consolidated statements of net income (loss).

The following summarizes stock option activity under the Stock Option Plan:

<TABLE>
<CAPTION>

For The Years Ended December 31,	1995	1994	1993
Options granted	74,000	--	--
Exercise price per share of options granted	$ 1.50	$ --	$ --
Dividend equivalent rights granted	8,728	7,779	9,115
Options cancelled (including dividend equivalent rights)	34,273	--	--
Options exercised (including dividend equivalent rights)	--	--	--
Exercise price per share of options exercised (excluding dividend equivalent rights)	$ --	$ --	$ --

AT DECEMBER 31,	1995	1994
Options outstanding	285,769	231,769
Dividend equivalent rights outstanding	159,408	164,953
Total options and dividend equivalent rights outstanding	445,177	396,722

</TABLE>

At December 31, 1995, 438,376 of the options, including dividend equivalent

rights, were exercisable at effective exercise prices ranging from $1.22 per share to $4.48 per share. At December 31, 1995 and 1994, 357 and 54,357 common shares, respectively, were reserved for future grants.

Additionally, in December 1995, in connection with the renegotiation of the Chief Executive Officer's Employment Agreement, the Company replaced his annual salary of $250,000 plus bonus with 750,000 of non-qualified stock options which vest over the three year term of the new Employment Agreement. The exercise price of the options is $1.50 per share which was equal to the closing market price of the common stock on grant date. As of December 31, 1995, 200,000 of the options were vested, with 275,000 vesting in 1996 and the remaining 275,000 vesting in 1997. The options will immediately vest upon a change in control, as defined. The options will expire in December 2000. These stock options are subject to stockholder approval. In the event the stock options are not approved by the stockholders, the Employment Agreement provides that the options will be converted into phantom stock rights (PSRs). Such PSRs have the same vesting provisions, exercise price and expiration date as the related stock options, except that upon exercise of a PSR no stock is actually issued. Instead, the Company will make a cash payment to the holder equal to the difference between the market value of the stock on the exercise date and the exercise price of $1.50 per share. The PSRs, also, provide that the holder will receive payments equal to the product of the per share dividend amount times the number of PSRs outstanding.

NOTE 9 -- FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with requirements of SFAS No. 107, "Disclosures about Fair Values of Financial Instruments". Although management uses its best judgement in estimating the fair value of these instruments, there are inherent limitations in any estimation technique and the estimates are thus not necessarily indicative of the amounts which the Company could realize on a current transaction.

The following describes the significant assumptions underlying the estimates of fair value.

(a) Real Estate Loans -- The Company's real estate loans are all short-term (one year or less) and considered to be fully collectible. The terms and conditions of such loans are the same as would be used by the Company to fund similar type loans at December 31, 1995. As such, fair value approximates cost.

(b) Short-term Investments -- Short-Term Investments consist of a Treasury Bill with a fair value that approximates cost.

(c) Cash And Cash Equivalents/funds Held By Trustee -- Cash and cash equivalents and funds held by Trustee consist of demand deposits and liquid money market funds with fair value approximating cost.

(d) Residual Interests -- Residual Interests and their fair value are described in Note 4 to the financial statements.

(e) Fair Value/long Term Debt -- The estimated fair value of the Company's long-term debt is estimated to be its carrying value at December 31, 1995 plus the prepayment penalty the Company would be required to make to repay the debt in its entirety prior to its scheduled maturity.

Based on these assumptions the Company estimates the fair value of its financial instruments at December 31, 1995 to be as follows (in thousands):

	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Real Estate Loans	$ 4,048	$ 4,048
Short-term Investments ...	8,969	8,969
Funds held by Trustee	5,638	5,638
Residual Interests	5,457	5,457
Cash and Cash Equivalents	3,347	3,347
Long-term Debt	(7,819)	(8,001)

NOTE 10 -- QUARTERLY FINANCIAL DATA (Unaudited)
(In Thousands Except Per Share Amounts)

	Net Income (Loss)	Net Income (Loss) Per Share	Dividends Per Share
1993			
First	$(10,824)	$ (1.11)	$ --
Second	(8,148)	(.84)	--
Third	(4,050)	(.42)	--
Fourth (1) ..	(8,966)	(.93)	.03
1994			
First	$ (675)	$ (.07)	$ --
Second	(1,094)	(.11)	--
Third	409	.04	--
Fourth (2) ..	(3,164)	(.33)	.02
1995			
First	$ 462	$ .05	$ --
Second	335	.03	--
Third	58	.01	--
Fourth	242	.02	.03

- ----------

(1) Net loss in the fourth quarter of 1993 includes a charge of $6,078,000 or $.63 per share, for the cumulative effect of an accounting change.

(2) Net loss in the fourth quarter of 1994 includes a charge of $3,212,000, or $.33 per share, to record impaired residual interests at fair market value.

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") is dated as of the 21st day of December, 1995, by and between HOMEPLEX MORTGAGE INVESTMENTS CORPORATION, a Maryland corporation ("Homeplex"), and ALAN D. HAMBERLIN ("Hamberlin").

WHEREAS, Hamberlin is an employee of Homeplex and has served as Chief Executive Officer of Homeplex since its organization;

WHEREAS, Hamberlin is a party to an employment agreement dated as of November 1, 1992 (the "1992 Employment Agreement") pursuant to which Hamberlin has served as the Chief Executive Officer of Homeplex pursuant to the terms thereof;

WHEREAS, the 1992 Employment Agreement provides for an employment term ending on August 31, 1996;

WHEREAS, Homeplex desires to continue to have the benefits of Hamberlin's knowledge and experience and considers his continued employment a vital element in protecting and enhancing the best interests of Homeplex and its stockholders;

WHEREAS, Hamberlin has agreed to continue to serve as Chief Executive Officer of Homeplex and to fulfill, with the other employees of Homeplex, the functions performed by him under the 1992 Employment Agreement on the terms and conditions contracted hereinafter; and

WHEREAS, Homeplex desires to continue to employ Hamberlin and Hamberlin desires to continue to be employed by Homeplex upon the terms and conditions contained hereinafter, which Homeplex and Hamberlin agree will supersede, amend and restate the terms and conditions of the 1992 Employment Agreement effective as of the date hereof;

NOW, THEREFORE, in consideration of the promises and of the mutual covenants herein contained, the parties hereto have agreed and do agree as follows:

1. Employment. Homeplex hereby employs Hamberlin and Hamberlin hereby accepts employment by Homeplex upon the terms and conditions set forth herein.

2. Services Required.

(a) Chief Executive Officer. Hamberlin shall be employed as the Chief Executive Officer of Homeplex and shall perform such duties and services as are customary for such a position. Such services shall include the services currently being rendered by Hamberlin.

(b) Expense Reimbursement. Hamberlin shall devote that portion of his time required to perform his duties hereunder in a competent manner. Because some of Hamberlin's duties under this paragraph will, from time to time, be performed by him while he is physically located in the offices of Courtland Homes, Homeplex hereby agrees to pay Courtland $15,000 annually as

reimbursement for expenses incurred by Courtland in providing support to Hamberlin during the time he performs work for Homeplex. Such payment shall be made in quarterly increments.

3. Term of Employment. The term of this Agreement shall be for a period of three years commencing as of the date hereof; provided, however, the rights of Hamberlin and the obligations of Homeplex under the Addendum shall continue during the "PSR Exercise Period" as defined in Section 6 of the Addendum.

4. Change in Control. The term "Change in Control" of Homeplex shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 as in effect on the date of this Agreement or, if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 which serve similar purposes; provided that, without limitation, such a Change in Control shall be deemed to have occurred if and when (a) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) directly or indirectly of equity securities of Homeplex representing 9.8 percent or more of the combined voting power of Homeplex's then outstanding equity securities except that this provision shall not apply to an acquisition which has been approved by at least 75 percent of the members of the Board of Directors who are not affiliates or associates of such person and by at least 80 percent of the issued and outstanding shares of Homeplex common stock beneficially owned by non-affiliates of such person; (b) during the period of this Agreement, individuals who, at the beginning of such

period, constituted the Board of Directors of Homeplex (the "Original Directors"), cease for any reason to constitute at least a majority thereof unless the election or nomination for election of each new director was approved (an "Approved Director") by the unanimous vote of a Board of Directors constituted entirely of Existing Directors and/or previously Approved Directors; (c) a tender offer or exchange offer is made whereby the effect of such offer is to take over and control Homeplex; and such offer is consummated for the equity securities of Homeplex representing 20 percent or more of the combined voting power of Homeplex's then outstanding voting securities; (d) Homeplex is merged, consolidated or enters into a reorganization transaction with another person and as the result of such merger, consolidation or reorganization less than 75 percent of the outstanding equity securities of the surviving or resulting person shall then be owned in the aggregate by the former stockholders of Homeplex; or (e) Homeplex transfers substantially all of its assets to another person or entity which is not a wholly- owned subsidiary of Homeplex; provided, however, that notwithstanding the foregoing no Change of Control shall be deemed to have occurred if such a Change of Control is a "Consented Change of Control." A "Consented Change of Control" is any transaction described in Sections 4(a), (c) or (d) if such transaction has been unanimously approved by a Board of Directors constituted entirely of Existing Directors and/or previously Approved Directors.

5. Compensation.

(a) Salary. Homeplex will pay Hamberlin an annual base salary of One Dollar ($1.00) for the term of this Agreement. This annual base salary shall be payable in annual installments.

(b) Bonuses. Hamberlin shall not be entitled to any bonus except as granted by the Board of Directors in its absolute sole discretion.

(c) Options/PSRs. As of the date of this Agreement, Homeplex has granted an option to Hamberlin to purchase common stock of Homeplex pursuant to a Stock Option Agreement executed by and between Homeplex and Hamberlin as of the date hereof (the "Stock Option Agreement"). Under the terms of the Stock Option Agreement, Hamberlin may not exercise any options thereunder until that Stock Option Agreement has been approved by the shareholders of Homeplex as required in the Stock Option Agreement ("Shareholder Approval"). If Shareholder Approval has not been obtained (i) at a Homeplex shareholders' meeting in which the Stock Option Agreement is the subject of a shareholder vote; (ii) on or before the day prior to the third anniversary date of this Agreement; (iii) on or before the day prior to a Change in Control; or (iv) on or before the day prior to any Date of Termination (not including a Date of Termination occurring as a result of the termination of Hamberlin for Cause), then on the earliest of the foregoing dates, Hamberlin shall have the phantom stock rights ("PSRs") described in this Agreement and the Addendum attached hereto which by this reference is incorporated herein.

(d) Fringe Benefits. Hamberlin shall be entitled to participate in any group insurance, pension, retirement, vacation, expense reimbursement or other plans, programs or benefits approved by the Board of Directors and made available from time to time to employees of Homeplex generally during the term of Hamberlin's employment hereunder. The foregoing shall not obligate Homeplex to adopt or maintain any particular plan, program or benefit.

6. Termination of Employment. Hamberlin's employment shall terminate during the term of this Agreement under any of the following circumstances:

(a) Death. Hamberlin's employment shall terminate upon Hamberlin's death.

(b) Disability. Hamberlin's employment shall terminate in the event Hamberlin becomes physically or mentally disabled so as to be unable, for a period of more than 120 consecutive calendar days or for more than 180 calendar days in the aggregate during any twelve-month period, to perform his duties hereunder in a timely and competent manner, and Homeplex thereafter gives written notice of termination to Hamberlin. Hamberlin's failure to present himself for work for either of the periods described above shall be presumptive evidence of his disability. The first day of any 120 or 180 day period described above shall be referred to as the "Disablement Commencement Date."

(c) Termination For Cause. Homeplex may terminate Hamberlin's employment hereunder for Cause. For the purposes of this Agreement, Homeplex shall have "Cause" to terminate Hamberlin's employment hereunder only if termination shall have been the result of an act or acts of dishonesty by Hamberlin constituting a felony and resulting or intended to result directly or indirectly in substantial gain or personal enrichment at the expense of Homeplex. Notwithstanding the foregoing, Hamberlin shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Hamberlin a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Homeplex Board of

Directors (excluding Hamberlin if he is then a director) at a meeting of the Board called and held for the purpose (after

reasonable notice to Hamberlin and an opportunity for Hamberlin, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board Hamberlin was guilty of conduct meeting the criteria set forth above and specifying the particulars thereof.

(d) Notice of Termination. Any termination by Homeplex pursuant to Section 6(b) or 6(c) above shall be communicated by written Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Hamberlin's employment under the provision so indicated. For purposes of this Agreement, no such purported termination shall be effective without such Notice of Termination.

(e) Termination by Mutual Agreement. Within 90 days of a Consented Change of Control, Homeplex may send a written "Notice of Requested Termination" to Hamberlin asking him to terminate his employment. Hamberlin shall have 30 days to respond in writing to the Notice of Requested Termination. A termination of Hamberlin's employment pursuant to this Section 6(e) shall be referred to herein as a "Consented Termination."

(f) Termination by Hamberlin. Hamberlin may at any time during the term of this Agreement terminate his employment hereunder for any reason or no reason by giving Homeplex notice in writing not less than 120 days in advance of such termination, provided that in the event of a Change in Control such notice must be not less than 30 days in advance of termination. The Date of Termination shall be the date specified in the written Notice of Termination unless otherwise agreed and Hamberlin shall have no further obligations to Homeplex after the effective date of termination. Notwithstanding the foregoing, in the event any "person" (as defined in Section 4 above) begins a tender or exchange offer, circulates a proxy to shareholders or takes other steps to effect a Change of Control, Hamberlin agrees that he will not voluntarily leave the employ of Homeplex, and will render services to Homeplex commensurate with his position, until such "person" has abandoned or terminated efforts to effect a Change of Control or until a Change of Control has occurred.

(g) Date of Termination. "Date of Termination" shall mean (i) if the Agreement is terminated as a result of Hamberlin's death, the date of Hamberlin's death, (ii) if the Agreement is terminated by Hamberlin, the date on which he delivers a Notice of Termination to Homeplex, (iii) if this Agreement is terminated by Homeplex for Disability, 30 days after a Notice of Termination is given (provided that Hamberlin shall not have returned to the performance of Hamberlin's duties on a full-time basis during such 30-day period), (iv) if the Agreement is terminated as a result of a Consented Termination, the date as agreed to by Hamberlin and Homeplex, or (v) if Hamberlin's employment is terminated by Homeplex for any other reason, the date on which a Notice of Termination is given; provided that if within 30 days after any Notice of Termination is given by Homeplex, Hamberlin notifies Homeplex that a dispute exists concerning the termination, the Date of Termination shall be the earlier of the third anniversary date of this Agreement or the date on which the dispute is finally determined, either by mutual written agreement of the parties, or by a final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected).

7. Compensation in the Event of Termination Prior to a Change in Control. If Hamberlin's employment is terminated prior to a Change in Control, the following provisions shall apply.

(a) Death or Disability. If Hamberlin's employment is terminated under Section 6(a) or 6(b) hereof, Homeplex will pay Hamberlin or his estate (i) his salary and fringe benefits to the Date of Termination and (ii) if Shareholder Approval of the Stock Option Agreement has not occurred as of the Date of Termination, an amount equal to the Excess Value of each vested PSR. For purposes of the foregoing, the Excess Value of each vested PSR shall be calculated (i) as of the Date of Termination if Hamberlin is deceased or (ii) as of the Disablement Commencement Date if Hamberlin is disabled. The foregoing amounts shall be paid to Hamberlin in a lump sum within 10 days after the Date of Termination.

(b) For Cause. If Hamberlin's employment is terminated under Section 6(c) hereof, Homeplex will immediately pay Hamberlin his salary and fringe benefits to the Date of Termination and Hamberlin shall not be entitled to any other salary or fringe benefits or PSR Exercise or DER Payments (whether vested or unvested).

(c) Other. If Hamberlin's employment is terminated by Homeplex for any reason other than death, disability, Cause, or a Consented Termination, Homeplex will pay Hamberlin (i) his salary and fringe benefits for the balance of the term of this Agreement and (ii) if Shareholder Approval of

the Stock Option Agreement has not occurred as of the Date of Termination, all PSR DER Payments occurring during the PSR Exercise Period, and such PSR Exercise Payments as elected by Hamberlin during the PSR Exercise Period. All salary and fringe benefits shall be paid to Hamberlin in a lump sum within 10 days after the Date of Termination. All PSR DER Payments shall be paid at such time as required by the Addendum, and all PSR Exercise Payments shall be paid at such time as such PSRs are exercised by Hamberlin during the PSR Exercise Period.

(d) By Hamberlin. If Hamberlin's employment is terminated under Section 6(f) hereof, Homeplex will pay Hamberlin only his salary and fringe benefits which become payable on or prior to the Date of Termination. All such salary and fringe benefits shall be paid to Hamberlin in a lump sum within 10 days after the Date of Termination. In addition, if Shareholder Approval of the Stock Option Agreement has not occurred as of the Date of Termination, with respect to those PSRs that vested prior to the Date of Termination, Hamberlin shall thereafter be entitled during the PSR Exercise Period to all PSR DER Payments and such PSR Exercise Payments as elected by Hamberlin.

(e) No Mitigation. Hamberlin shall not be required to mitigate the amount of any payment provided for in this paragraph by seeking other employment or otherwise, nor shall the amount of any payment provided for in this paragraph be reduced by any compensation earned by Hamberlin as the result of employment by another employer.

8. Compensation in the Event of a Consented Termination. If Hamberlin's employment is terminated pursuant to a Consented Termination, Homeplex will pay Hamberlin only the salary and fringe benefits that become payable on or prior to the Date of Termination. All such salary and fringe benefits shall be paid to Hamberlin in a lump sum within 10 days after the Date of Termination. In addition, if Shareholder Approval of the Stock Option Agreement has not occurred as of the Date of Termination, Hamberlin shall thereafter be entitled during the PSR Exercise Period to all PSR

DER payments and all such PSR Exercise payments as elected by Hamberlin with respect to all PSRs as those PSRs vest as if Hamberlin were still employed.

9. Effect of Change in Control. If a Change in Control occurs on or before the third anniversary date of this Agreement and if there previously shall have been a Consented Termination of Hamberlin, and if shareholder approval of the Stock Option Agreement has not occurred as of the day prior to the Change in Control, all PSRs shall immediately vest, all PSR DER payments shall be paid at such times as required by the Addendum, and all PSR Exercise Payments shall be paid at such time that such PSRs are exercised by Hamberlin during the PSR Exercise Date. If a Change in Control occurs during the term of this Agreement and Hamberlin's employment shall not have been terminated previously, notwithstanding any other provision of this Agreement to the contrary, the following provisions shall apply:

(a) Benefit Plans. Homeplex shall maintain in full force and effect, for Hamberlin's continued benefit until the earlier of the third anniversary of the date of this Agreement, or the date Hamberlin becomes entitled to participate in similar plans, programs or benefits provided by a subsequent employer, all life, accident, medical and dental insurance plans, programs or benefits, adopted from time to time by the Board of Directors, in which he was entitled to participate immediately prior to the Change in Control provided that his continued participation is possible under the general terms and provisions of such plans, programs and benefits. The foregoing shall not obligate Homeplex to adopt or maintain any particular plan, program or benefit. In the event that his participation in any such plan, program or benefit is barred, Homeplex shall arrange to provide him with benefits substantially similar to those to which he would have been entitled to receive under such plans and programs. At the end of the period of coverage, Hamberlin shall have the option to have assigned to him at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by Homeplex and relating specifically to him.

(b) Acceleration of PSRs. As provided in the Addendum, if Shareholder Approval of the Stock Option Agreement has not occurred as of the day prior to the Change in Control, all PSRs shall immediately vest, all PSR DER Payments shall be paid at such times as required by the Addendum, and all PSR Exercise Payments shall be paid at such time as such PSRs are exercised by Hamberlin during the PSR Exercise Period.

(c) Change in Control Bonus. Within 10 days after a Change in Control, Homeplex will pay $500,000 to Hamberlin as well as all unpaid fringe benefits. If Hamberlin remains employed by Homeplex following a Change in Control he shall be entitled to receive such other compensation, if any, as Homeplex and Hamberlin shall then agree.

(d) No Mitigation. Hamberlin shall not be required to mitigate the amount of any payment provided for in this paragraph by seeking other employment or otherwise, nor shall the amount of any payment provided for in this paragraph be reduced by any compensation earned by Hamberlin as the result of employment by another employer.

10. Liquidation of Homeplex. In the event that no Change in Control has occurred and the Board of Directors has elected to declare a Liquidating Dividend, then notwithstanding the Addendum hereof, no PSR DER Payment shall be made to Hamberlin. Instead, regardless of whether or not Shareholder Approval of the Stock Option Agreement has occurred, Hamberlin shall receive on

or before the date of the Liquidating Dividend a bonus in an amount equal to $20,833 multiplied by each full or partial month that Hamberlin has been employed by Homeplex since the date of this Agreement. For purposes of this Agreement, a "Liquidating Dividend" shall mean a dividend through which all or substantially all of the assets of Homeplex are distributed to its shareholders.

11. Surrender of Books and Records. Hamberlin acknowledges that all files, lists, books, records, literature, products and any other materials owned by Homeplex or used by it in connection with the conduct of its business shall at all times remain the property of Homeplex and that upon termination of employment hereunder, irrespective of the time, manner or cause of said termination, Hamberlin will surrender to Homeplex all such files, lists, books, records, literature, products and other materials.

12. Notices. All notices, requests, demands and other communications required under this Agreement shall be in writing and shall be deemed duly given and received (i) if personally delivered, on the date of delivery, (ii) if mailed, three days after deposit in the United States mail, registered or certified, return receipt requested, postage prepaid and addressed as provided below, or (iii) if by a courier delivery service providing overnight or "next-day" delivery, on the next business day after deposit with such service addressed as follows:

If to Homeplex: Homeplex Mortgage Investments Corporation
5333 North 7th Street, Suite 219
Phoenix, Arizona 85014

If to Hamberlin: Alan D. Hamberlin
5333 North 7th Street, Suite 310
Phoenix, Arizona 85014

Any party may change its above-designated address by giving the other party written notice of such change in the manner set forth herein.

13. Waiver. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver, and no waiver shall be binding unless executed in writing by the party making the waiver.

14. Integration, Modification and Amendment. This Agreement (which includes the Addendum) and the Stock Option Agreement embody the full understanding of the parties with respect to the subject matter hereof, superseding any and all prior agreements, including the 1992 Employment Agreement, and no amendment or modification thereof shall be effective unless the same shall be in writing and signed by both of said parties.

15. Governing Law. Except as the corporate law of the State of Maryland expressly applies hereto, this Agreement shall be construed in accordance with, and governed by, the laws of the State of Arizona, without regard to application of conflicts of law principles.

16. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which, taken together, shall constitute one and the same instrument.

17. Severability. Each provision of this Agreement is severable from every other provision and is enforceable to the full extent that it is valid without regard to the invalidity of any portion hereof or of any other provision and without regard to any claim or cause of action Hamberlin may have against Homeplex under this Agreement or otherwise.

18. Successors And Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto; provided that because the obligations of Hamberlin hereunder involve the performance of personal services, such obligations shall not be delegated by Hamberlin. For purposes of this Agreement successors and assigns shall include, but not be limited to, any individual, corporation, trust, partnership, or other entity which acquires a majority of the stock or assets of Homeplex by sale, merger, consolidation, liquidation, or other form of transfer. Homeplex will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Homeplex to expressly assume and agree to perform this Agreement in the same manner and to the same extent that Homeplex would be required to perform it if no such succession had taken place.

19. Attorneys' Fees. Homeplex agrees to reimburse Hamberlin for his legal fees and costs in connection with the negotiation of this Agreement. In the event an action or suit is brought by any party hereto to enforce any of the terms of this Agreement, the prevailing party shall be entitled to the payment of reasonable attorneys' fees and costs, as determined by the judge of the court.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION, a Maryland corporation

By: ____
Name: ____
Its: ____

____
Alan D. Hamberlin

ADDENDUM TO
AMENDED AND RESTATED EMPLOYMENT AGREEMENT

1. Addendum to Employment Agreement. This Addendum is attached to an Amended and Restated Employment Agreement between Alan D. Hamberlin and Homeplex Mortgage Investments Corporation dated as of December 21, 1995 (the "Employment Agreement) and is intended to be incorporated in such Employment Agreement as if it was a part thereof. All capitalized terms included in this Addendum and not defined shall have the definitions given such term in the Employment Agreement.

2. Conditional Grant of PSRs.

(a) Grant. Homeplex conditionally grants to Hamberlin, as of December 21, 1995 (the "Grant Date"), the right, privilege and option (the phantom stock right or "PSR") to be paid the appreciation occurring with respect to 750,000 shares of the common stock of Homeplex ("PSR Shares"), subject in all respects to the terms, conditions and provisions of this Addendum. As of the Grant Date, Homeplex has also granted to Hamberlin an option to purchase common stock of Homeplex pursuant to the Stock Option Agreement. Under the terms of the Stock Option Agreement, Hamberlin may not exercise any options thereunder prior to Shareholder Approval. If Shareholder Approval has not been obtained (i) at a Homeplex shareholders' meeting in which the Stock Option Agreement is the subject of a shareholder vote; (ii) on or before the day prior to the third anniversary date of this Agreement; (iii) on or before the day prior to a Change in Control; or (iv) on or before the day prior to any Date of Termination (not including a Date of Termination occurring as a result of the termination of Hamberlin for Cause), then on the earliest of the foregoing dates (the "Effective Date"), Hamberlin shall have the PSRs described in the Employment Agreement and this Addendum. If Shareholder Approval of the Stock Option Agreement occurs prior to any Effective date, then this Addendum shall be void and no PSRs shall be issued hereunder.

(b) PSR Shares. The PSR Shares shall be deemed to become issued and outstanding for purposes of this Addendum (including Section 5 hereof) when the related PSRs vest, although the PSR Shares shall be only phantom shares of common stock of Homeplex and shall not become actually issued and outstanding. The number of PSR Shares deemed outstanding for purposes of this Addendum (and the related PSRs held by Hamberlin) shall be reduced by the number of PSRs exercised for cash under Section 4 and as provided in Section 6 hereof.

3. Vesting of PSRs. The PSRs shall vest according to following schedule:

(a) 200,000 of the PSRs shall vest immediately;

(b) 275,000 of the PSRs shall vest on the first anniversary of the Grant Date provided Hamberlin is either employed by Homeplex on that date or has left the employment of Homeplex pursuant to a Consented Termination as described in Section 6(e) of the Employment Agreement; and

(c) 275,000 of the PSRs shall vest on the second anniversary of the Grant Date provided Hamberlin is either employed by Homeplex on that date or has left the employment of Homeplex pursuant to a Consented Termination as described in Section 6(e) of the Employment Agreement.

Notwithstanding the foregoing, all PSRs shall vest upon a Change in Control or

upon the termination of Hamberlin's employment (without his consent) by Homeplex for any reason other than death, disability or Cause. From and after the Effective Date, Hamberlin may exercise vested PSRs with respect to any outstanding PSR Shares at any time, and from time to time, in whole or in part, during the PSR Exercise Period, as defined in Section 6 hereof.

4. Exercise of PSRs. From and after the Effective Date, all or any portion of the vested PSRs may be exercised by Hamberlin upon written notice to Homeplex, addressed to Homeplex at its principal place of business. Such notice shall be signed by Hamberlin and shall state the election to exercise PSRs and specify the number of PSR Shares with respect to which the PSRs are being exercised. Upon the exercise of PSRs, Homeplex shall immediately pay to Hamberlin for each PSR exercised cash in an amount equal to the difference between the Base Price of an PSR Share and the current FMV Price of an PSR Share (an "PSR Exercise Payment"). The amount by which the FMV Price exceeds the Base Price shall be referred to as the "Excess Value." For purposes of the foregoing, the "Base Price" of a PSR Share shall be equal to $1.50, which is the market price (as determined pursuant to Section 10 below) of a PSR Share as of the Grant Date and the "FMV Price" value of a PSR Share shall be equal to its market price (as determined pursuant to Section 10 below) as of any applicable date.

5. PSR DER Payments. From and after the Effective Date, except as provided in Section 10 of the Employment Agreement, to the extent that Homeplex at any time declares and pays a dividend with respect to its shares of common stock (the "Common Stock"), Homeplex shall also make a cash payment to Hamberlin (the "PSR DER Payment") of an amount equal to the number of PSR Shares deemed to be outstanding under Section 2 hereof on the date of such dividend declaration multiplied by the per share dividend actually paid with respect to the Common Stock. If Homeplex declares a dividend after the Grant Date but prior to the Effective Date ("Interim Dividends"), Homeplex shall pay to Hamberlin on the Effective Date the PSR DERs occurring with respect to such Interim Dividends.

6. Termination of PSRs. All PSRs, to the extent not previously exercised, shall terminate (and any remaining PSR Shares shall no longer be considered to be outstanding hereunder) upon the fifth anniversary of the Grant Date or as earlier provided in the Employment Agreement (such termination date shall be referred to as the "PSR Termination Date"). The period from the Grant Date to the PSR Termination date shall be referred to as the "PSR Exercise Period."

7. Death or Disability of Hamberlin. If Hamberlin dies or becomes disabled on or after the Effective Date and prior to the PSRs being exercised in full but during his employment, the Excess Value (as calculated on the date of death or on the Disablement Commencement Date, whichever is applicable) of all unexercised PSRs which had vested prior to the date of death or the Disablement Commencement Date shall be immediately paid to Hamberlin or his estate as provided in Section 7(a) of the Employment Agreement. If Hamberlin dies on or after the Effective Date but after the termination of his employment pursuant to a Consented Termination, the Excess Value (as

calculated on the date of death) of all unexercised PSRs that had vested prior to the date of death shall be paid to Hamberlin's estate within 10 days.

8. No Privilege of Common Stock Ownership. The holder of the PSRs granted hereunder shall not have any of the rights of a stockholder with respect to the PSR Shares.

9. Capital Adjustments. The number of PSR Shares deemed outstanding (and the Base Price) shall be proportionately adjusted for any increase or decrease in the number of outstanding shares of Common Stock of Homeplex resulting from a subdivision or consolidation of the Common Stock or any other capital adjustment or the payment of a stock dividend or any other increase or decrease in the number of such shares effected without Homeplex's receipt of consideration therefor in money, services or property.

10. Calculation of Fair Market Value of Common Stock. The market value of an PSR Share shall be the same as the market value of a share of Common Stock. The market value of a share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(a) If the Common Stock is not at the time listed or admitted to trading on any stock exchange but is traded in the over-the-counter market, the fair market value shall be the mean between the highest bid and lowest asked prices (or, if such information is available, the closing selling price) per share of Common Stock on the date in question in the over-the-counter market, as such prices are reported by the National Association of Securities Dealers through its NASDAQ system or any successor system. If there are no reported bid and asked prices (or closing selling price) for the Common Stock on the date in question, then the mean between the highest bid price and lowest asked price (or the closing selling price) on the last preceding date for which such quotations exist shall be determinative of fair market value.

(b) If the Common Stock is at the time listed or admitted to trading on any stock exchange, then the fair market value shall be

the closing selling price per share of Common Stock on the date in question on the stock exchange determined by the Board to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of Common Stock on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

(c) If the Common Stock at the time is neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market, then the fair market value shall be determined by the Board after taking into account such factors as the Board shall deem appropriate, including one or more independent professional appraisals.

11. Compliance With Laws and Regulations. The exercise of an PSR and the payment of cash hereunder upon such exercise shall be subject to compliance by Homeplex and Hamberlin with all applicable requirements of law relating thereto.

12. Nonassignability. Neither the PSRs nor any rights or privileges conferred thereby shall be assignable or transferable by Hamberlin other than by will or by the laws of descent and distribution, and the PSRs shall be exercisable only by Hamberlin during Hamberlin's lifetime.

IN WITNESS WHEREOF, the parties hereto have executed this Addendum as of the same date as the Employment Agreement.

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION, a Maryland corporation

By: ____
Name: ____
Its: ____

Alan D. Hamberlin

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION

STOCK OPTION AGREEMENT

THIS AGREEMENT ("Agreement") is made as of the 21st day of December, 1995, by and between HOMEPLEX MORTGAGE INVESTMENTS CORPORATION, a Maryland corporation ("Homeplex"), and ALAN D. HAMBERLIN ("Hamberlin").

WHEREAS, Hamberlin is an employee of Homeplex and has served as its Chief Executive Officer since its organization;

WHEREAS, Hamberlin and Homeplex have entered into an Amended and Restated Employment Agreement as of the same date hereof (the "Employment Agreement"); and

WHEREAS, Homeplex considers it desirable and its best interest that in lieu of a regular salary Hamberlin be given an inducement to acquire a proprietary interest in Homeplex and added incentive to advance the interest of Homeplex by possessing an option to purchase shares of the common stock of Homeplex (the "Stock").

NOW, THEREFORE, in consideration of the promises and of the mutual covenants herein contained, it is agreed by and between the parties as follows:

1. Grant of Option. Homeplex grants to Hamberlin, as of the date of this Agreement (the "Grant Date"), the right, privilege and option (the "Option") to purchase 750,000 shares of Stock (the "Optioned Shares"), subject in all respects to the terms, conditions and provisions of this Agreement.

2. Option Price. The purchase price of the Optioned Shares (the "Option Price") is $1.50, which is 100 percent of the fair market value per share of the Stock on the date of grant of this option.

3. Vesting of Option.

(a) Vesting Schedule. Optioned Shares that have vested may be acquired in accordance with the terms of this Agreement at any time, and from time to time, in whole or in part, until the Option expires as provided in Section 5 hereof. The time at which the Optioned Shares vest and the Hamberlin or his permitted assignee(s) (each, an "Optionholder") may thereafter exercise this Option with respect to such Optioned Shares shall be as follows:

(i) 200,000 of the Optioned Shares shall vest immediately;

(ii) 275,000 of the Optioned Shares shall vest on the first anniversary of the Grant Date provided Hamberlin is either employed by Homeplex on that date or has left the employment of Homeplex pursuant to a Consented Termination as described in Section 6(e) of the Employment Agreement; and

(iii) 275,000 of the Optioned Shares shall vest on the second anniversary of the Grant Date provided Hamberlin is either employed by Homeplex on that date or has left the employment of Homeplex pursuant to a Consented Termination as described in Section 6(e) of the Employment Agreement.

Notwithstanding the foregoing, all Optioned Shares shall accelerate and vest upon a Change in Control (as defined in the Employment Agreement) or upon the termination of Hamberlin's employment (without his consent) by Homeplex for any reason other than death, disability, a Consented Termination, or Cause (as that term is used in the Employment Agreement).

(b) Acceleration. Homeplex may, in its discretion, allow the Optioned Shares to be purchased prior to any vesting date.

4. Exercise of Option. All or any portion of the vested Optioned Shares may be purchased by an Optionholder upon written notice to Homeplex, addressed to Homeplex at its principal place of business. Such notice shall be signed by the Optionholder and shall state the election to exercise the Option and the number of Optioned Shares with respect to which it is being exercised. Such notice shall be accompanied by payment in full of the Option Price for the number of shares of Stock being purchased. Payment may be made in cash or by check or by tendering duly endorsed certificates representing shares of Stock then owned by the Optionholder. In the sole discretion of Homeplex, an Optionholder may be provided with the election to pay for the Option Price by having Homeplex withhold, from the Stock otherwise issuable, a portion of those shares of Stock with an aggregate fair market value equal to that portion of the Option Price designated by the Optionholder (not to exceed 100% of the Option Price). Upon the exercise of the Option, Homeplex shall deliver, or cause to be delivered, to the Optionholder a certificate or certificates representing the net shares of Stock purchased upon such exercise as soon as practicable after payment for those shares has been received by Homeplex. All shares that are

purchased and paid for in full upon exercise of the Option shall be fully paid and non-assessable but may not be transferred, sold, assigned or conveyed by Optionholder for six months from the date of shareholder approval as required by Section 22 hereof.

5. Termination of Option. This Option, to the extent not previously exercised, shall terminate upon the fifth anniversary of the Grant Date, or as otherwise set forth in this Agreement.

6. Death or Disability of Hamberlin. If Hamberlin's employment with Homeplex is terminated pursuant to the Employment Agreement upon the death or disablement of Hamberlin, the Optioned Shares that are vested as of the date of death or Disablement Commencement Date (as defined in the Employment Agreement), whichever is applicable, shall be exercisable within one year of the Date of Termination (as defined in the Employment Agreement) or until the stated expiration date of the Option, whichever occurs first, by an Optionholder in accordance with Section 4 hereof. If Hamberlin dies after a Consented Termination, the Optioned Shares that are vested as of the date of death shall be exercisable within one year of such date of death or until the stated expiration date of the Option, whichever occurs first, by Hamberlin's successors-in-interest.

7. No Privilege of Stock Ownership. An Optionholder shall not have any of the rights of a stockholder with respect to the Optioned Shares until such Optionholder shall have

exercised the option, paid the Option Price, and received a stock certificate for the purchased shares of Stock.

8. Compliance With Laws and Regulations. The exercise of this Option and the issuance of the Stock upon such exercise shall be subject to compliance by Homeplex and each Optionholder with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange in which the shares of the Stock may be listed at the time of such exercise and issuance. In connection with the exercise of an Option hereunder, an Optionholder shall execute and deliver to Homeplex such representations in writing as may be requested by Homeplex in order for it to comply with applicable requirements of federal and state securities laws.

9. Liability of Homeplex. The inability of Homeplex to obtain approval from any regulatory body having authority deemed by Homeplex to be necessary to the lawful issuance and sale of any Stock pursuant to this Agreement shall relieve Homeplex of any liability with respect to the nonissuance or sale of the Stock as to which such approval shall not have been obtained. Homeplex, however, shall use its best efforts to obtain all such approvals.

10. Capital Adjustments. The number of Optioned Shares shall be proportionately adjusted for any increase or decrease in the number of outstanding shares of Stock of Homeplex resulting from a subdivision or consolidation of shares or any other capital adjustment or the payment of a stock dividend or any other increase or decrease in the number of such shares effected without Homeplex's receipt of consideration therefor in money, services or property.

11. Mergers, Etc. If Homeplex is the surviving corporation in any merger or consolidation (not including a Corporate Transaction), the Option granted herein shall pertain to and apply to the securities to which a holder of the number of shares of Stock subject to the Option or Award would have been entitled prior to the merger or consolidation.

12. Corporate Transaction. In the event of stockholder approval of a Corporate Transaction that is not a Change in Control, all unvested Options shall automatically accelerate and immediately vest so that each outstanding Option shall, one week prior to the specified effective date for the Corporate Transaction, become fully exercisable for all of the Optioned Shares. Upon the consummation of the Corporate Transaction, all Options shall, to the extent not previously exercised, terminate and cease to be outstanding. "Corporate Transaction" shall mean (a) a merger or consolidation in which Homeplex is not the surviving entity or (b) any reverse merger in which Homeplex is the surviving entity.

13. Assignment. The right to acquire Stock under this Agreement may not be assigned, encumbered or otherwise transferred by Optionholder other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of 1986, as amended, Title 1 of the Employment Retirement Income Security Act, or the rules thereunder.

14. Securities Restrictions

(a) Legend on Certificates. All certificates representing shares of Stock issued hereunder shall be endorsed with a legend reading as follows:

The shares of Common Stock evidenced by this certificate have been issued to the registered owner in reliance upon written representations that these shares have been purchased solely for investment. These shares may not be sold, transferred or assigned unless in the opinion of Homeplex and its legal counsel such sale, transfer or assignment will not be in violation of the Securities Act of 1933, as amended, and the rules and regulations thereunder.

(b) Private Offering for Investment Only. If the shares to be issued to an Optionholder upon the exercise of any Option have not been registered under the 1933 Act, the Arizona Act or the securities laws of any other jurisdiction, those shares will be "restricted securities" within the meaning of Rule 144 under the 1933 Act and must be held indefinitely without any transfer, sale or other disposition unless (a) the shares are subsequently registered under the 1933 Act, the Arizona Act and the securities laws of any other applicable jurisdiction, or (b) the Optionholder obtains an opinion of counsel which is satisfactory to counsel for Homeplex that the shares may be sold in reliance on an exemption from registration requirements. By the act of accepting an Option, Hamberlin agrees (i) that, any shares of Stock acquired will be solely for investment not with any intention to resell or redistribute those shares and (ii) such intention will be confirmed by an appropriate certificate at the time the Stock is acquired if requested by Homeplex. The neglect or failure to execute such a certificate, however, shall not limit or negate the foregoing agreement.

(c) Registration Statement. If a registration statement covering the shares of Stock issuable hereunder as filed under the Securities Exchange Act of 1933, as amended, and as declared effective by the Securities Exchange Commission (the "Registration"), the provisions of Sections 14(a) and (b) shall terminate during the period of time that such registration statement, as periodically amended, remains effective. The Company shall use its best efforts to effect the Registration within six months after shareholder approval is obtained as required by Section 22 hereof.

15. Tax Withholding.

(a) General. Homeplex's obligation to deliver Stock under this Agreement shall be subject to Hamberlin's satisfaction of all applicable federal, state and local income tax withholding requirements.

(b) Shares to Pay for Withholding. Homeplex may, in its discretion and in accordance with the provisions of this Section 15(b) and such supplemental rules as it may from time to time adopt (including any applicable safe-harbor provisions of SEC Rule 16b-3), provide Hamberlin with the right to use shares of Stock in satisfaction of all or part of the federal, state and local income tax liabilities incurred by Hamberlin in connection with the receipt of Stock ("Taxes"). Such right may be provided to Hamberlin in either or both of the following formats:

(i) Stock Withholding. Hamberlin may be provided with the election to have Homeplex withhold, from the Stock otherwise issuable, a portion of those shares of Stock with an aggregate fair market value equal to the percentage of the applicable Taxes (not to exceed 100 percent) designated by Hamberlin.

(ii) Stock Delivery. Homeplex may, in its discretion, provide Hamberlin with the election to deliver to Homeplex, at the time the Option is exercised, one or more shares of Stock previously acquired by Hamberlin (other than pursuant to the transaction triggering the Taxes) with an aggregate fair market value equal to the percentage of the taxes incurred in connection with such Option exercise (not to exceed 100 percent) designated by Hamberlin.

16. Binding Effect. This agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

17. Defined Terms. All capitalized terms herein which are not otherwise defined therein shall have the same meaning ascribed to such terms in the Employment Agreement.

18. Notices. Any notice required to be given or delivered to Homeplex under the terms of this Agreement shall be in writing and addressed to Homeplex in care of the Corporate Secretary at its principal corporate offices. Any notice required to be given or delivered to Hamberlin at the address indicated on the signature page hereto. Any permitted assignee hereunder shall notify the other party hereto of the permitted assignee's address for purposes of this notice provision. All notices shall be deemed to have been given or delivered upon personal delivery or upon deposit in the U.S. mail, postage

prepaid return receipt requested, and properly addressed to the party to be notified.

19. Integration, Modification and Amendment. This Agreement and the Employment Agreement embody the full understanding of the parties with respect to the subject matter hereof, superseding any and all prior agreements, and no amendment or modification thereof shall be effective unless the same shall be in writing and signed by both of said parties. Notwithstanding the foregoing, this Agreement may not be amended or modified more than once every six months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder. In addition, any amendment to this Agreement shall be required to be approved by the shareholders if the amendment would: (a) materially increase the benefits accruing to Hamberlin; (b) materially increase the number of shares of Stock which may be issued hereunder; or (c) materially modify the requirements for Hamberlin's eligibility for participation hereunder.

20. Governing Law. Except as the corporate law of the State of Maryland expressly applies hereto, this Agreement shall be construed in accordance with, and governed by, the laws of the State of Arizona, without regard to application of conflicts of law principles.

21. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which, taken together, shall constitute one and the same instrument.

22. Shareholder Approval. The grant of this Option is subject to approval by the shareholders of Homeplex. Such approval must be by a majority of the votes cast provided that the

total vote cast on the proposal represents over 50 percent in interest of all securities entitled to vote on the matter. Notwithstanding any provision of this Agreement to the contrary, the Option may not be exercised in whole or in part until such shareholder approval is obtained. In the event that such shareholder approval is not obtained within three years of the Grant Date, then the Option shall terminate and an Optionholder hereunder shall have no further rights under this Agreement.

IN WITNESS WHEREOF the parties hereto have executed this Agreement or caused it to be executed on the day and year first above written.

HOMEPLEX MORTGAGE INVESTMENTS
CORPORATION, a Delaware corporation

By: ____
Name: ______________________________________
Its: _______________________________________

____
Alan D. Hamberlin
Address:
____
____

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT ("Agreement") dated as of the first day of September, 1995, by and between HOMEPLEX MORTGAGE INVESTMENTS CORPORATION, a Maryland corporation ("Homeplex"), and JAY R. HOFFMAN ("Employee").

WHEREAS, Employee is an employee of Homeplex on an at will basis;

WHEREAS, if a Change in Control (as defined below) occurs Employee may be terminated;

WHEREAS, Homeplex desires to continue to have the benefits of Employee's knowledge and experience and considers his continued employment an important element in protecting and enhancing the best interests of Homeplex and its stockholders;

NOW, THEREFORE, in consideration of the promises and of the mutual covenants herein contained, the parties hereto have agreed and do agree as follows:

1. Employment. Employee shall continue to be an at will employee of Homeplex.

2. Term of Employment. The term of this Agreement shall be for a period on one year commencing as of the date hereof and ending on August 30, 1996.

3. Change in Control. The term "Change in Control" of Homeplex shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 as in effect on the date of this Agreement or, if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 which serve similar purposes; provided that, without limitation, such a Change in Control shall be deemed to have occurred if and when (i) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) directly or indirectly of equity securities of Homeplex representing 9.8% or more of the combined voting power of Homeplex's then outstanding equity securities except that this provision shall not apply to an acquisition which has been approved by at least 75% of the members of the Board of Directors who are not affiliates or associates of such person and by at least 80% of the issued and outstanding shares of Homeplex common stock beneficially owned by non-affiliates of such person; (ii) during the period of this Agreement, individuals who, at the beginning of such period, constituted the Board of Directors of Homeplex, cease for any reason to constitute at least a majority thereof unless the election or nomination for election of each new director was approved by the unanimous vote of the directors who were directors at the beginning of the period; (iii) a tender offer or exchange offer is made whereby the effect of such offer is to take over and control Homeplex; and such offer is consummated for the equity securities of Homeplex representing 20% or more of the combined voting power of Homeplex's then outstanding voting securities; (iv) Homeplex is merged, consolidated or

enters into a reorganization transaction with another person and as the result of such merger, consolidation or reorganization less than 75% of the outstanding equity securities of the surviving or resulting person shall then be owned in the aggregate by the former stockholders of Homeplex; or (v) Homeplex transfers substantially all of its assets to another person or entity which is not a wholly-owned subsidiary of Homeplex. The term "Approved Change in Control" shall be a Change in Control that has been approved by the Board of Directors by written notice to the Employee prior to the Change in Control.

4. Effect of Change in Control.

(a) Severance Bonus. If during the term of this Agreement a Change in Control has occurred, Employee shall be entitled to receive a severance bonus in an amount equal to the Employee's annual salary as of the date of the Change in Control (the "Severance Bonus"). Except as provided in Section 4(b) hereof, the Severance Bonus shall be payable within 10 days after the Change in Control.

(b) Approved Change in Control. Notwithstanding Section 4(a) hereof, if the Change in Control is an Approved Change in Control and if Employee continues his employment with Homeplex after the Change in Control at an annual salary at least equal to Employee's annual salary before the Change in Control, the Severance Bonus shall be payable in four installments with the first installment commencing on the 90th day after the Change in Control and each successive installment occurring every 90 days thereafter. Notwithstanding the foregoing, the Severance Bonus shall be accelerated and paid immediately upon the termination of the Employee by Homeplex for any reason

other than for Cause or upon a reduction in Employee's salary. If the Employee is terminated for Cause or voluntarily terminates his own employment, Homeplex shall not be required to pay any portion of the Severance Bonus unpaid as of the date of termination. For purposes of this Agreement, "Cause" shall mean (i) the willful and continued failure by Employee to substantially perform his duties hereunder, after written demand for substantial performance is delivered by Homeplex specifically identifying the manner in which Homeplex believes Employee has not substantially performed, or (ii) Employee's willful misconduct which materially injuries Homeplex, monetarily or otherwise. For purposes of this Section 4(b), no explicit act, or failure to act, on Employee's part shall be considered willful if done, or omitted to be done, in good faith and with a reasonable belief that the action or omission was in the best interests of Homeplex. Notwithstanding the foregoing, cause shall not be deemed to exist unless Homeplex has given written notice to Employee setting forth Homeplex's intention to terminate Employee and the deficiencies in Employee's performance which establish the cause for Employee's termination. Employee in such period shall have the right to correct any such deficiencies in performance. The date of termination shall be 30 days after written notice of intent to terminate unless the deficiencies in performance are corrected by Employee during such 30 day period. If the deficiencies in performance are timely corrected, Employee may not be terminated.

(c) Bonus not in Lieu of Salary. In the event that Employee continues his employment with Homeplex after a Change in Control, the Severance Bonus (whether payable pursuant to Sections 4(a) or (b)) shall be paid in addition to the Employee's regular compensation.

5. Surrender of Books and Records. Employee acknowledges that all files, lists, books, records, literature, products and any other materials owned by Homeplex or used by it in connection with the conduct of its business shall at all times remain the property of Homeplex and that upon termination of employment hereunder, irrespective of the time, manner or cause of said termination, Employee will surrender to Homeplex all such files, lists, books, records, literature, products and other materials.

6. Notices. All notices, requests, demands and other communications required under this Agreement shall be in writing and shall be deemed duly given and received (i) if personally delivered, on the date of delivery, (ii) if mailed, three (3) days after deposit in the United States mail, registered or certified, return receipt requested, postage prepaid and addressed as provided below, or (iii) if by a courier delivery service providing overnight or "next-day" delivery, on the next business day after deposit with such service addressed as follows:

If to Homeplex: Homeplex Mortgage Investments Corporation
5333 N. 7th Street, Suite 219
Phoenix, Arizona 85014

If the Employee: Jay R. Hoffman
8606 East Larkspur Drive
Scottsdale, Arizona 85260

Any party may change its above-designated address by giving the other party written notice of such change in the manner set forth herein.

7. Waiver. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver, and no waiver shall be binding unless executed in writing by the party making the waiver.

8. Integration, Modification and Amendment. This Agreement embodies the full understanding of the parties with respect to all severance matters, superseding any and all prior agreements, and no amendment or modification thereof shall be effective unless the same shall be in writing and signed by both of said parties. This Agreement does not confer any employment rights upon Employee beyond those rights which may currently exist as the result of Employee's at will employment relationship with Homeplex.

9. Governing Law. Except as the corporate law of the State of Maryland expressly applies hereto, this Agreement shall be construed in accordance with, and governed by, the laws of the State of Arizona, without regard to application of conflicts of law principles.

10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which, taken together, shall constitute one and the same instrument.

11. Severability. Each provision of this Agreement is severable from every other provision and is enforceable to the full extent that it is valid without regard to the invalidity of any portion hereof or of any other provision and without regard to any claim or cause of action Employee may have against Homeplex under this Agreement or otherwise.

12. Successors And Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto; provided that because the obligations of Employee hereunder involve the performance of personal services, such obligations shall not be delegated by Employee. For purposes of this Agreement successors and assigns shall include, but not be limited to, any individual, corporation, trust, partnership, or other entity which acquires a majority of the stock or assets of Homeplex by sale, merger, consolidation, liquidation, or other form of transfer. Homeplex will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Homeplex to expressly assume and agree to perform this Agreement in the same manner and to the same extent that Homeplex would be required to perform it if no such succession had taken place.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

HOMEPLEX MORTGAGE INVESTMENTS
CORPORATION, a Maryland corporation

By: ______________________________________
Name: ____________________________________
Its: _____________________________________

EMPLOYEE:

____
Jay R. Hoffman

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-38230) of Homeplex Mortgage Investments Corporation of our report dated February 13, 1996, with respect to the consolidated financial statements of Homeplex Mortgage Investments Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 1995.

ERNST & YOUNG LLP

Phoenix, Arizona
March 25, 1996

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